LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 8, 2015

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB246** by Martinez Fischer (relating to franchise tax credits for businesses that employ veterans; adding provisions subject to a criminal penalty.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB246, Committee Report 1st House, Substituted: 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 ($3,904,000) 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	($1,120,000)
2017	($2,784,000)
2018	($3,836,000)
2019	($4,961,000)
2020	($6,191,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, by adding two tax credits for creating quality jobs for veterans.

The first tax credit would be for certain veteran job creation activities. The bill would define the following terms: agricultural processing; central administrative office; data processing; distribution; group health plan; manufacturing; qualified business; qualifying job; research and development; veteran; and warehousing. To meet the definition of "qualifying job" the job must: be a new permanent full-time job; be held by a veteran; pay an annual wage of at least $50,000; be covered by a group health plan; and not be created to replace a previous employee.

The bill would provide for biennial adjustment of the wage for a qualifying job. The adjustment would be based on the increase in the Consumer Price Index for All Urban Consumers from one biennium to the next and would occur on January 1 of even-numbered years beginning in 2018.

A taxable entity would be eligible for a credit if it is a qualified business by being primarily engaged in one of the activities listed in the bill and by creating a minimum of 10 qualifying jobs. The credit would equal 25 percent of the total wages paid by the taxable entity for each qualifying job during the first 12 months of the person hired to perform the job that occur during the period on which the franchise tax report is based. The credit would be claimed in five equal installments over the five consecutive reports beginning with the report for the period during which the qualified jobs were created.

The total credit claimed for a report would be limited to 50 percent of the amount of tax due for the report. A taxable entity eligible for a credit that exceeds the limitation could carry unused credit forward not more than five consecutive reports. A taxable entity could not assign or transfer the credit to another entity unless all of the assets of the taxable entity are conveyed or assigned.

The bill would require the Comptroller to prepare a report on the credit before the beginning of each regular legislative session and include information about the credit specified in the bill.

The Comptroller would adopt rules and form necessary to implement the credit. The credit provisions would expire on December 31, 2025.

The second tax credit would be for certain capital investments in veteran job creation. The bill would define qualified capital investment. The definition includes the requirement that the capital investment be made by a taxable entity primarily engaged in agricultural processing as defined in the bill.

To qualify for a credit a qualified taxable entity must pay an annual wage of at least the amount for a qualifying job to each veteran employed by the taxable entity for the period on which the report is based; offer health benefits coverage to all full-time employees at the location with respect to which the credit is claimed; and make a minimum $500,000 qualified capital investment. The credit would equal 7.5 percent of the qualified capital investment during the period on which the report is based. The credit would be claimed in five equal installments over the five consecutive reports beginning with the report for the period during which the qualified capital investment was made.

The total credit claimed for a report would be limited to 50 percent of the amount of tax due for the report. The total amount of credit claimed for this credit and the job creation credit could not exceed the total amount of franchise tax due for a report. A taxable entity eligible for a credit that exceeds the limitation could carry unused credit forward not more than five consecutive reports. A taxable entity could not assign or transfer the credit to another entity unless all of the assets of the taxable entity are conveyed or assigned.

The bill would require the Comptroller to prepare a report on the credit before the beginning of each regular legislative session and include information about the credit specified in the bill.

The Comptroller would adopt rules and form necessary to implement the credit. The credit provisions would expire on December 31, 2025.

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

Methodology

The fiscal impact of the bill is based on a 2012 report by the Texas Workforce Investment Council *Veterans in Texas: A Demographic Study* and on data from the capital investment credit that existed in Texas from 2001 to 2007. The fiscal impact in 2016 reflects the fact that the bill did not limit the period during which creditable wages paid or capital investment made to on or after the effective date of the bill. Activity by a taxable entity during the accounting period upon which the 2016 report is based will result in credits being applied on 2016 reports. The credit for veteran job creation does not explicitly require that the job be located in this state.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

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