LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 26, 2011

TO: Honorable Harvey Hilderbran, Chair, House Committee on Ways & Means

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

IN RE: **HB98** by Paxton (Relating to the E-Z computation and rate of the franchise tax.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB98, As Introduced: an impact of $0 through the biennium ending August 31, 2013.

The bill will have a direct impact of a revenue loss of ($775,700,000) from the Property Tax Relief Fund during the 2012-13 biennium. The loss would be required to be made up with an equal amount of General Revenue to fund the Foundation School Program.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2012	$0
2013	$0
2014	$0
2015	$0
2016	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *Property Tax Relief Fund* 304
2012	($382,400,000)
2013	($393,300,000)
2014	($401,400,000)
2015	($402,400,000)
2016	($405,700,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, by changing the method for calculating tax liability using the E-Z computation.

Under current law, a taxable entity whose total revenue is not more than $10 million may elect to calculate the tax due by multiplying the revenue apportioned to Texas by a tax rate of 0.575 percent. This bill would change the calculation of the tax base by providing that a taxable entity subtract from the revenue apportioned to Texas the amount of federal income taxes paid during the period on which the report is based, then subtract an additional amount of $1 million. The tax rate on the first $1 million of the resulting base would be 0.25 percent. The tax rate on the resulting base in excess of $1 million would be 0.5 percent.

The bill would provide that the Comptroller could require a taxable entity that owes no tax because its tax base computed under the bill's provision is zero or less to file an information report.

This bill would take effect on January 1, 2012, and would apply to reports due on or after that date.

Methodology

Data from the Comptrollers franchise tax files were used to estimate the impact of the bill's provisions that provide for subtracting $1 million from apportioned revenue and for applying the tax rates in the bill to the resulting base. The impact from the subtraction of federal income taxes paid was estimated using published Internal Revenue Service data.

Technology

There would be a one-time technology cost of $170,000 in fiscal year 2012 for programming and project management.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

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