

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION
Revision 1

May 1, 2013

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB500 by Hilderbran (Relating to the franchise tax.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB500, As Introduced: a negative impact of (\$514,000) 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 (\$1,113,359,000) 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	(\$357,000)
2015	(\$157,000)
2016	(\$157,000)
2017	(\$157,000)
2018	(\$157,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from <i>General Revenue Fund</i> 1	Probable Revenue (Loss) from <i>Property Tax Relief Fund</i> 304	Change in Number of State Employees from FY 2013
2014	(\$357,000)	(\$555,545,000)	2.0
2015	(\$157,000)	(\$557,814,000)	2.0
2016	(\$157,000)	(\$568,243,000)	2.0
2017	(\$157,000)	(\$558,202,000)	2.0
2018	(\$157,000)	(\$553,657,000)	2.0

Fiscal Analysis

This bill would amend Chapter 171 of the Tax Code, regarding the franchise tax. The bill would provide that a taxable entity with total revenue of not more than \$20 million calculated under existing law would subtract \$1 million from the calculated total revenue. For a combined group only one member would be allowed the \$1 million subtraction. The bill would adjust the subtraction amount by the percent change in the consumer price index for each biennium. The bill would amend the provisions of the EZ calculations by allowing taxable entities with no more than \$20 million in total revenue to elect the EZ calculation. In current law the qualifying amount is total revenue of not more than \$10 million. The bill would reduce the EZ tax rate from 0.575 percent to 0.48 percent.

The bill would provide that a receipt from Internet hosting is a receipt from business done in this state only if the customer is located in this state.

The bill would require taxable entities to exclude from total revenue subcontracting payments made to individuals for certain services related to petroleum or mineral interests. The bill would provide that taxable entities primarily engaged in transporting aggregates must exclude from total revenue payments made to nonemployee agents for the performance of delivery services.

The bill would prohibit including in a combined group for the franchise tax an affiliate that provides retail or wholesale electric utilities under certain conditions.

The bill would repeal provisions in current law setting the amount of total revenue a taxable entity could have and owe no tax. The bill would delete sections of this chapter that would have no effect under other provisions of the bill.

The bill would require the Comptroller to conduct a study of alternative methods of taxing business entities that would generate approximately the same amount of revenue as the franchise tax at a single tax rate. The Comptroller would be required to submit a report with the results of that study not later than January 1, 2015.

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

Methodology

The estimated loss to the Property Tax Relief Fund is based on data from the Comptroller's franchise tax files.

The Comptroller would need to hire 2 additional FTEs at a total cost of \$157,000 per year to complete the study outlined in Section 11 of the bill.

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

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