

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

April 18, 2021

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

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB653 by Springer (Relating to the payment of franchise taxes by taxable entity that employs or contracts with a professional athlete.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB653, As Introduced : an impact of \$0 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 \$14,180,000 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	\$0
2023	\$0
2024	\$0
2025	\$0
2026	\$0

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Revenue Gain from Property Tax Relief Fund 304
2022	\$6,970,000
2023	\$7,210,000
2024	\$7,460,000
2025	\$7,720,000
2026	\$7,990,000

Fiscal Analysis

The bill would amend Section 171.1012, of the Tax Code to limit the amount of a professional athlete's compensation that may be included as labor costs in the cost of goods sold and subtracted from revenue in the determination of margin for purposes of the franchise tax.

The limit of professional athlete labor costs would be the limit of wages and cash compensation paid to any person that may be included in the determination of compensation under Section 171.1013(c).

The bill would take effect September 1, 2021 and apply only to a tax report originally due on or after that date.

Methodology

The limit of compensation paid to a person provided by Section 171.1013(c) is \$300,000, subject to inflation adjustment as provided by Section 171.006. Currently, the inflation adjusted limit is \$390,000. Any amount paid by a taxable entity to a professional athlete in a year in excess of the inflation adjusted limit would not be includable as a cost of goods sold to be subtracted from revenue, with the result that taxable margin and franchise tax liability would be increased by the bill.

The Comptroller's estimate of franchise tax increase is based on the difference between published professional athlete salary and bonus compensation paid by each professional sports team with franchise tax liability and the limit of compensation deduction proposed by the bill, multiplied by the apportionment factor for each team as determined from comptroller tax files and by the applicable franchise tax rate.

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