

BILL ANALYSIS

S.B. 2018
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Ways & Means
Committee Report (Unamended)

BACKGROUND AND PURPOSE

The bill sponsor has informed the committee that children and families across Texas are experiencing higher levels of mental health and substance abuse issues, trauma, and economic stressors they cannot handle alone and that these families include pregnant and parenting families, kinship families, and adoptive families who may be caring for children impacted by trauma. The bill sponsor has further informed the committee that many faith and community-based organizations provide services and support for children and families in their communities and that to meet the increasing needs of these families across Texas, these nonprofit organizations have an opportunity to expand services to more families, but need support from the private sector to do so. S.B. 2018 seeks to incentivize the private sector to support eligible nonprofit organizations that provide evidence-based, family-strengthening services by offering a limited tax credit on certain taxes equal to the amount of the donation.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the comptroller of public accounts in SECTION 1 of this bill.

ANALYSIS

Eligibility for Tax Credit

S.B. 2018 amends the Tax Code to establish a strong families tax credit against the franchise tax for a taxable entity that makes a designated contribution to a 501(c)(3) organization that qualifies as an eligible organization under the bill's provisions in the amount and under the conditions provided by the bill.

The bill defines the following for purposes of its provisions:

- "at-risk family" by reference to the meaning assigned the term by the Human Resources Code provision relating to family support services;
- "designated contribution" as a monetary contribution to an eligible organization that the contributor designates at the time of contribution as being made for the purpose of the strong families credit; and
- "state campaign manager" and "state policy committee" by reference to the meanings assigned those terms by the Government Code provision regarding state employee charitable campaigns.

Qualifications for Eligible Organization

S.B. 2018 establishes that an organization is an eligible organization under the bill's provisions if the organization, as follows:

- is a 501(c)(3) organization authorized to transact business in Texas;
- has provided the following in Texas for at least three years preceding the organization's receipt of the organization's initial designated contribution:
 - comprehensive case management services for at-risk families based on an assessment of family strengths and needs, including assisting families in achieving self-sufficiency and stability and encouraging workforce participation; or
 - services and resources to assist fathers in learning and improving parenting skills and being more engaged in their children's lives through in-school programs and online resources;
- does not directly or indirectly provide abortion services, or offer information related to abortion services; and
- has not received, either directly or indirectly through a contractor, more than 50 percent of its total annual revenue from the state or a political subdivision of the state in the preceding state fiscal year.

The bill requires an organization, to remain eligible, to submit each calendar year the following information in the manner prescribed by the comptroller of public accounts:

- a description of the qualifying services and resources provided by the organization;
- the total number of individuals served through those services and resources during the previous calendar year and the number of those individuals served and provided with resources that year using designated contributions;
- outcomes for the services and resources provided;
- the organization's financial information;
- the organization's contact information;
- a statement, signed under penalty of perjury by an officer of the organization, that the organization meets all criteria to qualify as an eligible organization, has fulfilled the requirements for the previous calendar year, and intends to fulfill the requirements for the next calendar year; and
- any other documentation necessary to verify eligibility or compliance with the bill's eligibility requirements.

The comptroller may consult with the state campaign manager and state policy committee to determine the manner in which an organization must demonstrate that the organization is eligible for the purposes of the bill's provisions.

Duties of Eligible Organization

S.B. 2018 requires an eligible organization to do the following:

- conduct a local, state, and national criminal background check for all individuals working directly with children in a program funded by designated contributions that includes the use of the national sex offender registry database maintained by the U.S. Department of Justice or a successor agency and a commercial multistate and multijurisdiction criminal records locator or other similar commercial nationwide database;
- spend all designated contributions to provide services or resources for Texas residents, except that the organization may spend no more than five percent of the total dollar amount of designated contributions on administrative expenses; and
- annually submit to the comptroller a copy of the organization's most recent Form 990 filed with the IRS.

S.B. 2018 requires an eligible organization, on receipt of a designated contribution, to provide the entity making the contribution with a certificate of contribution that includes the entity's

name, the organization's name, the entity's federal employer identification number, if applicable, the entity's state taxpayer identification number, if applicable, the amount of the designated contribution, and the date the designated contribution was made.

Amount of Credit; Limitation on Total Credits

S.B. 2018 sets the amount of a taxable entity's credit for a report at an amount equal to the lesser of the amount of designated contributions made to eligible organizations during the period covered by the report or the amount of franchise tax due for the report after applying all other applicable credits. The bill caps the total amount of strong families credits awarded at \$5 million each year and establishes that a taxable entity may not apply for a credit for a report in connection with more than \$1 million in designated contributions.

Carryforward

S.B. 2018 caps the carryforward of an unused credit, if a taxable entity is eligible for a credit that exceeds the limitation set by the bill's provisions, to not more than five consecutive reports, and expressly considers a carryforward to be the remaining portion of a credit awarded to a taxable entity that cannot be claimed on a report because of the bill's limitation on the amount of an entity's credit for a report.

Application for Credit

S.B. 2018 provides the following regarding the application for the credit:

- the comptroller may award a credit to a taxable entity that applies for the credit if the taxable entity is eligible for the credit and the credit does not exceed the \$5 million cap under the bill's provisions;
- a taxable entity must apply for the credit in the manner prescribed by the comptroller and include with the application any information requested by the comptroller to determine whether the entity is eligible for the credit;
- the comptroller may adopt rules prescribing the application process for the credit, including rules prescribing:
 - a process by which the credit is awarded on a first-come, first-served basis;
 - an enrollment period with application deadlines to submit an application for the credit;
 - a requirement that a taxable entity must apply for the credit using an electronic application; and
 - the information required to be submitted with the application for the credit, including the certificate of contribution described by the bill's provisions;
- the comptroller may rely on an audited cost report provided by a taxable entity in awarding a credit under the bill's provisions;
- a taxable entity may not apply for an amount of credit greater than the amount of designated contributions made to eligible organizations during the period covered by a report or an amount of credit greater than a credit for a report in connection with more than \$1 million in designated contributions, as applicable;
- a taxable entity may be awarded an amount of credit less than the total amount of credit to which the entity would otherwise be entitled if awarding the entity the total amount of credit would exceed the \$5 million cap under the bill's provisions;
- the comptroller must notify a taxable entity in writing of the amount of credit, if any, awarded to the entity;
- the award or denial of a credit under the bill's provisions and the amount of any credit awarded is not a contested case under the Administrative Procedure Act; and
- a taxable entity, subject to the limitation prescribed by the bill's provisions, may claim the amount of credit awarded by the comptroller on the report originally due after the entity receives the notice described by these provisions.

Credit for Designated Contribution Made by Member of Combined Group or Tiered Partnership Agreement

S.B. 2018 provides the following with respect to the applicable designated contributions:

- a credit under the bill's provisions for designated contributions made by a member of an affiliated group that files a combined report under statutory provisions relating to reporting for certain partnerships in tiered partnership arrangement must be claimed on the combined report, as required by statutory provisions relating to combined reporting and an affiliated group engaged in unitary business, for the group, and establishes that the combined group is considered the taxable entity making the designated contribution for purposes of the bill's provisions;
- an upper tier entity that includes the total revenue of a lower tier entity for purposes of computing its taxable margin as authorized by statutory provisions relating to reporting for certain partnerships in tiered partnership arrangement may claim the credit under the bill's provisions for designated contributions made by the lower tier entity to the extent of the upper tier entity's ownership interest in the lower tier entity; and
- no more than \$1 million in credit awarded for designated contributions made during the period on which a report is based may be claimed on the report.

Assignment Prohibited

S.B. 2018 prohibits a taxable entity from conveying, assigning, or transferring the credit to another taxable entity unless substantially all of the entity's assets are conveyed, assigned, or transferred in the same transaction.

Rules

S.B. 2018 authorizes the comptroller to adopt rules and procedures necessary to implement, administer, and enforce the bill's provisions.

Expiration

S.B. 2018 expires January 1, 2029, and the bill establishes that this expiration does not affect the carryforward of a credit or those credits for which a taxable entity is eligible after the date of expiration based on designated contributions made before that date.

Applicability

S.B. 2018 authorizes an entity to apply for the credit under the bill's provisions only for a designated contribution made on or after June 1, 2026. The bill's provisions apply only to a report originally due on or after June 1, 2026.

EFFECTIVE DATE

June 1, 2026.