

# SENATE AMENDMENTS

2<sup>nd</sup> Printing

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et al.

H.B. No. 500

A BILL TO BE ENTITLED

1 AN ACT  
2 relating to the computation of the franchise tax, including certain  
3 exclusions from the tax.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

5 SECTION 1. (a) Section 111.064, Tax Code, is amended by  
6 adding Subsection (g) to read as follows:

7 (g) For a refund of an amount paid under Chapter 171 that is  
8 claimed after December 31, 2015, and granted for a report period due  
9 on or after January 1, 2000, the rate of interest is the rate set in  
10 Section 111.060.

11 (b) This section takes effect January 1, 2016.

12 SECTION 2. Section 171.0001(12), Tax Code, is amended to  
13 read as follows:

14 (12) "Retail trade" means:

15 (A) the activities described in Division G of the  
16 1987 Standard Industrial Classification Manual published by the  
17 federal Office of Management and Budget; ~~and~~

18 (B) apparel rental activities classified as  
19 Industry 5999 or 7299 of the 1987 Standard Industrial  
20 Classification Manual published by the federal Office of Management  
21 and Budget;

22 (C) the activities classified as Industry Group  
23 753 of the 1987 Standard Industrial Classification Manual published  
24 by the federal Office of Management and Budget; and

25 (D) rental-purchase agreement activities

1 regulated by Chapter 92, Business & Commerce Code.

2 SECTION 3. Section 171.002, Tax Code, is amended by  
3 amending Subsection (a) and adding Subsection (c-2) to read as  
4 follows:

5 (a) Subject to Sections 171.003 and 171.1016 and except as  
6 provided by Subsection (b), the rate of the franchise tax is:

7 (1) one percent of taxable margin; or

8 (2) for a taxable entity that elects to subtract  
9 compensation under Section 171.1013 for the purpose of computing  
10 its taxable margin, 0.95 percent of taxable margin.

11 (c-2) Subsection (c)(2) does not apply to total revenue from  
12 activities in a trade that rents or leases tangible personal  
13 property as described by Industry Group 735 of the Standard  
14 Industrial Classification Manual published by the United States  
15 Department of Labor.

16 SECTION 4. Section 171.006(b), Tax Code, is amended to read  
17 as follows:

18 (b) Beginning in 2010, on January 1 of each even-numbered  
19 year, the amounts prescribed by Sections 171.002(d)(2) [~~171.0021~~]  
20 ~~171.0021~~] and 171.1013(c) are increased or decreased by an amount  
21 equal to the amount prescribed by those sections on December 31 of  
22 the preceding year multiplied by the percentage increase or  
23 decrease during the preceding state fiscal biennium in the consumer  
24 price index and rounded to the nearest \$10,000.

25 SECTION 5. Section 171.052(a), Tax Code, is amended to read  
26 as follows:

27 (a) Except as provided by Subsection (c), an insurance

1 organization, title insurance company, or title insurance agent  
2 authorized to engage in insurance business in this state that is  
3 ~~[now]~~ required to pay an annual tax ~~[under Chapter 4 or 9, Insurance~~  
4 ~~Code,~~] measured by its gross premium receipts is exempted from the  
5 franchise tax. A nonadmitted insurance organization that is  
6 required to pay a gross premium receipts tax during a tax year is  
7 exempted from the franchise tax for that same tax year. A  
8 nonadmitted insurance organization that is subject to an occupation  
9 tax or any other tax that is imposed for the privilege of doing  
10 business in another state or a foreign jurisdiction, including a  
11 tax on gross premium receipts, is exempted from the franchise tax.

12 SECTION 6. Sections 171.101(a) and (b), Tax Code, are  
13 amended to read as follows:

14 (a) The taxable margin of a taxable entity is computed by:

15 (1) determining the taxable entity's margin, which is  
16 the lesser of:

17 (A) the amount provided by this paragraph, which  
18 is the lesser of:

19 (i) 70 percent of the taxable entity's total  
20 revenue from its entire business, as determined under Section  
21 171.1011; or

22 (ii) an amount equal to the taxable entity's  
23 total revenue from its entire business as determined under Section  
24 171.1011 minus \$1 million; or

25 (B) an amount computed by~~[-~~

26 ~~[-i-]~~ determining the taxable entity's  
27 total revenue from its entire business~~[7]~~ under Section 171.1011

1 and [7

2 [~~(ii)~~] subtracting the greater of:

3 (i) \$1 million; or

4 (ii) an amount equal to:

5 (a) [7] at the election of the taxable  
6 entity, either:

7 (1) [~~(a)~~] cost of goods sold, as  
8 determined under Section 171.1012; or

9 (2) [~~(b)~~] compensation, as  
10 determined under Section 171.1013; and

11 (b) any [~~(iii)~~] ~~subtracting, in~~  
12 ~~addition to any subtractions made under Subparagraph (ii)(a) or~~  
13 ~~(b),~~ compensation, as determined under Section 171.1013, paid to  
14 an individual during the period the individual is serving on active  
15 duty as a member of the armed forces of the United States if the  
16 individual is a resident of this state at the time the individual is  
17 ordered to active duty and the cost of training a replacement for  
18 the individual;

19 (2) apportioning the taxable entity's margin to this  
20 state as provided by Section 171.106 to determine the taxable  
21 entity's apportioned margin; and

22 (3) subtracting from the amount computed under  
23 Subdivision (2) any other allowable deductions to determine the  
24 taxable entity's taxable margin.

25 (b) Notwithstanding Subsection (a)(1)(B)(ii)(a)  
26 [~~(a)(1)(B)(ii)~~], a staff leasing services company may subtract only  
27 the greater of \$1 million as provided by Subsection (a)(1)(B)(i) or

1 compensation as determined under Section 171.1013.

2 SECTION 7. Section 171.1011, Tax Code, is amended by  
3 amending Subsections (g) and (g-4) and adding Subsections (g-8),  
4 (g-9), (g-10), (g-11), (u), (v), (w-1), (x), and (y) to read as  
5 follows:

6 (g) A taxable entity shall exclude from its total revenue,  
7 to the extent included under Subsection (c)(1)(A), (c)(2)(A), or  
8 (c)(3), only the following flow-through funds that are mandated by  
9 contract or subcontract to be distributed to other entities:

10 (1) sales commissions to nonemployees, including  
11 split-fee real estate commissions;

12 (2) the tax basis as determined under the Internal  
13 Revenue Code of securities underwritten; and

14 (3) subcontracting payments made under a contract or  
15 subcontract entered into ~~handled~~ by the taxable entity to provide  
16 services, labor, or materials in connection with the actual or  
17 proposed design, construction, remodeling, remediation, or repair  
18 of improvements on real property or the location of the boundaries  
19 of real property.

20 (g-4) A taxable entity that is a pharmacy cooperative shall  
21 exclude from its total revenue, to the extent included under  
22 Subsection (c)(1)(A), (c)(2)(A), or (c)(3), flow-through funds  
23 from rebates from pharmacy wholesalers that are distributed to the  
24 pharmacy cooperative's shareholders. A taxable entity that  
25 provides a pharmacy network shall exclude from its total revenue,  
26 to the extent included under Subsection (c)(1)(A), (c)(2)(A), or  
27 (c)(3), flow-through funds from rebates from pharmacy wholesalers

1 that are distributed to pharmacies in the pharmacy network and  
2 flow-through funds from reimbursements for payments to pharmacies  
3 in the pharmacy network.

4 (g-8) A taxable entity that is primarily engaged in the  
5 business of transporting aggregates shall exclude from its total  
6 revenue, to the extent included under Subsection (c)(1)(A),  
7 (c)(2)(A), or (c)(3), subcontracting payments made by the taxable  
8 entity to nonemployee agents for the performance of delivery  
9 services on behalf of the taxable entity. In this subsection,  
10 "aggregates" means any commonly recognized construction material  
11 removed or extracted from the earth, including dimension stone,  
12 crushed and broken limestone, crushed and broken granite, other  
13 crushed and broken stone, construction sand and gravel, industrial  
14 sand, dirt, soil, cementitious material, and caliche.

15 (g-9) A taxable entity that is a landlord of commercial  
16 property shall exclude from its total revenue, to the extent  
17 included under Subsection (c)(1)(A), (2)(A), or (3), payments,  
18 excluding expenses for interest and depreciation and other expenses  
19 not listed in this subsection, received from a tenant of the  
20 property for ad valorem taxes and any tax or excise imposed on  
21 rents.

22 (g-10) A taxable entity that is primarily engaged in the  
23 business of transporting barite shall exclude from its total  
24 revenue, to the extent included under Subsection (c)(1)(A),  
25 (c)(2)(A), or (c)(3), subcontracting payments made by the taxable  
26 entity to nonemployee agents for the performance of transportation  
27 services on behalf of the taxable entity. For purposes of this

1 subsection, "barite" means barium sulfate (BaSO4), a mineral used  
2 as a weighing agent in oil and gas exploration.

3 (g-11) A taxable entity that is primarily engaged in the  
4 business of performing landman services shall exclude from its  
5 total revenue, to the extent included under Subsection (c)(1)(A),  
6 (c)(2)(A), or (c)(3), subcontracting payments made by the taxable  
7 entity to nonemployees for the performance of landman services on  
8 behalf of the taxable entity. In this subsection, "landman  
9 services" means:

10 (1) performing title searches for the purpose of  
11 determining ownership of or curing title defects related to oil,  
12 gas, or other related mineral or petroleum interests;

13 (2) negotiating the acquisition or divestiture of  
14 mineral rights for the purpose of the exploration, development, or  
15 production of oil, gas, or other related mineral or petroleum  
16 interests; or

17 (3) negotiating or managing the negotiation of  
18 contracts or other agreements related to the ownership of mineral  
19 interests for the exploration, exploitation, disposition,  
20 development, or production of oil, gas, or other related mineral or  
21 petroleum interests.

22 (u) A taxable entity shall exclude from its total revenue  
23 the actual cost paid by the taxable entity for a vaccine.

24 (v) A taxable entity primarily engaged in the business of  
25 transporting commodities by waterways that does not subtract cost  
26 of goods sold in computing its taxable margin shall exclude from its  
27 total revenue direct costs of providing inbound and outbound

1 transportation services by intrastate or interstate waterways to  
2 the same extent that a taxable entity that sells in the ordinary  
3 course of business real or tangible personal property would be  
4 authorized by Section 171.1012 to subtract those costs as costs of  
5 goods sold in computing its taxable margin.

6 (w-1) A taxable entity primarily engaged in the business of  
7 providing services as an agricultural aircraft operation, as  
8 defined by 14 C.F.R. Section 137.3, shall exclude from its total  
9 revenue the cost of labor, equipment, fuel, and materials used in  
10 providing those services.

11 (x) A taxable entity that is registered as a motor carrier  
12 under Chapter 643, Transportation Code, shall exclude from its  
13 total revenue, to the extent included under Subsection (c)(1)(A),  
14 (c)(2)(A), or (c)(3), flow-through revenue derived from taxes and  
15 fees.

16 (y) A taxable entity shall exclude from its total revenue,  
17 to the extent included under Subsection (c)(1)(A), (c)(2)(A), or  
18 (c)(3) but not subtracted as a cost of goods sold on the report or on  
19 a previous report, the depreciation used to calculate gain or loss  
20 on the disposition of real property held primarily for the  
21 production of rental income.

22 SECTION 8. Section 171.1011(p), Tax Code, is amended by  
23 adding Subdivision (8) to read as follows:

24 (8) "Vaccine" means a preparation or suspension of  
25 dead, live attenuated, or live fully virulent viruses or bacteria,  
26 or of antigenic proteins derived from them, used to prevent,  
27 ameliorate, or treat an infectious disease.



1 SECTION 9. Section 171.1012, Tax Code, is amended by  
2 amending Subsection (f) and adding Subsections (k-2), (k-3), (p),  
3 (q), (r), and (s) to read as follows:

4 (f) A taxable entity may subtract as a cost of goods sold  
5 indirect or administrative overhead costs, including all mixed  
6 service costs, such as security services, legal services, data  
7 processing services, accounting services, personnel operations,  
8 and general financial planning and financial management costs, that  
9 it can demonstrate are allocable to the acquisition or production  
10 of goods, except that the amount subtracted may not exceed 5.5  
11 [~~four~~] percent of the taxable entity's total indirect or  
12 administrative overhead costs, including all mixed service costs.  
13 Any costs excluded under Subsection (e) may not be subtracted under  
14 this subsection.

15 (k-2) This subsection applies only to a pipeline entity: (1)  
16 that owns or leases and operates the pipeline by which the product  
17 is transported for others and only to that portion of the product to  
18 which the entity does not own title; and (2) that is primarily  
19 engaged in gathering, storing, transporting, or processing crude  
20 oil, including finished petroleum products, natural gas,  
21 condensate, and natural gas liquids, except for a refinery  
22 installation that manufactures finished petroleum products from  
23 crude oil. Notwithstanding Subsection (e)(3) or (i), a pipeline  
24 entity providing services for others related to the product that  
25 the pipeline does not own and to which this subsection applies may  
26 subtract as a cost of goods sold its depreciation, operations, and  
27 maintenance costs allowed by this section related to the services

1 provided.

2 (k-3) For purposes of Subsection (k-2), "processing" means  
3 the physical or mechanical removal, separation, or treatment of  
4 crude oil, including finished petroleum products, natural gas,  
5 condensate, and natural gas liquids after those materials are  
6 produced from the earth. The term does not include the chemical or  
7 biological transformation of those materials.

8 (p) Notwithstanding Subsection (e)(2) or any other  
9 provision of this section, the cost of goods sold includes 20  
10 percent of the costs attributable to the acceptance of credit cards  
11 and debit cards as a means of payment.

12 (q) Notwithstanding Subsection (i) or any other provision  
13 of this section, a taxable entity that is primarily engaged in the  
14 business of harvesting trees for wood may subtract as cost of goods  
15 sold the direct costs of acquiring or producing the timber for the  
16 wood that are specified by this subsection or otherwise described  
17 by this section, regardless of whether the taxable entity owns the  
18 land from which the trees are harvested, the harvested timber, or  
19 the wood resulting from the harvested timber. For purposes of this  
20 subsection, direct costs include costs of:

21 (1) moving harvesting equipment;

22 (2) severing timber;

23 (3) transporting timber to and from a mill or  
24 designated delivery point;

25 (4) obtaining, using, storing, or maintaining  
26 equipment necessary for an activity described by Subdivision (1),

27 (2), or (3); and

1           (5) other supplies, labor, freight, and fuel necessary  
2 for an activity described by Subdivision (1), (2), or (3).

3           (r) A taxable entity that has total revenue from its entire  
4 business of less than \$5 million and that elects to subtract cost of  
5 goods sold for the purpose of computing its taxable margin may elect  
6 to determine the amount of that cost of goods sold in accordance  
7 with this subsection. A taxable entity making the election  
8 authorized by this subsection is not subject to the provisions of  
9 this section relating to the computation of the amount of cost of  
10 goods sold other than this subsection and Subsection (s). The  
11 taxable entity shall determine the amount of cost of goods sold as  
12 follows:

13           (1) for a taxable entity treated for federal income  
14 tax purposes as a corporation, the cost of goods sold is the amount  
15 reportable as cost of goods sold on line 2, Internal Revenue Service  
16 Form 1120;

17           (2) for a taxable entity treated for federal income  
18 tax purposes as a partnership, the cost of goods sold is the amount  
19 reportable as cost of goods sold on line 2, Internal Revenue Service  
20 Form 1065;

21           (3) for a taxable entity treated for federal income  
22 tax purposes as an S corporation, the cost of goods sold is the  
23 amount reportable as cost of goods sold on line 2, Internal Revenue  
24 Service Form 1120S; or

25           (4) for any other taxable entity, the cost of goods  
26 sold is an amount determined in a manner substantially equivalent  
27 to the amount for Subdivision (1), (2), or (3) determined by rules

1 the comptroller shall adopt.

2 (s) A combined group that has total revenue from its entire  
3 business of less than \$5 million and that elects to subtract cost of  
4 goods sold for the purpose of computing its taxable margin shall  
5 make the election to compute the amount of that cost of goods sold  
6 under Subsection (r), or to compute that amount under the other  
7 provisions of this section, for all of its members.

8 SECTION 10. (a) Section 171.1012, Tax Code, is amended by  
9 adding Subsection (t) to read as follows:

10 (t) If a taxable entity that is a movie theater elects to  
11 subtract cost of goods sold, the cost of goods sold for the taxable  
12 entity shall be the costs described by this section in relation to  
13 the acquisition, production, exhibition, or use of a film or motion  
14 picture, including expenses for the right to use the film or motion  
15 picture.

16 (b) Section 171.1012(t), Tax Code, as added by this section,  
17 is a clarification of existing law and does not imply that existing  
18 law may be construed as inconsistent with the law as amended by this  
19 section.

20 (c) This section takes effect September 1, 2013.

21 SECTION 11. Section 171.1013(a), Tax Code, is amended to  
22 read as follows:

23 (a) Except as otherwise provided by this section, "wages and  
24 cash compensation" means the amount entered in the Medicare wages  
25 and tips box of Internal Revenue Service Form W-2 or any subsequent  
26 form with a different number or designation that substantially  
27 provides the same information. The term also includes, to the

1 extent not included above:

2 (1) net distributive income from a taxable entity  
3 treated as a partnership for federal income tax purposes, but only  
4 if the person receiving the distribution is a natural person;

5 (2) net distributive income from limited liability  
6 companies and corporations treated as S corporations for federal  
7 income tax purposes, but only if the person receiving the  
8 distribution is a natural person;

9 (3) stock awards and stock options deducted for  
10 federal income tax purposes; ~~and~~

11 (4) net distributive income from a limited liability  
12 company treated as a sole proprietorship for federal income tax  
13 purposes, but only if the person receiving the distribution is a  
14 natural person; and

15 (5) salaries or other compensation deducted for  
16 federal income tax purposes of employees located outside the United  
17 States for which the employer is not required to issue an Internal  
18 Revenue Service Form W-2.

19 SECTION 12. Section 171.1014, Tax Code, is amended by  
20 amending Subsections (d) and (d-1) and adding Subsection (j) to  
21 read as follows:

22 (d) For purposes of Section 171.101, a combined group shall  
23 make an election to subtract either cost of goods sold or  
24 compensation that applies to all of its members, or \$1 million.  
25 Regardless of the election, the taxable margin of the combined  
26 group may not exceed the amount ~~[70 percent of the combined group's~~  
27 ~~total revenue from its entire business, as]~~ provided by Section

1 171.101(a)(1)(A) for the combined group.

2 (d-1) A member of a combined group that does not elect to  
3 compute the amount of cost of goods sold as provided by Section  
4 171.1012(r), if applicable, may claim as cost of goods sold those  
5 costs that qualify under Section 171.1012 if the goods for which the  
6 costs are incurred are owned by another member of the combined  
7 group.

8 (j) Notwithstanding any other provision of this section, a  
9 taxable entity that provides retail or wholesale electric utilities  
10 may not be included as a member of a combined group that includes  
11 one or more taxable entities that do not provide retail or wholesale  
12 electric utilities if that combined group in the absence of this  
13 subsection:

14 (1) would not meet the requirements of Section  
15 171.002(c) solely because one or more members of the combined group  
16 provide retail or wholesale electric utilities; and

17 (2) would have less than five percent of the combined  
18 group's total revenue derived from providing retail or wholesale  
19 electric utilities.

20 SECTION 13. Section 171.106, Tax Code, is amended by adding  
21 Subsection (g) to read as follows:

22 (g) A receipt from Internet hosting as defined by Section  
23 151.108(a) is a receipt from business done in this state only if the  
24 customer to whom the service is provided is located in this state.

25 SECTION 14. Section 171.106, Tax Code, is amended by adding  
26 Subsection (h) to read as follows:

27 (h) A taxable entity that is a broadcaster shall include in

1 the numerator of the broadcaster's apportionment factor receipts  
2 arising from a broadcast or other distribution of film by any means  
3 only if the legal domicile of the broadcaster's customer is in this  
4 state. This subsection applies only to receipts that are licensing  
5 income from distributing film programming. In this subsection:

6 (1) "Broadcaster" means a taxable entity, not  
7 including a cable service provider or a direct broadcast satellite  
8 service, that is a:

9 (A) television or radio station licensed by the  
10 Federal Communications Commission;

11 (B) television or radio broadcast network;

12 (C) cable television network; or

13 (D) television distribution company.

14 (2) "Customer" means a person, including a licensee,  
15 that has a direct connection or contractual relationship with a  
16 broadcaster under which the broadcaster derives revenue.

17 (3) "Film programming" means all or part of a live or  
18 recorded performance, event, or production intended to be  
19 distributed for visual and auditory perception by an audience.

20 (4) "Programming" includes news, entertainment,  
21 sporting events, plays, stories, or other literary, commercial,  
22 educational, or artistic works.

23 SECTION 15. (a) Subchapter C, Chapter 171, Tax Code, is  
24 amended by adding Section 171.109 to read as follows:

25 Sec. 171.109. DEDUCTION OF RELOCATION COSTS BY CERTAIN  
26 TAXABLE ENTITIES FROM MARGIN APPORTIONED TO THIS STATE. (a) In  
27 this section, "relocation costs" means the costs incurred by a

1 taxable entity to relocate the taxable entity's main office or  
2 other principal place of business from one location to another. The  
3 term includes:

4 (1) costs of relocating computers and peripherals,  
5 other business supplies, furniture, and inventory; and

6 (2) any other costs related to the relocation that are  
7 allowable deductions for federal income tax purposes.

8 (b) Subject to Subsection (c), a taxable entity may deduct  
9 from its apportioned margin relocation costs incurred in relocating  
10 the taxable entity's main office or other principal place of  
11 business to this state from another state if the taxable entity:

12 (1) did not do business in this state before  
13 relocating the taxable entity's main office or other principal  
14 place of business to this state; and

15 (2) is not a member of an affiliated group engaged in a  
16 unitary business, another member of which is doing business in this  
17 state on the date the taxable entity relocates the taxable entity's  
18 main office or other principal place of business to this state.

19 (c) A taxable entity must take the deduction authorized by  
20 Subsection (b) on the report based on the taxable entity's initial  
21 period described by Section 171.151(1).

22 (d) On the comptroller's request, a taxable entity that  
23 takes a deduction authorized by this section shall file with the  
24 comptroller proof of the deducted relocation costs.

25 (b) The change in law made by this section applies only to a  
26 taxable entity that relocates the taxable entity's main office or  
27 other principal place of business to this state on or after the



1 effective date of this section.

2 (c) This section takes effect September 1, 2013.

3 SECTION 16. Subchapter D, Chapter 171, Tax Code, is amended  
4 by adding Section 171.159 to read as follows:

5 Sec. 171.159. RETAILER RECEIPT SHOWING TAX. (a) A taxable  
6 entity that is a retailer subject to Chapter 151 shall include on  
7 any receipt for an item subject to taxation under Chapter 151 an  
8 additional notation showing the amount of taxes the customer is  
9 paying for the purpose of reimbursement of the tax under this  
10 chapter.

11 (b) For purposes of this section, the taxable entity may  
12 estimate the amount of tax the customer is paying under this chapter  
13 based on the tax rate to which the taxable entity is subject.

14 SECTION 17. Subchapter E, Chapter 171, Tax Code, is amended  
15 by adding Section 171.216 to read as follows:

16 Sec. 171.216. BIENNIAL REPORT. Not later than January 1 of  
17 each odd-numbered year, the comptroller shall submit to the  
18 legislature and the governor a report prepared by an independent  
19 researcher from a research center established under Section 1.005,  
20 Education Code, or a tier one research university, on tax relief,  
21 including tax credits and exemptions, provided to taxable entities  
22 through changes to the tax imposed under this chapter enacted by the  
23 83rd Legislature, Regular Session, 2013, for economic development  
24 purposes, as determined by the comptroller. The report must  
25 include:

26 (1) an estimate of:

27 (A) the total number of taxable entities that

1 received tax relief during the preceding two calendar years as a  
2 result of those changes; and

3 (B) the total amount of the tax relief described  
4 by Paragraph (A); and

5 (2) an evaluation of the effects of the tax relief on  
6 this state, including the effects on:

7 (A) employment in this state;

8 (B) other economic activity in this state; and

9 (C) state tax revenues.

10 SECTION 18. Effective January 1, 2016, Chapter 171, Tax  
11 Code, is amended by adding Subchapters P-1 and Q-2 to read as  
12 follows:

13 SUBCHAPTER P-1. TAX CREDITS FOR CERTAIN

14 JOB CREATION ACTIVITIES

15 Sec. 171.771. DEFINITIONS. In this subchapter:

16 (1) "Agricultural processing" means an establishment  
17 primarily engaged in activities described in categories 0724,  
18 2011-2099, 2211, 2231, 2824, 2833, 2834, 2835, 2836, 2841,  
19 3111-3199, 3262, or 3952, in product classes 28692 or 28698 of  
20 category 2869, or in product classes 28992 or 28994 of category 2899  
21 of the 1987 Standard Industrial Classification Manual published by  
22 the United States Department of Labor.

23 (2) "Central administrative offices" means an  
24 establishment primarily engaged in performing management or  
25 support services for other establishments of the same enterprise.  
26 An enterprise consists of all establishments having more than 50  
27 percent common direct or indirect ownership.

1           (3) "Data processing" means an establishment  
2 primarily engaged in activities described in categories 7371-7379  
3 of the 1987 Standard Industrial Classification Manual published by  
4 the United States Department of Labor.

5           (4) "Distribution" means an establishment primarily  
6 engaged in activities described in categories 5012-5199 of the 1987  
7 Standard Industrial Classification Manual published by the United  
8 States Department of Labor.

9           (5) "Group health benefit plan" means:

10           (A) a health plan provided by a health  
11 maintenance organization established under Chapter 843, Insurance  
12 Code;

13           (B) a health benefit plan approved by the  
14 commissioner of insurance; or

15           (C) a self-funded or self-insured employee  
16 welfare benefit plan that provides health benefits and is  
17 established in accordance with the Employee Retirement Income  
18 Security Act of 1974 (29 U.S.C. Section 1001 et seq.).

19           (6) "Manufacturing" means an establishment primarily  
20 engaged in activities described in categories 2011-3999 of the 1987  
21 Standard Industrial Classification Manual published by the United  
22 States Department of Labor.

23           (7) "Qualified business" means an establishment  
24 primarily engaged in agricultural processing, central  
25 administrative offices, distribution, data processing,  
26 manufacturing, research and development, or warehousing.

27           (8) "Qualifying job" means a new permanent full-time

1 job that:

2 (A) pays an annual wage of at least \$50,000,  
3 subject to Section 171.772;

4 (B) is covered by a group health benefit plan for  
5 which the business pays at least 80 percent of the premiums or other  
6 charges assessed under the plan for the employee; and

7 (C) is not created to replace a previous  
8 employee.

9 (9) "Research and development" means an establishment  
10 primarily engaged in activities described in category 8731 of the  
11 1987 Standard Industrial Classification Manual published by the  
12 United States Department of Labor.

13 (10) "Warehousing" means an establishment primarily  
14 engaged in activities described in categories 4221-4226 of the 1987  
15 Standard Industrial Classification Manual published by the United  
16 States Department of Labor.

17 Sec. 171.772. BIENNIAL ADJUSTMENT OF WAGE FOR QUALIFYING  
18 JOB. (a) In this section, "consumer price index" means the average  
19 over a state fiscal biennium of the Consumer Price Index for All  
20 Urban Consumers (CPI-U), U.S. City Average, published monthly by  
21 the United States Bureau of Labor Statistics, or its successor in  
22 function.

23 (b) Beginning in 2016, on January 1 of each even-numbered  
24 year, the wage amount prescribed by Section 171.771(8) is increased  
25 or decreased by an amount equal to the amount prescribed by that  
26 section on December 31 of the preceding year multiplied by the  
27 percentage increase or decrease during the preceding state fiscal

1 biennium in the consumer price index and rounded to the nearest  
2 dollar.

3 (c) The amount determined under Subsection (b) applies to a  
4 report originally due on or after the date the determination is  
5 made.

6 (d) The comptroller shall make the determination required  
7 by this section and may adopt rules related to making that  
8 determination.

9 (e) A determination by the comptroller under this section is  
10 final and may not be appealed.

11 Sec. 171.773. ELIGIBILITY. A taxable entity is eligible for  
12 a credit against the tax imposed under this chapter if the taxable  
13 entity:

14 (1) is a qualified business; and

15 (2) creates a minimum of 10 qualifying jobs.

16 Sec. 171.774. AMOUNT OF CREDIT. A taxable entity may  
17 establish a credit equal to 25 percent of the total wages paid by  
18 the taxable entity for each qualifying job during each of the first  
19 12 months of employment of the person hired to perform the job that  
20 occur during the period on which the report is based.

21 Sec. 171.775. LENGTH OF CREDIT. The credit established  
22 shall be claimed in five equal installments of one-fifth the credit  
23 amount over the five consecutive reports beginning with the report  
24 based on the period during which the qualifying jobs were created.

25 Sec. 171.776. LIMITATIONS. (a) The total credit claimed  
26 under this subchapter for a report, including the amount of any  
27 carryforward credit under Section 171.777, may not exceed 50

1 percent of the amount of franchise tax due for the report before any  
2 other applicable tax credits.

3 (b) The total credit claimed under this subchapter and  
4 Subchapter Q-2 for a report, including the amount of any  
5 carryforward credits, may not exceed the amount of franchise tax  
6 due for the report after any other applicable credits.

7 Sec. 171.777. CARRYFORWARD. (a) If a taxable entity is  
8 eligible for a credit that exceeds the limitations under Section  
9 171.776, the taxable entity may carry the unused credit forward for  
10 not more than five consecutive reports.

11 (b) A carryforward is considered the remaining portion of an  
12 installment that cannot be claimed in the current year because of a  
13 limitation under Section 171.776. A carryforward is added to the  
14 next year's installment of the credit in determining the limitation  
15 for that year. A credit carryforward from a previous report is  
16 considered to be used before the current year installment.

17 Sec. 171.778. CERTIFICATION OF ELIGIBILITY. (a) For the  
18 initial and each succeeding report on which a credit is claimed  
19 under this subchapter, the taxable entity shall file with its  
20 report, on a form provided by the comptroller, information that  
21 sufficiently demonstrates that the taxable entity is eligible for  
22 the credit.

23 (b) The burden of establishing entitlement to and the value  
24 of the credit is on the taxable entity.

25 (c) A credit expires under this subchapter and the taxable  
26 entity may not take any remaining installment of the credit if in  
27 one of the five years in which the installment of a credit accrues,

1 the taxable entity fails to maintain the minimum number of  
2 qualifying jobs required to be created by Section 171.773.

3 (d) Notwithstanding Subsection (c), the taxable entity may  
4 take the portion of an installment that accrued in a previous year  
5 and was carried forward to the extent permitted under Section  
6 171.777.

7 Sec. 171.779. ASSIGNMENT PROHIBITED. A taxable entity may  
8 not convey, assign, or transfer the credit allowed under this  
9 subchapter to another entity unless all of the assets of the taxable  
10 entity are conveyed, assigned, or transferred in the same  
11 transaction.

12 Sec. 171.780. BIENNIAL REPORT BY COMPTROLLER. (a) Before  
13 the beginning of each regular session of the legislature, the  
14 comptroller shall submit to the governor, the lieutenant governor,  
15 and the speaker of the house of representatives a report that  
16 states:

17 (1) the total number of jobs created by taxable  
18 entities that claim a credit under this subchapter and the average  
19 and median annual wage of those jobs;

20 (2) the total amount of credits applied against the  
21 tax under this chapter and the amount of unused credits including:

22 (A) the total amount of franchise tax due by  
23 taxable entities claiming a credit under this subchapter before and  
24 after the application of the credit;

25 (B) the average percentage reduction in  
26 franchise tax due by taxable entities claiming a credit under this  
27 subchapter; and

1           (C) the percentage of tax credits that were  
2 awarded to taxable entities with fewer than 100 employees;

3           (3) the two-digit standard industrial classification  
4 of businesses claiming a credit under this subchapter;

5           (4) the geographical distribution of the credits  
6 claimed under this subchapter; and

7           (5) the effect of the credit provided under this  
8 subchapter on employment, personal income, and capital investment  
9 in this state and on state tax revenues.

10          (b) The final report issued before the expiration of this  
11 subchapter must include historical information on the credit  
12 authorized under this subchapter.

13          (c) The comptroller may not include in the report  
14 information that is confidential by law.

15          (d) For purposes of this section, the comptroller may  
16 require a taxable entity that claims a credit under this subchapter  
17 to submit information, on a form provided by the comptroller, on the  
18 location of the taxable entity's job creation in this state and any  
19 other information necessary to complete the report required under  
20 this section.

21          (e) The comptroller shall provide notice to the members of  
22 the legislature that the report required under this section is  
23 available on request.

24          Sec. 171.781. COMPTROLLER POWERS AND DUTIES. The  
25 comptroller shall adopt rules and forms necessary to implement this  
26 subchapter.

27          Sec. 171.782. EXPIRATION. (a) This subchapter expires



1 December 31, 2025.

2 (b) The expiration of this subchapter does not affect the  
3 carryforward of a credit under Section 171.777 or those credits for  
4 which a taxable entity is eligible before the date this subchapter  
5 expires.

6 SUBCHAPTER Q-2. TAX CREDITS FOR CERTAIN CAPITAL INVESTMENTS

7 Sec. 171.821. DEFINITIONS. In this subchapter:

8 (1) "Agricultural processing" and "qualified  
9 business" have the meanings assigned those terms by Section  
10 171.771.

11 (2) "Qualified capital investment" means tangible  
12 personal property first placed in service in this state by a taxable  
13 entity primarily engaged in agricultural processing, and that is  
14 described in Section 1245(a), Internal Revenue Code, such as  
15 engines, machinery, tools, and implements used in a trade or  
16 business or held for investment and subject to an allowance for  
17 depreciation, cost recovery under the accelerated cost recovery  
18 system, or amortization. The term does not include real property or  
19 buildings and their structural components. Property that is leased  
20 under a capitalized lease is considered a "qualified capital  
21 investment," but property that is leased under an operating lease  
22 is not considered a "qualified capital investment." Property  
23 expensed under Section 179, Internal Revenue Code, is not  
24 considered a "qualified capital investment."

25 Sec. 171.822. ELIGIBILITY. (a) A qualified business is  
26 eligible for a credit against the tax imposed under this chapter in  
27 the amount and under the conditions and limitations provided by

1 this subchapter.

2 (b) To qualify for the credit authorized under this  
3 subchapter, a qualified business must:

4 (1) pay an annual wage of at least the amount required  
5 for a qualifying job as defined by Section 171.771 for the period on  
6 which the report is based;

7 (2) offer health benefits coverage to all full-time  
8 employees at the location with respect to which the credit is  
9 claimed through a group health benefit plan, as defined by Section  
10 171.771, for which the business pays at least 80 percent of the  
11 premiums or other charges assessed under the plan for the  
12 employees; and

13 (3) make a minimum \$500,000 qualified capital  
14 investment.

15 Sec. 171.823. AMOUNT OF CREDIT. A taxable entity may  
16 establish a credit equal to 7.5 percent of the qualified capital  
17 investment during the period on which the report is based.

18 Sec. 171.824. LENGTH OF CREDIT. The credit established  
19 shall be claimed in five equal installments of one-fifth the credit  
20 amount over the five consecutive reports beginning with the report  
21 based on the period during which the qualified capital investment  
22 was made.

23 Sec. 171.825. LIMITATIONS. (a) The total credit claimed  
24 under this subchapter for a report, including the amount of any  
25 carryforward credit under Section 171.826, may not exceed 50  
26 percent of the amount of franchise tax due for the report before any  
27 other applicable tax credits.

1       (b) The total credit claimed under this subchapter and  
2 Subchapter P-1 for a report, including the amount of any  
3 carryforward credits, may not exceed the amount of franchise tax  
4 due for the report after any other applicable tax credits.

5       Sec. 171.826. CARRYFORWARD. (a) If a taxable entity is  
6 eligible for a credit from an installment that exceeds the  
7 limitation under Section 171.825, the taxable entity may carry the  
8 unused credit forward for not more than five consecutive reports.

9       (b) A carryforward is considered the remaining portion of an  
10 installment that cannot be claimed in the current year because of a  
11 limitation under Section 171.825. A carryforward is added to the  
12 next year's installment of the credit in determining the limitation  
13 for that year. A credit carryforward from a previous report is  
14 considered to be used before the current year installment.

15       Sec. 171.827. CERTIFICATION OF ELIGIBILITY. (a) For the  
16 initial and each succeeding report on which a credit is claimed  
17 under this subchapter, the taxable entity shall file with its  
18 report, on a form provided by the comptroller, information that  
19 sufficiently demonstrates that the taxable entity is eligible for  
20 the credit.

21       (b) The burden of establishing entitlement to and the value  
22 of the credit is on the taxable entity.

23       (c) A credit expires under this subchapter and the taxable  
24 entity may not take any remaining installment of the credit if in  
25 one of the five years in which the installment of a credit accrues,  
26 the taxable entity:

27           (1) disposes of the qualified capital investment;

1           (2) takes the qualified capital investment out of  
2 service;

3           (3) moves the qualified capital investment out of this  
4 state; or

5           (4) fails to pay the annual wage required for a  
6 qualifying job under Section 171.771 for the period covered by the  
7 report on which the taxable entity would otherwise claim the  
8 credit.

9           (d) Notwithstanding Subsection (c), the taxable entity may  
10 take the portion of an installment that accrued in a previous year  
11 and was carried forward to the extent permitted under Section  
12 171.826.

13           Sec. 171.828. ASSIGNMENT PROHIBITED. A taxable entity may  
14 not convey, assign, or transfer the credit allowed under this  
15 subchapter to another entity unless all of the assets of the taxable  
16 entity are conveyed, assigned, or transferred in the same  
17 transaction.

18           Sec. 171.829. BIENNIAL REPORT BY COMPTROLLER. (a) Before  
19 the beginning of each regular session of the legislature, the  
20 comptroller shall submit to the governor, the lieutenant governor,  
21 and the speaker of the house of representatives a report that  
22 states:

23           (1) the total amount of qualified capital investments  
24 made by taxable entities that claim a credit under this subchapter  
25 and the average and median wages paid by those taxable entities;

26           (2) the total amount of credits applied against the  
27 tax under this chapter and the amount of unused credits, including:

1           (A) the total amount of franchise tax due by  
2 taxable entities claiming a credit under this subchapter before and  
3 after the application of the credit;

4           (B) the average percentage reduction in  
5 franchise tax due by taxable entities claiming a credit under this  
6 subchapter;

7           (C) the percentage of tax credits that were  
8 awarded to taxable entities with fewer than 100 employees; and

9           (D) the two-digit standard industrial  
10 classification of taxable entities claiming a credit under this  
11 subchapter;

12           (3) the geographical distribution of the qualified  
13 capital investments on which tax credit claims are made under this  
14 subchapter; and

15           (4) the effect of the credit provided under this  
16 subchapter on employment, personal income, and capital investment  
17 in this state and on state tax revenues.

18           (b) The final report issued before the expiration of this  
19 subchapter must include historical information on the credit  
20 authorized under this subchapter.

21           (c) The comptroller may not include in the report  
22 information that is confidential by law.

23           (d) For purposes of this section, the comptroller may  
24 require a taxable entity that claims a credit under this subchapter  
25 to submit information, on a form provided by the comptroller, on the  
26 location of the taxable entity's capital investment in this state  
27 and any other information necessary to complete the report required

1 under this section.

2 (e) The comptroller shall provide notice to the members of  
3 the legislature that the report required under this section is  
4 available on request.

5 Sec. 171.830. COMPTROLLER POWERS AND DUTIES. The  
6 comptroller shall adopt rules and forms necessary to implement this  
7 subchapter.

8 Sec. 171.831. EXPIRATION. (a) This subchapter expires  
9 December 31, 2025.

10 (b) The expiration of this subchapter does not affect the  
11 carryforward of a credit under Section 171.826 or those credits for  
12 which a taxable entity is eligible before the date this subchapter  
13 expires.

14 SECTION 19. Chapter 171, Tax Code, is amended by adding  
15 Subchapter S to read as follows:

16 SUBCHAPTER S. TAX CREDIT FOR CERTIFIED REHABILITATION OF CERTIFIED  
17 HISTORIC STRUCTURES

18 Sec. 171.901. DEFINITIONS. In this subchapter:

19 (1) "Certified historic structure" means a property in  
20 this state that is:

21 (A) listed individually in the National Register  
22 of Historic Places;

23 (B) designated as a Recorded Texas Historic  
24 Landmark under Section 442.006, Government Code, or as a state  
25 archeological landmark under Chapter 191, Natural Resources Code;  
26 or

27 (C) certified by the commission as contributing

1 to the historic significance of:

2 (i) a historic district listed in the  
3 National Register of Historic Places; or

4 (ii) a local district certified by the  
5 United States Department of the Interior in accordance with 36  
6 C.F.R. Section 67.9.

7 (2) "Certified rehabilitation" means the  
8 rehabilitation of a certified historic structure that the  
9 commission has certified as meeting the United States secretary of  
10 the interior's Standards for Rehabilitation as defined in 36 C.F.R.  
11 Section 67.7.

12 (3) "Commission" means the Texas Historical  
13 Commission.

14 (4) "Eligible costs and expenses" means qualified  
15 rehabilitation expenditures as defined by Section 47(c)(2),  
16 Internal Revenue Code.

17 Sec. 171.902. ELIGIBILITY FOR CREDIT. An entity is  
18 eligible to apply for a credit in the amount and under the  
19 conditions and limitations provided by this subchapter against the  
20 tax imposed under this chapter.

21 Sec. 171.903. QUALIFICATION. An entity is eligible for a  
22 credit for eligible costs and expenses incurred in the certified  
23 rehabilitation of a certified historic structure as provided by  
24 this subchapter if:

25 (1) the rehabilitated certified historic structure is  
26 placed in service on or after September 1, 2013;

27 (2) the entity has an ownership interest in the

1 certified historic structure in the year during which the structure  
2 is placed in service after the rehabilitation; and

3 (3) the total amount of the eligible costs and  
4 expenses incurred exceeds \$5,000.

5 Sec. 171.904. CERTIFICATION OF ELIGIBILITY. (a) Before  
6 claiming, selling, or assigning a credit under this subchapter, the  
7 entity that incurred the eligible costs and expenses in the  
8 rehabilitation of a certified historic structure must request from  
9 the commission a certificate of eligibility on which the commission  
10 certifies that the work performed meets the definition of a  
11 certified rehabilitation. The entity must include with the  
12 entity's request:

13 (1) information on the property that is sufficient for  
14 the commission to determine whether the property meets the  
15 definition of a certified historic structure; and

16 (2) information on the rehabilitation, and  
17 photographs before and after work is performed, sufficient for the  
18 commission to determine whether the rehabilitation meets the United  
19 States secretary of the interior's Standards for Rehabilitation as  
20 defined in 36 C.F.R. Section 67.7.

21 (b) The commission shall issue a certificate of eligibility  
22 to an entity that has incurred eligible costs and expenses as  
23 provided by this subchapter. The certificate must:

24 (1) confirm that:

25 (A) the property to which the eligible costs and  
26 expenses relate is a certified historic structure; and

27 (B) the rehabilitation qualifies as a certified



1 rehabilitation; and

2 (2) specify the date the certified historic structure  
3 was first placed in service after the rehabilitation.

4 (c) The entity must forward the certificate of eligibility  
5 and the following documentation to the comptroller to claim the tax  
6 credit:

7 (1) an audited cost report issued by a certified  
8 public accountant, as defined by Section 901.002, Occupations Code,  
9 that itemizes the eligible costs and expenses incurred in the  
10 certified rehabilitation of the certified historic structure by the  
11 entity;

12 (2) the date the certified historic structure was  
13 first placed in service after the rehabilitation and evidence of  
14 that placement in service; and

15 (3) an attestation of the total eligible costs and  
16 expenses incurred by the entity on the rehabilitation of the  
17 certified historic structure.

18 (d) For purposes of approving the tax credit under  
19 Subsection (c), the comptroller may rely on the audited cost report  
20 provided by the entity that requested the tax credit.

21 (e) An entity that sells or assigns a credit under this  
22 subchapter to another entity shall provide a copy of the  
23 certificate of eligibility, together with the audited cost report,  
24 to the purchaser or assignee.

25 Sec. 171.905. AMOUNT OF CREDIT; LIMITATIONS. (a) The total  
26 amount of the credit under this subchapter with respect to the  
27 rehabilitation of a single certified historic structure that may be

1 claimed may not exceed 25 percent of the total eligible costs and  
2 expenses incurred in the certified rehabilitation of the certified  
3 historic structure.

4 (b) The total credit claimed for a report, including the  
5 amount of any carryforward under Section 171.906, may not exceed  
6 the amount of franchise tax due for the report after any other  
7 applicable tax credits.

8 (c) Eligible costs and expenses may only be counted once in  
9 determining the amount of the tax credit available, and more than  
10 one entity may not claim a credit for the same eligible costs and  
11 expenses.

12 Sec. 171.906. CARRYFORWARD. (a) If an entity is eligible  
13 for a credit that exceeds the limitation under Section 171.905(b),  
14 the entity may carry the unused credit forward for not more than  
15 five consecutive reports.

16 (b) A carryforward is considered the remaining portion of a  
17 credit that cannot be claimed in the current year because of the  
18 limitation under Section 171.905(b).

19 Sec. 171.907. APPLICATION FOR CREDIT. (a) An entity must  
20 apply for a credit under this subchapter on or with the report for  
21 the period for which the credit is claimed.

22 (b) An entity shall file with any report on which the credit  
23 is claimed a copy of the certificate of eligibility issued by the  
24 commission under Section 171.904 and any other information required  
25 by the comptroller to sufficiently demonstrate that the entity is  
26 eligible for the credit.

27 (c) The burden of establishing eligibility for and the value

1 of the credit is on the entity.

2 Sec. 171.908. SALE OR ASSIGNMENT OF CREDIT. (a) An entity  
3 that incurs eligible costs and expenses may sell or assign all or  
4 part of the credit that may be claimed for those costs and expenses  
5 to one or more entities, and any entity to which all or part of the  
6 credit is sold or assigned may sell or assign all or part of the  
7 credit to another entity. There is no limit on the total number of  
8 transactions for the sale or assignment of all or part of the total  
9 credit authorized under this subchapter, however, collectively all  
10 transfers are subject to the maximum total limits provided by  
11 Section 171.905.

12 (b) An entity that sells or assigns a credit under this  
13 section and the entity to which the credit is sold or assigned shall  
14 jointly submit written notice of the sale or assignment to the  
15 comptroller on a form promulgated by the comptroller not later than  
16 the 30th day after the date of the sale or assignment. The notice  
17 must include:

18 (1) the date of the sale or assignment;  
19 (2) the amount of the credit sold or assigned;  
20 (3) the names and federal tax identification numbers  
21 of the entity that sold or assigned the credit or part of the credit  
22 and the entity to which the credit or part of the credit was sold or  
23 assigned; and

24 (4) the amount of the credit owned by the selling or  
25 assigning entity before the sale or assignment, and the amount the  
26 selling or assigning entity retained, if any, after the sale or  
27 assignment.

1       (c) The sale or assignment of a credit in accordance with  
2 this section does not extend the period for which a credit may be  
3 carried forward and does not increase the total amount of the credit  
4 that may be claimed. After an entity claims a credit for eligible  
5 costs and expenses, another entity may not use the same costs and  
6 expenses as the basis for claiming a credit.

7       (d) Notwithstanding the requirements of this subchapter, a  
8 credit earned or purchased by, or assigned to, a partnership,  
9 limited liability company, S corporation, or other pass-through  
10 entity may be allocated to the partners, members, or shareholders  
11 of that entity and claimed under this subchapter in accordance with  
12 the provisions of any agreement among the partners, members, or  
13 shareholders and without regard to the ownership interest of the  
14 partners, members, or shareholders in the rehabilitated certified  
15 historic structure, provided that the entity that claims the credit  
16 must be subject to the tax imposed under this chapter.

17       Sec. 171.909. RULES. The commission and the comptroller  
18 shall adopt rules necessary to implement this subchapter.

19       SECTION 20. (a) Chapter 325, Government Code, is amended by  
20 adding Section 325.025 to read as follows:

21       Sec. 325.025. EVALUATION OF EXEMPTIONS FROM FRANCHISE TAX.

22 (a) The commission shall periodically evaluate each exemption  
23 provided by Chapter 171, Tax Code, from the tax imposed under that  
24 chapter to consider whether retaining the exemption is in the  
25 public's best interest.

26       (b) At each regular legislative session, the commission  
27 shall present to the governor and the legislature a report on the

1 evaluation and recommendations it makes under Subsection (a).

2 (c) The commission shall conduct the evaluation required by  
3 Subsection (a) according to a schedule that the commission adopts.  
4 The schedule must provide for the commission to evaluate each tax  
5 exemption at an interval not to exceed six years. The commission  
6 shall provide the schedule to the governor and the legislature.

7 (d) The evaluation described by this section does not apply  
8 to a tax exemption that is:

9 (1) explicitly provided by the constitution of this  
10 state; or

11 (2) related to an item or service that this state is  
12 unable to tax under the United States Constitution or federal law.

13 (b) The Sunset Advisory Commission shall adopt a schedule  
14 for evaluating exemptions from the tax imposed under Chapter 171,  
15 Tax Code, as provided by Section 325.025, Government Code, as added  
16 by this section, on or before January 1, 2014.

17 SECTION 21. Sections 171.0021, 171.1016(d), and 171.103(c)  
18 and (d), Tax Code, are repealed.

19 SECTION 22. (a) Section 18, Chapter 1 (H.B. 3), Acts of the  
20 79th Legislature, 3rd Called Session, 2006, is amended by adding  
21 Subsections (h) and (i) to read as follows:

22 (h) In this subsection and Subsection (i) of this section,  
23 "transfer" includes a sale. Notwithstanding Subsections (e) and  
24 (f) of this section, a corporation that has unused, unexpired  
25 credits carried forward under former Subchapter P or Q, Chapter  
26 171, Tax Code, may transfer the credits to another taxpayer of this  
27 state. To be eligible to transfer the credits, the corporation must

1 obtain a certificate of transfer of credit from the comptroller of  
2 public accounts for the amount of the credits to be transferred.  
3 Not later than the 30th day after the date of the transfer, the  
4 corporation must submit to the comptroller a notice of the transfer  
5 in a form prescribed by the comptroller. The notice must be  
6 accompanied by a copy of the certificate of transfer issued by the  
7 comptroller and specify:

8 (1) the number on the certificate of transfer;

9 (2) the amount of the corporation's unused, unexpired  
10 credits preceding the transfer;

11 (3) the date of the transfer;

12 (4) the amount of credits transferred;

13 (5) the tax identification numbers of the corporation  
14 and the taxpayer to which the credits were transferred;

15 (6) the corporation's remaining amount of unused,  
16 unexpired credits after the transfer; and

17 (7) any other information the comptroller requires.

18 (i) The transfer of a credit under Subsection (h) of this  
19 section is limited to a credit that was first reported on a report  
20 originally due before January 1, 2008, and does not include credits  
21 authorized under former Subchapter Q-1, Chapter 171, Tax Code, or  
22 credits that were created under the terms of a written agreement  
23 between a taxpayer and the Texas Department of Economic Development  
24 or its successor that was entered into before June 1, 2006, and  
25 which credits continue to accrue under the terms provided by  
26 Section 19 of this Act. The transferee of a credit under this  
27 section obtains the credit subject to the same rights and

1 privileges as the transferor. The transfer of a credit under  
2 Subsection (h) of this section does not extend or lessen the period  
3 during which the credit may be claimed. If a corporation transfers a  
4 credit that the corporation was not entitled to claim at the time of  
5 the transfer:

6 (1) the taxpayer to which the credit was transferred  
7 may pursue any remedy authorized by law against the corporation and  
8 may not pursue any remedy against the comptroller of public  
9 accounts or this state; and

10 (2) the comptroller:

11 (A) may not allow the taxpayer to which the  
12 credit was transferred to apply the credit on a report; or

13 (B) shall recover from the taxpayer the amount of  
14 the credit the taxpayer claims on a report using any means  
15 authorized by law.

16 (b) This section applies only to a credit transferred on or  
17 after the effective date of this section.

18 (c) This section takes effect September 1, 2013.

19 SECTION 23. Section 1(c), Chapter 286 (H.B. 4765), Acts of  
20 the 81st Legislature, Regular Session, 2009, as amended by Section  
21 37.01, Chapter 4 (S.B. 1), Acts of the 82nd Legislature, 1st Called  
22 Session, 2011, is repealed.

23 SECTION 24. Section 2, Chapter 286 (H.B. 4765), Acts of the  
24 81st Legislature, Regular Session, 2009, as amended by Section  
25 37.02, Chapter 4 (S.B. 1), Acts of the 82nd Legislature, 1st Called  
26 Session, 2011, and which amended former Subsection (d), Section  
27 171.002, Tax Code, is repealed.

1 SECTION 25. Section 3, Chapter 286 (H.B. 4765), Acts of the  
2 81st Legislature, Regular Session, 2009, as amended by Section  
3 37.03, Chapter 4 (S.B. 1), Acts of the 82nd Legislature, 1st Called  
4 Session, 2011, and which amended former Subsection (a), Section  
5 171.0021, Tax Code, is repealed.

6 SECTION 26. This Act applies only to a report originally due  
7 on or after the effective date of this Act.

8 SECTION 27. Section 171.1011(y), Tax Code, as added by this  
9 Act, takes effect January 1, 2016.

10 SECTION 28. Section 14 of this Act takes effect January 1,  
11 2015.

12 SECTION 29. Section 171.1011(n), Tax Code, is amended to  
13 read as follows:

14 (n) A [~~Except as provided by Subsection (o), a~~] taxable  
15 entity that is a health care provider shall exclude from its total  
16 revenue:

17 (1) to the extent included under Subsection (c)(1)(A),  
18 (c)(2)(A), or (c)(3), the total amount of payments the health care  
19 provider received:

20 (A) under the Medicaid program, Medicare  
21 program, Indigent Health Care and Treatment Act (Chapter 61, Health  
22 and Safety Code), and Children's Health Insurance Program (CHIP);

23 (B) for professional services provided in  
24 relation to a workers' compensation claim under Title 5, Labor  
25 Code; and

26 (C) for professional services provided to a  
27 beneficiary rendered under the TRICARE military health system; and



1           (2) the actual cost to the health care provider for any  
2 uncompensated care provided, but only if the provider maintains  
3 records of the uncompensated care for auditing purposes and, if the  
4 provider later receives payment for all or part of that care, the  
5 provider adjusts the amount excluded for the tax year in which the  
6 payment is received.

7           SECTION 30. Section 171.1011(o), Tax Code, is repealed.

8           SECTION 31. This Act applies only to a report originally due  
9 on or after the effective date of this Act.

10          SECTION 32. This Act takes effect January 1, 2015.

11          SECTION 33. Except as otherwise provided by this Act, this  
12 Act takes effect January 1, 2014.

# ADOPTED

MAY 21 2013

  
Secretary of the Senate

By: 

H.B. No. 500

Substitute the following for H.B. No. 500:

By: 

C.S. H.B. No. 500

## A BILL TO BE ENTITLED

### AN ACT

1  
2 relating to the \$1 million total revenue exemption for the  
3 franchise tax; temporarily decreasing the rates of the franchise  
4 tax.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

6 SECTION 1. Subchapter A, Chapter 171, Tax Code, is amended  
7 by adding Section 171.0022 to read as follows:

8 Sec. 171.0022. TEMPORARY PERMISSIVE ALTERNATE RATES. (a)  
9 Notwithstanding Section 171.002(a) and subject to Section 171.1016  
10 and Subsection (b) of this section, a taxable entity may elect to  
11 pay the tax imposed under this chapter at a rate of 0.95 percent of  
12 taxable margin.

13 (b) Notwithstanding Section 171.002(b) and subject to  
14 Section 171.1016, a taxable entity primarily engaged in retail or  
15 wholesale trade as defined by Sections 171.002(c) and (c-1) may  
16 elect to pay the tax imposed under this chapter at a rate of 0.475  
17 percent of taxable margin.

18 (c) This section applies only to a report originally due on  
19 or after January 1, 2014, and before January 1, 2016.

20 (d) This section expires December 31, 2015.

21 SECTION 2. (a) Section 1(c), Chapter 286 (H.B. 4765), Acts  
22 of the 81st Legislature, Regular Session, 2009, as amended by  
23 Section 37.01, Chapter 4 (S.B. 1), Acts of the 82nd Legislature, 1st  
24 Called Session, 2011, is repealed.

1 (b) This section takes effect September 1, 2013.

2 SECTION 3. (a) Section 2, Chapter 286 (H.B. 4765), Acts of  
3 the 81st Legislature, Regular Session, 2009, as amended by Section  
4 37.02, Chapter 4 (S.B. 1), Acts of the 82nd Legislature, 1st Called  
5 Session, 2011, and which amended former Subsection (d), Section  
6 171.002, Tax Code, is repealed.

7 (b) This section takes effect September 1, 2013.

8 SECTION 4. (a) Section 3, Chapter 286 (H.B. 4765), Acts of  
9 the 81st Legislature, Regular Session, 2009, as amended by Section  
10 37.03, Chapter 4 (S.B. 1), Acts of the 82nd Legislature, 1st Called  
11 Session, 2011, and which amended former Subsection (a), Section  
12 171.0021, Tax Code, is repealed.

13 (b) This section takes effect September 1, 2013.

14 SECTION 5. Section 171.006(b), Tax Code, is amended to read  
15 as follows:

16 (b) Beginning in 2010, on January 1 of each even-numbered  
17 year, the amounts prescribed by Sections 171.002(d)(2)[~~171.0021,~~  
18 ~~171.0021,~~] and 171.1013(c) are increased or decreased by an amount  
19 equal to the amount prescribed by those sections on December 31 of  
20 the preceding year multiplied by the percentage increase or  
21 decrease during the preceding state fiscal biennium in the consumer  
22 price index and rounded to the nearest \$10,000.

23 SECTION 6. Sections 171.0021 and 171.1016(d), Tax Code, are  
24 repealed.

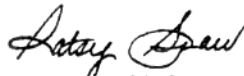
25 SECTION 7. This Act applies only to a report originally due  
26 on or after January 1, 2014.

27 SECTION 8. Except as otherwise provided by this Act, this

1 Act takes effect January 1, 2014.

# ADOPTED

MAY 21 2013

  
Secretary of the Senate

FLOOR AMENDMENT NO. 1

By: Fraser

Amend C.S.H.B. 500 by adding the following Section

SECTION \_\_\_\_\_. (a) Section 171.1014, Tax Code, is amended by adding Subsection (j) to read as follows:

(j) Notwithstanding any other provision of this section, a taxable entity that provides retail or wholesale electric utilities may not be included as a member of a combined group that includes one or more taxable entities that do not provide retail or wholesale electric utilities if that combined group in the absence of this subsection:

(1) would not meet the requirements of Section 171.002(c) solely because one or more members of the combined group provide retail or wholesale electric utilities; and

(2) would have less than five percent of the combined group's total revenue derived from providing retail or wholesale electric utilities.

(b) It is the intent of the legislature that certain taxable entities that are part of an affiliated group and that provide retail or wholesale electric utilities be disqualified as members of certain combined groups for purposes of the franchise tax.

(c) This Act applies only to a report originally due on or after January 1, 2014.

**ADOPTED**

MAY 21 2013

*Atay Spaw*  
Secretary of the Senate

FLOOR AMENDMENT NO. 3

BY: *Rodney Ellis*

1 Amend H.B. No. 500 by adding the following appropriately  
2 numbered SECTIONS to the bill and renumbering subsequent SECTIONS  
3 of the bill accordingly:

4 SECTION \_\_\_\_ Subtitle B, Title 3, Government Code, is  
5 amended by adding Chapter 320A to read as follows:

6 CHAPTER 320A. REVIEW OF STATE AND LOCAL TAX PREFERENCES

7 SUBCHAPTER A. GENERAL PROVISIONS

8 Sec. 320A.001. DEFINITION. In this chapter, "tax  
9 preference" means a credit, discount, exclusion, exemption,  
10 refund, special valuation, special accounting treatment, special  
11 rate, or special method of reporting authorized by state law that  
12 relates to a state or local tax imposed in this state.

13 SUBCHAPTER B. SCHEDULE FOR PERIODIC REVIEW

14 OF STATE AND LOCAL TAX PREFERENCES

15 Sec. 320A.051. DEVELOPMENT AND BIENNIAL MODIFICATION OF  
16 STATE AND LOCAL TAX PREFERENCE REVIEW SCHEDULE. (a) The  
17 comptroller shall:

18 (1) identify each state tax preference and each type  
19 of local tax preference;

20 (2) develop a state and local tax preference review  
21 schedule under which each identified tax preference is reviewed  
22 once during each 12-year period; and

23 (3) specifically identify on the schedule each of the  
24 tax preferences the Legislative Budget Board must review for  
25 purposes of the next report due under Section 320A.151.

26 (b) Except as provided in Subsection (c), in developing the  
27 schedule, the comptroller shall give priority to scheduling for  
28 review the tax preferences that result in the greatest reduction in  
29 revenue derived from the taxes to which the tax preferences relate.

1        (c) In developing the schedule, the comptroller may:

2            (1) schedule for review at the same time all tax  
3 preferences authorized in the same chapter of the Tax Code; and

4            (2) schedule the initial review of a tax preference  
5 that has an expiration date for any date the comptroller determines  
6 is appropriate.

7        (d) The comptroller shall revise the schedule biennially  
8 only to:

9            (1) add to the schedule a tax preference that was  
10 enacted after the comptroller developed the most recent schedule;

11            (2) delete from the schedule a tax preference that was  
12 repealed or that expired after the comptroller developed the most  
13 recent schedule;

14            (3) update the review dates of the tax preferences for  
15 which reviews were conducted after the comptroller developed the  
16 most recent schedule; and

17            (4) update the tax preferences identified under  
18 Subsection (a)(3).

19        Sec. 320A.052. PUBLIC COMMENT. The comptroller shall  
20 provide a process by which the public may comment on the state and  
21 local tax preference review schedule under Section 320A.051. The  
22 comptroller shall consider those comments in developing or revising  
23 the schedule.

24        Sec. 320A.053. SCHEDULE PROVIDED TO LEGISLATIVE BUDGET  
25 BOARD. Not later than December 1 of each odd-numbered year, the  
26 comptroller shall provide the state and local tax preference review  
27 schedule to the Legislative Budget Board.

28            SUBCHAPTER C. CONDUCT OF REVIEW OF STATE  
29                    AND LOCAL TAX PREFERENCES

30        Sec. 320A.101. PERIODIC REVIEW OF TAX PREFERENCES. The  
31 Legislative Budget Board shall periodically review each state tax

1 preference and each type of local tax preference according to the  
2 state and local tax preference review schedule provided by the  
3 comptroller under Section 320A.053. In reviewing a tax preference,  
4 the board shall:

5 (1) summarize the legislative history of the tax  
6 preference;

7 (2) estimate the amount of lost tax revenue  
8 attributable to the tax preference during the preceding 12-year  
9 period, including the percent reduction in the tax revenue of the  
10 related state or local tax, using amounts reported by the  
11 comptroller under Section 403.014, if available;

12 (3) determine the effect of the tax preference on the  
13 distribution of the tax burden by income class and industry or  
14 business class during the preceding 12-year period, using amounts  
15 reported and data analyzed by the comptroller under Sections  
16 403.014 and 403.0141, if available; and

17 (4) evaluate, for a tax preference that reduces by  
18 more than one percent the total revenue of the related state or  
19 local tax, the fiscal impact of the tax preference during the  
20 preceding and following 12-year periods, based on a cost-benefit  
21 analysis of the general effects of the tax preference on the overall  
22 state economy, including the effects on:

23 (A) job creation by industry sector;

24 (B) average wage by industry sector;

25 (C) gross state product by industry sector;

26 (D) business expenditures by industry sector;

27 and

28 (E) personal consumption by income class.

29 Sec. 320A.102. COOPERATION BY OTHER STATE ENTITIES. (a)

30 The Legislative Budget Board may request assistance from the

31 comptroller or any other state agency, department, or office if the



1 board needs assistance to perform the review required by Section  
2 320A.101. The comptroller or other agency, department, or office  
3 shall provide the requested assistance.

4 (b) Notwithstanding Section 111.006, Tax Code, or other  
5 law, the comptroller shall provide to the Legislative Budget Board  
6 complete electronic access to tax files maintained by the  
7 comptroller, as the staff of the board determines necessary to  
8 perform a review required by Section 320A.101. An employee of the  
9 board that accesses tax files maintained by the comptroller is  
10 subject to the same duties and requirements regarding  
11 confidentiality as an employee of the comptroller who accesses the  
12 files.

13 SUBCHAPTER D. REPORT ON TAX PREFERENCES

14 Sec. 320A.151. REPORT. Not later than September 1 of each  
15 even-numbered year, the Legislative Budget Board shall provide to  
16 the presiding officers of the senate finance committee, or its  
17 successor, and the house ways and means committee, or its  
18 successor, a report on the reviews of tax preferences identified  
19 under Section 320A.051(a)(3). The board shall post the report on  
20 the board's Internet website as soon as possible after the board  
21 provides the report to the presiding officers under this section.

22 SECTION \_\_\_\_\_. Notwithstanding Section 320A.053, Government  
23 Code, as added by this Act, the comptroller of public accounts shall  
24 submit the initial state and local tax preference review schedule  
25 required by that section not later than January 15, 2014.

26 SECTION \_\_\_\_\_. The Legislative Budget Board shall submit the  
27 initial report required by Section 320A.151, Government Code, as  
28 added by this Act, not later than September 1, 2014.

# ADOPTED

MAY 21 2013

*Leroy Sew*  
Secretary of the Senate

*J. J. Ariz*

FLOOR AMENDMENT NO. 4

BY: \_\_\_\_\_

1 Amend C.S.H.B. No. 500 (senate committee printing) by adding  
2 the following SECTION, appropriately numbered, and renumbering  
3 subsequent SECTIONS accordingly:

4 SECTION \_\_\_\_\_. Subchapter B, Chapter 171, Tax Code, is  
5 amended by adding Section 171.086 to read as follows:

6 Sec. 171.086. EXEMPTION: POLITICAL SUBDIVISION  
7 CORPORATION. A political subdivision corporation formed under  
8 Section 304.001, Local Government Code, is exempted from the  
9 franchise tax.

**ADOPTED**

FLOOR AMENDMENT NO. 6

MAY 21 2013 BY:

*Antony D'Amico*  
Secretary of the Senate

*Larry Taylor*

Amend C.S.H.B. No. 500 (senate committee report) by adding the following appropriately numbered SECTION and renumbering subsequent SECTIONS accordingly:

SECTION \_\_\_\_ . Subchapter C, Chapter 171, Tax Code, is amended by adding Subsection (p), Section 171.1012 to read as follows:

(p) A taxable entity that is a ticket reseller, promoter or primary ticket distributor may receive an exemption to be able to subtract as a cost of goods sold the amount paid to procure one or more tickets which allow for access to an event that requires a ticket to obtain admission, including sporting events, concerts, and theater shows, but the exemption does not include all mixed service costs, such as security services, legal services, data processing services, accounting services, personnel costs or office expenses.

# ADOPTED

MAY 21 2013

*Atty Gen*  
Secretary of the Senate

FLOOR AMENDMENT NO. 7

BY: *K. B. Porter*  
*Campbell*

1 Amend C.S.H.B. No. 500 (senate committee printing) by adding  
2 the following SECTION, appropriately numbered, and renumbering  
3 subsequent SECTIONS accordingly:  
4 SECTION \_\_\_\_\_. Section 171.1016, Tax Code, is amended by  
5 adding Subsection (b-1) to read as follows:  
6 (b-1) Notwithstanding Subsection (b)(3), a taxable entity  
7 that elects to pay the tax as provided by this section may determine  
8 the amount of tax for which the entity is liable by multiplying the  
9 amount computed under Subsection (b)(2) by the rate of 0.546  
10 percent. This subsection expires December 31, 2015.

# ADOPTED

MAY 21 2013

FLOOR AMENDMENT NO. 8

*Atty Gen*  
Secretary of the Senate  
BY: *William*

1 Amend C.S.H.B. No. 500 (senate committee printing) by adding  
2 the following appropriately numbered SECTION to read as follows and  
3 renumbering subsequent SECTIONS accordingly:

4 SECTION \_\_\_\_\_. This Act takes effect only if the  
5 constitutional amendment proposed by S.J.R. No. 1, 83rd  
6 Legislature, Regular Session, 2013, is approved by both houses of  
7 the legislature and submitted to the voters, and Section 39.9039,  
8 Utilities Code, as proposed by H.B. No. 7 or similar legislation of  
9 the 83rd Legislature, Regular Session, 2013, becomes law. If  
10 either condition provided by this section is not met, this Act has  
11 no effect.

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION**

**May 23, 2013**

**TO:** Honorable Joe Straus, Speaker of the House, House of Representatives

**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.), **As Passed 2nd House**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB500, As Passed 2nd House: a negative impact of (\$679,428) 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 (\$654,708,000) 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	(\$439,714)
2015	(\$239,714)
2016	(\$239,714)
2017	(\$239,714)
2018	(\$239,714)

**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	(\$439,714)	(\$326,512,000)	4.0
2015	(\$239,714)	(\$328,196,000)	4.0
2016	(\$239,714)	(\$84,727,000)	4.0
2017	(\$239,714)	(\$83,241,000)	4.0
2018	(\$239,714)	(\$82,569,000)	4.0

**Fiscal Analysis**

This bill would amend Chapter 171 of the Tax Code, regarding the franchise tax. The bill would permanently increase the amount of total revenue at or below which a taxable entity would owe no tax 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 rate would be 0.095 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.

The bill would add a new subsection to Section 171.1016 dealing with the EZ calculation. The subsection would allow a taxable entity electing the EZ calculation to use a tax rate of 0.546 applied to apportioned total revenue to determine franchise tax liability. The new subsection would expire on December 31, 2015.

The bill would provide an exemption from the franchise tax for a political subdivision corporation.

The bill would provide that a ticket reseller, promoter or primary ticket distributor may receive an exemption to subtract as a cost of goods sold the amount paid to procure tickets to events. The exemption would not include all mixed service costs.

The bill would amend the Government Code to require a review of state and local tax preferences. The Comptroller would be required to identify and develop a schedule for review of each state tax preference and each type of local tax preference and identify for the Legislative Budget Board the tax preferences that must be reviewed for a report. Each identified tax preference would be reviewed once during a 12-year cycle. The Legislative Budget Board would be required to periodically review tax preferences under the schedule and prepare a report to the presiding officers of the Senate Finance Committee and the House Ways and Means Committee.

The bill's effect would be contingent on H.B. 7 becoming law and on S.J.R. 1 being approved by both houses and submitted to the voters.

Except as otherwise provided in the bill 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 is based on data from the Comptroller's franchise tax files. The fiscal implications shown reflect the assumption that H.B. 7 and S. J. R. 1 both pass. Otherwise, the fiscal impact would be zero.

The General Revenue costs reflect the funds needed to hire an estimated 4 FTEs needed to complete the Review of State and Local Tax Preferences.

## **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



**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:**

<b>Fiscal Year</b>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
2014	\$0
2015	\$0
2016	\$0
2017	\$0
2018	\$0

**All Funds, Five-Year Impact:**

<b>Fiscal Year</b>	<b>Probable Revenue (Loss) from Property Tax Relief Fund</b>
	<b>304</b>
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

**LEGISLATIVE BUDGET BOARD**  
Austin, Texas

**FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION**

**May 13, 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 computation of the franchise tax, including certain exclusions from the tax.), **As Engrossed**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB500, As Engrossed: a negative impact of (\$1,485,218) 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 (\$648,569,000) 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	(\$843,109)
2015	(\$642,109)
2016	(\$643,109)
2017	(\$642,109)
2018	(\$643,109)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Revenue (Loss) from Property Tax Relief Fund 304	Probable (Cost) from General Revenue Fund 1	Change in Number of State Employees from FY 2013
2014	(\$308,684,000)	(\$843,109)	7.5
2015	(\$339,885,000)	(\$642,109)	7.5
2016	(\$378,300,000)	(\$643,109)	7.5
2017	(\$406,763,000)	(\$642,109)	7.5
2018	(\$414,469,000)	(\$643,109)	7.5

**Fiscal Analysis**

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, by making several changes to the way taxable entities calculate franchise tax liability.

The bill would include auto repair services and certain rental activities in retail and wholesale trade which would require affected entities to calculate franchise tax liability using a tax rate of 0.5 percent.

The bill would amend the calculation of margin by providing a taxable entity the additional option of determining margin as total revenue less \$1 million.

The bill would amend the determination of cost of goods sold for taxable entities in certain industries and allow taxable entities with total revenue of not more than \$5 million to use cost of goods sold as reported on an IRS tax form for the calculation of margin for the franchise tax.

The bill would provide exclusions or subtractions from total revenue for taxable entities in certain industries.

The bill would allow taxable entities to deduct as compensation payments to employees outside the United States and reported on a form other than a W-2 Form.

The bill would change the method for apportioning margin for taxable entities engaged in internet hosting or broadcasting.

The bill would provide a deduction from apportioned margin for moving expenses to taxable entities that relocate their principal place of business to Texas.

The bill, effective January 1, 2016, would provide jobs creation and capital investment franchise tax credits to taxable entities that meet certain conditions.

The bill would provide transferable franchise tax credits to entities who incur qualified expenses for rehabilitation of historic structures.

The bill would provide for the transfer or sale of unexpired jobs creation or capital investment franchise credits established under prior law.

The bill would provide that a taxable entity with total revenue of no more than \$1 million for a report period would continue to have no franchise tax liability for that period.

The bill would require the Sunset Commission to review exemptions from the franchise tax. The Commission would be required to periodically evaluate each exemption provided by Chapters 171 of the Tax Code. The reviews would be conducted according to a schedule adopted by the Commission on or before January 1, 2014. The schedule must provide for the Commission to evaluate each tax exemption at an interval not to exceed six years.

Except as provided in the bill, the bill would take effect on January 1, 2014.

## **Methodology**

The estimated fiscal impact is based on information from the Comptroller's franchise tax databases and from research on the various industries impacted by the bill's provisions.

Sections 32 and 33 appear to represent conflicting effective dates for the bill. This analysis

assumes an effective date of January 1, 2014, unless a section has a different date stated in the bill.

The Comptroller of Public Accounts estimates it would be necessary to hire 5 FTEs including audit, legal, and accounting staff to handle the anticipated increased workload. There are also additional funds for programming and system support costs.

The Sunset Advisory Commission estimates they would need to hire 2.5 FTEs to complete the review of franchise tax exemptions required by the bill. The bill does not define "exemptions", therefore the costs could be higher if "exemptions" were interpreted to include credits, discounts, exclusions, deductions, and special accounting methods.

### **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:** 116 Sunset Advisory Commission, 304 Comptroller of Public Accounts

**LBB Staff:** UP, KK, SD

**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 computation of the franchise tax, including certain exclusions from the tax.), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB500, Committee Report 1st 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 (\$396,768,000) 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	(\$197,880,000)
2015	(\$198,888,000)
2016	(\$202,626,000)
2017	(\$199,272,000)
2018	(\$197,822,000)

**Fiscal Analysis**

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, by changing

various aspects of the way the tax is applied. The bill would provide that taxable entities primarily engaged in miscellaneous equipment rental or automotive repair services would be considered engaged in retail or wholesale trade.

The bill would provide that a taxable entity that does not subtract cost of goods sold or compensation to compute margin for the franchise tax would calculate margin as 65 percent of total margin rather than 70 percent of total margin.

The bill would provide that a taxable entity primarily engaged in transporting aggregates would exclude from total revenue subcontracting payments made by the taxable entity to nonemployee agents for the performance of delivery services. The bill would provide that landlords of commercial property would exclude from total revenue ad valorem taxes and any tax or excise imposed on rents. 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 require that a taxable entity that is a physician practice exclude from total revenue the actual cost paid by the taxable entity for a vaccine. The bill would provide that a taxable entity primarily engaged in the business of transporting commodities by waterways that does not subtract cost of goods sold exclude from total revenue certain costs. The bill would provide that a taxable entity providing agricultural aircraft services exclude from total revenue the cost of labor, equipment, fuel, and materials used in providing those services. The bill would provide that a taxable entity that is a registered motor carrier exclude from its total revenue flow-through revenue derived from taxes and fees. The bill would provide that a taxable entity primarily engaged in the business of harvesting trees for wood may subtract as cost of goods sold certain costs regardless of whether the entity owns the land from which trees are harvested, the timber, or the resulting wood.

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 provide that a taxable entity with total revenue of no more than \$1 million, as adjusted each biennium by the percent change in the consumer price index, would owe no franchise tax. The bill would repeal provisions of current law that would set the total revenue amount at which a taxable entity would owe no tax to not more than \$600,000 for reports due on or after January 1, 2014, and provisions that are not relevant with a \$1 million total revenue threshold.

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

### **Methodology**

The estimated fiscal impact is based on information from the Comptroller's franchise tax databases and from research on the various industries impacted by the bills provisions.

Section 2 of the bill appears to attempt to place firms classified under sic-code 735 as retailers, for franchise tax purposes. This analysis reflects such a change; however, the bill's language may not be effective.

### **Technology**

There would be a one-time technology cost of \$200,000 in fiscal year 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



**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION**

**April 23, 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 computation of the franchise tax, including certain exclusions from the tax.), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB500, Committee Report 1st 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 (\$396,768,000) 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	(\$197,880,000)
2015	(\$198,888,000)
2016	(\$202,626,000)
2017	(\$199,272,000)
2018	(\$197,822,000)

**Fiscal Analysis**

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, by changing various aspects of the way the tax is applied. The bill would provide that taxable entities

primarily engaged in miscellaneous equipment rental or automotive repair services would be considered engaged in retail or wholesale trade.

The bill would provide that a taxable entity that does not subtract cost of goods sold or compensation to compute margin for the franchise tax would calculate margin as 65 percent of total margin rather than 70 percent of total margin.

The bill would provide that a taxable entity primarily engaged in transporting aggregates would exclude from total revenue subcontracting payments made by the taxable entity to nonemployee agents for the performance of delivery services. The bill would provide that landlords of commercial property would exclude from total revenue ad valorem taxes and any tax or excise imposed on rents. 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 require that a taxable entity that is a physician practice exclude from total revenue the actual cost paid by the taxable entity for a vaccine. The bill would provide that a taxable entity primarily engaged in the business of transporting commodities by waterways that does not subtract cost of goods sold exclude from total revenue certain costs. The bill would provide that a taxable entity providing agricultural aircraft services exclude from total revenue the cost of labor, equipment, fuel, and materials used in providing those services. The bill would provide that a taxable entity that is a registered motor carrier exclude from its total revenue flow-through revenue derived from taxes and fees. The bill would provide that a taxable entity primarily engaged in the business of harvesting trees for wood may subtract as cost of goods sold certain costs regardless of whether the entity owns the land from which trees are harvested, the timber, or the resulting wood.

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 provide that a taxable entity with total revenue of no more than \$1 million, as adjusted each biennium by the percent change in the consumer price index, would owe no franchise tax. The bill would repeal provisions of current law that would set the total revenue amount at which a taxable entity would owe no tax to not more than \$600,000 for reports due on or after January 1, 2014, and provisions that are not relevant with a \$1 million total revenue threshold.

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

### **Methodology**

The estimated fiscal impact is based on information from the Comptroller's franchise tax databases and from research on the various industries impacted by the bills provisions.

Section 2 of the bill appears to attempt to place firms classified under sic-code 735 as retailers, for franchise tax purposes. This analysis reflects such a change; however, the bill's language may not be effective.

### **Technology**

There would be a one-time technology cost of \$200,000 in fiscal year 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

**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

**LBB Staff:** UP, KK, SD

**LEGISLATIVE BUDGET BOARD  
Austin, Texas**

**FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION**

**April 18, 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

**LBB Staff:** UP, KK, SD

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**TAX/FEE EQUITY 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 computation of the franchise tax, including certain exclusions from the tax.), **Committee Report 1st House, Substituted**

**Summary of Elements: HB 500, Committee Report 1<sup>st</sup> House, Substituted (CSHB 500)**

This analysis is for taxes effective in fiscal year 2015.

**Revenue Changes**

- The bill would make permanent the franchise tax no tax due exception for businesses whose total revenue from its entire business is less than \$1 million.
- The bill would raise the minimum deduction for businesses that do not subtract cost of goods sold or compensation when calculating their taxable margin from 30% to 35%
- The bill would classify the activities performed at auto body repair shops, heavy equipment rental businesses, or rental purchase businesses as retail trade, for purposes of determining these entities tax rate.
- The bill would modify the total revenue apportionment calculation for Internet hosting.
- The bill would provide a total revenue exclusion for entities performing land men services.
- The bill would provide a total revenue exclusion for entities engaged in transporting aggregates.
- The bill would provide a total revenue exclusion for commercial property landlords.
- The bill would provide a total revenue exclusion for entities engaged in transporting barite.
- The bill would provide a total revenue exclusion for physician practices.
- The bill would provide a total revenue exclusion for entities engage in transporting commodities by waterways.
- The bill would provide a total revenue exclusion for entities engaged in agricultural aircraft operations.
- The bill would provide a total revenue exclusion for motor carriers.
- The bill would modify the costs of goods sold calculation for entities engaged in the business of harvesting trees for wood.

**Dollar Value of Revenue Changes in Fiscal Year 2015**

- \$198.9 million in franchise tax reduction
- \$198.9 million in net tax reduction

**Initial Impact in Fiscal 2015**

- A net decrease to business of \$198.9 million
- A net decrease to households of \$0.0 million

**Major Industry Impact in Fiscal 2015**

- The largest dollar decrease: \$87.8 million to the Other Services industry
- The largest percentage decrease: 1.4 percent to the Other Services industry

**Initial Tax Impact by Industry**

HB 500, Committee Report 1<sup>st</sup> House, Substituted was analyzed using the LBB's multi-tax model to determine the initial impact of the proposed changes relative to current state and local tax law. The results of the analysis are shown in Table 1 below:

**Table 1**

**Comparison of Initial Tax Impact under**

**Current Law vs. HB 500, Committee Report 1<sup>st</sup> House, Substituted**

**Fiscal Year 2015**

**Comparisons Include Property Tax, Sales and Excise Taxes, and Taxes on Business**

	Current Law Liability	Percent of Total	Proposed Law Liability	Percent of Total	Change in Liability	Percent of Total	Percent Change in Liability
	[\$ Million]	[%]	[\$ Million]	[%]	[\$ Million]	[%]	[%]
<b>Taxes Paid by Business:</b>							
Agriculture, Forestry, Fishing &	770.1	1.6%	768.09	1.6%	-2.0	1.0%	-0.26%
Mining	8,898.6	18.3%	8,892.64	18.4%	-6.0	3.0%	-0.07%
Utilities & Transportation	5,904.9	12.1%	5,897.34	12.2%	-7.6	3.8%	-0.13%
Construction	2,266.3	4.7%	2,248.13	4.6%	-18.2	9.1%	-0.80%
Manufacturing	6,158.5	12.7%	6,148.80	12.7%	-9.7	4.9%	-0.16%
Wholesale & Retail Trade	4,466.8	9.2%	4,441.59	9.2%	-25.2	12.7%	-0.56%
Information	3,052.3	6.3%	3,012.19	6.2%	-40.1	20.2%	-1.31%
Finance, Insurance & Real Estate	10,817.9	22.2%	10,815.48	22.3%	-2.4	1.2%	-0.02%
All Other Services	6,291.0	12.9%	6,203.22	12.8%	-87.8	44.1%	-1.40%
Total Taxes on Business:	48,626.4	100.0%	48,427.48	100.0%	-198.888	100.0%	-0.41%
<b>Taxes Paid by Households:</b>							
Residential Owner-Occupied	23,340.97		23,340.97		0		0
Personal Consumption	22,180.80		22,180.80		0		0

Total Taxes on Households:	45,521.77		45,521.77		0		0
<b>Total Taxes</b>	94,148.14		93,949.25		-198,888		-0.21%

**Tax Incidence by Income Group**

Economists commonly distinguish between the initial “impact” of a tax and its “incidence”. The initial impact of a tax falls on taxpayers legally liable to pay the tax, while the incidence refers to the ultimate payer of the tax. For example, the initial impact of a business tax falls on the firm incurring the tax liability. Over time, to varying degrees, the tax cost is “shifted” so that the ultimate burden of the tax falls either to consumers in different retail prices, to employees in changed wages, to owners of land and capital in different investment returns, or most likely, to some combination of all three. The degrees to which a tax can be shifted, and the amount of time that elapses before a tax can be shifted, depends on the type of tax, the elasticity of consumption of the good or service with respect to the tax rate, and the competitiveness of capital, labor, input materials, and product markets.

The results of this analysis for tax law changes effective with this proposal are shown in Table 2 and Table 3.

**Summary of Tax Incidence Findings**

HB 500, Committee Report 1<sup>st</sup> House, Substituted would ultimately reduce the taxes of all households by \$143.0 million for tax law changes effective in 2015. The difference between the initial reduction in revenue of \$198.9 million in fiscal 2015 and the ultimate reduction of \$143.0 million in household tax incidence is primarily due to the exporting of some of the tax changes to non-Texas consumers and businesses, changes in federal tax liability, and the absorption of some of the tax changes by business profits, some of which are received by non-Texas shareholders and business owners.

**Final Incidence of Changes Effective in Fiscal 2015**

- Lowest income level (income range from \$0 to \$31,771):  
A decrease of \$11.8 million, or 0.20 percent.
- Middle income level (income range of \$57,478 to \$87,377):  
A decrease of \$23.1 million, or 0.20 percent.
- Highest income level (income range of \$136,297 and above):  
A decrease of \$57.9 million, or 0.19 percent.

**Table 2**

**Tax Incidence by Income Quintile**

**Current Law vs. HB 500, Committee Report 1<sup>st</sup> House, Substituted**

**Taxes Effective in Fiscal Year 2015**

**Comparisons Include Property Tax, Sales and Excise Taxes, and Taxes on Business**

Quintile	Quintile Income: Lower Bound	Quintile Income: Upper Bound	Current Law Tax	Percent of Total	Proposed Law Tax	Percent of Total	Change in Tax	Percent Change in Tax
	[\$]	[\$]	[\$ Million]	[%]	[\$ Million]	[%]	[\$ Million]	[%]
1	0	31,771	5,896.7	8.0%	5,884.90	8.0%	-11.8	-0.20%

2	31,771	57,478	8,430.0	11.5%	8,413.01	11.5%	-17.0	-0.20%
3	57,478	87,377	11,684.7	15.9%	11,661.62	15.9%	-23.1	-0.20%
4	87,377	136,297	16,736.1	22.8%	16,702.93	22.8%	-33.2	-0.20%
5	136,297	and above	30,708.7	41.8%	30,650.81	41.8%	-57.9	-0.19%
		Total:	73,456.3		73,313.28		-143.0	-0.19%

**Summary of Effective Rate Findings**

HB 500, Committee Report 1<sup>st</sup> House, Substituted would ultimately decrease the effective rate for all households by 0.19 percent for taxes effective in fiscal year 2015. The effective rate is the aggregate amount of tax paid in a given income class divided by the aggregate amount of personal income in that income class.

**Table 3**

**Effective Rate by Income Quintile**

**Current Law vs. HB 500, Committee Report 1<sup>st</sup> House, Substituted**

**Taxes Effective in Fiscal Year 2015**

**Comparisons Include Property Tax, Sales and Excise Taxes, and Taxes on Business**

Quintile	Quintile Income: Lower Bound	Quintile Income: Upper Bound	Current Law Effective Rate	Proposed Law Effective Rate	Change in Effective Rate	Percent Change in Effective Rate
	[\$]	[\$]	[%]	[%]	[%]	[%]
1	0	31,771	22.1%	22.0%	0.0%	-0.2%
2	31,771	57,478	12.0%	12.0%	0.0%	-0.2%
3	57,478	87,377	10.5%	10.5%	0.0%	-0.2%
4	87,377	136,297	9.4%	9.3%	0.0%	-0.2%
5	136,297	and above	6.0%	6.0%	0.0%	-0.2%
		Total:	8.2%	8.2%	0.0%	-0.19%

**Source Agencies:**

**LBB Staff:** UP

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**TAX/FEE EQUITY NOTE**

**83RD LEGISLATIVE REGULAR SESSION**

**April 24, 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 computation of the franchise tax, including certain exclusions from the tax.), **Committee Report 1st House, Substituted**

**Summary of Elements: HB 500, Committee Report 1<sup>st</sup> House, Substituted (CSHB 500)**

This analysis is for taxes effective in fiscal year 2015.

**Revenue Changes**

- The bill would make permanent the franchise tax no tax due exception for businesses whose total revenue from its entire business is less than \$1 million.
- The bill would raise the minimum deduction for businesses that do not subtract cost of goods sold or compensation when calculating their taxable margin from 30% to 35%
- The bill would classify the activities performed at auto body repair shops, heavy equipment rental businesses, or rental purchase businesses as retail trade, for purposes of determining these entities tax rate.
- The bill would modify the total revenue apportionment calculation for Internet hosting.
- The bill would provide a total revenue exclusion for entities performing land men services.
- The bill would provide a total revenue exclusion for entities engaged in transporting aggregates.
- The bill would provide a total revenue exclusion for commercial property landlords.
- The bill would provide a total revenue exclusion for entities engaged in transporting barite.
- The bill would provide a total revenue exclusion for physician practices.
- The bill would provide a total revenue exclusion for entities engage in transporting commodities by waterways.
- The bill would provide a total revenue exclusion for entities engaged in agricultural aircraft operations.
- The bill would provide a total revenue exclusion for motor carriers.
- The bill would modify the costs of goods sold calculation for entities engaged in the business of harvesting trees for wood.

**Dollar Value of Revenue Changes in Fiscal Year 2015**

- \$198.9 million in franchise tax reduction
- \$198.9 million in net tax reduction

**Initial Impact in Fiscal 2015**

- A net decrease to business of \$198.9 million
- A net decrease to households of \$0.0 million

**Major Industry Impact in Fiscal 2015**

- The largest dollar decrease: \$87.8 million to the Other Services industry
- The largest percentage decrease: 1.4 percent to the Other Services industry

**Initial Tax Impact by Industry**

HB 500, Committee Report 1<sup>st</sup> House, Substituted was analyzed using the LBB's multi-tax model to determine the initial impact of the proposed changes relative to current state and local tax law. The results of the analysis are shown in Table 1 below:

**Table 1**

**Comparison of Initial Tax Impact under**

**Current Law vs. HB 500, Committee Report 1<sup>st</sup> House, Substituted**

**Fiscal Year 2015**

**Comparisons Include Property Tax, Sales and Excise Taxes, and Taxes on Business**

	Current Law Liability	Percent of Total	Proposed Law Liability	Percent of Total	Change in Liability	Percent of Total	Percent Change in Liability
	[\$ Million]	[%]	[\$ Million]	[%]	[\$ Million]	[%]	[%]
<b>Taxes Paid by Business:</b>							
Agriculture, Forestry, Fishing &	770.1	1.6%	768.09	1.6%	-2.0	1.0%	-0.26%
Mining	8,898.6	18.3%	8,892.64	18.4%	-6.0	3.0%	-0.07%
Utilities & Transportation	5,904.9	12.1%	5,897.34	12.2%	-7.6	3.8%	-0.13%
Construction	2,266.3	4.7%	2,248.13	4.6%	-18.2	9.1%	-0.80%
Manufacturing	6,158.5	12.7%	6,148.80	12.7%	-9.7	4.9%	-0.16%
Wholesale & Retail Trade	4,466.8	9.2%	4,441.59	9.2%	-25.2	12.7%	-0.56%
Information	3,052.3	6.3%	3,012.19	6.2%	-40.1	20.2%	-1.31%
Finance, Insurance & Real Estate	10,817.9	22.2%	10,815.48	22.3%	-2.4	1.2%	-0.02%
All Other Services	6,291.0	12.9%	6,203.22	12.8%	-87.8	44.1%	-1.40%
Total Taxes on Business:	48,626.4	100.0%	48,427.48	100.0%	-198.888	100.0%	-0.41%
<b>Taxes Paid by Households:</b>							
Residential Owner-Occupied	23,340.97		23,340.97		0		0
Personal Consumption	22,180.80		22,180.80		0		0

Total Taxes on Households:	45,521.77		45,521.77		0		0
<b>Total Taxes</b>	94,148.14		93,949.25		-198,888		-0.21%

**Tax Incidence by Income Group**

Economists commonly distinguish between the initial “impact” of a tax and its “incidence”. The initial impact of a tax falls on taxpayers legally liable to pay the tax, while the incidence refers to the ultimate payer of the tax. For example, the initial impact of a business tax falls on the firm incurring the tax liability. Over time, to varying degrees, the tax cost is “shifted” so that the ultimate burden of the tax falls either to consumers in different retail prices, to employees in changed wages, to owners of land and capital in different investment returns, or most likely, to some combination of all three. The degrees to which a tax can be shifted, and the amount of time that elapses before a tax can be shifted, depends on the type of tax, the elasticity of consumption of the good or service with respect to the tax rate, and the competitiveness of capital, labor, input materials, and product markets.

The results of this analysis for tax law changes effective with this proposal are shown in Table 2 and Table 3.

**Summary of Tax Incidence Findings**

HB 500, Committee Report 1<sup>st</sup> House, Substituted would ultimately reduce the taxes of all households by \$143.0 million for tax law changes effective in 2015. The difference between the initial reduction in revenue of \$198.9 million in fiscal 2015 and the ultimate reduction of \$143.0 million in household tax incidence is primarily due to the exporting of some of the tax changes to non-Texas consumers and businesses, changes in federal tax liability, and the absorption of some of the tax changes by business profits, some of which are received by non-Texas shareholders and business owners.

**Final Incidence of Changes Effective in Fiscal 2015**

- Lowest income level (income range from \$0 to \$31,771):  
A decrease of \$11.8 million, or 0.20 percent.
- Middle income level (income range of \$57,478 to \$87,377):  
A decrease of \$23.1 million, or 0.20 percent.
- Highest income level (income range of \$136,297 and above):  
A decrease of \$57.9 million, or 0.19 percent.

**Table 2**

**Tax Incidence by Income Quintile**

**Current Law vs. HB 500, Committee Report 1<sup>st</sup> House, Substituted**

**Taxes Effective in Fiscal Year 2015**

**Comparisons Include Property Tax, Sales and Excise Taxes, and Taxes on Business**

Quintile	Quintile Income: Lower Bound	Quintile Income: Upper Bound	Current Law Tax	Percent of Total	Proposed Law Tax	Percent of Total	Change in Tax	Percent Change in Tax
	[\$]	[\$]	[\$ Million]	[%]	[\$ Million]	[%]	[\$ Million]	[%]
1	0	31,771	5,896.7	8.0%	5,884.90	8.0%	-11.8	-0.20%



2	31,771	57,478	8,430.0	11.5%	8,413.01	11.5%	-17.0	-0.20%
3	57,478	87,377	11,684.7	15.9%	11,661.62	15.9%	-23.1	-0.20%
4	87,377	136,297	16,736.1	22.8%	16,702.93	22.8%	-33.2	-0.20%
5	136,297	and above	30,708.7	41.8%	30,650.81	41.8%	-57.9	-0.19%
		Total:	73,456.3		73,313.28		-143.0	-0.19%

**Summary of Effective Rate Findings**

HB 500, Committee Report 1<sup>st</sup> House, Substituted would ultimately decrease the effective rate for all households by 0.19 percent for taxes effective in fiscal year 2015. The effective rate is the aggregate amount of tax paid in a given income class divided by the aggregate amount of personal income in that income class.

**Table 3**

**Effective Rate by Income Quintile**

**Current Law vs. HB 500, Committee Report 1<sup>st</sup> House, Substituted**

**Taxes Effective in Fiscal Year 2015**

**Comparisons Include Property Tax, Sales and Excise Taxes, and Taxes on Business**

Quintile	Quintile Income: Lower Bound	Quintile Income: Upper Bound	Current Law Effective Rate	Proposed Law Effective Rate	Change in Effective Rate	Percent Change in Effective Rate
	[\$]	[\$]	[%]	[%]	[%]	[%]
1	0	31,771	22.1%	22.0%	0.0%	-0.2%
2	31,771	57,478	12.0%	12.0%	0.0%	-0.2%
3	57,478	87,377	10.5%	10.5%	0.0%	-0.2%
4	87,377	136,297	9.4%	9.3%	0.0%	-0.2%
5	136,297	and above	6.0%	6.0%	0.0%	-0.2%
		Total:	8.2%	8.2%	0.0%	-0.19%

**Source Agencies:**

**LBB Staff:** UP

**LEGISLATIVE BUDGET BOARD  
Austin, Texas**

**TAX/FEE EQUITY 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**

**Summary of Elements: HB 500, As Introduced**

This analysis is for taxes effective in fiscal year 2015.

**Revenue Changes**

- The bill would create a permanent \$1 million exclusion from total revenue for all franchise tax filers with total revenue less than \$20 million.
- The bill would raise the eligibility threshold for entities to use the EZ calculation of tax liability from \$10 million to \$20 million in total revenue and would reduce the EZ rate from 0.575% to 0.48%
- The bill would modify the total revenue apportionment calculation for Internet hosting.
- The bill would provide a total revenue exclusion for entities performing land men services.
- The bill would provide a total revenue exclusion for entities engaged in transporting aggregates.
- The bill would prohibit including in a combined group for franchise tax purposes an affiliate that provides wholesale electric utilities under certain conditions.

**Dollar Value of Revenue Changes in Fiscal Year 2015**

- \$557.8 million in franchise tax reduction
- \$557.8 million in net tax reduction

**Initial Impact in Fiscal 2015**

- A net decrease to business of \$557.8 million
- A net decrease to households of \$0.0 million

**Major Industry Impact in Fiscal 2015**

- The largest dollar decrease: \$246.5 million to the Other Services industry
- The largest percentage decrease: 3.9 percent to the Other Services industry

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**Initial Tax Impact by Industry**

HB 500, As Introduced was analyzed using the LBB's multi-tax model to determine the initial impact of the proposed changes relative to current state and local tax law. The results of the analysis are shown in Table 1 below:

**Table 1**

**Comparison of Initial Tax Impact under  
Current Law vs. HB 500, As Introduced**

**Fiscal Year 2015**

**Comparisons Include Property Tax, Sales and Excise Taxes, and Taxes on Business**

	Current Law Liability	Percent of Total	Proposed Law Liability	Percent of Total	Change in Liability	Percent of Total	Percent Change in Liability
	[\$ Million]	[%]	[\$ Million]	[%]	[\$ Million]	[%]	[%]
<b>Taxes Paid by Business:</b>							
Agriculture, Forestry, Fishing &	770.1	1.6%	764.91	1.6%	-5.2	0.9%	-0.67%
Mining	8,898.6	18.3%	8,881.61	18.5%	-17.0	3.1%	-0.19%
Utilities & Transportation	5,904.9	12.1%	5,885.37	12.2%	-19.5	3.5%	-0.33%
Construction	2,266.3	4.7%	2,214.20	4.6%	-52.1	9.3%	-2.30%
Manufacturing	6,158.5	12.7%	6,130.78	12.8%	-27.7	5.0%	-0.45%
Wholesale & Retail Trade	4,466.8	9.2%	4,397.72	9.1%	-69.1	12.4%	-1.55%
Information	3,052.3	6.3%	2,938.74	6.1%	-113.5	20.4%	-3.72%
Finance, Insurance & Real Estate	10,817.9	22.2%	10,810.79	22.5%	-7.1	1.3%	-0.07%
All Other Services	6,291.0	12.9%	6,044.44	12.6%	-246.5	44.2%	-3.92%
Total Taxes on Business:	48,626.4	100.0%	48,068.55	100.0%	-557.814	100.0%	-1.15%
<b>Taxes Paid by Households:</b>							
Residential Owner-Occupied	23,340.97		23,340.97		0		0
Personal Consumption	22,180.80		22,180.80		0		0
Total Taxes on Households:	45,521.77		45,521.77		0		0
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<b>Total Taxes</b>	94,148.14		93,590.33		-557.814		-0.59%
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**Tax Incidence by Income Group**

Economists commonly distinguish between the initial “impact” of a tax and its “incidence”. The initial impact of a tax falls on taxpayers legally liable to pay the tax, while the incidence refers to the ultimate payer of the tax. For example, the initial impact of a business tax falls on the firm incurring the tax liability. Over time, to varying degrees, the tax cost is “shifted” so that the ultimate burden of the tax falls either to consumers in different retail prices, to employees in changed wages, to owners of land and capital in different investment returns, or most likely, to some combination of all three. The degrees to which a tax can be shifted, and the amount of time that elapses before a tax can be shifted, depends on the type of tax, the elasticity of consumption of the good or service with respect to the tax rate, and the competitiveness of capital, labor, input materials, and product markets.

The results of this analysis for tax law changes effective with this proposal are shown in Table 2 and Table 3.

**Summary of Tax Incidence Findings**

HB 500, As Introduced would ultimately reduce the taxes of all households by \$417.3 million for tax law changes effective in 2015. The difference between the initial reduction in revenue of \$557.8 million in fiscal 2015 and the ultimate reduction of \$417.3 million in household tax incidence is primarily due to the exporting of some of the tax changes to non-Texas consumers and businesses, changes in federal tax liability, and the absorption of some of the tax changes by business profits, some of which are received by non-Texas shareholders and business owners.

**Final Incidence of Changes Effective in Fiscal 2015**

- Lowest income level (income range from \$0 to \$31,771):  
A decrease of \$34.6 million, or 0.59 percent.
- Middle income level (income range of \$57,478 to \$87,377):  
A decrease of \$67.4 million, or 0.58 percent.
- Highest income level (income range of \$136,297 and above):  
A decrease of \$168.7 million, or 0.55 percent.

**Table 2**

**Tax Incidence by Income Quintile**

**Current Law vs. HB 500, As Introduced**

**Taxes Effective in Fiscal Year 2015**

**Comparisons Include Property Tax, Sales and Excise Taxes, and Taxes on Business**

Quintile Income: Upper Bound	Current Law Tax	Percent of Total	Proposed Law Tax	Percent of Total	Change in Tax	Percent Change in Tax
[\$]	[\$ Million]	[%]	[\$ Million]	[%]	[\$ Million]	[%]
31,771	5,896.7	8.0%	5,862.10	8.0%	-34.6	-0.6%
57,478	8,430.0	11.5%	8,380.41	11.5%	-49.6	-0.6%
87,377	11,684.7	15.9%	11,617.32	15.9%	-67.4	-0.6%

136,297	16,736.1	22.8%	16,639.13	22.8%	-97.0	-0.6%
and above	30,708.7	41.8%	30,540.01	41.8%	-168.7	-0.5%
Total:	73,456.3		73,038.98		-417.3	-0.6%

**Summary of Effective Rate Findings**

HB 500, As Introduced would ultimately decrease the effective rate for all households by 0.57 percent for taxes effective in fiscal year 2015. The effective rate is the aggregate amount of tax paid in a given income class divided by the aggregate amount of personal income in that income class.

**Table 3**

**Effective Rate by Income Quintile**

**Current Law vs. HB 500, As Introduced**

**Taxes Effective in Fiscal Year 2015**

**Comparisons Include Property Tax, Sales and Excise Taxes, and Taxes on Business**

Quintile	Quintile Income: Lower Bound	Quintile Income: Upper Bound	Current Law Effective Rate	Proposed Law Effective Rate	Change in Effective Rate	Percent Change in Effective Rate
	[\$]	[\$]	[%]	[%]	[%]	[%]
1	0	31,771	22.1%	21.9%	-0.1%	-0.6%
2	31,771	57,478	12.0%	12.0%	-0.1%	-0.6%
3	57,478	87,377	10.5%	10.4%	-0.1%	-0.6%
4	87,377	136,297	9.4%	9.3%	-0.1%	-0.6%
5	136,297	and above	6.0%	6.0%	0.0%	-0.5%
		Total:	8.2%	8.2%	0.0%	-0.6%

**Source Agencies:**

**LBB Staff:** UP, KK

**LEGISLATIVE BUDGET BOARD  
Austin, Texas**

**TAX/FEE EQUITY NOTE**

**83RD LEGISLATIVE REGULAR SESSION**

**April 24, 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**

**Summary of Elements: HB 500, As Introduced**

This analysis is for taxes effective in fiscal year 2015.

**Revenue Changes**

- The bill would create a permanent \$1 million exclusion from total revenue for all franchise tax filers with total revenue less than \$20 million.
- The bill would raise the eligibility threshold for entities to use the EZ calculation of tax liability from \$10 million to \$20 million in total revenue and would reduce the EZ rate from 0.575% to 0.48%
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**Dollar Value of Revenue Changes in Fiscal Year 2015**

- \$557.8 million in franchise tax reduction
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**Initial Impact in Fiscal 2015**

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Manufacturing	6,158.5	12.7%	6,130.78	12.8%	-27.7	5.0%	-0.45%
Wholesale & Retail Trade	4,466.8	9.2%	4,397.72	9.1%	-69.1	12.4%	-1.55%
Information	3,052.3	6.3%	2,938.74	6.1%	-113.5	20.4%	-3.72%
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Total Taxes on Households:	45,521.77		45,521.77		0		0
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<b>Total Taxes</b>	94,148.14		93,590.33		-557.814		-0.59%

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A decrease of \$67.4 million, or 0.58 percent.
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A decrease of \$168.7 million, or 0.55 percent.

**Table 2**

**Tax Incidence by Income Quintile**

**Current Law vs. HB 500, As Introduced**

**Taxes Effective in Fiscal Year 2015**

**Comparisons Include Property Tax, Sales and Excise Taxes, and Taxes on Business**

Quintile Income: Upper Bound	Current Law Tax	Percent of Total	Proposed Law Tax	Percent of Total	Change in Tax	Percent Change in Tax
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57,478	8,430.0	11.5%	8,380.41	11.5%	-49.6	-0.6%
87,377	11,684.7	15.9%	11,617.32	15.9%	-67.4	-0.6%



136,297	16,736.1	22.8%	16,639.13	22.8%	-97.0	-0.6%
and above	30,708.7	41.8%	30,540.01	41.8%	-168.7	-0.5%
Total:	73,456.3		73,038.98		-417.3	-0.6%

**Summary of Effective Rate Findings**

HB 500, As Introduced would ultimately decrease the effective rate for all households by 0.57 percent for taxes effective in fiscal year 2015. The effective rate is the aggregate amount of tax paid in a given income class divided by the aggregate amount of personal income in that income class.

**Table 3**

**Effective Rate by Income Quintile**

**Current Law vs. HB 500, As Introduced**

**Taxes Effective in Fiscal Year 2015**

**Comparisons Include Property Tax, Sales and Excise Taxes, and Taxes on Business**

Quintile	Quintile Income: Lower Bound	Quintile Income: Upper Bound	Current Law Effective Rate	Proposed Law Effective Rate	Change in Effective Rate	Percent Change in Effective Rate
	[\$]	[\$]	[%]	[%]	[%]	[%]
1	0	31,771	22.1%	21.9%	-0.1%	-0.6%
2	31,771	57,478	12.0%	12.0%	-0.1%	-0.6%
3	57,478	87,377	10.5%	10.4%	-0.1%	-0.6%
4	87,377	136,297	9.4%	9.3%	-0.1%	-0.6%
5	136,297	and above	6.0%	6.0%	0.0%	-0.5%
		Total:	8.2%	8.2%	0.0%	-0.6%

**Source Agencies:**

**LBB Staff:** UP, KK