LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

March 2, 2015

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **SB756** by Taylor, Van (Relating to the determination of cost of goods sold for purposes of computing the franchise tax.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB756, 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 ($527,285,000) 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	($261,284,000)
2017	($266,001,000)
2018	($264,957,000)
2019	($269,888,000)
2020	($273,690,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, to change the procedures for calculating cost of goods sold in determining taxable margin for the franchise tax.

The bill would delete all of the current language in Section 171.1012 (determination of cost of goods sold) and substitute language requiring taxable entities to use the amount entered on the cost of goods sold line on the appropriate Internal Revenue Service federal income tax form.

The bill would take effect January 1, 2016.

Methodology

Although a comparison of the cost of goods sold deductions for the franchise tax and for federal income tax returns indicates a proportionally larger deduction on franchise tax returns, the bill would not result in a franchise tax revenue gain because reporting of cost of goods sold on federal returns can vary in a wide range without raising issues about the overall validity of the tax return. If taxable entities were to report cost of goods sold at the highest acceptable level on their federal tax returns, the franchise tax would be reduced from current levels. In addition, taxable entities currently not able to use cost of goods sold to calculate franchise tax could have a subtraction under federal tax accounting procedures.

The estimate assumes that subtraction from total revenue sold would increase by 2 percent under the bill's provisions.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

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