

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

March 3, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB17 by Nelson (relating to the decrease of the rates of the franchise tax under certain circumstances and the expiration of that tax.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB17, Committee Report 1st House, Substituted: an impact of \$0 through the biennium ending August 31, 2019.

However, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of (\$1,096,224,000) 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	\$0
2022	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from Property Tax Relief Fund 304
2018	\$0
2019	\$0
2020	(\$541,486,000)
2021	(\$554,738,000)
2022	(\$568,606,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, by adding provisions that would decrease the rates of franchise tax under certain circumstances.

Adjustments to the rates of franchise tax would occur if the Comptroller's biennial revenue estimate (BRE) for total general-related funds available for certification for an upcoming biennium exceeds the like estimate for the then current biennium by more than five percent. The Comptroller would determine an amount of revenue available to reduce the rates of the franchise tax using a formula in the bill. By the end of a current biennium the Comptroller would determine rates of franchise tax that would reduce the amount of franchise tax revenue in an upcoming biennium by the amount determined by the formula, adopt those rates, and publish those rates in the Texas Register. The adopted rates would remain the rates of franchise tax until a further adjustment was made under the provisions of the bill.

If the rates of franchise tax are reduced to zero, a taxable entity does not owe any tax and is not required to file a report.

The Comptroller could adopt rules related to making required determinations, and would publish the franchise tax rates in the Texas Register and on the Comptroller's Internet website not later than January 15 of that year.

Chapter 171 of the Tax Code would expire on December 31 of the year in which the franchise tax rates are reduced to zero. The provisions relating to audits, deficiencies, redeterminations and refunds of tax would remain in effect until barred by limitations. Sections of Chapter 171 related to confidentiality of records would continue to apply after the expiration of Chapter 171.

This bill would take effect on September 1, 2017, and apply to franchise tax reports due on or after January 1, 2020.

Methodology

There would no fiscal impact in the 2018-19 biennium. The estimated fiscal impact in the 2020-21 biennium is based on historical data from the Comptroller's BRE projections of the percent change of general revenue-related funds from a fiscal biennium to the subsequent fiscal biennium. Projections in five of the last 12 BREs estimated growth in excess of five percent in general revenue-related funds available for certification. This fiscal note, provided for illustrative purposes, assumes that the projected change in general revenue-related funds would be greater than five percent in the 2019 BRE but not in the 2021 BRE.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

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