

BILL ANALYSIS

Senate Research Center
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S.B. 1481
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Finance
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

In 2015, the 84th Legislature passed S.B. 1049 to assist veterans in forming a business by providing two benefits: (1) waiving some of the fees associated with creating the business, and (2) waving franchise tax fees for the first five years of operations. These benefits are scheduled to sunset on January 1, 2020.

According to the Office of the Comptroller of Public Accounts of the State of Texas, approximately 1,500 new veteran-owned businesses have filed for a franchise tax exemption since January 1, 2016. There are approximately 213,590 veteran-owned businesses in Texas, about 9.1 percent of all registered businesses in the state. More than half of Texas' veteran-owned businesses are classified as small businesses of which more than 60 percent have one or more employees.

S.B. 1481 seeks to promote entrepreneurship among Texas' veterans by allowing new firms and start-ups to receive a franchise exemption for their first five years of operations.

As proposed, S.B. 1481 extends the deadline for new veteran-owned businesses to apply for a franchise tax exemption for their first five years of operation from December 31, 2019, to December 31, 2021. SB 1481 also relaxes the requirement that veteran-owned businesses be 100 percent veteran owned to allowing majority veteran-owned businesses to qualify.

As proposed, S.B. 1481 amends current law relating to the exemption from the franchise tax and certain filing fees for certain businesses owned by veterans during an initial period of operation in the state.

RULEMAKING AUTHORITY

Rulemaking authority previously granted to the comptroller of public accounts of the State of Texas is rescinded in SECTION 4 (Section 171.0005, Tax Code) of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 171.0001(4), Tax Code, effective January 1, 2022, as follows:

(4) Defines "beginning date" to mean:

(A) for a taxable entity chartered or organized in this state, the date on which the taxable entity's charter or organization takes effect; and

(B) for any other taxable entity, the date on which the taxable entity begins doing business in this state.

Redesignates existing Subparagraphs (i) and (ii) as Paragraphs (A) and (B). Deletes existing text relating to an exception under Paragraph (B) and text relating to a taxable entity that qualifies as a new veteran-owned business.

SECTION 2. Amends Section 171.0005(a), Tax Code, to provide that a taxable entity is a new veteran-owned business only if the taxable entity is a new business, at least 51 percent of which

is owned by one or more natural persons, and each of whom meets certain requirements, rather than only if the taxable entity is a new business in which each owner is a natural person who meets certain requirements.

SECTION 3. Amends Section 171.063(g), Tax Code, effective January 1, 2022, to delete existing text relating to an exception to a withdrawal of a corporation's tax exemption for failure to qualify or maintain qualification for a corporation that would have been subject to Section 171.001(d) in the absence of the federal tax exemption.

SECTION 4. Provides that, effective January 1, 2022, the following sections are repealed:

- (1) Section 171.0005 (Definition of New Veteran-Owned Business), Tax Code, as amended by this Act;
- (2) Section 171.001(d) (relating to tax imposed on new veteran-owned businesses), Tax Code;
- (3) Section 171.204(d) (relating to an information report filed by a taxable entity stating its beginning date), Tax Code; and
- (4) Section 12.005 (Fee Waiver For New Veteran-Owned Business), Business Organizations Code.

SECTION 5. Provides that the following provisions of Chapter 329 (S.B. 1049), Acts of the 84th Legislature, Regular Session, 2015, are repealed:

- (1) Section 2, which amended Section 171.0001(4), Tax Code, effective January 1, 2020;
- (2) Section 6, which amended Section 171.063(g), Tax Code, effective January 1, 2020;
- (3) Section 9, which provided for the repeal of certain laws, effective January 1, 2020; and
- (4) Section 10, which provided a transition provision.

SECTION 6. Provides that the changes in law made by this Act that take effect January 1, 2022, do not apply to a business that first qualifies before that date as a new veteran-owned business as defined by Section 171.0005, Tax Code, as that section exists immediately before that date. Provides that a business that first qualifies before January 1, 2022, as a new veteran-owned business is governed by the law in effect immediately before that date, and that that law is continued in effect for that purpose.

SECTION 7. Effective date, except as otherwise provided by this Act: September 1, 2019.