

Franchise Tax Credits

JANUARY 2006

Your business may be eligible to take advantage of various credits to reduce your franchise tax liability including the following:

Research and Development:

For certain expenses and payments for research conducted in Texas (see Texas Tax Code Sections 171.721-171.731 and Rule 3.578).

Jobs Creation:

For the creation of qualifying jobs in certain areas of Texas (see Texas Tax Code Sections 171.751-171.761 and Rule 3.578).

Capital Investment:

For qualified capital investments in certain areas of Texas (see Texas Tax Code Sections 171.801-171.811 and Rule 3.578).

Day Care:

For qualifying expenditures for child care in Texas for the children of employees of the corporation (see Texas Tax Code Sections 171.701-171.707 and Rule 3.579).

After-School Care:

For qualifying expenditures made to a program providing school-age child care in Texas (see Texas Tax Code Sections 171.831-171.851 and Rule 3.579).

Hiring Persons with Certain Disabilities:

For wages paid to employees with certain disabilities (see Texas Tax Code Sections 171.871-171.876 and Rule 3.580)

You can locate the rules at:

<http://www.window.state.tx.us/taxinfo/franchise/index.html>.

If you qualify to claim any of these credits, the related forms may be accessed online at:

<http://window.state.tx.us/taxinfo/taxforms/05-credit.html>.

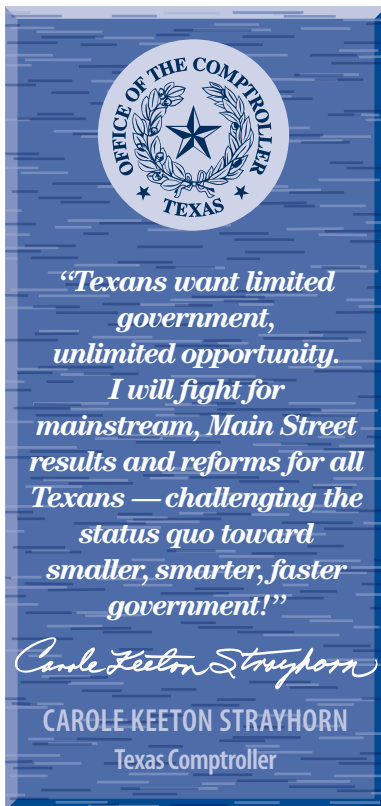
If you claim any of these credits, the credit forms must be submitted with your franchise tax report.

The Jobs Creation and Capital Investment credits must be established within a Strategic Investment Area (SIA). The Research and Development credit is available statewide, but expenditures in an SIA qualify for a bonus.

For a list of areas qualifying as an SIA, visit:

<http://window.state.tx.us/taxinfo/franchise/index.html>.

Please see the back page of this publication for a more detailed explanation of available Texas Franchise Tax Credits.



Summary of Economic Development Credits

Credit	Research and Development	Jobs Creation	Capital Investment
Amount of Credit	5 percent of qualified expenses for reports originally due on after January 1, 2002.	5 percent of wages paid for new qualifying jobs created in strategic investment areas for five years beginning with the year the jobs are created for reports originally due on or after January 1, 2002.	7.5 percent of qualified investment made in strategic investment areas. Credit must be claimed in equal installments over 5 years.
Expenditures to which Credit Applies	Excess of qualified research expenses in Texas over base year, plus basic research payments in Texas. Expenses must be incurred on or after January 1, 2000.	Salary and wages paid for new qualifying jobs in agricultural processing, central administrative offices, distribution, data processing, manufacturing, research and development, or warehousing. Applies to new jobs created on or after January 1, 2000.	Investments in tangible personal property as defined in IRC Section 1245(a) in agricultural processing, central administrative offices, distribution, data processing, manufacturing, research and development, or warehousing. Applies to qualified investments made on or after January 1, 2000.
Areas of State where Credit may be Established	Statewide, but expenditures in strategic investment areas qualify for bonus.	Strategic investment areas (special provision for agricultural processors).	Strategic investment areas (special provision for agricultural processors).
Limitations	Credit may not exceed 50 percent of franchise tax due before credits for franchise tax reports originally due on or after January 1, 2002.	Credit may not exceed 50 percent of franchise tax due before credits.	Credit may not exceed 50 percent of franchise tax due before credits.
Carryforward	20 years	5 years	5 years
Expiration	December 31, 2009 (Accumulated credits may still carryforward.)	December 31, 2009 (Accumulated credits may still carryforward.)	December 31, 2009 (Accumulated credits may still carryforward.)
Other Provisions	Credit may not be combined with job creation credit.	At least ten new full-time jobs must be created; must pay 110 percent of county average weekly wage; corporation must pay 80 percent of health insurance; and cannot be combined with R&D credit.	A minimum investment of \$500,000 is required. Jobs at location of investment must pay 110 percent of county average weekly wage. Corporation must pay 80 percent of health insurance.
Credit Forms	Submit with the franchise tax report: <ul style="list-style-type: none"> • Schedule D – Credit Summary, • Schedule K – County Worksheet, and • Schedule F or Schedule G – Research and Development Credit. 	Submit with the franchise tax report: <ul style="list-style-type: none"> • Schedule D – Credit Summary, • Schedule K – County Worksheet and • Schedule H – Jobs Creation Credit. 	Submit with the franchise tax report: <ul style="list-style-type: none"> • Schedule D – Credit Summary, • Schedule K – County Worksheet and • Schedule J – Investment Credit.

Summary of Child Care Credits and Credit for Hiring Persons with Certain Disabilities

Credit	Day Care Credit	After School Care Credit	Credit for Hiring Persons with Certain Disabilities
Amount of Credit	Lesser of \$50,000 or 50 percent of qualifying expenditures.	30 percent of qualifying expenditures.	10 percent of wages paid to a qualifying employee.
Expenditures to which Credit Applies	Amounts paid to establish or operate a day-care center primarily to provide care for the children of employees of the corporation OR amounts paid to purchase child-care services provided to the children of the corporation's employees. Applies to expenditures made on or after January 1, 2000.	Expenditures relating primarily to the operation of a school-age child care program. Applies to expenditures made on or after January 1, 2000.	Wages paid to a qualified employee for a position that is located in Texas and for work performed during the first two years of employment. Applies to wages paid after December 31, 2001.
Areas of State where Credit may be Established	Statewide	Statewide	Statewide
Limitations	Credit may not exceed 90 percent of franchise tax due before credits.	Credit may not exceed 50 percent of franchise tax due before credits.	Credit may not exceed 50 percent of franchise tax due before credits.
Carryforward	None	None	None
Expiration	None	None	None
Credit Forms	Submit with the franchise tax report: <ul style="list-style-type: none"> • Schedule D – Credit Summary, • Schedule K – County Worksheet and • Schedule E - Child Care Credits. 	Submit with the franchise tax report: <ul style="list-style-type: none"> • Schedule D – Credit Summary, • Schedule K – County Worksheet and • Schedule E - Child Care Credits. 	Submit with the franchise tax report: <ul style="list-style-type: none"> • Schedule D – Credit Summary and • Schedule L – Credit for Hiring Persons with Disabilities.

For Franchise Tax information, call toll free 1-800-252-1381.

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