

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

March 14, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB1127** by Raymond (Relating to a franchise tax credit pilot program for taxable entities that employ certain apprentices.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1127, As Introduced: an impact of \$0 through the biennium ending August 31, 2019.

Additionally, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of (\$600,000) for 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
2018	\$0
2019	\$0
2020	\$0
2021	\$0
2022	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from Property Tax Relief Fund
	304
2018	\$0
2019	(\$600,000)
2020	(\$600,000)
2021	(\$600,000)
2022	(\$600,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, by creating a tax credit pilot program for taxable entities that employ certain eligible apprentices that are located or

based in a county that borders Mexico.

The bill allows taxable entities to receive a franchise tax credit for each eligible apprentice equal to the lesser of 50 percent of the wages paid to the apprentice, or \$5,000. The bill limits the total franchise tax credit to the entity's total franchise tax liability in the reporting year after all other applicable credits have been applied. The bill would only allow taxable entities to claim a credit for a report in connection with wages paid during the accounting period on which the report is based. Taxable entities would not be permitted to carry over credits earned in previous reporting periods.

The bill requires eligible apprentices to be a member of a household with a total income that is at or below the income threshold for eligibility into the national free or reduced-price lunch program (185 percent of the federal poverty level) or that the apprentice reside in a census tract in which 30 percent or more of the population has a household income at or below 185 percent of the federal poverty level. The bill also requires apprentices to be participating in a program that is both registered with the U.S. Department of Labor and eligible to receive funding through the Texas Workforce Commission under Chapter 133 of the Education Code.

The bill requires the Comptroller to create a form for taxpayers to use when applying for this credit. The bill also requires the Comptroller to deliver a report no later than September 1, 2022, that evaluates the effect of the pilot program on the employment outcomes and earnings of apprentices who have participated in the program and provides recommendations regarding whether the program should be continued, expanded, or terminated.

The bill's provisions would expire December 31, 2024.

The bill would take effect January 1, 2018.

Methodology

The fiscal impact estimate relied on data collected by the Texas Workforce Commission (TWC) regarding registered apprenticeships in the state. TWC data show there were 4,629 registered apprenticeships in the 2015 fiscal year, with a majority of them employed in the construction and manufacturing industries and most working 2,000 hours per year.

The bill also limits eligible apprentices to those that are located in the 14 Texas counties that border Mexico, which according to TWC data accounts for approximately 600 apprenticeships primarily located in El Paso and Cameron counties. Assuming apprentices are evenly distributed across households by income, according to data obtained from the American Community Survey, approximately 300 apprentices would meet the bill's household income requirements.

The bill also limits the amount of franchise tax credit taken to the amount of franchise tax due after applying all other applicable credits. Correspondence with local education agencies partnering with TWC for the apprenticeship program and located in the eligible counties has shown that some firms would likely have franchise tax credits that exceed their liability in some reporting periods and could not be carried forward to other periods. Additionally, some firms hiring apprentices would likely not have any franchise tax liability in some reporting periods.

The bill lists an effective date of January 1, 2018, which would be first implemented for franchise reports during FY 2019.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD