

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

May 9, 2009

TO: Honorable Steve Ogden, Chair, Senate Committee on Finance

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

IN RE: SB1315 by Wentworth (Relating to the computation of taxable margin for purposes of the franchise tax by a taxable entity principally engaged in Internet hosting.), **As Introduced**

The bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of \$20,250,000 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	(\$10,000,000)
2011	(\$10,250,000)
2012	(\$10,610,000)
2013	(\$11,035,000)
2014	(\$11,475,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, by changing the method of apportionment for certain taxable entities.

The bill would add a definition of "internet hosting." The bill would amend Section 171.106, dealing with apportionment of margin, by adding a provision providing that receipts from business done in this state for a taxable entity that receives more than 50 percent of its total revenue from internet hosting are receipts from customers whose business is directed or managed from a place in this state. Under current law, receipts are considered to be from business done in this state if the services, including internet hosting services, are performed in this state.

The bill would take effect on September 1, 2009, and apply to reports due on or after that date.

Methodology

The bill's definition of "internet hosting" is broad enough to include many taxable entities in the information sector. Several of these taxable entities remit significant amounts of franchise tax and might benefit from the bill's provisions.

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