

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION**

**May 23, 2013**

**TO:** Honorable Joe Straus, Speaker of the House, House of Representatives

**FROM:** Ursula Parks, Director, Legislative Budget Board

**IN RE: HB500** by Hilderbran (Relating to the \$1 million total revenue exemption for the franchise tax; temporarily decreasing the rates of the franchise tax.), **As Passed 2nd House**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB500, As Passed 2nd House: a negative impact of (\$679,428) through the biennium ending August 31, 2015.

**Additionally, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of (\$654,708,000) for the 2014-15 biennium. Any loss to the Property Tax Relief Fund must 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
2014	(\$439,714)
2015	(\$239,714)
2016	(\$239,714)
2017	(\$239,714)
2018	(\$239,714)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable (Cost) from General Revenue Fund 1	Probable Revenue (Loss) from Property Tax Relief Fund 304	Change in Number of State Employees from FY 2013
2014	(\$439,714)	(\$326,512,000)	4.0
2015	(\$239,714)	(\$328,196,000)	4.0
2016	(\$239,714)	(\$84,727,000)	4.0
2017	(\$239,714)	(\$83,241,000)	4.0
2018	(\$239,714)	(\$82,569,000)	4.0

**Fiscal Analysis**

This bill would amend Chapter 171 of the Tax Code, regarding the franchise tax. The bill would permanently increase the amount of total revenue at or below which a taxable entity would owe no tax to \$1 million from \$600,000 for reports due in 2014 or later. The bill would repeal prior law setting the total revenue amount to \$600,000 for reports due in 2014 or later and provisions for discounts from the tax for taxable entities with total revenue of \$900,000 or less. Those repealers would take effect on September 1, 2013.

The bill would add a new section to Chapter 171 for temporary permissive alternative rates. A taxable entity would be allowed to use the alternative rates for reports due on or after January 1, 2014, and before January 1, 2016. The alternative rate would be 0.095 percent of taxable margin for taxable entities not primarily engaged in retail or wholesale trade and 0.475 percent of taxable margin for taxable entities primarily engaged in retail or wholesale trade. This section would expire on December 31, 2015.

The bill would add a new subsection to Section 171.1016 dealing with the EZ calculation. The subsection would allow a taxable entity electing the EZ calculation to use a tax rate of 0.546 applied to apportioned total revenue to determine franchise tax liability. The new subsection would expire on December 31, 2015.

The bill would provide an exemption from the franchise tax for a political subdivision corporation.

The bill would provide that a ticket reseller, promoter or primary ticket distributor may receive an exemption to subtract as a cost of goods sold the amount paid to procure tickets to events. The exemption would not include all mixed service costs.

The bill would amend the Government Code to require a review of state and local tax preferences. The Comptroller would be required to identify and develop a schedule for review of each state tax preference and each type of local tax preference and identify for the Legislative Budget Board the tax preferences that must be reviewed for a report. Each identified tax preference would be reviewed once during a 12-year cycle. The Legislative Budget Board would be required to periodically review tax preferences under the schedule and prepare a report to the presiding officers of the Senate Finance Committee and the House Ways and Means Committee.

The bill's effect would be contingent on H.B. 7 becoming law and on S.J.R. 1 being approved by both houses and submitted to the voters.

Except as otherwise provided in the bill the bill would take effect on January 1, 2014, and apply to franchise tax reports due on or after that date.

## **Methodology**

The estimated fiscal impact is based on data from the Comptroller's franchise tax files. The fiscal implications shown reflect the assumption that H.B. 7 and S. J. R. 1 both pass. Otherwise, the fiscal impact would be zero.

The General Revenue costs reflect the funds needed to hire an estimated 4 FTEs needed to complete the Review of State and Local Tax Preferences.

## **Technology**

There would be a one-time technology cost of \$200,000 in fiscal 2014 for programming and system support costs.

**Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** UP, KK, SD