

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

April 11, 2021

TO: Honorable Morgan Meyer, Chair, House Committee on Ways & Means

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB3777 by Noble (Relating to eligible costs and expenses for purposes of the franchise tax credit for the certified rehabilitation of certified historic structures.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3777, As Introduced : a positive impact of \$14,990,000 through the biennium ending August 31, 2023.

Additionally, the bill will have a direct impact of a revenue gain to the Property Tax Relief Fund of \$9,710,000 for the 2022-23 biennium. Any gain to the Property Tax Relief Fund will result in an equal amount of savings to General Revenue for funding the Foundation School Program.

General Revenue-Related Funds, Five- Year Impact:

<i>Fiscal Year</i>	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2022	\$7,400,000
2023	\$7,590,000
2024	\$7,760,000
2025	\$7,950,000
2026	\$8,130,000

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Revenue Gain from General Revenue Fund 1	Probable Revenue Gain from Foundation School Fund 193	Probable Revenue Gain from Property Tax Relief Fund 304
2022	\$5,550,000	\$1,850,000	\$4,800,000
2023	\$5,690,000	\$1,900,000	\$4,910,000
2024	\$5,820,000	\$1,940,000	\$5,040,000
2025	\$5,960,000	\$1,990,000	\$5,150,000
2026	\$6,100,000	\$2,030,000	\$5,270,000

Fiscal Analysis

The bill would amend Subchapter S, Chapter 171, Tax Code (Tax Credit for Certified Rehabilitation of Certified Historic Structures) to exclude certain costs and expenses from eligibility for the credit.

Cost and expenses to rehabilitate a structure by a nonprofit corporation or other corporation exempt from tax under Section 171.063 would no longer be eligible if the structure is leased to a tax-exempt entity in a disqualified lease. “Tax-exempt entity” and “disqualified lease” would be defined as those terms are defined by

Section 168(h), Internal Revenue Code.

The bill would take effect January 1, 2022 and apply only to a tax report originally due on or after that date.

Methodology

Revenue gains to the state would occur to the extent that historic structure tax credits that would be granted under current law would not be granted under the bill. The Comptroller estimate of the revenue gains is based on information from the Texas Historical Commission regarding the frequency of applications for certification for historic structure tax credits by tax-exempt entities and the average estimated qualified rehabilitation expenses for such projects. Because the tax credits are assignable, it is assumed that the full value of credits received by tax-exempt entities would be sold to taxable entities able to claim their value against franchise tax or insurance premiums taxes.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, KK, SD