SUBJECT: Allowing certain nonprofits to retain sales tax for vocational training

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 11 ayes — D. Bonnen, Y. Davis, Bohac, Darby, E. Johnson, Murphy, Murr, Raymond, Shine, Springer, Stephenson

0 nays

WITNESSES: For — David Cox, Goodwill Industries of Fort Worth; Lori Henning, Texas Association of Goodwills; (*Registered, but did not testify*: Miranda Goodsheller, Texas Association of Business)

Against — None

BACKGROUND: Tax Code, ch. 151 imposes a 6.25 percent tax on goods sold at retail, which includes donated items sold by nonprofit retailers.

DIGEST: CSHB 518 would allow non-profit retailers that provide job training and placement services for people with barriers to employment to keep a portion of their owed sales tax to expand vocational services, beginning in fiscal 2019.

This bill would require the comptroller to certify certain non-profit retailers as workforce training community centers. To be certified, a retailer would have to submit an application to the comptroller and:

- be a 501(c)(3) organization;
- collect sales tax on the sale of donated goods;
- have experience assisting people with disabilities or other barriers to employment with job training and placement services; and
- have annual sales of at least $1 million.

A certified workforce training community center could keep 30 percent of sales taxes imposed by the state in the first year of certification, and 50 percent in each year thereafter, up to an annual limit of $1 million. Sales taxes collected by a local entity would not be affected.

Any money kept by the workforce training community center would be required to be used for:

- job training and placement services for people with barriers to employment;
- the development of a training and employment plan for each person assisted; and
- services to assist and monitor job retention.

A workforce community training center certification would last three years. The comptroller would only renew a certification for a retailer that, for every $10,000 in sales tax collections retained, provided job training and placement services for at least three people and successfully placed an average of at least 2.25 people in jobs.

The comptroller also could, at any point after the first year of certification, require a nonprofit retailer to show it had met these metrics. After a hearing finding that the above criteria had not been met, the comptroller could revoke the certification and require the retailer to repay some of the tax withheld under this program, up to $3,333 per person not successfully placed in a job.

CSHB 518 would take effect September 1, 2018, but would not affect tax liability accruing before September 1, 2019.

SUPPORTERS SAY:

CSHB 518 would help people who experience barriers to employment improve their skills and find meaningful work, which would benefit the Texas economy as a whole.

A $10 million investment by the state would result the placement of 2,250 workers in one fiscal year if all retailers met the minimum criteria. Newly trained individuals likely could increase their earning potential by far more than $3,333 per year, earning enough to outweigh the cost of the program in the first year of employment. In the aggregate, the bill could create an estimated $44 million in direct wages and more than $250 million in overall economic output. This would outweigh the $9 million annual cost to the state projected by the Legislative Budget Board once the bill had reached full implementation in fiscal 2021.

Not included in these numbers are the intangible benefits to families, schools, and communities. The training would go to those most at risk: veterans and people who are homeless, who are disabled, or who have criminal histories. The bill could help reduce crime, homelessness, and demand for social services by providing people the job skills they need to maintain employment and allowing them to give back to their communities.

CSHB 518 would be effective because the comptroller could request verification that a nonprofit was achieving goals set by the bill at any time after the first year. If a nonprofit did meet the standards of effectiveness, the comptroller could revoke the certification and regain up to $3,333 for each person that was not successfully placed.

The bill would be preferable to another form of spending for job training, as it would ensure that these sales tax dollars, which would otherwise be distributed throughout the state, stayed in the region and were reinvested into local communities by the nonprofits. CSHB 518 would be more efficient than making the money flow through a state program or via an appropriation.

This program appropriately would focus on larger entities that had the expertise and experience necessary to most effectively conduct job training with the money saved on paying sales taxes. Smaller entities might not be able to meet the goals and could be subject to penalties as a result.

OPPONENTS SAY:

CSHB 518 would establish an expensive program whose goals might be better achieved through other means and that would not provide enough return on investment.

The program would not be cost effective. Even with the full $1 million withholding, a nonprofit would be required to serve only 300 people at a cost of more than $3,300 per person. The bill would have a significant negative impact on state revenue, while the effect on the statewide economy would be negligible.

The bill essentially would give private nonprofits an appropriation from general revenue for job training. While job training for workers who are disadvantaged is a worthy cause, the state should not pursue it through what would amount to an expensive tax rebate program for private entities.

Finally, the bill unfairly would limit the availability of this program to large entities with total sales of more than $1 million. In essence, Texas would be picking winners and losers by making this available only to certain nonprofits.

NOTES:

The Legislative Budget Board estimates that this bill would have no impact to general revenue related funds through fiscal 2018-19 and a negative net impact of $14.9 million to the general revenue fund through fiscal 2020-21.

The committee substitute differs from the bill as introduced in that CSHB 518 would delay the effective date from September 2017 to September 2018 and would not affect any tax liability until September 1, 2019. In the committee substitute, during the first year of certification, the nonprofit could withhold only the lesser of 30 percent or $1 million of the total sales tax collection under CSHB 518, rather than the full 50 percent under the bill as filed.

A Senate companion, SB 275 by Watson, was reported favorably as substituted by the Senate Finance Committee on April 4 and placed on the intent calendar for April 20.