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: **HB3463** by Paxton (Relating to the application of the franchise tax to a combined group.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3463, 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	($546,000,000)
2009	($561,200,000)
2010	($593,600,000)
2011	($628,000,000)
2012	($658,800,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, relating to the franchise tax by providing an alternative method for calculating the total revenue of a taxable entity that is a member of a combined group, and for calculating the margin of a combined group.

Under current law, each member of the group calculates its total revenue as if it were a separate taxable entity. Similarly, each member separately calculates its cost of goods sold and compensation. The total revenue, the cost of goods sold, and the compensation amounts of the members are summed; transactions among the members of the group are eliminated. The combined group then selects to subtract either the cost of goods sold or compensation from total revenue to calculate margin.

The bill would amend the procedure for calculating total revenue and margin in two ways. First, it would allow a member of a combined group to elect to calculate total revenue as 70 percent of total revenue as determined under current law procedures. If this election were made, the member would not be allowed any cost of goods sold or compensation deduction. Members of the combined group not making the election would calculate total revenue, cost of goods sold, and compensation under current law procedures. The combined group could then elect to calculate margin as the sum of the members' total revenue after eliminations, minus either the sum of the members' cost of goods sold or compensation also after eliminations. Second, the bill would change the determination of taxable margin for the combined group by specifying that the taxable margin could not exceed 70 percent of the combined group's total revenue.

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

Methodology

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

The estimated fiscal impact assumes taxable entities who are combined groups would use the bill's provisions and the provisions of Section 171.1014(b)3) to increase the amount deducted from total revenue to calculate margin.

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 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