

BILL ANALYSIS

Senate Research Center

S.B. 2326
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Finance
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As Filed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Texas is one of the best states in which to do business. The greatest impediment to Texas being the best state to do business is the franchise tax.

Created in 2006 as a way to finance public education and provide property tax relief, the franchise tax has come up short on promised revenues and only hurt our business community. The cost for compliance alone has harmed businesses forced to hire extra accounting personnel in order to make sure their requirements have been met.

Additionally, the franchise tax forces payments from non-profitable businesses depending on their revenue stream. Businesses paying the franchise tax are forced to choose between revenue deductions of 70 percent of their revenue, cost of goods sold, cost of compensation, or \$1 million. None of these represent real profit margins.

A complete repeal of the franchise tax has been suggested in the past but consistently ran into issues with budget writers regarding how to replace \$4–\$5 billion in annual revenue.

S.B. 2326 would address this issue by repealing the franchise tax in 2026 and in the meantime require the comptroller of public accounts of the State of Texas to research alternative revenue sources to replace state revenue lost by the repeal of the franchise tax.

As proposed, S.B. 2326 amends current law relating to the franchise tax and alternative revenue sources and spending priorities for this state and repealing the franchise tax.

RULEMAKING AUTHORITY

Rulemaking authority previously granted to the comptroller of public accounts of the State of Texas is rescinded in SECTION 3 (Sections 171.0005, 171.006, 171.1011, 171.1015, 171.602, 171.654, 171.662, and 171.909, Tax Code) of this bill.

Rulemaking authority previously granted to the secretary of state is rescinded in SECTION 3 (Section 171.3125, Tax Code) of this bill.

Rulemaking authority previously granted to the Texas Historical Commission is rescinded in SECTION 3 (Section 171.909, Tax Code) of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Authorizes this Act to be cited as the Revenue Reform Act of 2019.

SECTION 2. (a) Requires the comptroller of public accounts of the State of Texas (comptroller) to conduct a comprehensive study that:

- (1) analyzes and compares the feasibility of implementing alternative methods to the franchise tax imposed under Chapter 171 (Franchise Tax), Tax Code, by which revenue may be generated to address the needs of this state and the effectiveness of each of those methods in generating sufficient revenue to address those needs; and

(2) prioritizes the revenue needs of this state and identifies potential reductions in expenditures by this state.

(b) Requires the comptroller to consider the funding priorities and requirements established by the Texas Constitution in prioritizing the revenue needs of this state as required by Subsection (a)(2) of this section.

(c) Requires the study conducted under Subsection (a) of this section to include an analysis and comparison of certain revenue-generating methods.

(d) Requires the comptroller, not later than November 1, 2022, to submit a report to the legislature regarding the results of the study conducted under this section. Requires the report to:

(1) identify one or more revenue-generating methods the comptroller determines would be most effective in meeting the revenue needs of this state;

(2) include a description of any legislation necessary to implement the methods identified under Subdivision (1) of this subsection; and

(3) propose specific reductions in expenditures by this state and any legislation necessary to implement those reductions.

SECTION 3. Repealer, effective January 1, 2026: Chapter 171 (Franchise Tax), Tax Code.

SECTION 4. Provides that the change in law made by Section 3 of this Act does not affect tax liability accruing before the effective date of that section. Provides that the liability continues in effect as if this Act had not been enacted, and the former law is continued in effect for the collection of taxes due and for civil and criminal enforcement of the liability for those taxes.

SECTION 5. Effective date, except as otherwise provided by this Act: September 1, 2019.