

## BILL ANALYSIS

C.S.H.B. 1860  
By: Button  
Ways & Means  
Committee Report (Substituted)

### BACKGROUND AND PURPOSE

Interested parties are concerned that some businesses, such as those involved in the aerospace and defense industry, are unable to adjust their taxable margins for certain costs that are properly allocable under the Federal Acquisition Regulation. The parties note that the aerospace and defense industry is responsible for hundreds of thousands of jobs and generates billions of dollars of revenue in Texas annually, placing Texas among the states with the highest levels of industry-generated revenue, jobs, and exports. The jobs provided by the aerospace and defense industry are high-paying jobs that foster innovation in the state. Concerned parties contend that the strong presence in Texas of businesses like those in the aerospace and defense industry can continue but only if the state's tax structure remains competitive with other states. C.S.H.B. 1860 seeks to allow a company to deduct a portion of the costs associated with certain federal contracts for purposes of the franchise tax.

### 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. 1860 amends the Tax Code to allow a taxable entity, in computing the entity's taxable margin on which its franchise tax liability is based, to subtract from the total revenue from its entire business 50 percent of the costs that are not otherwise subtracted as compensation or as cost of goods sold and that are properly allocable under the Federal Acquisition Regulation to contracts, or subcontracts supporting those contracts, for the sale of goods or services to the federal government.

### EFFECTIVE DATE

January 1, 2014.

### COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.H.B. 1860 may differ from the original in minor or nonsubstantive ways, the following comparison is organized and highlighted in a manner that indicates the substantial differences between the introduced and committee substitute versions of the bill.

#### INTRODUCED

SECTION 1. Section 171.101(a), Tax Code, is amended to read as follows:

(a) The taxable margin of a taxable entity is computed by:

#### HOUSE COMMITTEE SUBSTITUTE

SECTION 1. Section 171.101(a), Tax Code, is amended to read as follows:

(a) The taxable margin of a taxable entity is computed by:

83R 25679

13.117.302

Substitute Document Number: 83R 24452

(1) determining the taxable entity's margin, which is the lesser of:

(A) 70 percent of the taxable entity's total revenue from its entire business, as determined under Section 171.1011; or

(B) an amount computed by:

(i) determining the taxable entity's total revenue from its entire business, under Section 171.1011;

(ii) subtracting, at the election of the taxable entity, either:

(a) cost of goods sold, as determined under Section 171.1012; or

(b) compensation, as determined under Section 171.1013; ~~and~~

(iii) subtracting costs not already subtracted under Subparagraph (ii)(a) or (b) that are properly allocable under the Federal Acquisition Regulation (48 C.F.R. Chapter 1, or a successor regulation), to contracts, or subcontracts supporting those contracts, for the sale of goods or services to the federal government; and

(iv) subtracting, in addition to any subtractions made under Subparagraph (ii)(a) or (b), compensation, as determined under Section 171.1013, paid to an individual during the period the individual is serving on active duty as a member of the armed forces of the United States if the individual is a resident of this state at the time the individual is ordered to active duty and the cost of training a replacement for the individual;

(2) apportioning the taxable entity's margin to this state as provided by Section 171.106 to determine the taxable entity's apportioned margin; and

(3) subtracting from the amount computed under Subdivision (2) any other allowable deductions to determine the taxable entity's taxable margin.

SECTION 2. This Act applies only to a report originally due on or after January 1, 2014.

SECTION 3. This Act takes effect January 1, 2014.

(1) determining the taxable entity's margin, which is the lesser of:

(A) 70 percent of the taxable entity's total revenue from its entire business, as determined under Section 171.1011; or

(B) an amount computed by:

(i) determining the taxable entity's total revenue from its entire business, under Section 171.1011;

(ii) subtracting, at the election of the taxable entity, either:

(a) cost of goods sold, as determined under Section 171.1012; or

(b) compensation, as determined under Section 171.1013; ~~and~~

(iii) subtracting ~~50 percent of~~ the costs not already subtracted under Subparagraph (ii)(a) or (b) that are properly allocable under the Federal Acquisition Regulation (48 C.F.R. Chapter 1, or a successor regulation), to contracts, or subcontracts supporting those contracts, for the sale of goods or services to the federal government; and

(iv) subtracting, in addition to any subtractions made under Subparagraph (ii)(a) or (b), compensation, as determined under Section 171.1013, paid to an individual during the period the individual is serving on active duty as a member of the armed forces of the United States if the individual is a resident of this state at the time the individual is ordered to active duty and the cost of training a replacement for the individual;

(2) apportioning the taxable entity's margin to this state as provided by Section 171.106 to determine the taxable entity's apportioned margin; and

(3) subtracting from the amount computed under Subdivision (2) any other allowable deductions to determine the taxable entity's taxable margin.

SECTION 2. Same as introduced version.

SECTION 3. Same as introduced version.