LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 23, 2007

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

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

IN RE: **HB3928** by Keffer, Jim (Relating to technical changes to the revised franchise tax.),
Committee Report 1st House, Substituted

Estimated Two-year Net Impact to General Revenue Related Funds for HB3928, Committee Report 1st House, Substituted: an impact of $0 through the biennium ending August 31, 2009.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

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	($3,502,000)
2009	$3,595,000
2010	($4,998,000)
2011	$6,586,000
2012	($3,005,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, relating to the franchise tax.

The bill would make various technical corrections to the changes enacted in HB 3, 79th Legislature, Third Called Session (2006).

In addition, the bill would increase the threshold for an entity owing margin tax to $600,000, from $300,000.

The bill would amend the initial date for indexing the receipts amount and compensation amount for inflation to 2010 and require updates in even-numbered years.

The bill would require partnerships to include gross rental income instead of net rental income for determining total revenue.

The bill would provide that the gross proceeds from the sale of a loan or security treated as inventory of the seller for federal income tax purposes would be considered gross receipts for apportionment.

The bill would amend the temporary credit provisions by specifying that the credit is based on business loss carryforwards that existed before January 1, 2008.

The bill would specify the maximum amount of usable business loss carryforwards available in any year.

The bill would provide that the maximum credit available to a taxable entity would be the annual available business loss carryforward multiplied by 4.5 percent. The amount of credit would be limited to the liability of the taxable entity claiming the credit.

With one exception, the bill would take effect January 1, 2008.

SECTION 30, which would clarify the reporting responsibility of a newly taxable entity, would take effect immediately upon enactment, assuming that the bill received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, SECTION 30 would take effect September 1, 2007.

Methodology

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

The fiscal implications of increasing the threshold amount for an entity owing margin tax to $600,000 from $300,000 and of changing the first date for indexing the amount were estimated using data from the Internal Revenue Service. The effect of including partnership gross rental income rather than net rental income for calculating total revenue was estimated using Internal Revenue Service data on partnerships. The effect of apportioning certain loans and securities based on gross proceeds was estimated using Comptroller franchise tax files. The effect of changing the calculation of the temporary credit provisions was estimated using Comptroller franchise tax files.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, SD, CT