

By: Capriglione

H.B. No. 2939

A BILL TO BE ENTITLED

1 AN ACT  
2 relating to the deduction of certain officers' compensation as a  
3 cost of goods sold for purposes of the franchise tax.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

5 SECTION 1. Section [171.1012\(e\)](#), Tax Code, is amended to  
6 read as follows:

7 (e) The cost of goods sold does not include the following  
8 costs in relation to the taxable entity's goods:

9 (1) the cost of renting or leasing equipment,  
10 facilities, or real property that is not used for the production of  
11 the goods;

12 (2) selling costs, including employee expenses  
13 related to sales;

14 (3) distribution costs, including outbound  
15 transportation costs;

16 (4) advertising costs;

17 (5) idle facility expense;

18 (6) rehandling costs;

19 (7) bidding costs, which are the costs incurred in the  
20 solicitation of contracts ultimately awarded to the taxable entity;

21 (8) unsuccessful bidding costs, which are the costs  
22 incurred in the solicitation of contracts not awarded to the  
23 taxable entity;

24 (9) interest, including interest on debt incurred or

1 continued during the production period to finance the production of  
2 the goods;

3 (10) income taxes, including local, state, federal,  
4 and foreign income taxes, and franchise taxes that are assessed on  
5 the taxable entity based on income;

6 (11) strike expenses, including costs associated with  
7 hiring employees to replace striking personnel, but not including  
8 the wages of the replacement personnel, costs of security, and  
9 legal fees associated with settling strikes;

10 (12) officers' compensation that is not compensation  
11 for direct labor;

12 (13) costs of operation of a facility that is:

13 (A) located on property owned or leased by the  
14 federal government; and

15 (B) managed or operated primarily to house  
16 members of the armed forces of the United States; and

17 (14) any compensation paid to an undocumented worker  
18 used for the production of goods. As used in this subdivision:

19 (A) "undocumented worker" means a person who is  
20 not lawfully entitled to be present and employed in the United  
21 States; and

22 (B) "goods" includes the husbandry of animals,  
23 the growing and harvesting of crops, and the severance of timber  
24 from realty.

25 SECTION 2. This Act applies only to a report originally due  
26 on or after the effective date of this Act.

27 SECTION 3. This Act takes effect January 1, 2016.