By: Herbert H.B. No. 1259

A BILL TO BE ENTITLED

AN ACT

relating to a franchise tax credit for taxable entities that make certain employer child-care contributions.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Chapter 171, Tax Code, is amended by adding Subchapter N-1 to read as follows:

SUBCHAPTER N-1. TAX CREDIT FOR CHILD-CARE CONTRIBUTION

Sec. 171.721. DEFINITION. In this subchapter, "child-care contribution" means the dollar amount of a contribution made by a taxable entity to an employee of the entity for use by the employee to secure child care at a child-care facility or family home licensed under Chapter 42, Human Resources Code, including a licensed child-care facility operated by the entity. The term does not include wages paid by the taxable entity to the employee or a payment to the employee that is considered compensation for the employee's service.

Sec. 171.722. ENTITLEMENT TO CREDIT. A taxable entity is entitled to a credit in the amount and under the conditions provided by this subchapter against the tax imposed under this chapter.

Sec. 171.723. AMOUNT OF CREDIT; LIMITATION. (a) Subject to Subsections (b) and (c), the amount of the credit a taxable entity may claim on a report is equal to the total amount of child-care contributions paid by the entity during the period on which the report is based. For purposes of computing the total

amount of child-care contributions paid by the taxable entity, a child-care contribution in an amount that exceeds $3,600 for a child is considered to be a child-care contribution in the amount of $3,600 for that child.

(b) The total credit claimed on a report, including the amount of any carryforward under Section 171.724, may not exceed the amount of franchise tax due for the report after applying all other applicable credits.

(c) The total amount of credits that may be awarded under Subsection (a) in a state fiscal year may not exceed $25 million.

(d) The comptroller by rule shall prescribe procedures by which the comptroller will allocate the amount of credits available under Subsection (c). The procedures must provide that credits are allocated to taxable entities that applied for the credit on a pro rata basis.

Sec. 171.724. CARRYFORWARD. (a) If a taxable entity is eligible for a credit that exceeds the limitation under Section 171.723(b), the entity may carry the unused credit forward for not more than five consecutive reports.

(b) A carryforward is considered the remaining portion of a credit that cannot be claimed on a report because of the limitation under Section 171.723(b).

(c) Credits, including a carryforward, are considered to be used in the following order:

(1) a carryforward under this section; and

(2) a credit for the period on which the report is based.

Sec. 171.725. APPLICATION FOR CREDIT. (a) A taxable entity must apply for a credit under this subchapter on or with the report for the period for which the credit is claimed.

(b) 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 under this subchapter.

(c) The comptroller may award a credit to a taxable entity that applies for the credit under Subsection (a) of this section if the taxable entity is eligible for the credit and the credit is available under Section 171.723(c). The comptroller has discretion in determining whether to grant or deny an application for a credit.

(d) The comptroller shall notify a taxable entity in writing of the comptroller's decision to grant or deny the application submitted under Subsection (a). If the comptroller denies a taxable entity's application, the comptroller shall include in the notice of denial the reasons for the comptroller's decision.

Sec. 171.726. SALE OR ASSIGNMENT OF CREDIT. (a) A taxable entity that makes a child-care contribution may sell or assign all or part of the credit that may be claimed for that contribution to one or more taxable entities, and any taxable entity to which all or part of the credit is sold or assigned may sell or assign all or part of the credit to another taxable entity. There is no limit on the total number of transactions for the sale or assignment of all or part of the total credit authorized under this subchapter.

(b) A taxable entity that sells or assigns a credit under this section and the taxable entity to which the credit is sold or

assigned shall jointly submit written notice of the sale or assignment to the comptroller not later than the 30th day after the date of the sale or assignment. The notice must include:

(1) the date on which the credit was originally established;

(2) the date of the sale or assignment;

(3) the amount of the credit sold or assigned and the remaining period during which it may be used;

(4) the names, addresses, and federal tax identification numbers of the taxable entity that sold or assigned the credit or part of the credit and the taxable entity to which the credit or part of the credit was sold or assigned; and

(5) the amount of the credit owned by the selling or assigning taxable entity before the sale or assignment, and the amount the selling or assigning taxable entity retained, if any, after the sale or assignment.

(c) The sale or assignment of a credit in accordance with this section does not extend the period for which a credit may be carried forward.

(d) After a taxable entity claims a credit for a child-care contribution under this subchapter, another entity may not use the same expenditure as the basis for another credit.

Sec. 171.727. RULES. The comptroller shall adopt rules necessary to implement and administer this subchapter.

SECTION 2. Subchapter N-1, Chapter 171, Tax Code, as added by this Act, applies only to a report originally due on or after January 1, 2028.

SECTION 3. This Act takes effect January 1, 2028.