

MEMO# 3028

August 19, 1991

TEXAS PASSES TAX BILL

August 19, 1991 TO: BOARD OF GOVERNORS NO. 62-91 STATE SECURITIES MEMBERS NO. 33-91 TAX MEMBERS NO. 35-91 UNIT INVESTMENT TRUST MEMBERS NO. 34-91 INVESTMENT ADVISER MEMBERS NO. 35-91 INVESTMENT ADVISER ASSOCIATE MEMBERS NO. 34-91 RE: TEXAS PASSES TAX BILL

The Institute is pleased to inform you that on August 12, 1991, the Texas Legislature passed a budget that does not include a sales tax on investment advisory or other financial services. As you may be aware, during the past several months the Texas Legislature and Governor's Office have grappled with the severe budget crisis in Texas. The budget shortfall at the end of the regular session was estimated to be between five and six billion dollars. In an effort to resolve the revenue shortfall, Texas legislators and key governmental officials (including a special Task Force on Revenue appointed by the Governor) reviewed every possible source of revenue, including different plans to raise additional tax revenue by expanding the sales tax to services (including brokerage transactions and investment advisory fees) and revision of the franchise tax. In May and June of this year, the Governor's Task Force on Revenue held a series of public hearings throughout the state to solicit public comment regarding a variety of proposals to restructure the Texas tax system. The Institute and its Texas based members submitted written testimony to the Task Force opposing expansion of the sales tax to financial services by specifically addressing the adverse impact such a tax would have on mutual fund shareholders and the mutual fund and Texas investment advisory industries. In mid-July, a thirty day special session of the Legislature was called to approve a budget for the 1992-93 fiscal biennium. The Institute and the Institute's lobbyist met with several key legislators and constantly monitored the various legislative proposals to ensure that the sales tax was not expanded to investment advisory or other financial services. The legislature ultimately enacted a tax package that amends the franchise tax to apply to corporate income, raises the state gasoline tax, increases university tuition, and imposes a \$200 annual fee on doctors, lawyers and other professionals. The legislature also adopted several budget cuts and reorganization proposals suggested by the Comptroller and approved a constitutional amendment authorizing a state lottery. Inasmuch as the revision to the Texas franchise tax may affect you, we have attached a copy of the chapter relating to the amendments to the franchise tax. Please note that Section 171.106 includes a single apportionment formula for regulated investment companies. We will keep you advised of further developments. Lawrence A. Rogers Senior Counsel Attachment