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: **HB3237** by Callegari (Relating to the franchise tax.), **As Introduced**

The bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of $1,933,329,000 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	($954,727,000)
2011	($978,602,000)
2012	($1,012,863,000)
2013	($1,053,389,000)
2014	($1,095,535,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, by changing several aspects of the way the tax is calculated.

The bill would change the total revenue exemption amount for the tax from $300,000 or less to $1 million or less.

The bill would permit a taxable entity electing to subtract cost of goods sold in computing taxable margin to use the amount reportable as cost of goods sold on the Internal Revenue Service form that applies to the taxable entity.

The bill would permit a taxable partnership electing to subtract compensation in computing taxable margin to include distributive income paid to a professional corporation or a professional association owned by a natural person.

The bill would permit a taxable entity electing to subtract compensation in computing taxable margin to include any compensation paid to an independent contractor as reported on Internal Revenue Service Form 1099.

The bill would amend the provisions of the EZ calculation for computing franchise tax liability. The bill would eliminate the requirement that a taxable entity have total revenue of not more that $10 million in order to use the EZ calculation. The bill would change the tax rate for computing tax under the EZ calculation from 0.575 percent to 0.45 percent.

The bill would repeal Sections 171.0021 and 171.1016(d) of the Tax Code. Those sections deal with discounts from tax owed that are available to taxable entities with total revenue of $900,000 or less. The change in the exemption amount proposed in this bill would render these sections without impact on the calculation of franchise tax liability.

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

Methodology

The estimated fiscal impact is based on franchise tax return information for the 2008 franchise tax reports.

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