LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

May 18, 2013

TO: Honorable Tommy Williams, Chair, Senate Committee on Finance

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.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB500, Committee Report 2nd House, Substituted: an impact of $0 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 ($627,308,000) 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	$0
2015	$0
2016	$0
2017	$0
2018	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *Property Tax Relief Fund* 304
2014	($313,012,000)
2015	($314,296,000)
2016	($83,727,000)
2017	($82,241,000)
2018	($81,569,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, to permanently increase the amount of total revenue at or below which a taxable entity would owe no tax and to provide temporary permissive alternative rates to calculate franchise tax liability. The amount of total revenue at or below which a taxable entity would owe no tax would be raised 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 rates would be 0.95 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.

Except as otherwise provided, 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 of the bill is based on data from franchise tax reports from taxable entities with total revenue between $600,000 and $1 million and franchise tax reports of taxable entities pay tax at the current tax rates.

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