

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

March 29, 2015

TO: Honorable René Oliveira, Chair, House Committee on Business & Industry

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB3305** by Oliveira (Relating to a franchise tax credit for wages paid to certain employees.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3305, As Introduced: a positive impact of \$300,000 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 (\$36,000,000) for the 2016-17 biennium, increasing to (\$180,000,000) in the 2018-19 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	\$300,000
2018	\$300,000
2019	\$300,000
2020	\$300,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain from General Revenue Fund 1	Probable Revenue (Loss) from Property Tax Relief Fund 304
2016	\$0	\$0
2017	\$300,000	(\$36,000,000)
2018	\$300,000	(\$90,000,000)
2019	\$300,000	(\$90,000,000)
2020	\$300,000	(\$90,000,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, to create a tax credit for wages paid to certain employees. To qualify for a credit, a taxable entity would have to

pay wages to an employee who meets certain conditions. The employee must be a resident of this state and at the time of hiring fall into one or more of the following categories:

1. had been certified by the Texas Workforce Commission (TWC) as qualified for the federal Work Opportunity Credit or be a member of a family receiving financial assistance under state financial assistance programs;
2. has served on active duty in the U.S. armed forces and has been discharged or released from active duty after September 11, 2001;
3. be at least 18 and under 25 years of age, be unemployed and not have been enrolled in an educational institution for at least six months;
4. has exhausted unemployment benefits at any time during the preceding 18 months and is unemployed; or
5. is unemployed and receiving unemployment compensation benefits.

To receive the credit, the taxable entity would have to request and receive confirmation from the TWC that the employee meets the conditions stated above. The request for confirmation must be made before the 60th day after the employee is hired. The TWC would be required to promulgate an online form the taxable entity must use to request the certification. If the TWC does not deny the certification within 61 days after the submission of the certification request, the taxable entity is considered to have received confirmation that the employee meets the conditions for the credit. The TWC would be required to forward each confirmation to the Comptroller. The Health and Human Services Commission would be required to provide the TWC information necessary to confirm that an employee meets the required conditions.

The amount of credit for each certified employee would equal the lesser of \$10,000 or 20 percent of wages paid by the taxable entity to the certified employee from the date the employee was hired until the anniversary of that date. The credit claimed on a report could not exceed the amount of franchise tax due after all other applicable credits. Unused credits, due to the limitation, could be carried forward for not more than five consecutive reports. The credit could not be transferred or assigned to another taxable entity. The Comptroller would be required to promulgate a form for the application of the credit. The Comptroller and the TWC would be required to adopt rules necessary to administer the credit.

The bill would make conforming changes to the Labor and Education Codes.

The bill would repeal Subchapter H, Chapter 301, of the Labor Code, which provides tax for refunds for wages paid to employees receiving financial assistance, and Section 111.109 of the Tax Code, which provides tax refunds for wages paid to employees receiving Aid To Families With Dependent Children. The repeal of these provisions would not affect an eligible person's right to claim a refund that was established before the effective date of the bill.

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

Methodology

There would be no fiscal impact from the bill in 2016 because no employees would be certified by the TWC prior to January 1, 2016 and credits earned for wages paid to certified employees after that date would be reported on a tax report due in 2017 or later. There would be a reduced fiscal impact in 2017 due to the initial year's hiring occurring over the year and because taxable entities with non-calendar year accounting years would have less than a full year's activity. The estimate assumes the TWC would certify 1,000 employees per month and the average credit earned for 12

months of wages paid to a certified employee would be \$7,500. The repeal of the tax refunds would offset the impact of the credits by \$300,000 per year.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, CL, SD, KK