

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 1, 2013

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB1836** by Zedler (Relating to the exclusion of certain flow-through funds by taxable entities in determining total revenue for purposes of the franchise tax.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1836, As Introduced: 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 (\$435,483,000) 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	(\$217,143,000)
2015	(\$218,340,000)
2016	(\$222,126,000)
2017	(\$218,180,000)
2018	(\$216,402,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, by adding the term "contract" to the reasons that require a taxable entity to exclude flow through funds from

total revenue that are mandated to be distributed to other entities. Under current law, flow through funds mandated by law or fiduciary duty to be distributed to other entities are excluded from total revenue. The bill would repeal Section 171.1011(g) which specifies three instances in which flow through funds mandated by contract to be paid to other entities are required to be excluded from total revenue. Section 171.1011(i) prohibits exclusion from total revenue of payments made under an ordinary contract for the provision of services in the regular course of business except as provided by Section 171.1011(g). This bill would amend Section 171.1011(i) by removing the reference Section 171.1011(g) and adding a reference to amended flow through language which includes mandate by contract.

The bill would take effect on January 1, 2014, and apply to franchise tax reports due on or after that date.

Methodology

The bill does not make clear distinctions among payments made by a taxable entity pursuant to a contract that would or would not qualify as flow through funds mandated by contract. The estimated fiscal impact is based on prior estimates of expanding subtractions based on contract payments.

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