



Texas' New Business Tax Credits: Something for Everyone

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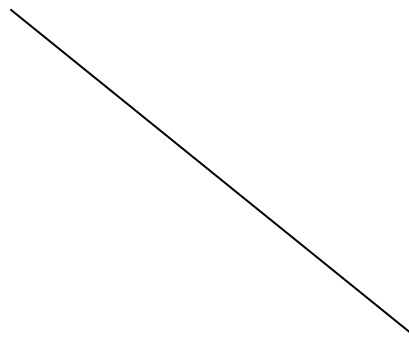
Texas' New Business Tax Credits

\$4.4 billion
Budget Period 2000-01
Beginning Balance

Uneven
Regional Economic
Development

Regional
Technology
Booms

Legislative
Policy
Environment



Tax Relief Package Summary

- Legislative leaders allot \$500 million over two years to sales and franchise tax relief
- Final tax relief package more or less evenly split between sales tax and franchise tax
- Bipartisan support in the legislature

Franchise Tax Relief Package

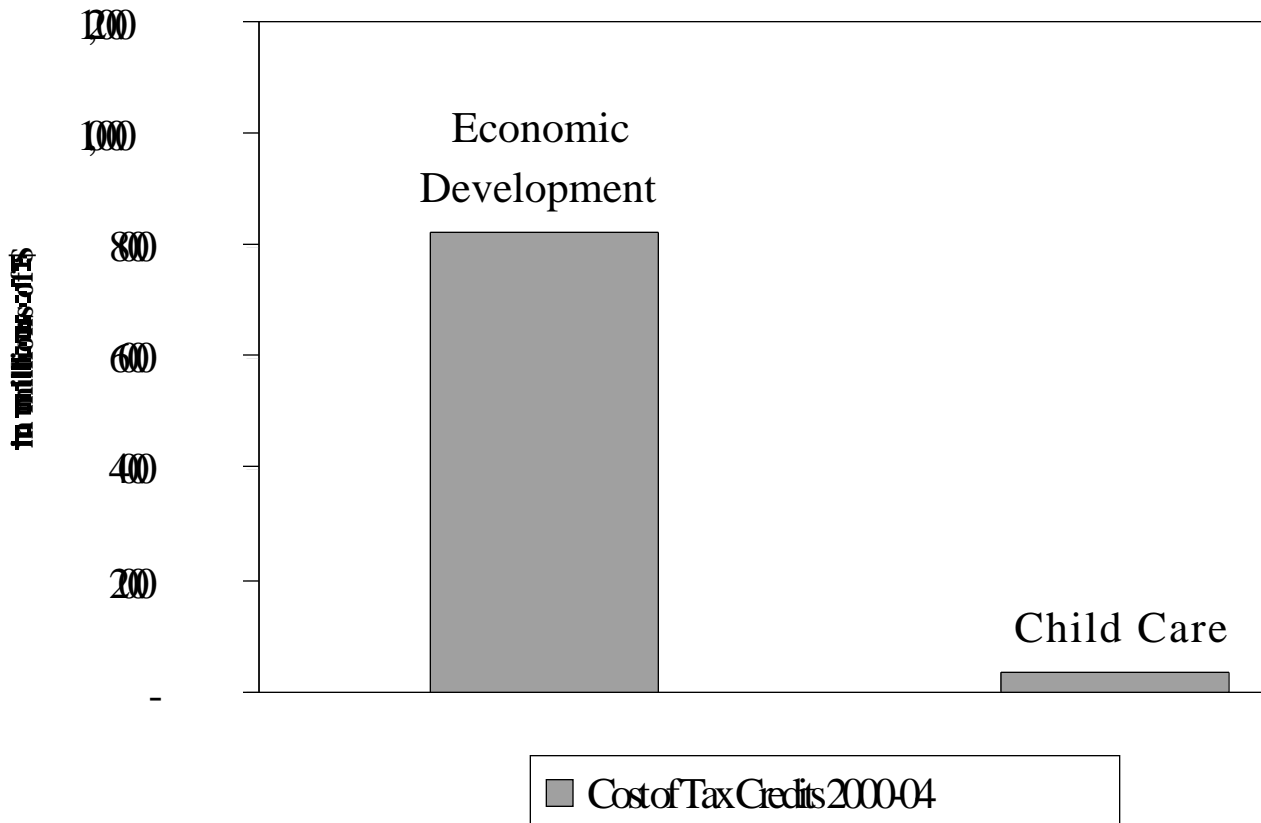
- Three economic development credits
- Two child care credits
- Small business exemption
- Rejected the “mega-credit”

Economic Development Credits

- Research credit based on federal credit
- Targeted job creation credit
- Targeted investment credit

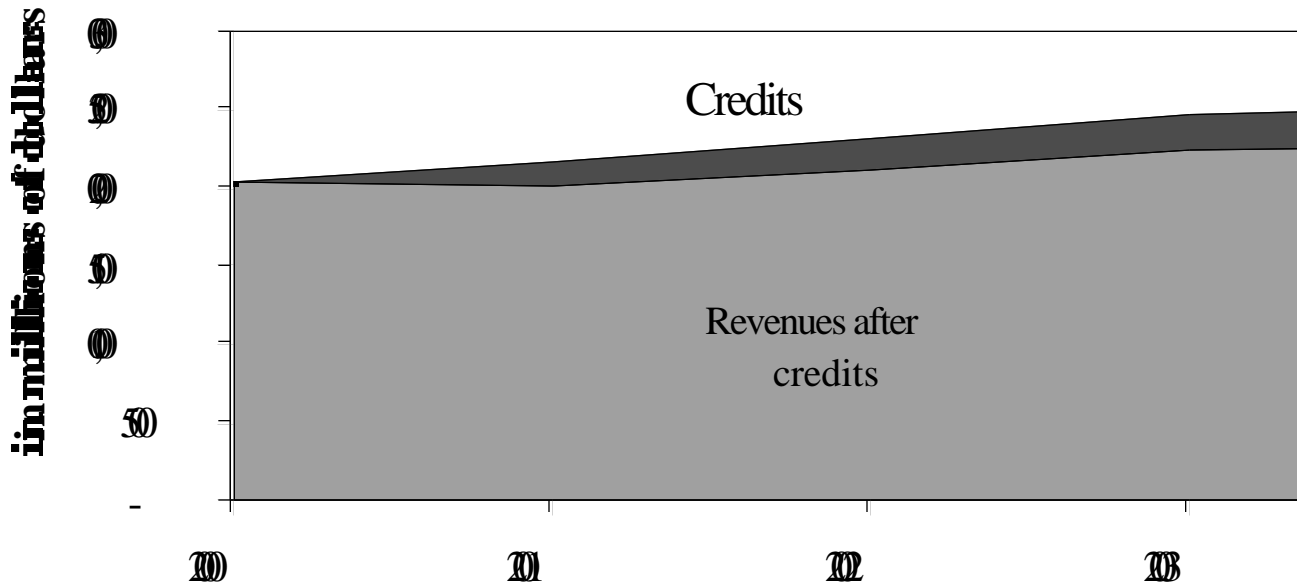
Economic Development vs Child Care

Five-Year Cost of Texas Franchise Tax Credits: 2000-04



Revenue Impacts of Credits

Annual Cost of Research, Job Creation Investment Credits



Job Creation Credit

- 25 percent of wages in first year
- Minimum threshold—10 new jobs
- Credit installments spread over 5 years
- Excludes lower-than-average-paying jobs
- Limited to 50 percent of tax liability

Investment Credit

- 7.5 percent of investment amount
- Minimum investment of \$500,000
- Credit installments spread over 5 years
- Excludes buildings and structures
- Limited to 50 percent of tax liability

Research Credit

- 5 percent of “new” research spending
- Based on federal research credit
- Credit may be taken immediately
- Limited to 50 percent of tax liability

Targeting Credits Reflect Legislative Sensibilities

- A “Strategic Investment Area” directs tax concessions to impoverished counties
- Industry limitations focus tax benefits on high-wage industries
- Performance requirements reinforce the high-wage-job bias of the credits

Selection of Strategic Investment Area

County unemployment rate $>$ state unemployment rate

+

County per-capita income $<$ state per-capita income

=

Strategic
Investment
Area

Industries Qualified for Targeted Credits

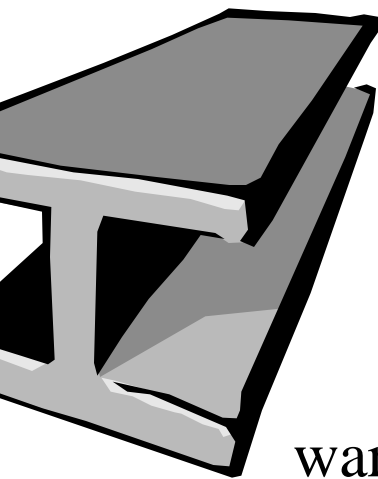
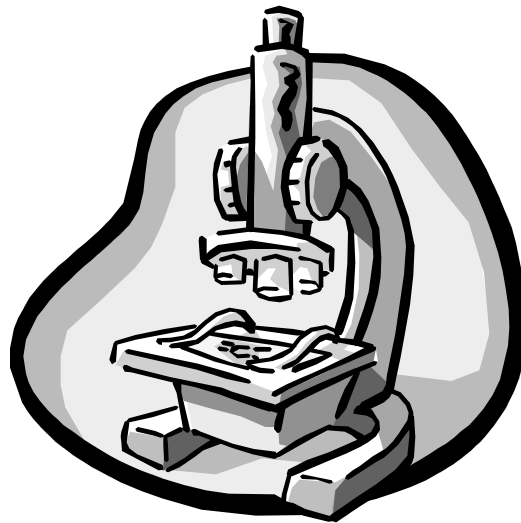


manufacturing

computer services



research labs



warehousing

wholesale

Indirect Credit Limitations

- Job creation credit only covers jobs that pay more than 110 percent of county average wage
- Investment credit only covers companies that pay, on average, 110 percent of county average wage

Credit Performance Standards

- Job credit takers are required to maintain employment levels throughout the five-year credit installment period.
- Investment credit takers are required to retain the capital equipment throughout the five-year credit installment period.

Policy Goals

- Grant the credits only for high-wage jobs
- Steer economic growth to impoverished areas
- Require minimum performance standards

Future Considerations

- SICs vs NAICS
- Urban county lock-out?
- Legislative review
- Taxpayer uncertainty

Credits for Child Care

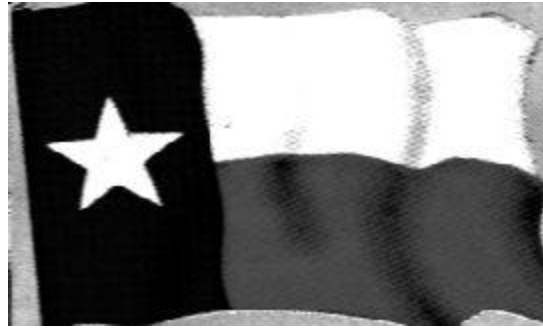
- **Child Care Credit:** business-sponsored child care for employees' pre-school children
- **After-School Credit:** business donations to accredited schools for before- and after-school care

Child Care Credit

- Companies that provide child care on premises or pay costs for off-site care
- Only for pre-school children
- Credit is 50 percent of expenses, limited to \$50,000 and 90 percent of tax liability

After-School Credit

- Companies that donate cash to accredited schools (public or private)
- Only for school-age children
- Credit is 30 percent of donation



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