



A Message From The Comptroller

February 11, 2003

The Honorable Rick Perry, Governor
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Thomas R. Craddick, Speaker of the House
Members of the 78th Legislature

Fellow Texans:

As required by the provisions of Tax Code, Sections 171.707, 171.727, 171.759, and 171.809, this report provides information on franchise tax credits enacted by SB 441, 76th Legislature.

The law requires that the Comptroller summarize claims for each tax credit in terms of the credit base; the credit amount taken; the credit amount unused and carried over; the geographic distribution of each credit; and the division of each credit by industrial sector. In addition, the law asks the Comptroller to determine the credits' impact on the state economy and on state finance.

The tax credits are available for research conducted, jobs created, investments made, day care spending, and cash donated to before- and after-school programs on or after January 1, 2000. For most taxpayers, the credits can be claimed beginning with tax reports due on May 15, 2001.

Taxpayers saved a combined total of \$43.9 million on their 2001 and 2002 franchise tax reports. Credits earned but not used totaled \$371.1 million.

This report includes an overview of franchise tax features and computation methods, overviews of how the credits work, and a map of the Strategic Investment Area for 2003.

Additional franchise tax credit information is available online at <http://www.cpa.state.tx.us>. Please contact me directly at 463-4444, if I can be of further assistance. Thanks for all that you do for Texas.

Sincerely,

A handwritten signature in black ink that reads "Carole Keeton Strayhorn". The signature is written in a cursive, flowing style.

Carole Keeton Strayhorn
Texas Comptroller

Special Report

February 2003

CAROLE KEETON STRAYHORN • Texas Comptroller of Public Accounts

Franchise Tax Credit Claims Under SB 441

Taxpayers saved \$18.7 million on their 2001 reports and \$25.2 million on their 2002 reports.

This report provides information on franchise tax credits enacted by SB 441, 76th Legislature, 1999. The credit provisions became effective on January 1, 2000, for activity occurring on or after that date. Because of that, the first significant information about the use of the credits only became available in the latter part of calendar 2001. This report includes information on the tax credits that have been reported to the Comptroller through late 2002.

The Comptroller's Office has received tax reports with a tax credit claim for report years 2001 and 2002. The number of taxpayers that benefited from the tax credits is 429. The savings realized by the taxpayers—for report years 2001 and 2002—was \$43.9 million. In addition, taxpayers as a group have earned credit installments and unused credits of \$371.1 million, which could reduce their tax liability in future years.

Included in this report are an overview of the franchise tax, details of computation, an overview and details of how the credits work, data on franchise tax credit utilization, and a map of the Strategic Investment Area for 2003.

Of all Texas' major revenue sources, the franchise tax is the second longest-lived.

Franchise Tax Overview

Of all Texas' major revenue sources, the franchise tax is the second longest-lived. Implemented in 1879, only the insurance premium tax, which traces its origin to 1862, has served the state longer.

The franchise tax has been a privilege tax since its inception. Corporations pay the tax in exchange for certain privileges granted by the State of Texas. These privileges include access to the state's legal system and limitation of personal financial responsibility for corporate officers.

Today, foreign and domestic corporations, S corporations, and limited liability companies doing business in Texas pay the tax. Non-corporate business entities such as partnerships, associations, and proprietorships are not subject to from taxation.

In 1991, the 72nd Legislature, 1st Called Session, adopted HB 11, which transformed the franchise tax into a two-part computation. The legislation retained the net worth computation and added a second step. Since 1992, taxpayers have been required to compute a tax on "earned surplus" and pay the higher of the two alternatives. The earned surplus tax base is derived from the taxpayer's federal taxable income, with certain modifications.

Recent changes have relieved small businesses—i.e., firms with a tax liability of less than \$100, and firms with total gross receipts of less than \$150,000—from paying the tax. Instead, these firms file an abbreviated information report. For everyone else, tax payments and tax reports are due to the Comptroller of Public Accounts on May 15 of each year. A report extension to November 15 is available for taxpayers that remit sufficient payment by May 15.

Franchise Tax Details

Corporations make two sets of tax calculations: one for their "net worth" (or taxable capital) tax base, and another for their "earned surplus" tax base. The results are then used to determine final tax liability.

The "net worth" tax base is computed by summing the corporation's stated capital and surplus. Stated capital is the par value of the firm's outstanding shares of stock. Surplus is the remainder of the firm's net worth. Net worth is defined as the firm's total assets minus debts. For franchise tax purposes, debts must be time-certain, date-certain, and legally enforceable.

Firms apportion their total net worth tax base to Texas using a single-factor gross receipts computation. A tax rate of 0.25 percent is applied to the apportioned tax base to determine the tax on net worth.

The "earned surplus" tax base is calculated by summing the firm's federal taxable income and any compensation paid to officers and directors excluded from federal taxable income. Deductions are allowed for certain foreign income and dividends received. Small corporations (i.e., those with 35 or fewer shareholders) are not required to include officer and director compensation in their earned surplus tax base.

Firms also apportion their earned surplus tax base to Texas using a single-factor gross receipts method. Non-unitary income must be allocated to Texas if the firm's commercial domicile is in Texas. A Texas business loss carryover may be used to reduce apportioned earned surplus. The tax rate on earned surplus is 4.5 percent.

Taxpayers remit the higher of the two tax levies, minus any available credits. The tax report covers business done during the firm's accounting year that ended in the prior calendar year. The tax privilege year is the calendar year containing the payment due date.

Tax Credit Overview

In 1999, the 76th Legislature enacted SB 441, which authorized a series of five franchise tax credits, including three economic development credits and two child-care credits. The economic development credits consist of a research credit, a job creation credit, and an investment credit. The child-care credit provides a credit for employer-provided or purchased child-care. Another provision provides a tax credit for contributions to qualified before- and after-school programs.

Overall Credit Limitations

The credits are available only for research conducted, jobs created, investments made, child care provided, or child-care funds donated on or after January 1, 2000. The sum of all credits used may not exceed 100 percent of the firm's tax liability.

A taxpayer may not establish both a job creation credit and a research and development credit on the same franchise tax report.

Strategic Investment Area Selection

An area of the state may qualify for inclusion in the Strategic Investment Area (SIA) on any of four separate determinations.

First, all Texas counties that have an annual county unemployment rate higher than the statewide rate and an annual per-capita income lower than the state amount are included in the SIA. To merit inclusion in the SIA, a county must meet both criteria.

Second, all sub-county areas that are designated as federal urban enterprise communities are included in the SIA. The remainder of the county would be excluded from the SIA unless it met the unemployment rate and per-capita income criteria.

Third, the 77th Legislature added defense readjustment zones to the list of sub-county areas qualifying for inclusion in the SIA.

Finally, all counties with a population of less than 50,000 are included in the SIA for limited purposes. Taxpayers located in a county having only a limited-purpose designation are eligible for credits only if the firm is engaged in agricultural processing.

The Comptroller's Office is assigned the task of determining the composition of the SIA each September, and results are announced by October 1 of each year. The designation is valid for the subsequent calendar year.

Economic Effects

Taxpayers saved \$25.2 million in franchise tax in 2002 because of credits earned for research and development, job creation, capital investment, child-care, and supporting school programs. In 2002, for example, 475 new jobs, \$1.2 billion in new investments, \$3.6 billion in research and development spending, and \$1.7 million in child care spending were associated with credits taxpayers earned. In addition, the tax savings realized is estimated to have produced 236 jobs, \$10.3 million in investments, and \$9.7 million in personal income.

Note: The economic effects are estimated using a Texas dynamic economic model. The \$25 million in tax savings put into the model is well below the recommended threshold amount for using the model (\$100 million). Therefore the results should be viewed with caution.

Tax Credit Claims in 2002

A significant number of tax credits were claimed on reports due in 2001 and again in 2002. The small number of credits claimed on 2000 reports have been included with the data for 2001.

Child Care Credits

Taxpayers saved \$0.2 million on their 2001 reports and \$0.3 million on their 2002 reports.

Two child-related credits are available statewide to taxpayers in any industry sector. The child-care credit is available to taxpayers that fund child care for children of employees, either through the establishment of an on-site child care center or through the purchase of employees' child-care services. The credit is equal to 50 percent of actual expenses, 90 percent of tax liability, or \$50,000, whichever is lowest.

The after-school credit is available to taxpayers that donate funds to an accredited school for the purpose of funding a before- or after-school care program for school-age children. The credit is equal to the lesser of 30 percent of cash donations or 50 percent of tax liability.

Child-Care Credit Activity

The total amount of qualifying expenditures incurred by corporations claiming a child-care credit since the credit became available is \$4.5 million. Of that amount, \$2.8 million expenditures were shown on 2001 reports and \$1.7 million on 2002 reports.

The total amount of credits applied against the franchise tax was \$497,000: \$224,000 in 2001, and \$273,000 in 2002. Unused credits totaled \$1,743,000: \$1,163,000 in 2001 and \$580,000 in 2002. Unused child-care credits may not be carried forward to future reports.

The total amount of franchise tax due by taxpayers claiming the credit, for 2001 and 2002 together, was \$4.7 million before application of the credit and \$4.2 million after the credit. The average reduction in tax due as a result of the application of the credit was 10.6 percent.

Twenty-seven percent of the child-care credits used were by corporations with fewer than 100 employees (26 percent in 2001, and 29 percent in 2002).

Twenty-one taxpayers claimed a credit for child-care expenditures on a 2001 or a 2002 report. Therefore, there is not a sufficient number of taxpayer to report credits by two-digit standard industrial classification without violating tax disclosure rules.

Taxpayers claiming the child-care credit reported qualified expenditures in 13 counties. Table 1 provides child care expenditures by county for the combined 2001-2002 report periods.

Before- and After-School Program Credit Activity

The number of taxpayers claiming a credit for contributions to before- and after-school programs on either a 2001 or 2002 franchise tax report is four. Therefore, it is not possible to report tax information without violating rules on disclosure.

**Table 1
Geographic Distribution of Qualifying Child-Care Expenditures
Report Years 2001 and 2002 Combined**

| <u>County</u> | <u>Expenditure</u> | <u>County</u> | <u>Expenditure</u> |
|---------------|--------------------|---------------|--------------------|
| Austin | \$ 56,289 | Harris | \$ 2,631,36 |
| Bexar | 176,170 | McLennan | 6,584 |
| Brazos | 1,800 | Rockwall | 10,000 |
| Burnet | 52,939 | Tarrant | 368,114 |
| Collin | 229,641 | Travis | <u>341,604</u> |
| Dallam | 6,881 | Total | \$4,480,502 |
| Dallas | 512,744 | | |
| Denton | 86,404 | | |

Research and Development Credits Activity

Taxpayers saved \$9.2 million on their 2001 reports and \$12.3 million on their 2002 reports.

The research and development (R&D) credit is a statewide credit that is available to firms conducting qualified research in Texas. The credit is based on the taxpayer's increase in research spending compared to an established spending pattern. The Texas R&D credit closely follows the guidelines of the federal research credit.

For tax reports due through the end of 2001, the R&D credit was equal to 4 percent of the qualified research expenses. For tax reports due in 2002 and after, the credit rate increases to 5 percent of qualified expenses.

Taxpayers may receive an R&D credit bonus if their qualifying work is performed in an area of the state designated as part of the Strategic Investment Area (SIA). Qualifying work performed in the SIA is multiplied by 1.5 for reports due in 2001, and by 2.0 for reports due in 2002 and after.

The R&D credit is limited to 25 percent of the firm's tax liability for reports due in 2001 and to 50 percent of the firm's tax liability for reports due in 2002 and after. Unused credits may be carried over for up to 20 years.

The total amount of qualifying payments and expenditures incurred by corporations claiming a research and development credit since the credit became available is \$6.65 billion. Of that amount, \$3.08 billion of payments and expenditures were shown on 2001 reports, and \$3.57 billion on 2002 reports.

Qualifying research and development payments and expenditures earned taxpayers \$177 million in franchise tax credits (\$70 million in 2001, and \$107 million in 2002). The amount of credit that can be used to offset the tax is limited to a percentage of the tax due before the application of the credit. The percentage was 25 for reports due in 2001, and 50 for reports due in 2002. The total amount of credits applied against the franchise tax

was \$21.5 million: \$9.2 million in 2001 and \$12.3 million in 2002. Unused credits from 2001 reports totaled \$61.0 million. Unused research credits may be carried forward to future reports for up to 20 years. New credits established on 2002 reports plus credits carried over from 2001 reports less credits utilized on 2002 reports equals the amount of unused credits available to taxpayers on future reports. That amount is \$155.5 million and may be used by taxpayers to offset franchise tax on future reports.

The total amount of franchise tax due by taxpayers claiming the research and development credit was \$109.5 million before application of the credit and \$88 million after the credit. The average reduction in tax due as a result of the application of the credit was 19.6 percent.

Research and development credits used by corporations with fewer than 100 employees accounted for 6.7 percent of the total credits used (5.0 percent in 2001, and 7.9 percent in 2002).

The two-digit standard industrial classification (SIC) of corporations claiming a research and development credit is shown in Table 2. The "Other" category includes two-digit SICs for which the number of distinct taxpayers claiming a credit for research and development activities was less than four.

**Table 2
Research and Development Credits Earned
by Standard Industrial Classification
Report Years 2001 and 2002 Combined**

| <u>SIC</u> | <u>Description</u> | <u>Number of Corporations</u> | <u>Credits Earned</u> |
|------------|----------------------------------|-------------------------------|-----------------------|
| 13 | Oil and gas extraction | 5 | \$ 5,031,137 |
| 20 | Food and kindred products | 4 | 363,396 |
| 28 | Chemicals | 19 | 6,724,803 |
| 33 | Primary metals | 4 | 7,227,207 |
| 34 | Fabricated metal products | 4 | 694,740 |
| 35 | Machinery and computer equipment | 14 | 2,247,045 |
| 36 | Electronics | 39 | 85,399,737 |
| 37 | Transportation equipment | 4 | 2,838,188 |
| 38 | Instruments | 11 | 969,016 |
| 39 | Miscellaneous manufacturing | 11 | 1,424,859 |
| 48 | Communications | 7 | 8,786,656 |
| 50 | Wholesale trade durables | 17 | 8,654,778 |
| 51 | Wholesale trade nondurables | 8 | 1,953,649 |
| 57 | Home furniture retail | 7 | 991,965 |
| 59 | Miscellaneous retail | 5 | 68,963 |
| 73 | Business services | 121 | 40,040,625 |
| 87 | Engineering, research services | 22 | 2,554,993 |
| | Other | <u>19</u> | <u>1,061,247</u> |
| | Total | 321 | \$177,033,004 |

**Table 3
Geographic Distribution of Qualifying
Research and Development Expenditures
Report Years 2001 and 2002 Combined**

| <u>County</u> | <u>Expenditure</u> | <u>County</u> | <u>Expenditure</u> |
|---------------|--------------------|---------------|------------------------|
| Austin | \$ 56,289 | Denton | \$ 86,404 |
| Angelina | 333,600 | Houston | 28,921,290 |
| Austin | ,248,147 | Hunt | 25,325,198 |
| Bell | 3,901,171 | Jefferson | 3,094,552 |
| Bexar | 25,964,737 | Leon | 1,328,860 |
| Bosque | 319,138 | Lubbock | 268,883 |
| Brazoria | 87,615,586 | McLennan | 25,644,047 |
| Brazos | 3,017,822 | Montgomery | 107,295,672 |
| Calhoun | 91,757,494 | Nueces | 1,125,793 |
| Cameron | 116,568,824 | Orange | 23,000,351 |
| Collin | 1,252,739,962 | Palo Pinto | 983,442 |
| Comal | 4,240 | Potter | 2,370,613 |
| Dallam | 294,875,529 | Scurry | 520,244 |
| Dallas | 2,032,537,069 | Smith | 12,255,339 |
| Denton | 1,372,152 | Tarrant | 402,460,334 |
| Ector | 555,832 | Taylor | 114,219 |
| El Paso | 15,632 | Travis | 1,399,163,355 |
| Fort Bend | 303,099,301 | Uvalde | 820,098 |
| Galveston | 200 | Victoria | 1,687,349 |
| Grayson | 22,198,741 | Waller | 3,980,535 |
| Gregg | 247,338 | Wichita | 6,596,250 |
| Guadalupe | 66,082 | Williamson | 12,475,055 |
| Harris | 319,337,373 | Wilson | <u>754,569</u> |
| Hays | 79,481 | | |
| Hidalgo | 13,890 | Total | \$6,647,046,389 |

The geographic distribution of research and development payments and expenditures is shown in Table 3. The table contains the expenditures reported by county for the combined 2001 and 2002 report periods.

Job Creation and Investment Credits

Taxpayers saved \$9.2 million on their 2001 reports and \$12.6 million on their 2002 reports.

The job creation and investment credits are available to all taxpayers that meet three criteria: a business activity test, a geographic test, and an economic activity threshold.

The business activity test requires that the taxpayer be primarily engaged in one of the following industries: manufacturing (SIC 2011-3999), warehousing (SIC 4221-4226), wholesale distribution (SIC 5012-5199), computer services (SIC 7371-7379), or

research laboratories (SIC 8731). The geographic test prescribes that the taxpayer be located in the Strategic Investment Area. Finally, the economic activity threshold provides that the taxpayer must create at least 10 new jobs during the period covered by the tax report to qualify for the job credit or invest at least \$500,000 during the period covered by the tax report to qualify for the investment credit.

A job credit established on a franchise tax report in 2001 or before is equal to 25 percent of the wages paid to new hires in their first year of employment. The credit is taken in five equal installments over a five-year period. A job credit established in 2002 or later is equal to 5 percent of wages paid for qualifying jobs during the period and is available to the corporation for five consecutive report periods beginning with the period during which the qualified jobs were created. Installments are discontinued if the taxpayer's employment level falls after the credit is established.

The investment credit is equal to 7.5 percent of the investments made during the year. Investment in depreciable tangible assets, excluding buildings and structures, will qualify for the credit. The investment credit must be taken in five equal installments over a five-year period. Installments are discontinued if the investments are scrapped or sold after the credit is established.

Each of the two credits is limited to 50 percent of the firm's tax liability in the year the credits is claimed. Unused credits may be carried over for up to five years.

Job Creation Credit Activity

The total number of jobs reported created by corporations claiming the jobs creation credit was 1,446 (971 on 2001 reports and 475 on 2002 reports). The average annual wage reported for the jobs was \$56,700. The median annual wage reported for the jobs was \$39,900.

The wages reported paid for the qualified jobs were \$46.3 million (\$30.0 million in 2001 and 16.3 million in 2002). Taxpayers earned available jobs credits worth \$2.3 million (\$1.5 million in 2001, and \$0.8 million in 2002). The credits available on 2001 reports represent the first installment of the job credit earned by the taxpayers. Four additional installments of the same amount may be used by these corporations on franchise tax reports due in 2002, 2003, 2004, and 2005.

The 77th Legislature modified the way the annual amount of job credit earned is calculated. The available job creation credit earned on a 2002 or later report is based on 5 percent of the wages actually paid for the qualified jobs during the period covered by the report. Additional credit is earned for each of the subsequent four franchise tax reports based on a similar calculation (5 percent of wages paid during the year the franchise tax report covers).

The credits that can be used to offset the tax are limited to 50 percent of the tax due prior to the application of the credit. Unused job creation credits may be carried forward to future reports for up to five years.

The total amount of job creation credits used to offset the franchise tax for the two report periods was \$1.86 million (\$1.14 million in 2001, and \$0.72 million in 2002). For the 2001 report, the credit that could be applied was the available credit for 2001 described above. For the 2002 report, credits used to offset franchise tax could come from any of the following sources: new credit established for job creation; the second installment of a credit established on a 2001 report; or unused credit from a 2001 installment.

The total amount of franchise tax due by taxpayers claiming the job creation credit was \$56.5 million before application of the credit and \$54.6 million after the credit. The average reduction in tax due as a result of the application of the credit was 3.3 percent.

The job creation activity shown on franchise tax reports in 2001 and 2002 may reduce the tax owed on future reports. Credits established on a 2001 report provide for installments over a five-year period. These installments could be worth as much as \$4.5 million. In addition, unused credits and installments could be worth \$2.0 million. Finally, credits established on a 2002 report could produce credits on the subsequent four franchise tax reports depending on the wages paid for the qualifying jobs.

Job creation credits used by corporations with fewer than 100 employees were 2.9 percent of the total credits used (1.1 percent in 2001, and 5.7 percent in 2002).

A total of 30 corporations established job creation credits on 2001 and 2002 franchise tax reports combined. These corporations fall into 14 two-digit SIC categories.

In only one SIC category (SIC 73 - business services) did as many as four corporations claim the job creation credit. The four corporations in this category earned \$556,758 in franchise tax credits. The remaining 26 corporations earned a total of \$1,760,178 in franchise tax credits.

The geographic distribution of wages paid for qualified jobs is shown in Table 4. The table provides wages, reported paid by county, for the combined 2001 and 2002 report periods.

**Table 4
Geographic Distribution of Wages Paid for Qualifying Jobs
Report Years 2001 and 2002 Combined**

| <u>County</u> | <u>Wages Paid</u> | <u>County</u> | <u>Wages Paid</u> |
|---------------|-------------------|---------------|---------------------|
| Bexar | \$24,119,138 | Liberty | \$ 886,002 |
| Brazoria | 477,684 | McLennan | 71,203 |
| Calhoun | 1,367,631 | Navarro | 155,372 |
| Cameron | 1,376,087 | Nueces | 1,530,136 |
| Dallam | 322,500 | Orange | 133,582 |
| Dallas | 364,947 | Palo Pinto | 24,960 |
| Ector | 422,600 | Potter | 374,049 |
| El Paso | 3,402,352 | Smith | 178,275 |
| Galveston | 10,424 | Travis | 510,004 |
| Gregg | 1,175,575 | Uvalde | 72,756 |
| Harris | 640,921 | Val Verde | 250,553 |
| Hidalgo | 3,655,799 | Webb | 404,895 |
| Hutchinson | 37,609 | Wharton | 1,239,515 |
| Jefferson | 2,386,262 | Wichita | 747,873 |
| | | Total | \$46,338,704 |

Capital Investment Credit Activity

The total amount of qualified capital investments made by corporations that claimed a capital investment credit on a 2001 or 2002 franchise tax report was \$3,054.3 million (\$1,818.7 million on 2001 reports, and \$1,235.6 million on 2002 reports). The average annual wage paid by corporations claiming the credit on a 2001 report is \$48,600. The median annual wage reported is \$36,200. The average annual wage paid by corporations claiming the credit on a 2002 report is \$46,900. The median annual wage reported is \$37,400.

The qualified capital investments reported by taxpayer earned available investment credits worth \$45.8 million (\$27.3 million in 2001, and \$18.5 million in 2002). The available credit earned on 2001 and 2002 reports represents the first installment of the credit earned by the taxpayers. Four additional installments of same amount may be used by these corporations on franchise tax reports due in the subsequent four years.

The amount of credit that can be used to offset the tax is limited to 50 percent of the tax due before application of the credit. Unused investment credits may be carried forward to future reports for up to five years.

The total amount of investment credit used to offset the franchise tax for the two report periods was \$20.0 million (\$8.1 million in 2001, and \$11.9 million in 2002). For the 2001 report, the credit that could be applied was the available credit for 2001 described above. For the 2002 report, credits utilized to offset franchise tax could come from any of the following sources: new credit established for capital investment; the second installment of a credit established on a 2001 report; or unused credit from a 2001 installment.

The total amount of franchise tax due by taxpayers claiming capital investment credit was \$75.9 million before application of the credit and \$55.9 million after the credit. The average reduction in tax due as a result of the application of the credit was 26.4 percent (18.6 percent in 2001, and 37.1 percent in 2002).

**Table 5
Capital Investment Credits Earned by
Standard Industrial Classification
Report Years 2001 and 2002 Combined**

| SIC | Description | Number of Corporations | Credits Earned |
|------------|----------------------------------|-------------------------------|-----------------------|
| 20 | Food and kindred products | 9 | \$ 798,882 |
| 28 | Chemicals | 14 | 12,394,718 |
| 32 | Stone, clay, glass, and concrete | 6 | 658,501 |
| 33 | Primary metals | 11 | 1,698,092 |
| 35 | Machinery and computer equipment | 6 | 292,207 |
| 50 | Wholesale trade durables | 4 | 7,400,406 |
| 51 | Wholesale trade nondurables | 4 | 3,418,781 |
| | Other | <u>30</u> | <u>19,161,808</u> |
| | Total | 84 | \$45,814,396 |

The capital investment activity shown on franchise tax reports in 2001 and 2002 may reduce the tax owed on future reports. Credits established on a 2001 or 2002 report provide for installments over a five-year period. These installments could be worth as much as \$161.3 million applied to tax due on 2003 through 2006 reports. In addition, unused credits carried forward could be worth \$47.8 million

Capital investment credits used by corporations with fewer than 100 employees were 3.7 percent of the total credits used (3.5 percent in 2001, and 3.8 percent in 2002).

**Table 6
Geographic Distribution of Qualified Investments
Report Years 2001 and 2002 Combined**

| <u>County</u> | <u>Investment</u> | <u>County</u> | <u>Investment</u> |
|---------------|-------------------|---------------|------------------------|
| Angelina | \$ 3,349,291 | Jefferson | \$ 439,682,900 |
| Bailey | 167,203 | Kleberg | 613,307 |
| Bexar | 10,430,694 | Lamar | 1,450 |
| Bowie | 17,309,126 | Leon | 47,797,197 |
| Brazoria | 1,523,286,931 | Liberty | 846,138 |
| Briscoe | 11,843 | Marion | 7,051,057 |
| Brooks | 293,360 | Maverick | 200,757 |
| Brown | 11,002,549 | McLennan | 1,328,042 |
| Burnet | 27,822 | Midland | 14,594 |
| Calhoun | 292,612,308 | Morris | 21,376,638 |
| Cameron | 14,311,443 | Navarro | 26,524,691 |
| Cass | 26,613,972 | Nolan | 618,57 |
| Comal | 13,662 | Nueces | 13,168,658 |
| Dallam | 541,850 | Orange | 11,791,155 |
| Dallas | 151,529,308 | Pecos | 142,370 |
| Donley | 60,529 | Polk | 4,566,065 |
| Eastland | 347,608 | Potter | 3,497,959 |
| Ector | 18,913,289 | Red River | 315,086 |
| Ellis | 52,505 | Reeves | 354,363 |
| El Paso | 26,029,518 | Robertson | 2,151,809 |
| Erath | 8,553 | Rusk | 3,035,416 |
| Fannin | 3,235,444 | San Patricio | 12,605,872 |
| Gaines | 1,326,992 | Smith | 11,615,876 |
| Galveston | 52,563,249 | Tarrant | 56,425 |
| Gregg | 18,729,676 | Terry | 878,221 |
| Hale | 721,792 | Titus | 10,053 |
| Hall | 131,903 | Travis | 894,572 |
| Harris | 7,657,933 | Webb | 13,761,792 |
| Harrison | 13,495,537 | Wharton | 3,674,575 |
| Hidalgo | 15,137,560 | Wichita | 13,213,326 |
| Hopkins | 5,042,413 | Winkler | 207,971 |
| Howard | 5,582,439 | Wood | 355,842 |
| Hutchinson | 191,289,037 | Young | 122,649 |
| | | Total | \$3,054,293,137 |

The two-digit standard industrial classification (SIC) of corporations claiming a capital investment credit is shown in Table 5. The "Other" category includes two-digit SICs for which the number of distinct taxpayers claiming a credit for capital investment activities was less than four.

The geographic distribution of qualified investment by county is shown in Table 6. The table provides investment reported by county for the combined 2001 and 2002 report periods.

Strategic Investment Area for 2003

Eighty-one (81) counties qualify for the full-purpose SIA designation based on their relative unemployment rate and per-capita income. This designation will permit certain corporations located in these counties to apply for job creation and investment credits as well as the research credit bonus. The 81 counties are:

| | | | | |
|-----------|------------|---------------|--------------|-----------|
| Angelina | Aransas | Bailey | Bee | Brazoria |
| Brooks | Calhoun | Cameron | Camp | Cass |
| Cochran | Coryell | Cottle | Crane | Crosby |
| Culberson | Deaf Smith | Dimmit | Duval | Ector |
| El Paso | Fannin | Floyd | Frio | Galveston |
| Grayson | Gregg | Grimes | Hardin | Harrison |
| Hidalgo | Hill | Hunt | Jasper | Jefferson |
| Jim Wells | Kaufman | Kinney | Lamar | Lamb |
| La Salle | Liberty | Lynn | McCulloch | Marion |
| Matagorda | Maverick | Morris | Navarro | Newton |
| Nolan | Nueces | Orange | Panola | Pecos |
| Polk | Potter | Presidio | Red River | Reeves |
| Robertson | Sabine | San Augustine | San Patricio | Scurry |
| Shelby | Starr | Terry | Trinity | Tyler |
| Upshur | Uvalde | Val Verde | Ward | Webb |
| Willacy | Winkler | Wood | Young | Zapata |
| Zavala | | | | |

Sub-County Areas Included in the SIA

Five sub-county areas qualify for inclusion in the Strategic Investment Area due to their status as a federal urban enterprise community. Those five federal zones are found in the cities of Dallas, El Paso, Houston, San Antonio, and Waco. In addition, four defense economic readjustment zones are also included in the Strategic Investment Area. Those four are located in Bee, Lubbock, McLennan, and Bexar counties.

Because El Paso and Bee counties are included in the SIA based on their unemployment and per-capita income, those entire counties are included in the SIA. Dallas, Harris, Bexar, Lubbock, and McLennan counties are included in the SIA only to the extent of the sub-county zone(s) boundaries.

Limited Purpose SIA for Agricultural Processors

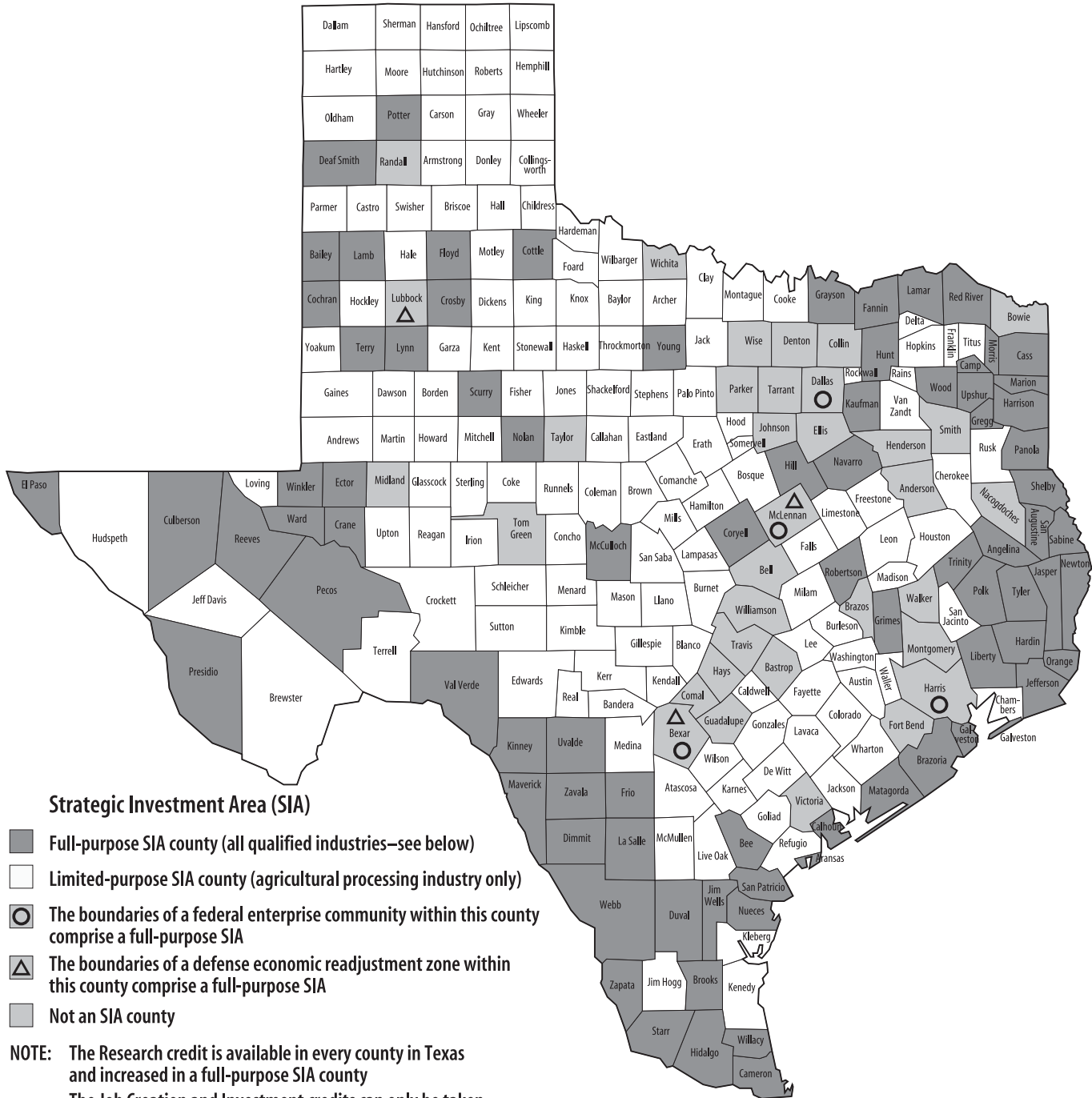
Another group of 139 counties qualify for the limited purpose SIA designation based on a county population of less than 50,000. Corporations engaged in agricultural processing in these counties can apply for the job creation and investment credits.

Agricultural processing is defined as the manufacturing of food (SIC 2011-2099), cotton fabric (SIC 2211), wool fabric (SIC 2231), manmade organic fibers (SIC 2824), medicinal chemicals and botanical products (SIC 2833), in vitro and in vivo diagnostic substances (SIC 2835), biological products (SIC 2836), soap and other detergents (SIC 2841), product categories including ethyl alcohol and other industrial organic chemicals of industrial organic chemicals, not elsewhere classified (SIC 2869), product categories including fatty acids and gelatin of chemical and chemical preparations, not elsewhere classified (SIC 2899), leather products (SIC 3111-3199), vitreous china table and kitchen articles (SIC 3262), or lead pencils, crayons, and artists' materials (SIC 3952).

| | | | | |
|---------------|-------------|------------|--------------|-------------|
| Angelina | Aransas | Bailey | Bee | Brazoria |
| Andrews | Archer | Armstrong | Atascosa | Austin |
| Bandera | Baylor | Blanco | Borden | Bosque |
| Brewster | Briscoe | Brown | Burleson | Burnet |
| Caldwell | Callahan | Carson | Castro | Chambers |
| Cherokee | Childress | Clay | Coke | Coleman |
| Collingsworth | Colorado | Comanche | Concho | Cooke |
| Crockett | Dallam | Dawson | Delta | DeWitt |
| Dickens | Donley | Eastland | Edwards | Erath |
| Falls | Fayette | Fisher | Foard | Franklin |
| Freestone | Gaines | Garza | Gillespie | Glasscock |
| Goliad | Gonzales | Gray | Hale | Hall |
| Hamilton | Hansford | Hardeman | Hartley | Haskell |
| Hemphill | Hockley | Hood | Hopkins | Houston |
| Howard | Hudspeth | Hutchinson | Irion | Jack |
| Jackson | Jeff Davis | Jim Hogg | Jones | Karnes |
| Kendall | Kenedy | Kent | Kerr | Kimble |
| King | Kleberg | Knox | Lampasas | Lavaca |
| Lee | Leon | Limestone | Lipscomb | Live Oak |
| Llano | Loving | McMullen | Madison | Martin |
| Mason | Medina | Menard | Milam | Mills |
| Mitchell | Montague | Moore | Motley | Ochiltree |
| Oldham | Palo Pinto | Parmer | Rains | Reagan |
| Real | Refugio | Roberts | Rockwall | Runnels |
| Rusk | San Jacinto | San Saba | Schleicher | Shackelford |
| Sherman | Somervell | Stephens | Sterling | Stonewall |
| Sutton | Swisher | Terrell | Throckmorton | Titus |
| Upton | Van Zandt | Waller | Washington | Wharton |
| Wheeler | Wilbarger | Wilson | Yoakum | |

STRATEGIC INVESTMENT AREA FOR CALENDAR 2003

Franchise Tax Credits for Research, Jobs Creation, and Investment



This map valid only January 1, 2003 through December 31, 2003

CAROLE KEETON STRAYHORN
TEXAS COMPTROLLER

