LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 2, 2007

TO: Honorable Jim Keffer, Chair, House Committee on Ways & Means

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: **HB1336** by Geren (Relating to a deduction under the franchise tax for certain contracts with the federal government.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1336, As Introduced: an impact of $0 through the biennium ending August 31, 2009.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2008	$0
2009	$0
2010	$0
2011	$0
2012	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from *Property Tax Relief Fund* 304
2008	($21,756,000)
2009	($22,352,000)
2010	($23,650,000)
2011	($25,022,000)
2012	($26,248,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, relating to the franchise tax, to permit taxpayers subtracting the cost of goods or compensation from total revenue to subtract additional costs that are properly allocable to contracts or subcontracts for the sale of goods or services to the federal government.

To be eligible, the contract with the federal government would have to be subject to the Federal Acquisition Regulation (48 C.F.R. Part I, or a successor regulation). Costs allocable to a contract for sale of goods or services to the federal government may include both material costs and service labor costs.

The bill would allow compensation paid for service labor costs to be subtracted by a taxpayer selecting to subtract cost of goods; and it would allow material costs to be subtracted by a taxpayer selecting to subtract compensation for the calculation of taxable margin.

The bill would take effect on January 1, 2008, and it would apply to franchise tax reports due on or after January 1, 2008.

Methodology

This estimate is based upon analyses provided by the Comptroller's Office.

The estimate assumes that additional costs would be available to certain taxable entities that sell goods and services to the federal government. The amount of additional costs were estimated from data in the Comptroller's francise tax files and information on defense contracts. Additional adjustments were made to account for the costs permitted to be subtracted under current law.

Note: House Bill 2, 79th Legislature, Third Called Session (2006) dedicates to the Property Tax Relief Fund 0304 all revenues collected under Chapter 171 in excess of the amount that would have been collected under the chapter as it existed on August 31, 2007. The fiscal impact table reflects that dedication. The General Revenue Fund will be obliged to compensate for the portion of property tax relief not funded by the revenues in the Property Tax Relief Fund.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, CT, SD, SM