

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 13, 2015

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB637 by Button (Relating to a deduction under the franchise tax for certain contracts with the federal government.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB637, As Introduced: an impact of \$0 through the biennium ending August 31, 2017.

Additionally, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of (\$32,705,000) for the 2016-17 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
2016	\$0
2017	\$0
2018	\$0
2019	\$0
2020	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from Property Tax Relief Fund 304
2016	(\$16,206,000)
2017	(\$16,499,000)
2018	(\$16,434,000)
2019	(\$16,740,000)
2020	(\$16,976,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, to add a subtraction from total revenue for calculating taxable margin equal to all costs not already

subtracted that are properly allowable under the Federal Acquisition Regulation (48 C.F.R. Chapter 1) to contracts for the sale of goods or services to the federal government by a taxable entity that is a party to a contract subject to the requirements of Defense Acquisition Regulations (48 C.F.R. Chapter 2). Under current law some allowable costs cannot be subtracted or are subject to a cap on the amount that can be subtracted from total revenue.

This bill would take effect January 1, 2016, and apply to franchise tax reports due on or after that date.

Methodology

The estimate for the fiscal impact of the bill is based on information on major defense contractors operating in Texas and on data in the Comptroller's franchise tax databases.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD