

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

March 2, 2015

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB138 by Perry (Relating to the phaseout and repeal of the franchise tax; lowering the rates of the tax.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB138, As Introduced: a negative impact of (\$434,161,000) through the biennium ending August 31, 2017.

The estimated net impact to General Revenue Related Funds would increase to a negative (\$3,490,672,000) through the biennium ending August 31, 2019.

Additionally, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of (\$3,174,872,000) for the 2016-17 biennium increasing to (\$3,819,520,000) for the 2018-19 biennium. Any loss to the Property Tax Relief Fund must be made up with an equal amount of General Revenue to fund the Foundation School Program.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2016	\$0
2017	(\$434,161,000)
2018	(\$1,724,534,000)
2019	(\$1,766,138,000)
2020	(\$2,895,089,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from <i>General Revenue Fund</i> 1	Probable Revenue (Loss) from <i>Property Tax Relief Fund</i> 304
2016	\$0	(\$1,181,230,000)
2017	(\$434,161,000)	(\$1,993,642,000)
2018	(\$1,724,534,000)	(\$1,896,859,000)
2019	(\$1,766,138,000)	(\$1,922,661,000)
2020	(\$2,895,089,000)	(\$1,947,059,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, by lowering the tax rates applicable to the franchise tax base in three steps over the period from 2016 to 2018. The bill would repeal Chapter 171 of the Tax Code (franchise tax) effective January 1, 2019. A taxable entity subject to the tax on December 31, 2018 would be required to file a final report and pay a transitional tax equal to the tax the taxable entity would have paid in 2019 if the tax had not been repealed. The report and payment would be due on or before May 15, 2019.

The proposed rates for 2016 to 2018 and for the transitional tax are shown in the table below.

Rate Applicable to	Current Law	Proposed 2016	Proposed 2017	Proposed 2018	Proposed 2019 (Transitional Tax)
Other than wholesale and retail trade	1.000%	0.750%	0.500%	0.250%	0.250%
Wholesale and retail trade	0.500%	0.380%	0.250%	0.130%	0.130%
EZ Form	0.575%	0.430%	0.290%	0.140%	0.140%

The bill would provide that the repeal of Chapter 171 would not affect audits, deficiencies, redeterminations and refunds of franchise tax until barred by limitations. The repeal would not affect the status of a taxable entity that has its business privileges or certificate revoked or a suit filed against it.

The bill would amend Section 171.362(f) of the Tax Code to relieve taxable entities who otherwise would owe no tax from the \$50 penalty for failing to file a tax report.

Except as otherwise provided the bill would take effect January 1, 2016.

Methodology

The estimated fiscal impact is based on the Comptroller's 2016-2017 *Biennial Revenue Estimate* and the Comptroller's franchise tax files. The estimate assumes the tax rates applicable for reports due on or after January 1, 2018 would apply to the transitional tax due May 15, 2019. The amendment to Section 171.362(f) has no significant fiscal impact.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD