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

Regional Technology Booms

Uneven Regional Economic Development

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

Cost of Tax Credits 2000-04

-$200.0$ $400.0$ $600.0$ $800.0$ $1,000.0$ $1,200.0$

in millions of $
### Revenue Impacts of Credits

#### Annual Cost of Research, Job Creation, and Investment Credits

<table>
<thead>
<tr>
<th>Year</th>
<th>Credits</th>
<th>In Millions of Dollars</th>
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<tbody>
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<td>2000</td>
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<td>2001</td>
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**Revenues after 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
- warehousing
- research labs
- computer services
- 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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