LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

May 25, 2013

TO: Honorable David Dewhurst, Lieutenant Governor, Senate
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 computation of the franchise tax, including certain exclusions from the tax.), **Conference Committee Report**

Estimated Two-year Net Impact to General Revenue Related Funds for HB500, Conference Committee Report: a negative impact of ($996,000) 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 ($714,029,000) for the 2014-15 biennium if the contingent temporary franchise tax rate reduction takes effect in fiscal year 2015. If the rate does not take effect, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of ($482,029,000) 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.

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *Property Tax Relief Fund* 304	Probable (Cost) from *General Revenue Fund* 1	Change in Number of State Employees from FY 2013
2014	($298,758,000)	($598,000)	5.0
2015	($415,271,000)	($398,000)	5.0
2016	($193,363,000)	($398,000)	5.0
2017	($193,500,000)	($398,000)	5.0
2018	($195,211,000)	($398,000)	5.0

The above table assumes the Comptroller of Public Accounts certifies there will be a sufficient amount of available revenue to enact the contingent franchise tax rate reduction in fiscal year 2015. The table below assumes the rate reduction is not enacted.

Fiscal Year	Probable Revenue (Loss) from *Property Tax Relief Fund* 304	Probable (Cost) from *General Revenue Fund* 1	Change in Number of State Employees from FY 2013
2014	($298,758,000)	($598,000)	5.0

2015	($183,271,000)	($398,000)	5.0
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2017	($193,500,000)	($398,000)	5.0
2018	($195,211,000)	($398,000)	5.0

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, by making several changes to the way taxable entities calculate franchise tax liability.

The bill would include auto repair services and certain rental activities in retail and wholesale trade which would require affected entities to calculate franchise tax liability using a tax rate of 0.5 percent.

The bill would provide a temporary franchise tax rate reduction in fiscal year 2014 and 2015. In 2014 the franchise tax rates for non-EZ filers would be reduced by 2.5 percent. In 2015 the franchise tax rates for non-EZ filers would be reduced by 5 percent contingent upon the Comptroller of Public Accounts certifying in the 2015 Biennial Revenue Estimate that sufficient revenue will be available in fiscal year 2015 if franchise tax filers remit taxes computed using the reduced rate.

The bill would amend the calculation of margin by providing a taxable entity the additional option of determining margin as total revenue less $1 million.

The bill would provide exclusions or subtractions from total revenue for taxable entities in certain industries.

The bill would change the method for apportioning margin for taxable entities engaged in internet hosting or broadcasting.

The bill would provide a deduction from apportioned margin for moving expenses to taxable entities that relocate their principal place of business to Texas.

The bill would provide transferable franchise tax credits to entities who incur qualified expenses for rehabilitation of historic structures. This section of the bill would take effect January 1, 2015.

The bill would provide that a taxable entity with total revenue of no more than $1 million for a report period would continue to have no franchise tax liability for that period.
Except as provided in the bill, the bill would take effect on January 1, 2014.

Methodology

The estimated fiscal impact is based on information from the Comptroller's franchise tax databases and from research on the various industries impacted by the bill's provisions.

The Comptroller of Public Accounts estimates it would be necessary to hire 5 FTEs including audit, legal, and accounting staff to handle the anticipated increased workload.

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: 116 Sunset Advisory Commission, 304 Comptroller of Public Accounts
LBB Staff: UP, KK, SD