

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 13, 2019

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

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

IN RE: **SB2326** by Creighton (Relating to the franchise tax and alternative revenue sources and spending priorities for this state; repealing the franchise tax.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB2326, As Introduced: an impact of \$0 through the biennium ending August 31, 2021.

However, the bill will have a negative impact to the General Revenue Fund and the Property Tax Relief Fund of (\$9,799,030,000) through the biennium ending August 31, 2027.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Eight-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2020	\$0
2021	\$0
2022	(\$650,000)
2023	(\$650,000)
2024	(\$650,000)
2025	(\$650,000)
2026	(\$3,412,883,000)
2027	(\$3,505,615,000)

All Funds, Eight-Year Impact:

Fiscal Year	Probable (Cost) from <i>General Revenue Fund</i> 1	Probable Revenue (Loss) from <i>General Revenue Fund</i> 1	Probable Revenue (Loss) from <i>Property Tax Relief</i> <i>Fund</i> 304	Change in Number of State Employees from FY 2019
2020	\$0	\$0	\$0	0.0
2021	\$0	\$0	\$0	0.0
2022	(\$650,000)	\$0	\$0	7.0
2023	(\$650,000)	\$0	\$0	7.0
2024	(\$650,000)	\$0	\$0	7.0
2025	(\$650,000)	\$0	\$0	7.0
2026	(\$650,000)	(\$3,412,233,000)	(\$1,420,958,000)	7.0
2027	(\$650,000)	(\$3,504,965,000)	(\$1,459,574,000)	7.0

Fiscal Analysis

The bill would require the Comptroller to conduct a study to evaluate the feasibility of methods of revenue generation alternatives to the franchise tax, prioritize the revenue needs of the state, and identify potential reductions in expenditures by the state.

The bill would require the Comptroller, not later than November 1, 2022, to submit a report to the Legislature identifying one or more of the most effective revenue-generating methods, a description of legislation needed to implement the methods, and proposing specific reductions in expenditures.

The bill would repeal Chapter 171 of the Tax Code, regarding the franchise tax, on January 1, 2026. The repeal of franchise tax would not affect the tax liability accruing before the effective date of the bill. Former law would be continued in effect for the collection of taxes due and for civil and criminal enforcement of the liability for those taxes.

The bill would take effect September 1, 2019.

Methodology

The bill would have no revenue impact until the repeal of the franchise tax on January 1, 2026, which would result in a loss beginning in fiscal year 2026. This estimate is based on estimated franchise tax liability in the *2020-21 Biennial Revenue Estimate* extrapolated to subsequent years.

The estimated cost to General Revenue are for the Comptroller of Public Accounts to conduct the study required by the bill and handle any follow up subsequent to its publications in fiscal year 2022. The CPA indicates they would need to establish a fiscal spending research group headed by a supervisor and six research and program specialists well versed in various tax structures, revenue implications, and state expenditures.

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