TEXAS BUSINESS INCENTIVE$ AND PROGRAM$

OVERVIEW

***DISCLAIMER**: The material contained in this Summary of State Incentives is provided for informational purposes only and cannot be construed as a commitment. Assumptions are based on creating jobs and providing a capital investment. Total jobs and capital investment have been included as eligible costs for the various incentive programs available. However, actual jobs and capital investment may vary from the assumptions made due to final determination of program eligibility and site location.*

Summary of State Incentives & Programs

Summary Includes:

- Texas Enterprise Fund
- Skills Development Fund
- Self-Sufficiency Fund
- Texas Enterprise Zone Program
- Texas Capital Fund Infrastructure Program
- Texas Capital Fund Real Estate Development Program
- State Sales and Use Tax Exemptions
- Franchise Tax Deduction for Business Relocation
- Chapter 380 / 381
- Texas Leverage Fund
- Bonds
- Defense Economic Adjustment Assistance Grant Program (DEAAG)
- Texas Military Value Revolving Loan Fund
- Texas Product Development & Small Business Incubator Fund (PDSBI)
- Research & Development Tax Credit
- Texas Economic Development Act
- Ad Valorem/Property Tax Exemption
- Renewable Energy Incentives
- Permit Assistance
- Moving Image Industry Incentive Program
- Cancer Prevention and Research General Obligation Bonds
- Economic Development and Diversification In-State Tuition for Employees

Texas Enterprise Fund

The 78th Texas Legislature established the Texas Enterprise Fund (TEF) to provide financial resources to help strengthen the state's economy. The Governor, Lieutenant Governor, and the Speaker of the House must unanimously agree to support the use of TEF for each specific project.

Projects that are considered for TEF support must demonstrate a project's worthiness, maximize the benefit to the state and realize a significant rate of return of the public dollars being used for economic development in Texas. Capital investment; job creation; wages generated; applicant's financial strength; applicant's business history; analysis of the relevant business sector; and federal and local government and private sector financial support of a project are all significant factors in approving the use of TEF. https://texaswideopenforbusiness.com/services/texas-enterprise-fund

Skills Development Fund

The Skills Development Fund is an innovative program created to assist Texas public community and technical colleges finance customized job training for their local businesses. The Fund was established by the Legislature in 1995 and is administered by the Texas Workforce Commission. Grants are provided to help companies and labor unions form partnerships with local community colleges and technical schools to provide custom job training. Average training costs is $1,800 per trainee; however, the benefit may vary depending on the proposal.
For more information, please contact Dale Robertson with the Texas Workforce Commission at (512) 463-8844 or visit the following link: http://www.twc.state.tx.us/svcs/funds/skills-development-fund.html.

Self-Sufficiency Fund

The Self-Sufficiency Fund is a job-training program that is specifically designed for individuals that receive Temporary Assistance for Needy Families (TANF). The program links the business community with local educational institutions and is administered by the Texas Workforce Commission. The goal of the Fund is to assist TANF recipients become independent of government financial assistance.

The Fund makes grants available to eligible public colleges or to eligible private, nonprofit organizations to provide customized job training and training support services for specific employers. A joint application from the employer and the eligible public college and/or eligible private, nonprofit organization is required to be submitted to the Local Workforce Development Board for review and comment prior to approval.

For more information, please contact Dale Robertson with the Texas Workforce Commission at (512) 463-8844 or visit the following link: http://www.twc.state.tx.us/svcs/funds/self-sufficiency-fund-employers.html.

Texas Enterprise Zone Program

Under the statewide cap of 105 projects per biennium a community with less than 250,000 in population may have up to six enterprise projects. A community with 250,000 in population or greater may have up to nine enterprise projects.

Upon a community designating a business as an enterprise project, and upon that project's designation being approved by the state, the business would be eligible for the following incentives:

State Sales and Use Tax refunds
An enterprise project is eligible for a refund for all state sales and use taxes paid and used at the qualified business site. The total amount of any refund will continue to be predicated on investment amount and number of jobs created/retained.

The refund for each designation can be an amount ranging from a minimum of $2,500 per job to a maximum of $7,500 per job as follows:

1. Half Enterprise Project:
    a. If project investment amount is greater than $40,000 and less than $400,000, then refund amount is $2,500 per job based on a minimum of 10 jobs created/retained;
    b. If project investment amount is equal to or greater than $400,000 and less than $1 million, then refund amount is $2,500 per job up to a maximum of 25 jobs created/retained;
    c. If project investment amount is equal to or greater than $1 million and less than $5 million, then refund amount is $2,500 per job up to a maximum of 125 jobs created/retained;
    d. If project investment amount is equal to or greater than $5 million or more, then refund amount is $2,500 per job up to a maximum of 250 jobs created/retained;
2. Enterprise Project: If project investment amount is equal to or greater than $5 million or more, then refund amount is $2,500 per job up to a maximum of 500 jobs created/retained;
3. Double Jumbo Enterprise Project: If project investment amount is equal to or greater than $150 million and less $250 million, then refund amount is $5,000 per job up to a maximum of 500 jobs created;
4. Triple Jumbo Enterprise Project: If project investment amount is equal to or greater than $250 million then refund amount is $7,500 per job up to a minimum of 500 jobs created. Maximum refund available is $3.75 million;

Receipts for purchases of building materials and machinery and equipment and payroll information are required to be retained as part of the audit process. (Note: All contracts should separate the costs for building materials and/or equipment from the costs of labor and services in order to be eligible.)

The refund for sales and use tax must be for all eligible items for use at the qualified business site.
https://texaswideopenforbusiness.com/services/tax-incentives

Texas Capital Fund Infrastructure Program

The Texas Capital Fund Infrastructure Program is an economic development tool designed to provide financial resources to non-entitlement communities. Funds from this program can be utilized for public infrastructure (water, sewer, roads, etc.) needed to assist a business, which commits to create and/or retain permanent jobs, primarily for low and moderate-income persons. The minimum award is $50,000 and the maximum is $750,000. The award may not exceed 50 percent of the total project cost.

The Texas Department of Agriculture administers the Texas Capital Fund Program. For more information, please review the following link. http://texasagriculture.gov/GrantsServices/RuralEconomicDevelopment/TexasCapitalFund.aspx

Texas Capital Fund Real Estate Development Program

The Texas Capital Fund Real Estate Development Program is designed to provide financial resources to non-entitlement communities. Funds must be used for real estate development (acquisitions, construction and/or rehabilitation) to assist a business, which commits to create and/or retain permanent jobs, primarily for low- and moderate-income persons. This program encourages business development and expansions located in non-entitlement communities. The minimum award is $50,000 and the maximum is $750,000. The award may not exceed 50 percent of the total project cost. Funds are provided with no interest accruing and with payments based on a 20-year amortization schedule.

The Texas Department of Agriculture administers the Texas Capital Fund Program. For more information, please review the following link: http://texasagriculture.gov/GrantsServices/RuralEconomicDevelopment/TexasCapitalFund.aspx

*** Total Texas Capital Fund participation from both Infrastructure program and Real Estate Development program may not exceed $750,000.*

State Sales & Use Tax Exemptions

Manufacturing Machinery & Equipment

Leased or purchased machinery, equipment, replacement parts, and accessories that are used or consumed in the manufacturing, processing, fabricating, or repairing of tangible personal property for ultimate sale, are exempt from state and local sales and use tax. Texas businesses are exempt from paying state sales and use tax on labor for constructing new facilities.

Texas businesses are exempt from paying state sales and use tax on the purchase of machinery exclusively used in processing, packing, or marketing agricultural products by the original producer at a location operated by the original producer. https://texaswideopenforbusiness.com/services/tax-incentives

Natural Gas & Electricity

Texas companies are exempt from paying state and local sales and use tax on electricity and natural gas used in manufacturing, processing, or fabricating tangible personal property. The company must complete a "predominant use study" that shows that at least 50 percent of the electricity or natural gas consumed by the business directly causes a physical change to a product. https://texaswideopenforbusiness.com/services/tax-incentives

Data Center Exemption

Texas provides 100% exemption on sales tax for computers, equipment, cooling systems, power infrastructure, electricity and fuel for Data Centers meeting the minimum thresholds of $200 million in capital investment, 20 new jobs, and an average salary at least 120% of the county average salary. https://texaswideopenforbusiness.com/services/tax-incentives

Franchise Tax Exemption & Deduction For Business Relocation

Effective Jan 1, 2014 House Bill 500 provides authorization for a company to deduct moving expenses from their apportioned margin while calculating their franchise liability. Companies must relocate their principle place of business from out of State into Texas to obtain the deduction. A taxable entity may deduct relocation costs incurred in relocating the taxable entity's main office or other principal place of business to this state from another state if the business meets the criteria in Texas Tax Code Section 171.109(b). The taxable entity must take the deduction on the entity's first annual report described by Rule 3.584(c) (1)(C)(i). The deduction may not reduce apportioned margin below zero, and no carryover of unused deduction is allowed. http://www.window.state.tx.us/taxinfo/taxforms/05-900.pdf (see item #28)

The bill also makes permanent an exemption for businesses that gross less than $1 million in revenue while providing a $1 million deduction for businesses once they pass the gross receipts revenue threshold. The bill also amends the margin calculation accordingly for equity.

Chapter 380 /381 Economic Development Agreements

Chapter 380 (Section 380.001) of the Local Government Code, authorizes municipalities to offer a range of incentives designed to promote state or local economic development. Specifically, it allows for the provision of loans and grants of city funds, as well as the use of city staff, city facilities or city services, at minimal or no charge.

To establish a loan or grant or to offer discounted or free city services, the city must meet the requirements contained in the Texas Constitution and in applicable Texas statutes. Additionally, cities must review their city charters and any other local provisions that may limit the city's ability to provide such a grant or loan. To determine the latitude of whether a municipality is able to offer a particular incentive of combination of incentives, local communities should consult their city attorney.

Chapter 381 of the Local Government Code allows counties to provide incentives encouraging developers to build in their jurisdictions. A county may administer and develop a program to make loans and grants of public money to pro-

mote state or local economic development and to stimulate, encourage and develop business location and commercial activity in the county.

The county also may develop and administer a program for entering into a tax abatement agreement. This tool allows counties to negotiate directly with developers and businesses. http://texasahead.org/tax_programs/ch380-381/

Texas Leverage Fund

The **Texas Leverage Fund** (TLF) provides a source of financing to Economic Development Corporations that have adopted a Type A or Type B economic development sales tax. Communities may leverage future sales tax revenues to expand economic development through business expansions, business recruitment and infrastructure improvements. Awarding loans from $25,000 to $5 million, the TLF is available for interim, long-term or gap financing. TLF loans provide flexible terms to match the unique needs of communities. The funds are low-cost loans, providing capital to communities at floating Prime Rate, as published in the Wall Street Journal. Generally, economic development corporations are eligible to borrow up to $5 million with exact amounts based on sales tax revenues and debt service coverage ratio. Future sales tax revenues serve as collateral for loan repayment with required debt service coverage ratios specified in the Texas Leverage Fund Program Guidelines. Pledged tax collections not needed for actual debt service are available for other projects. https://texaswideopenforbusiness.com/services/financing

Bonds

Sales Tax Bonds

Sales Tax Bonds do not fall under the volume cap and are eligible to communities that have passed the economic development sales tax (Type A and/or B). Ineligible projects include for-profit hospitals, multi-family projects, and municipal services.

Exempt-Facility Bonds

Bonds can be issued to finance certain facilities such as airports, dock and wharf facilities, mass commuting facilities, high-speed inter-rail facilities, or certain qualified hazardous waste facilities (including certain training and storage facilities). There is no limit on the amount of the issue and these issues do not require a reservation under the volume cap. Although the facility must be governmentally owned, it may be leased or subject to management contracts with the business.

Other types of exempt bonds include projects for water, sewage and solid waste facilities, facilities for the local furnishing of electricity or gas, and local district heating or cooling facilities. These types of exempt-facility issues must reserve a portion of the volume cap. Exempt-facility bonds that are not governmentally owned may reserve up to $25 million in tax-exempt volume cap allocation each year. However, there is no project size restriction.

Tax-Exempt Industrial Revenue Bonds

Tax-Exempt Industrial Revenue Bonds are designed to provide tax-exempt financing to finance land and depreciable property for eligible industrial or manufacturing projects. The maximum bond amount is $10 million, and can include certain capital and administrative costs.

On January 1, 2007, the maximum bond amount increased to $20 million. These issues must receive a reservation under the State's volume limitation ("volume cap") managed by the Texas Bond Review Board. Generally, the reservation of state ceiling issues is allocated by lottery in October of each program year. For more information, contact the Texas Bond Review Board at (512) 463-1741. https://texaswideopenforbusiness.com/services/financing

Defense Economic Adjustment Assistance Grant (DEAAG)

The Defense Economic Adjustment Assistance Grant Program (DEAAG), created in 1997, is a job creation grant program designed to assist adversely impacted defense communities that are responding to or recovering from a U.S. Department of Defense Base Realignment and Closure (BRAC) action, or reductions or termination of defense contracts. The program was later expanded to assist defense communities that have been positively affected by BRAC with new or expanded military missions, as well as qualified job retention.

DEAAG funding is available to local municipalities, counties, defense base development authority, junior college districts and Texas State Technical College campuses, and regional planning commissions representing these communities. Funding is available to meet matching requirements for federal funding or for the purchase of Department of Defense property, new construction, rehabilitation of facilities or infrastructure, or purchase of capital equipment or insurance. Grants awarded may range from $50,000 to $2 million per project. For more information please visit https://texaswideopenforbusiness.com/services/tax-incentives or contact Keith Graf at (512) 475-0487.

Texas Military Value Revolving Loan Fund

Created by the 78th Legislature and signed into law by Governor Rick Perry, the Texas Military Value Revolving Loan Fund, or the "Revolving Loan Fund" as it has become known, is designed to:

- Assist defense communities in enhancing the military value of a military facility in their area.
- Provide financial assistance to defense communities for job creating economic development projects that minimize the negative effects of a defense base realignment or closure decision that occurred in 2005 or later.
- Provide financial assistance to defense communities for an infrastructure project to accommodate new or expanded military missions resulting from a base realignment and closure decision that occurred in 2005 or later.

The Revolving Loan Fund provides a low cost source of revenue to eligible communities who meet the application criteria. The minimum amount of a loan is $1 million, while the maximum amount of a loan is determined by the availability of funds and the creditworthiness of the applicant, State funding will be obtained through the sale of general obligation bonds. The State may provide up to 100 percent of the cost of the described project, dependent upon the creditworthiness of the applicant.

For more information please contact Keith Graf with the Office of the Governor at (512) 475-0487 or review the following link: https://texaswideopenforbusiness.com/services/financing.

Product Development & Small Businesss Incubator Fund (PDSBI)

The Texas Product Development and Small Business Incubator Fund, collectively PDSBI, is a revolving loan program financed through original bond issuances. The primary objective of the program is to aid in the development, production and commercialization of new or improved products and to foster and stimulate small business in the state. The fund provides asset-based lending with flexible loan terms, competitive Loan-to-Value (LTV) and interest rates. Loan proceeds can be used for a broad range of capital and operating expenditures. Your company can secure loans with property, plant and equipment which can be amortized over the life of the asset. Communities or individual investors can assist as Guarantors.

To be eligible, applicants must have at least 3 years of operating history and have unencumbered assets available for collateral. Preference for funding is given to the state's defined industry clusters including, but not limited to: nanotechnology, biotechnology, biomedicine, renewable energy, agriculture and aerospace. Texas is interested in creating and retaining high-quality jobs. For more information, contact the Economic Development Bank at (512) 936-0100 or TexasProduct.Fund@gov.texas.gov. The Office of the Governor, Texas Economic Development Bank administers the Texas Product/Business Fund at the direction of the Governor's appointed nine member board.

Texas Research & Development Tax Credit

In 2013, the 83th Texas Legislature enacted House Bill 800 creating a Research & Development tax credit effective Jan. 1, 2014. Providing companies a choice between a franchise tax credit and a sales tax exemption for materials, software, and equipment used for R&D purposes. Tax Code Chapter 171, subchapter M effectively establishes the qualifications, definitions and eligibility criteria for the credit. https://texaswideopenforbusiness.com/services/tax-incentives

Texas Economic Development Act / Chapter 313

In 2001, the 77th Texas Legislature enacted House Bill 1200 creating Tax Code Chapter 313, Texas Economic Development Act, to encourage large-scale manufacturing, research and development, renewable energy, nuclear and integrated gasification combined cycle electric generation facilities and other large capital investment projects in the State of Texas. It requires companies to invest a specified amount of money to qualify for a ten year limitation on the appraised value of a property for the maintenance and operations portion of the school district property tax. The local school district must elect to participate in order for the company to recognize this benefit. The Act also requires that the limitation on appraised value be a determining factor in the applicant's decision to invest capital and construct the project in the state and requires that the Comptroller state in writing the basis for the that determination.

The qualifying investment amount is determined on a sliding scale that begins at $100 million for large urban areas and $30 million for rural areas. The qualifying investment amount is reduced for areas with a lower tax base. For more information, please visit http://www.texasahead.org/tax_programs/chapter313/.

Ad Valorem/ Property Tax Exemption

Freeport Exemption

A community may choose to offer the Freeport exemption for various types of goods that are detained in Texas for a short period of time. Freeport property includes goods, wares, merchandise, ores, and certain aircraft and aircraft parts. Freeport property qualifies for an exemption from ad valorem taxation only if it has been detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing, or fabricating. For certain aircraft parts, a community, by official action, may extend the deadline to 730 days.

For more information, please visit the following links:
Texas Constitution Article 8, Section 1-J: http://www.statutes.legis.state.tx.us/Docs/CN/htm/CN.8.htm
Application for Exemption of Goods Exported from Texas (50-113):
http://www.window.state.tx.us/taxinfo/taxforms/50-113.pdf

Goods-in-Transit Incentive

House Bill 621 of the 80th Texas Legislature amends the Tax Code and the Government Code to add an exemption from ad valorem taxation for goods-in-transit.

To qualify for the exemption, personal property used for assembling, storing, manufacturing, processing, or fabricating purposes would have to be acquired in Texas or imported into Texas and stored at a Texas location in which the owner of the goods does not have a direct or indirect ownership interest. The goods-in-transit would have to be transported to another location in Texas or out of state no later than 175 days after the property was acquired in or imported into the state. Oil and gas and their immediate derivatives, aircraft, and dealer's special inventories would not qualify for the exemption.

For more information, please visit the following links:
http://www.capitol.state.tx.us/BillLookup/BillSummary.aspx?LegSess=80R&Bill=HB621
http://www.capitol.state.tx.us/tlodocs/80R/fiscalnotes/html/HB00621F.HTM

Pollution Control Equipment Incentive

A Texas constitutional amendment providing an exemption from property taxation for pollution control was approved in 1993. The intent was to ensure that compliance with environmental mandates, through capital investments, did not result in an increase in a facility's property taxes. A facility must first receive a determination from the Texas Commission on Environment Quality (TCEQ) that property is for pollution control purposes. That positive use determination is then provided to the local appraisal district, which must accept the TCEQ's decision and grant the property an exemption from property taxes.

To be eligible for a positive use determination, the property must have been purchased, acquired, constructed, installed, replaced, or reconstructed after January 1, 1994, to meet or exceed federal, state, or local environmental laws, rules, or regulations.

For more information, please see the following link: https://texaswideopenforbusiness.com/services/tax-incentives or contact David Greer with the Texas Commission on Environmental Quality at (512) 239-5344.

Renewable Energy Incentives

Wind and Solar Energy Tax Exemptions and Deductions

Tax Code Section 171.056 extends a franchise tax exemption to manufacturers, sellers, or installers of solar energy devices. The state also permits a corporate deduction from the state's franchise tax for renewable energy sources. Business owners may deduct the cost of the system from the company's taxable capital or deduct 10 percent from the company's income.

Wind energy qualifies under the term "solar energy" for the exemption and deduction under Sections 171.056 and 171.107. For more information on the tax exemption, visit the State Energy Conservation Office's web site at http://www.seco.cpa.state.tx.us/re/incentives-taxcode-statutes.php or contact the Comptroller of Public Accounts.

Texas property tax code permits a 100 percent exemption on the appraised value of solar, wind or biomass energy devices installed or constructed for the production and use of energy on-site.

See Texas property tax Form 50-123, "Exemption Application for Solar or Wind-Powered Energy Devices" to claim this exemption.

Texas also offers a loan program for eligible efficiency technologies. The "LoanSTAR" program is available to schools, hospitals and local governments. The low interest loans are capped at a $5 million maximum and are required to meet certain technical guidelines including a detailed energy assessment report.

Web site: http://seco.cpa.state.tx.us/
Franchise tax questions: (800) 531-5441, ext. 5-9952 or (512) 305-9952
Property tax questions: (800) 531-5441, ext. 5-9806 or (512) 305-9806
Other Renewable and Conservation Incentives: http://www.seco.cpa.state.tx.us/funding/

Permit Assistance

TCEQ and the Office of the Governor Economic Development & Tourism division have established a relationship to assist companies, which may experience unwarranted delays in their environmental permitting process for projects that could affect job creation or have a high economic impact.

TEXAS MOVING IMAGE INDUSTRY INCENTIVE PROGRAM

In 2007, the 81st Texas Legislature establishing the Texas Moving Image Industry Incentive Program which is administered by the Texas Film Commission under the Economic Development and Tourism Division of the Office of the Governor. The program is designed to provide grants to qualified applicant production companies to promote film, television, video game, animation and commercial industry and workforce growth in Texas.

The incentive is available in the form of a cash grant from 5 to 22.5 % of qualified in-state spending for eligible projects. Commercial and reality television projects are eligible for a cash production grant from 5 to 12.5% of qualified in-state spending. Both live action and animated projects are eligible. Grants are available upon project completion and submission of proof of eligible spending to the Texas Film Commission. There are no maximum grant amounts.

Specific eligibility qualifications for projects including investment thresholds, employment requirements, and content are available thru the Texas Film Commission at http://governor.state.tx.us/film/incentives/miiip/.

Cancer Prevention and Research General Obligation Bonds

On November 6, 2007, Texas voters approved Proposition 15 - HJR 90, the constitutional amendment which allows the State of Texas to establish the Cancer Prevention and Research Institute of Texas (the Institute) and allows the Institute to issue $3 billion in general obligation bonds over ten years to fund grants for cancer research and prevention. The Institute may invest the grants strategically in cancer research, clinical trials, and laboratory facility construction in Texas. The Institute will continue to implement the Texas Cancer Plan.

For more information, please visit the Institute's web site at www.cprit.state.tx.us or contact the office at (512) 463-3190.

Economic Development & Diversification
In-State Tuition for Employees

The Economic Development and Diversification In-state Tuition incentive may be offered to qualified businesses that are in the decision-making process to relocate or expand their operations into Texas. The incentive is targeted to assist high impact projects that are linked to the strategic economic clusters identified in the state. The incentive allows employees and family members of the qualified businesses to pay in-state tuition fees if the individual files with a Texas institution of higher education. Without this incentive designation, a student must reside in Texas for a 12-month period to be entitled to pay the tuition fees of a Texas resident. http://www.collegeforalltexans.com/apps/financialaid/tofa2.cfm?ID=567

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