LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

March 25, 2013

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB2251** by Geren (Relating to the inclusion by taxable entities and combined groups that conduct certain oil and gas activities of certain costs in the cost of goods sold for purposes of the franchise tax.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2251, 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 ($58,025,000) 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	($28,953,000)
2015	($29,072,000)
2016	($29,617,000)
2017	($29,092,000)
2018	($28,854,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, to expand the availability of cost of goods sold and the costs included in costs of goods sold for certain taxable entities. The bill would affect taxable entities primarily engaged in gathering, storing, transporting, or processing products described by Industry Group 132, 461, 492, or 517 of the Standard Industrial Classification Manual. Those groups include, respectively, natural gas liquids, pipelines except natural gas, gas production and distribution, and petroleum and petroleum products wholesalers. The bill would not apply to a refinery installation.

The bill would provide that the affected taxable entities could subtract cost of goods sold, notwithstanding Section 171.1012(i) which requires that a taxable entity own the goods sold. The bill would provide that the affected taxable entities would not be subject to Section 171.1012(e)(3) which excludes distribution costs, including outbound transportation costs, from cost of goods sold. The bill would provide that an affected taxable entity could subtract as a cost of goods sold its depreciation costs and its operation and maintenance costs.

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

Methodology

The bill's provisions would affect both taxable entities that currently subtract cost of goods sold and taxable entities that use a different method to calculate taxable margin. The estimate assumed a 3 percent increase in cost of goods sold for affected entities currently subtracting cost of goods sold and a 70 percent subtraction from total revenue for taxable entities not currently subtracting cost of goods sold. The estimate utilizes data from the Comptroller's franchise tax databases.

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