

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 2, 2019

TO: Honorable Dustin Burrows, Chair, House Committee on Ways & Means

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 Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1607, As Introduced: 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 (\$142,952,000) for the 2020-21 biennium.

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	(\$71,388,000)
2021	(\$71,564,000)
2022	(\$71,740,000)
2023	(\$71,917,000)
2024	(\$72,094,000)

Fiscal Analysis

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

Section 171.101(a), regarding computation of taxable margin, would be amended to provide for

subtraction from total revenue of 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 a party to a contract subject to the requirements of Defense Acquisition Regulations (48 C.F.R. Chapter 2).

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

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.

The bill is unclear regarding the applicability of properly allowable costs under the Federal Acquisition Regulation for contracts that are not based on a cost-reimbursement model. For the purpose of estimating the fiscal impact of this bill, the Comptroller's Office assumed that allowable costs would be similar regardless of the contract type.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: WP, KK, SD