

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

April 19, 2009

TO: Honorable Rene Oliveira, Chair, House Committee on Ways & Means

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

IN RE: HB832 by Hughes (Relating to the computation of taxable margin for purposes of the franchise tax by certain taxable entities.), **As Introduced**

The bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of \$283,300,000 for the 2010-11 biennium. Any loss to the Property Tax Relief Fund will have to be made up with General Revenue of the same amount to fund property tax relief.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	\$0
2011	\$0
2012	\$0
2013	\$0
2014	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from <i>Property Tax Relief Fund</i> 304
2010	(\$139,900,000)
2011	(\$143,400,000)
2012	(\$148,420,000)
2013	(\$154,358,000)
2014	(\$160,267,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, relating to the franchise tax. The bill would add a new section providing that a taxable entity electing to subtract compensation from total revenue to compute taxable margin could include as wages and cash compensation any compensation paid to an independent contractor as reported on Internal Revenue Service (IRS) Form 1099.

The bill would take effect on January 1, 2010, and apply to franchise tax reports due on or after that date.

Methodology

There are numerous 1099 forms used to report income to a recipient, including cancellation of debt, broker and barter exchange transactions, dividends, interest, miscellaneous income, rental income, taxable distributions from cooperatives and distributions from pensions and IRAs. Without limiting the subtraction allowed to the nonemployee compensation box on the 1099 Misc form or defining "compensation" or "independent contractor", the income reported on the various 1099 forms could be allowed in the compensation deduction. The estimated fiscal impact reflects the potential use of all 1099 payments.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, MN, SD, SM