86R5685 BEF-D

By:  Goldman H.B. No. 1607

A BILL TO BE ENTITLED

AN ACT

relating to a deduction under the franchise tax for certain contracts with the federal government.

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

SECTION 1.  The legislature finds that:

(1)  Texas is an epicenter of this nation's aerospace, aviation, defense, and military industries;

(2)  with NASA's Johnson Space Center in Houston, the new Army Futures Command, 15 active military bases across the state, and major military aircraft manufacturing and maintenance operations, the Texas economy and our nation's aerospace and defense capabilities are inextricably linked;

(3)  these crucial industries employ tens of thousands of Texans and support dozens of our communities across the state; and

(4)  it is therefore paramount that state tax policy foster 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.

SECTION 2.  Section 171.101(a), Tax Code, is amended to read as follows:

(a)  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:

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

(ii)  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:

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

(2)  compensation, as determined under Section 171.1013; [~~and~~]

(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;

(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 3.  This Act applies only to a report originally due on or after January 1, 2020.

SECTION 4.  This Act takes effect January 1, 2020.