

BILL ANALYSIS

Senate Research Center

C.S.H.B. 32
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Finance
5/20/2015
Committee Report (Substituted)

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Background:

- The franchise tax is computed at a rate of one percent taxable margin for most taxpayers and 0.5 percent of taxable margin for retailers and wholesalers.
- H.B. 500 (83rd Legislature, Regular Session, 2013) passed provisions reducing the tax rate to 0.95 percent for most taxpayers and 0.475 percent for retailers and wholesalers. However, these provisions expire on December 31, 2015.
- The E-Z tax rate is a separate, easier method to calculate a business's franchise tax liability and is currently only available for businesses with total revenue of \$10 million and less.

Tax Relief

- H.B. 32 provides approximately \$2.56 billion in tax relief for businesses.

Tax Rate Reduction:

- Reduces the franchise tax by 25 percent.
- Reduces the E-Z tax rate from 0.575 percent to 0.331 percent.
- Increases the availability of the E-Z calculation to businesses with total revenue of \$20 million and less.
- Rate reductions are permanent.

Comptroller Study (modified in the committee substitute):

- Requires the comptroller of public accounts of the State of Texas to conduct a study on the impact of lowering the franchise tax rates and what further reductions may be implemented.
- Committee Substitute: makes minor adjustments to the content of the study.

Future Rate Reductions (removed in the committee substitute):

- Provides additional rate reductions contingent on level of state tax collections and whether there is a balance to unencumbered general revenue.

Provisions Added in Committee Substitute:

- Franchise tax revenue is split between general revenue and the Property Tax Relief Fund.
- Currently, funds first go to general revenue until a benchmark based on 2007 collections is reached. All funds over this benchmark go to the Property Tax Relief Fund. Conversely, any loss in franchise tax revenue first comes out of the Property Tax Relief Fund, as reflected in the fiscal note.
- C.S.H.B. 32 directs that any loss in revenue will first reduce general revenue. This is to ensure that the Property Tax Relief Fund remains funded.

C.S.H.B. 32 amends current law relating to the computation and rates of the franchise tax and decreases tax rates.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. (a) TITLE. Provides that this Act be known as the Franchise Tax Repeal Act of 2015.

(b) PURPOSE AND FINDINGS. Provides that the legislature finds that the tax imposed by Texas Tax Code Chapter 171 (Franchise Tax) has not provided sufficient reliability for property tax relief. Provides that it is the intent of the legislature to promote economic growth by repealing the franchise tax.

SECTION 2. Amends Sections 171.002(a) and (b), Tax Code, as follows:

(a) Provides that, subject to certain sections and except as provided by Subsection (b), the rate of the franchise tax is 0.75 percent, rather than one percent, of taxable margin.

(b) Provides that subject to certain sections, the rate of the franchise tax is 0.375 percent, rather than 0.5 percent, of taxable margin for those taxable entities primarily engaged in retail or wholesale trade.

SECTION 3. Amends Sections 171.1016(a) and (b), Tax Code, as follows:

(a) Authorizes a taxable entity whose total revenue from its entire business is not more than \$20 million, rather than \$10 million, notwithstanding any other provision of this chapter, to elect to pay the tax imposed under this chapter in the amount computed and at the rate provided by this section rather than in the amount computed and at the tax rate provided by Section 171.002 (Rates; Computation of Tax).

(b) Provides that the amount of the tax for which a taxable entity that elects to pay the tax as provided by this section is liable is computed by multiplying the amount computed under Subdivision (2) by the rate of 0.331 percent, rather than 0.575 percent.

SECTION 4. Provides that this Act applies only to a report originally due on or after the effective date of this Act.

SECTION 5. Requires the comptroller of public accounts of the State of Texas to conduct a comprehensive study, no later than September 30th, 2016, to identify the effects of economic growth on future state revenues. Requires that the results of the study be reported to the governor and the Legislative Budget Board. Provides that the report should identify revenue growth allocation options to promote efficiency and sustainability in meeting the revenue needs of this state, including revenues allocated by Tax Code 171.4011 (Allocation of Certain Revenue to Property Tax Relief Fund), upon repeal of the franchise tax.

SECTION 6. Effective date: January 1, 2016.