

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, Tax Code, is amended by adding Subsections (e) and (f) to read as follows:

(e) For purposes of Subsection (f), "aerospace costs" means

1 any costs not already subtracted under Subsection (a)(1)(B)(ii)(a)  
2 that are properly allocated and incurred under the Federal  
3 Acquisition Regulation (48 C.F.R. Chapter 1) and subject to the  
4 requirements of 48 C.F.R. Chapter 2 or Chapter 18 for contracts, or  
5 subcontracts supporting those contracts, for the sale of goods or  
6 services to the federal government by a taxable entity in the  
7 aerospace industry that is engaged in activities described by North  
8 American Industry Classification System code 334511, 3364, 3399,  
9 5413, 5415, 5416, or 5419. For purposes of this subsection, a  
10 reference to a federal regulation includes a successor regulation.

11 (f) In computing the sum for purposes of Subsection  
12 (a)(1)(B)(ii), a taxable entity may add to other amounts described  
13 by that subparagraph:

14 (1) for a report originally due on or after January 1,  
15 2020, and before January 1, 2021, 20 percent of aerospace costs;

16 (2) for a report originally due on or after January 1,  
17 2021, and before January 1, 2022, 40 percent of aerospace costs;

18 (3) for a report originally due on or after January 1,  
19 2022, and before January 1, 2023, 60 percent of aerospace costs;

20 (4) for a report originally due on or after January 1,  
21 2023, and before January 1, 2024, 80 percent of aerospace costs; and

22 (5) for a report originally due on or after January 1,  
23 2024, 100 percent of aerospace costs.

24 SECTION 3. This Act takes effect January 1, 2020.

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President of the Senate

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Speaker of the House

I certify that H.B. No. 1607 was passed by the House on May 10, 2019, by the following vote: Yeas 126, Nays 6, 1 present, not voting.

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Chief Clerk of the House

I certify that H.B. No. 1607 was passed by the Senate on May 20, 2019, by the following vote: Yeas 28, Nays 3.

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Secretary of the Senate

APPROVED: \_\_\_\_\_

Date

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Governor