BILL ANALYSIS

C.S.H.B. 2593
By: Thompson
Ways & Means
Committee Report (Substituted)

BACKGROUND AND PURPOSE

An employee stock ownership plan (ESOP) is a retirement trust in which a company contributes its stock to the plan for the benefit of the company's employees. To the extent that an S corporation is owned by an ESOP, no federal income taxes on corporate income are payable by either the shareholder or the corporation. Prior to passage of margins tax legislation in 2007 by the 80th Legislature, S corporations owned 100 percent by an ESOP were exempt under the Texas franchise tax. Under the new margins tax, S corporations owned 100 percent by an ESOP are required to pay taxes to the state, effectively taxing the employees' retirement plan. No other states employ such a tax.

C.S.H.B. 2593 amends the definition of "taxable entity" to exclude an S corporation under the Internal Revenue Code that is owned entirely by an employee stock ownership plan, as defined by the Internal Review Code.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 2593 amends provisions of the Tax Code relating to the franchise tax to exclude from the definition of "taxable entity" an S corporation under the Internal Revenue Code that is owned entirely by an employee stock ownership plan, as defined by the Internal Review Code.

EFFECTIVE DATE

January 1, 2010.

COMPARISON OF ORIGINAL AND SUBSTITUTE

C.S.H.B. 2593 reorganizes language in the original to reflect certain bill drafting conventions. The substitute is effective January 1, 2010, whereas the original is effective September 1, 2009.