

## **BILL ANALYSIS**

Senate Research Center  
77R10881 CBH-D

H.B. 2686  
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Finance  
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Engrossed

### **DIGEST AND PURPOSE**

The Texas Enterprise Zone Program was created to generate capital investment and job creation in economically distressed areas of Texas by providing communities with an economic development tool to offer state and local incentives and program priority to new or expanding businesses in these designated areas. An essential function of this program is to create partnerships for promotion of business expansion and revitalization of these areas. The Defense Economic Readjustment Zone Program was established to assist adversely impacted defense-dependent communities in responding to or recovering from defense closures or realignments of defense installations, or reductions or termination of defense contracts. H.B. 2686 makes substantive changes to the Texas Enterprise Zone Program and Defense Economic Readjustment Zone Program and provides for increased incentives for certain businesses located in an enterprise zone, federal empowerment zone, or federal enterprise community.

### **RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

### **SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Section 2303.407, Government Code, to prohibit the number of new permanent jobs or retained jobs eligible to be included in a computation of a tax refund for the enterprise project from exceeding 250, rather than 625, or a number equal to 110 percent of the number of anticipated new permanent jobs or retained jobs specified in the application for designation of the business as an enterprise project under Section 2303.504, whichever is less.

SECTION 2. Amends Section 2303.504, Government Code, as follows:

Sec. 2303.504. New heading: STATE TAX REFUNDS AND CREDITS. Provides that subject to Section 2303.516, an enterprise project is entitled to a franchise tax credit under Chapter 171P or Q, rather than to a deduction from taxable capital under Section 171.1015, Tax Code. Requires the comptroller, not later than the 60th day after the last day of each fiscal year, to report to the department the statewide total of the tax refunds and credits made under this section during that fiscal year. Makes a conforming change.

SECTION 3. Amends Chapter 2303G, Government Code, by adding Section 2303.516, as follows:

Sec. 2303.516. Authorizes the Texas Department of Economic Development (department) to monitor a qualified business or enterprise project to determine whether and to what extent the business or project has followed through on any commitments made by it or on its behalf under this chapter. Authorizes the department to determine that the business or project is not entitled to a refund or credit of state taxes under Section 2303.504 if the department discovers certain information.

SECTION 4. Amends Section 2310.404, Government Code, as follows:

Sec. 2310.404. New heading: STATE TAX REFUNDS AND CREDITS REPORT.  
Provides that subject to Section 2310.413, a defense readjustment project is eligible for a franchise tax credit under Chapter 171 P or Q, rather than to a deduction from taxable capital under Section 171.1016, Tax Code. Makes a conforming change.

SECTION 5. Amends Chapter 2303F, Government Code, by adding Section 2310.413, as follows:

Sec. 2310.413. Authorizes the department to monitor a defense readjustment project to determine whether and to what extent the project has followed through on any commitments made by it or on its behalf under this chapter. Authorizes the department to determine that the defense readjustment project is not eligible for state tax refunds and credits under Section 2310.404 if the departments discovers certain information.

SECTION 6. Amends Sections 151.429(a) and (b), Tax Code, to provide that an enterprise project is eligible for a refund in the amount provided by this section of the taxes imposed by this chapter on purchases of tangible personal property purchased and consumed in the normal course of business in the enterprise zone and taxable services. Provides that an enterprise project, subject to the limitations provided by this section, qualifies for a refund of taxes under this section of \$5,000, rather than \$2,000, for each new permanent job or job that has been retained by the enterprise project for a qualified employee.

SECTION 7. Amends Section 151.4291(a), Tax Code, to make a conforming change.

SECTION 8. Amends Section 171.751, Tax Code, to define “defense readjustment project,” “enterprise project,” “enterprise zone,” and “readjustment zone,” and redefine “qualifying job.”

SECTION 9. Amends Section 171.752(b), Tax Code, to authorize a corporation to claim a credit or take a carryforward credit without regard to whether the strategic investment area, enterprise zone, or readjustment zone in which it created the qualifying jobs subsequently loses its designation as a strategic investment area, enterprise zone, or readjustment zone, if applicable.

SECTION 10. Amends Section 171.754, Tax Code, to authorize a corporation that has been designated as an enterprise project or as a defense readjustment project, subject to Section 171.755, to claim the entire credit earned during an accounting period against the taxes imposed for the corresponding reporting period. Makes a conforming change.

SECTION 11. Amends Section 171.801, Tax Code, to define “defense readjustment project ” and redefine “qualified capital investment.”

SECTION 12. Amends Section 171.802(c), Tax Code, to make a conforming change.

SECTION 13. Amends Section 171.804, Tax Code, to authorize a corporation that has been designated as an enterprise project or as a defense readjustment project, subject to Section 171.805, to claim the entire credit earned during an accounting period against the taxes imposed for the corresponding reporting period. Makes a conforming change.

SECTION 14. Repealer: Sections 171.1015, 171.1016, and 171.805(c), Tax Code.

SECTION 15. Effective date: September 1, 2001, except as provided by this section.

- Provides that the changes in law made by this Act apply only to an enterprise project or defense readjustment project designated by the Texas Department of Economic Development as such a project on or after September 1, 2001. Provides that an

enterprise project or defense readjustment project designated before that date is governed by the law in effect on the date it was designated, and that law is continued in effect for that purpose.

- Provides that Sections 6, 7, and 8 of this Act apply to wages paid on or after the effective date of this Act. Provides that wages paid before the effective date of this Act are governed by the law in effect when the wages were paid and that law is continued in effect for that purpose.
- Provides that Sections 11-17 of this Act take effect January 1, 2002, and apply to a report originally due on or after that date.
- Provides that the change in law made by this Act does not affect taxes imposed before the effective date of this Act, and the former law is continued in effect for purposes of the liability for and collection of those taxes.