

SUBJECT: Increasing agricultural-processing activities eligible for franchise tax credits

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 10 ayes — Oliveira, McCall, Craddick, Hartnett, Bonnen, Y. Davis, Heflin, Keffer, Ramsay, Ritter

0 nays

1 absent — Hilbert

WITNESSES: For — Lorie Vincent, The High Ground of Texas; Brian Walters, Dumas Economic Development Corp.

Against — None

On — Teresa Comer, Comptroller of Public Accounts

BACKGROUND: In 1999, the 76th Legislature enacted SB 441 by Ellis et al. providing franchise tax credits to corporations engaged in specific business activities in counties deemed strategic investment areas (below-average per capita income and above-average unemployment, or a federal enterprise zone). Investment credits of up to 7.5 percent of qualified capital investment and job creation credits equal to 25 percent of the total wages and salaries paid for qualifying jobs are available to agricultural processing companies that invest in counties with less than 50,000 population.

Tax Code, sec. 171.751(1) defines agricultural processing eligible for tax credits in terms of numerous categories and codes taken from the 1987 Standard Industrial Classification (SIC) Manual published by the federal Office of Management and Budget.

DIGEST: CSHB 3140 would add eight SIC categories and four product classes within two other categories to the definition of agricultural processing for purposes of determining eligibility for franchise tax credits for job creation activities.

Under CSHB 3140, the following industries would be eligible for franchise tax credits:

- ! manmade organic fibers (SIC 2824);
- ! drugs (SIC 2833-2836)
- ! soaps (SIC 2841);
- ! industrial organic chemicals (SIC 2861, 2865, 2869)
- ! adhesives and sealants (SIC 2891);
- ! chemicals not elsewhere classified (SIC 2899);
- ! vitreous china table and kitchen articles (SIC 3262); and
- ! lead pencils, crayons, and artists' materials (SIC 3952).

This bill would take effect January 1, 2002.

**SUPPORTERS
SAY:**

SIC codes and categories listed in the current statute are not exhaustive and should be expanded to allow for flexibility and innovation. CSHB 3140 would add to the definition such activities as organic fiber production and processing of medicinals, soap, gum and wood chemicals, industrial organic chemicals, adhesives, sealants, gelatin, and art goods.

Rural Texas is losing population and not sharing proportionately in the state's economic growth. All business activity that legitimately may be considered for tax credits should be included so as to encourage as much economic development as possible in small and rural communities. This bill would add several such activities that should not be excluded from the agricultural- processing definition and whose eligibility would mean more jobs and economic growth in rural areas.

**OPPONENTS
SAY:**

Arbitrarily adding more SIC codes would stretch the agricultural processing definition and set a bad precedent. Every industry would like to make all its activities eligible for tax credits. The state must draw the line somewhere and not keep expanding tax credits piecemeal. Adding new categories should be part of an overall review of the effectiveness of this legislation, not done on an industry-by-industry or geographic basis.

Now is not the time to be granting new tax credits. The economy is slowing and state government lacks sufficient revenue for many essential programs. This program has been in effect only two years. Further additions should not

be made until its full impact can be gauged.

OTHER
OPPONENTS
SAY:

Several other legitimate agricultural-processing activities are excluded that should be eligible for franchise tax credits.

NOTES:

The bill as filed added two entirely new categories; the substitute added only four product classes from within those two new categories.