LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

March 28, 2017

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB1613** by Springer (Relating to adjustment of the rates of the franchise tax; providing for decreases in tax rates.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1613, As Introduced: an impact of $0 through the biennium ending August 31, 2019.

However, the bill is estimated to have a General Revenue Related Funds impact of ($1,647,778,000) through the biennium ending August 31, 2021. Additionally, the bill is estimated to have a direct impact of a revenue loss to the Property Tax Relief Fund of ($1,779,252,000) for the 2020-21 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
2018	$0
2019	$0
2020	$0
2021	($1,647,778,000)
2022	($1,689,007,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *General Revenue Fund* 1	Probable Revenue (Loss) from *Property Tax Relief Fund* 304
2018	$0	$0
2019	$0	$0
2020	$0	($804,203,000)
2021	($1,647,778,000)	($975,049,000)
2022	($1,689,007,000)	($999,525,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, by adding provisions that would require reductions in the rates of the franchise tax under certain conditions.

Beginning in 2018, the condition that would require adjustment of the tax rates each year of a biennium would occur if the Comptroller's most recent certification estimate projects state tax revenues not dedicated by the Constitution for that biennium would exceed the limit on appropriations in effect for the current biennium under Section 22(a), Article VIII, of the Constitution. If the condition were met the franchise tax rates on December 31 of the previous year would be reduced by subtracting amounts specified in the bill.

If the rates of the franchise tax were reduced to zero, a taxable entity would not owe any tax and would not be required to file a report. The Comptroller would make the determination regarding required rate deductions and adopt and publish the adjusted rates by January 15 of each year.

The bill would take effect on January 1, 2018, and only apply to reports due on or after that date.

Methodology

The estimate assumes there would be no fiscal impact for the 2018-19 biennium because state tax revenues not dedicated by the Constitution would not exceed the limit on appropriations, based on the Comptroller's 2018-19 *Biennial Revenue Estimate*. Estimates for fiscal 2020 and 2021 assume the condition would be met for that biennium and reflect rate reductions for each year. The fiscal impact for 2022 assumes the 2021 tax rates remain in effect.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

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