

SUBJECT: Classifying certain entities as retail trade for purposes of the franchise tax

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 10 ayes — D. Bonnen, Bohac, Darby, E. Johnson, Murphy, Murr, Raymond, Shine, Springer, Stephenson

0 nays

1 absent — Y. Davis

WITNESSES: For — Ryan Potter, Admiral Linen; John Otto, TRSA; (*Registered, but did not testify:* Annie Spilman, National Federation of Independent Business/Texas; Kevin Schwalb, Textile Rental Services Association; Patrick Garcia)

Against — None

BACKGROUND: Tax Code, sec. 171.002 establishes that the rate of the franchise tax is 0.75 percent of taxable margin, except that it is 0.375 percent of taxable margin for taxable entities primarily engaged in retail or wholesale trade.

Some observers point out that companies engaged in the business of renting work uniforms have been improperly classified for franchise tax purposes because the industry groups they operate under are not expressly listed under the Tax Code definition of "retail trade," which they say more accurately describes this line of business.

DIGEST: CSHB 2250 would amend the definition of "retail trade" for the purposes of the franchise tax to include activities involving the rental of industrial uniforms, industrial garments, and industrial linen supplies that are classified as industry groups 7213 or 7218 of the 1987 Standard Industrial Classification Manual, published by the federal Office of Management and Budget.

The bill would take effect January 1, 2019, and would apply only to a

report originally due on or after that date.

NOTES:

According to the Legislative Budget Board's fiscal note, the bill would have a direct impact of a revenue loss to the Property Tax Relief Fund of \$2.6 million in fiscal 2019 and each year thereafter. 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.