# LEGISLATIVE BUDGET BOARD
## Austin, Texas

## FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

**May 15, 2019**

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

**FROM:** John McGeady, Assistant Director     Sarah Keyton, Assistant Director
Legislative Budget Board

**IN RE:** **HB1607** by Goldman (Relating to a deduction under the franchise tax for certain contracts with the federal government.), **As Engrossed**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB1607, As Engrossed: an impact of $0 through the biennium ending August 31, 2021.

**Additionally, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of ($12,693,000) 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 |
|---|---|
| 2020 | $0 |
| 2021 | $0 |
| 2022 | $0 |
| 2023 | $0 |
| 2024 | $0 |

### All Funds, Five-Year Impact:

| Fiscal Year | Probable Revenue (Loss) from *Property Tax Relief Fund* 304 |
|---|---|
| 2020 | ($4,224,000) |
| 2021 | ($8,469,000) |
| 2022 | ($12,735,000) |
| 2023 | ($17,022,000) |
| 2024 | ($21,330,000) |

### Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax.

The bill would amend Section 171.101, regarding the computation of taxable margin to provide for subtraction from total revenue of certain aerospace costs. "Aerospace costs" would be defined as any costs not already subtracted that are properly allowable under the Federal Acquisition Regulation (48 C.F.R. Chapter 1) for contracts for the sale of goods or services to the federal government by a taxable entity that is in the aerospace industry and engaged in activities described by North American Industry Classification System codes 334511, 3364, 3399, 5413, 5415, 5416, or 5419.

The bill would allow an eligible taxable entity to subtract from total revenue, in addition to amounts currently allowed, 20 percent of aerospace costs for a report originally due on or after January 1, 2020 and before January 1, 2021; 40 percent of aerospace costs for a report originally due on or after January 1, 2021 and before January 1, 2022; 60 percent of aerospace costs for a report originally due on or after January 1, 2022 and before January 1, 2023; 80 percent of aerospace costs for a report originally due on or after January 1, 2023 and before January 1, 2024; and 100 percent of aerospace costs for a report originally due on or after January 1, 2024.

The bill would take effect January 1, 2020.

## Methodology

Under current law, some allowable costs under pertinent federal acquisition regulations cannot be subtracted or are subject to a cap on the amount that can be subtracted from total revenue for franchise tax purposes.

The estimate for the fiscal impact of the bill is based on data submitted to the Comptroller's Office on franchise tax returns and other financial filings by major defense contractors operating in Texas, as well as information from the Federal Procurement Data System.

## Local Government Impact

No fiscal implication to units of local government is anticipated.

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

**LBB Staff:** WP, KK