**BILL ANALYSIS**

|  |  |
| --- | --- |
| Senate Research Center | S.B. 1081 |
| 86R2088 BEF-D | By: Taylor |
|  | Finance |
|  | 3/19/2019 |
|  | As Filed |

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

Defense-related aerospace is an important contributor to the Texas economy; seventeen of the top twenty firms in the nation have a substantial presence in the state, and more than 44,000 workers currently earn an average of more than $100,000 annually in this industry. The aerospace and aviation industry directly employs more than 135,000 Texas workers at approximately 1,300 firms.

Texas has both lost market share in the defense-related aerospace industry in recent years and is facing an increasingly competitive environment. At least in part, the challenge is due to misalignment of Texas franchise tax policy and the FAR (Federal Acquisition Regulation).

This bill will ensure that state tax policy fosters a competitive economic climate to ensure growth and retention of jobs related to the development, manufacture, maintenance, and ongoing services for military hardware, aircraft, spacecraft, and weapons systems used by and produced for our armed forces, related federal government agencies, and our global allies.

As proposed, S.B. 1081 amends current law relating to a deduction under the franchise tax for certain contracts with the federal government.

**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 171.101(a), Tax Code, as follows:

(a) Provides that the taxable margin of a taxable entity is computed by:

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

(A) the amount provided by this paragraph, which is the lesser of 70 percent of the taxable entity's total revenue from its entire business, as determined under Section 171.1011 (Determination of Total Revenue From Entire Business) or an amount equal to the taxable entity's total revenue from its entire business as determined under Section 171.1011 minus $1 million; or

(B) an amount computed by determining the taxable entity's total revenue from its entire business under Section 171.1011 and subtracting the greater of:

(i) $1 million; or

(ii) an amount equal to the sum of:

(a) at the election of the taxable entity, either cost of goods sold, as determined under Section 171.1012 (Determination of Cost of Goods Sold) or compensation, as determined under Section 171.1013 (Determination of Compensation);

(b) any 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; and

(c) any costs not already subtracted under Sub‑subparagraph (a) that are properly allowable under the Federal Acquisition Regulation (48 C.F.R. Chapter 1), or a successor regulation, for contracts, or subcontracts supporting those contracts, for the sale of goods or services to the federal government by a taxable entity that is a party to at least one contract subject to the requirements of 48 C.F.R. Chapter 2; and

(2)–(3) makes no changes to these subdivisions.

SECTION 2. Makes application of this Act prospective.

SECTION 3. Effective date: January 1, 2020.