LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 25, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB1614** by Parker (Relating to a franchise tax credit for enterprise projects for certain capital investments.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1614, As Introduced: an impact of $0 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 ($163,177,000) 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
2018	$0
2019	$0
2020	$0
2021	$0
2022	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *Property Tax Relief Fund* 304
2018	($105,745,000)
2019	($57,432,000)
2020	($60,303,000)
2021	($63,318,000)
2022	($66,484,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, by adding new Subchapter U to provide tax credits for certain capital investments made under the enterprise zone program as defined by Chapter 2303 of the Government Code. The bill allows entities that are participating in the enterprise zone program to receive a franchise tax credit equal to 7.5 percent of qualified capital investment.

The bill defines qualified capital investment as tangible personal property first put into service by an enterprise project after January 1, 2013. The bill also restricts qualified capital investment to property as defined by Section 1245(a) of the Internal Revenue Code and subject to depreciation. Real property, buildings and their structural components would not be included as qualified capital investment under this bill. Property expensed under Section 179 of the Internal Revenue Code also would not be considered qualified capital investment.

To be eligible, the bill would require that the project must have been designated as an enterprise zone project on or after September 1, 2003.

The amount of credit that could be used to reduce franchise tax liability on a report would be limited to 50 percent of the tax due on that report. Credits that could not be used to reduce tax liability because of the limitation could be carried forward for not more than five consecutive reports. The bill would allow taxpayers to amend the past four years' reports to apply capital investment credits earned.

The bill would require the Comptroller to adopt rules and prepare forms necessary for taxpayers to claim the credit. Entities would be required to obtain a certification of eligibility from the Comptroller for each report in which credit is claimed.

The Comptroller would report on various aspects of the capital investment credit before the beginning of each regular legislative session. The Comptroller could require enterprise projects claiming a credit to submit information on a form provided by the Comptroller necessary for preparation of the report. The report could not contain information confidential by law.

The bill would take effect immediately upon enactment, assuming it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2017.

Methodology

The estimated fiscal impact of this bill is based on both historical announced enterprise project capital investment data obtained from the Governor's Office, as well as verified enterprise project capital investment data collected by the Comptroller's Office. Forecasts of capital expenditures on equipment from IHS Markit were used to estimate future growth of capital investment qualifying for a tax credit under the bill.

The 2015 Annual Capital Expenditures Survey from the U.S. Census Bureau found that, for all companies, roughly 60 percent of capital expenditures was spent on equipment and 40 percent was spent on structures. Additional reductions were made to the estimate of qualified capital investment using corporation depreciation data from the Internal Revenue Service.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

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