LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

April 15, 2009

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

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

IN RE: HB1825 by Paxton (Relating to the computation of the franchise tax.), **As Introduced**

The bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of $2,560,308,000 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 *Property Tax Relief Fund* 304
2010	($1,264,345,000)
2011	($1,295,963,000)
2012	($1,341,334,000)
2013	($1,395,002,000)
2014	($1,450,817,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code (franchise tax) by changing the computation of the amount of tax due.

Under current law a taxable entity that has more than $300,000 in total revenue must calculate its margin apportioned to Texas (taxable margin) and multiply the result by the appropriate tax rate, 0.5 percent for a taxable entity primarily engaged in wholesale or retail trade, or one percent for others. This bill would change the calculation to the following: for a taxable entity with taxable margin of $1 million or less, there would be no tax due; for a taxable entity with taxable margin greater than $1 million but less than $10 million, the tax would be one half the rate in current law multiplied by the taxable margin that exceeded $1 million; for a taxable entity with taxable margin greater than $10 million, the tax would be $45,000 ($22,500 for taxable entities that qualify for the 0.5 percent tax rate) plus the current law tax rate times the amount of taxable margin that exceeded $10 million.

The bill would delete or repeal sections of Chapter 171 that would no longer have an effect on the calculation of the tax. These would include the $300,000 total revenue threshold for the tax, the tax discount provisions, and the inflation adjustments for those two provisions.

The bill would take effect on January 1, 2010, and apply to a report due on or after that date.

Methodology

The estimated fiscal impact is based on data from Comptroller's franchise tax files. The calculation provisions contained in the bill were applied to 2008 franchise tax returns filed with the Comptroller and the resulting change in tax liability was used to estimate the fiscal impact.

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