

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

March 24, 2013

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB2775** by Branch (Relating to the exclusion of certain commercial lease revenue in determining a taxable entity's total revenue for purposes of the franchise tax.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2775, 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 (\$60,191,000) 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	(\$30,034,000)
2015	(\$30,157,000)
2016	(\$30,723,000)
2017	(\$30,178,000)
2018	(\$29,931,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, to require certain

taxable entities to exclude certain payment from total revenue in calculating franchise tax liability. A taxable entity that is a landlord of commercial real property would exclude from total revenue payments received from a tenant of the property for ad valorem taxes, any tax or excise imposed on rents, general or special assessments or other taxes, building or property operating expenses, property or other insurance expenses, utility expenses, and maintenance expenses. The taxable entity could not exclude expenses for interest and depreciation.

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

Methodology

The estimated fiscal impact is based on data from the Internal Revenue Service on corporations and partnerships who receive rental income from commercial real property and from the Comptroller's franchise tax data files.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

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