

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION**

**May 2, 2017**

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

**FROM:** Ursula Parks, Director, Legislative Budget Board

**IN RE:** SB1031 by Taylor, Larry (relating to a deduction under the franchise tax for certain contracts with the federal government.), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB1031, 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 (\$26,517,000) 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:**

<b>Fiscal Year</b>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
2018	\$0
2019	\$0
2020	\$0
2021	\$0
2022	\$0

**All Funds, Five-Year Impact:**

<b>Fiscal Year</b>	<b>Probable Revenue (Loss) from Property Tax Relief Fund 304</b>
2018	\$0
2019	\$0
2020	(\$13,098,000)
2021	(\$13,419,000)
2022	(\$13,754,000)

**Fiscal Analysis**

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, to add a subtraction from total revenue for calculating taxable margin equal to all costs not already

subtracted that are properly allowable under the Federal Acquisition Regulation (48 C.F.R. Chapter 1) to contracts for the sale of goods or services to the federal government by a taxable entity that is a party to a contract subject to the requirements of Defense Acquisition Regulations (48 C.F.R. Chapter 2). Under current law some allowable costs cannot be subtracted or are subject to a cap on the amount that can be subtracted from total revenue.

The bill would take effect January 1, 2020, and apply to franchise tax reports due on or after that date.

### **Methodology**

The estimate for the fiscal impact of the bill is based on information on major defense contractors operating in Texas and on data in the Comptroller's franchise tax data bases.

### **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts

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