

- SUBJECT:** Relating to tax-exempt benefits for county employees
- COMMITTEE:** Pensions and Investments — favorable, without amendment
- VOTE:** 6 ayes — Tillery, Woolley, Crownover, Salinas, George, Goodman
0 nays
3 absent — Rangel, Telford, Williams
- WITNESSES:** For — David Kester, Harris County; *Registered but did not testify:* Donald Lee, Texas Conference of Urban Counties
Against — None
- BACKGROUND:** Local Government Code, ch. 155, subchapter C allows county employees to enroll in cafeteria plans that provide certain qualified tax-exempt benefits under section 125 of the Internal Revenue Code. Recent federal legislation resulting from the Taxpayer Relief Act of 1997 and the Transportation Equity Act for the 21st Century has expanded the eligible expenses that employees may choose to have deducted from their pre-tax compensation.

Employers can offer compensation reduction arrangements to give employees the benefit of having qualified income tax deductions taken from their paychecks throughout the year, rather than waiting to claim them on their taxes at year's end. These benefit plans result in lower taxable income and higher take-home pay for employees.
- DIGEST:** HB 3471 would amend Local Government Code, secs. 155.041 through 155.044 to add options for county employees to participate in qualified benefit programs. Specifically, the bill would allow a county commissioners court to offer its employees a “bona fide compensation reduction arrangement” under the Internal Revenue Code of 1986. The bill would strike references to a “cafeteria plan” throughout these sections, replacing them with references to “benefit programs.”

This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2001, and would apply to a benefit under Government Code,

sec. 155.042 that is provided before, on, or after the effective date of this bill.

SUPPORTERS
SAY:

HB 3471 would conform state statutes to allow county employees to take advantage of tax savings plans available through the federal Taxpayer Relief Act of 1997 and the Transportation Equity Act for the 21st Century. These new laws have expanded the eligible expenses that may qualify for federal tax savings, such as the cost of transportation in a commuter highway vehicle, transit passes, and parking expenses. HB 3471 would allow employees to estimate the amount of money they spend on transportation-related expenses and have their employers deduct the amount from their pre-tax income. The bill not only would authorize counties to extend benefit plans that cover these expenses to county employees, but it also would make room for other bona fide programs that qualify under the federal Internal Revenue Code of 1986, not just under sec. 125.

The programs would benefit employers because reducing employees' taxable income lowers the amount of money that employers have to match in Social Security tax. In the case of HB 3471, any administrative costs incurred by these county benefit programs would be offset greatly by savings in Social Security withholding payments.

OPPONENTS
SAY:

No apparent opposition

NOTES:

A companion bill, SB 802 by Gallegos, passed the Senate on the Local and Uncontested Calendar on March 29 and was reported favorably, without amendment by the House Pensions and Investments Committee on April 9 and sent to the Local and Consent Calendars Committee.