**BILL ANALYSIS**

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| Senate Research Center | H.B. 4002 |
| 85R22806 TJB-F | By: Bonnen, Dennis (Nelson) |
|  | Finance |
|  | 5/9/2017 |
|  | Engrossed |

**AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

This bill clarifies what is considered a "production" cost that qualifies for a deduction when calculating businesses' franchise tax liability and provides clarity to taxpayers of what costs are considered deductible production costs.

The Office of Comptroller of Public Accounts of the State of Texas has historically interpreted the definition of a deductible production cost for franchise tax purposes to include costs for installing items during production. However, costs for installation of items not a part of the production of an item have not been deductible.

H.B. 4002 amends Section 171.1012 of the Tax Code to clarify which activities are considered "production" for purposes of qualified deductions and adds a provision clarifying that the changes in this bill do not imply that the prior version is inconsistent with the amended bill.

H.B. 4002 amends current law relating to the definition of production used in determining the cost of goods sold for franchise tax purposes.

**RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

**SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Section 171.1012(a)(2), Tax Code, to redefine "production."

SECTION 2. Provides that the amendment made by this Act to Section 171.1012, Tax Code, is a clarification of existing law and does not imply that Section 171.1012, Tax Code, before the amendment made by this Act may be construed as inconsistent with Section 171.1012, Tax Code, as amended by this Act.

SECTION 3. Effective date: September 1, 2017.