

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 10, 2019

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

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

IN RE: **SB66** by Nelson (Relating to the decrease of the rates of the franchise tax under certain circumstances and the expiration of that tax.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB66, As Introduced: an impact of \$0 through the biennium ending August 31, 2021.

However, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of (\$1,786,725,000) for the 2022-23 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	\$0
2021	\$0
2022	(\$879,644,000)
2023	(\$907,081,000)
2024	(\$935,024,000)

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 revenue-related funds available for certification for an upcoming biennium, before any reductions in franchise tax rates required by the bill, would exceed the like estimate for the then current biennium by more than five percent. One-half of any such estimated excess would be designated as available for franchise tax reduction.

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 designated as available for franchise tax reduction, if any, adopt those rates, and publish those rates in the Texas Register. The adopted rates would remain the rates of franchise tax until a further reduction was made under the provisions of the bill. Chapter 171 of the Tax Code would expire on December 31 of the year in which the franchise tax rates are reduced to zero.

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.

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, 2019, and apply to franchise tax reports due on or after January 1, 2022.

Methodology

There would be no fiscal impact in the 2020-21 biennium. This estimate assumes the biennial growth rate of general revenue-related funds available for certification projected in the 2021 BRE would be similar to the rate projected in the 2019 BRE, and that growth projected in the 2023 BRE would not exceed the five percent threshold for further franchise tax rate reduction. Six of the last 13 BREs had estimated biennial growth rates in excess of five percent, ranging from 5.6 percent to 12.6 percent.

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