BILL ANALYSIS

H.B. 955
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Urban Affairs
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Federal income tax credits boost the state's economy. These credits include the Earned Income Tax Credit (EITC), Child Tax Credit, and the Child and Dependent Care Tax Credit. Texas families claim approximately $7.8 million in these credits annually. Each dollar received under the EITC generates $1.58 million in local economic activity, according to a 2004 study by the City of San Antonio.

These tax credits are also a powerful tool for helping working Texas families become self-sufficient. The EITC, often described as the nation's most effective anti-poverty program, is structured to encourage work and increase the earnings of individuals in low-income jobs. According to the Center for Public Policy Priorities (CPPP), the EITC lifts nearly half a million Texans, including over a quarter of a million children, out of poverty every year.

Unfortunately, many eligible Texas families do not claim these credits. CPPP reports that between $1.4 and $1.9 billion could go unclaimed by eligible Texas workers this year. In addition, many families who do claim the credits file their taxes through companies that charge significant fees. This erodes the benefit of the credit for working families and adversely impacts sales tax revenue and the state budget.

The Internal Revenue Service (IRS) currently runs free tax preparation services through Volunteer Income Tax Assistance (VITA) sites. According to the IRS, Texas has around 225 VITA sites that prepare approximately 85,000 returns per year, accounting for less than one percent of returns statewide.

While the IRS provides VITA sites with training and equipment, the non-profit and public agencies that administer the sites are responsible for funding operations and outreach. City and state governments have sponsored VITA sites as cost-effective ways to support low-income working families and draw federal money to their cities and states. This is even more important in light of the economic stimulus plan's inclusion of expanded EITC and child tax credits, American Opportunity college education credits, and a new homeownership credit.

H.B. 955 directs the Texas Department of Housing and Community Affairs to establish a grant program to support the operation of volunteer income tax assistance programs. The goal of the grant program is to maximize the benefits of the Earned Income Tax Credit for the Texas economy and the state budget.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the governing board of the Texas Department of Housing and Community Affairs in SECTION 1 of this bill.

ANALYSIS

H.B. 955 amends the Government Code to require the Texas Department of Housing and Community Affairs (TDHCA) to establish a volunteer income tax assistance grant program through which TDHCA will award grants each year to support the implementation and operation of grant programs in the subsequent federal income tax filing season. The bill defines "grant program" as the volunteer income tax assistance grant program established under this bill, and it defines "volunteer income tax assistance program" as a program operated through a collaboration of the IRS and another entity under which taxpayers eligible for the Free File program receive free assistance in preparing federal income tax returns. The bill defines "Free File program" as the free federal income tax preparation and electronic filing program for eligible taxpayers that is developed through a partnership between the IRS and private tax software companies. The bill defines "federal income tax filing season" as the period of each year that begins January 2 and ends April 30.

H.B. 955 requires TDHCA, in the year preceding the federal income tax filing season in which grant recipients will operate grant programs, to issue a request for proposals to participate in the grant program on or before June 30, select and notify grant recipients on or before September 1, and distribute grant program money on or before November 1 of that year. The bill establishes that to be eligible for a grant, an applicant must be located in Texas and be: a nonprofit educational institution, a nonprofit faith-based or community-based organization, or any other nonprofit organization; a political subdivision of Texas, including a county or municipality; or a regional or local coalition that has at least one lead organization that meets the criteria specified above for a nonprofit organization or political subdivision. The bill authorizes an entity that meets these eligibility requirements to apply for a grant by submitting a written application to the TDHCA on a form prescribed by the governing board of TDHCA. The bill requires the application to include: proof of designation by the IRS as a grant program sponsor; the applicant's Electronic Filing Identification Number assigned by the IRS; a letter of support from the applicant's regional IRS Stakeholder, Partnerships, Education, and Communication representative; a statement that the applicant agrees to use the grant money primarily to serve taxpayers eligible for the Free File program; and an agreement to operate a volunteer income tax assistance program using a mixture of funding, the total operating funds of which for any year consist of not more than 65 percent money distributed under the grant program.

H.B. 955 authorizes TDHCA, in determining whether to award a grant to an applicant who otherwise meets the eligibility requirements under law, to give special consideration to applicants who will: serve areas that have historically experienced low earned income tax credit claim rates, high usage rates of refund anticipation loans or similar products, or low participation rates, as compared to other areas, in free tax preparation programs by families eligible for the earned income tax credit; assist persons filing federal income tax returns in attaining financial stability; or assist persons filing federal income tax returns with enrolling in or contributing to college savings plans or funds.

H.B. 955 prohibits a single grant recipient from receiving more than 25 percent of the total amount of grant program money distributed in one year. The bill establishes that grant program money may be used only to pay: the wages of program staff; the costs of operating the program, including rent, computers, furniture, office supplies, telephone service, and Internet service; and the costs of recruiting and training volunteers. The bill requires each grant recipient to enter into a performance agreement with TDHCA detailing TDHCA's expectations for the use of the grant program money and the work to be performed by the recipient. The bill requires each grant recipient to submit a performance report to TDHCA not later than May 30 of the year in which the recipient operates a program using grant program money, and it requires the performance report to include detailed information about each expenditure of grant program money made by the recipient, and the amount of earned income tax credit funds generated directly by the program operated by the recipient using grant program money.

H.B. 955 requires TDHCA, to the extent authorized by federal law and subject to appropriation for this purpose, to distribute as grants at least 0.25 percent of the funds received by Texas during each state fiscal biennium under the federal Temporary Assistance for Needy Families block grant. The bill requires the comptroller of public accounts to transfer funds received under the block grant from the Health and Human Services Commission to TDHCA as necessary to implement the grant program, and it requires TDHCA, in addition to the funds described above, to distribute as grants other money that is appropriated for that purpose or designated by TDHCA and otherwise available for that purpose. The bill requires the governing board of TDHCA to adopt rules as necessary to implement the bill's provisions.

H.B. 955 requires TDHCA, for grants awarded under the grant program in 2009 that will be used to operate grant programs during 2010, to issue a request for proposals to participate in the grant program on or before September 15, 2009, select and notify grant recipients on or before November 15, 2009, and distribute grant money on or before December 15, 2009. The bill requires a state agency that is affected by a provision of the bill to request a federal waiver or authorization if the agency determines that a waiver or authorization is necessary for the implementation of the provision, and it authorizes the agency to delay implementation until the federal waiver or authorization is obtained.

EFFECTIVE DATE

On passage, or, if the act does not receive the necessary vote, the act takes effect September 1, 2009.