

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION**

**April 13, 2019**

**TO:** Honorable Jane Nelson, Chair, Senate Committee on Finance

**FROM:** John McGeady, Assistant Director    Sarah Keyton, Assistant Director  
 Legislative Budget Board

**IN RE:** SB774 by Creighton (Relating to a franchise tax credit for taxable entities offering postsecondary tuition assistance.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB774, As Introduced: a negative impact of (\$1,672,338,000) through the biennium ending August 31, 2021.

**Additionally, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of (\$2,172,049,000) for the 2020-21 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
2020	(\$850,360,000)
2021	(\$821,978,000)
2022	(\$811,582,000)
2023	(\$799,937,000)
2024	(\$788,088,000)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Revenue (Loss) from <i>General Revenue Fund</i> 1	Probable Revenue (Loss) from <i>Property Tax Relief Fund</i> 304
2020	(\$850,360,000)	(\$1,038,529,000)
2021	(\$821,978,000)	(\$1,133,520,000)
2022	(\$811,582,000)	(\$1,197,078,000)
2023	(\$799,937,000)	(\$1,265,388,000)
2024	(\$788,088,000)	(\$1,340,854,000)

**Fiscal Analysis**

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, to add new

Subchapter K to establish a tax credit for entities that provide tuition assistance. To be eligible for a credit, a taxable entity would have to provide tuition assistance for an employee attending a postsecondary educational institution. The amount of the credit for a period would be equal to the lesser of the amount of tuition assistance provided to all employees during the period or the amount of franchise tax due for the report after all other applicable tax credits. The taxable entity could not assign or transfer the credit unless all of the assets of the taxable entity are transferred in the same transaction.

This bill would take effect January 1, 2020 and apply to reports due on or after that date.

### **Methodology**

The franchise tax credit would be earned for total tuition assistance expenditures for all employees, including employees residing outside the state. US firms spent \$22 billion on tuition assistance in 2016, of which \$1.8 billion is estimated to have been in Texas. Combined with a share of such spending outside Texas by multistate taxable entities with nexus for Texas franchise tax, the total annual potential value of credits is estimated at \$4 billion. The credit would be expected to stimulate higher employee tuition assistance expenditures; combined with the federal credit of up to \$5,250 for each employee, the total value of Texas and federal tax credits earned for tuition assistance would be greater than the expenditures for tuition assistance.

Because the application of the credits would be limited to no more than the franchise tax liability of a firm in a year, without provision for carryforward and with assignment prohibited, the estimate assumes that only 40 percent of the potential value of credits earned could be taken to reduce tax.

### **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** WP, KK, SD