

By: Goldman

H.B. No. 1607

A BILL TO BE ENTITLED

1 AN ACT  
2 relating to a deduction under the franchise tax for certain  
3 contracts with the federal government.

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

5 SECTION 1. The legislature finds that:

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

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

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

16 (4) it is therefore paramount that state tax policy  
17 foster a competitive economic climate to ensure growth and  
18 retention of jobs related to the development, manufacture,  
19 maintenance, and ongoing services for military hardware, aircraft,  
20 spacecraft, and weapons systems used by and produced for our armed  
21 forces, related federal government agencies, and our global allies.

22 SECTION 2. Section [171.101\(a\)](#), Tax Code, is amended to read  
23 as follows:

24 (a) The taxable margin of a taxable entity is computed by:

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

3           (A) the amount provided by this paragraph, which  
4 is the lesser of:

5           (i) 70 percent of the taxable entity's total  
6 revenue from its entire business, as determined under Section  
7 [171.1011](#); or

8           (ii) an amount equal to the taxable entity's  
9 total revenue from its entire business as determined under Section  
10 [171.1011](#) minus \$1 million; or

11           (B) an amount computed by determining the taxable  
12 entity's total revenue from its entire business under Section  
13 [171.1011](#) and subtracting the greater of:

14           (i) \$1 million; or

15           (ii) an amount equal to the sum of:

16           (a) at the election of the taxable  
17 entity, either:

18                           (1) cost of goods sold, as  
19 determined under Section [171.1012](#); or

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

22                           (b) any compensation, as determined  
23 under Section [171.1013](#), paid to an individual during the period the  
24 individual is serving on active duty as a member of the armed forces  
25 of the United States if the individual is a resident of this state  
26 at the time the individual is ordered to active duty and the cost of  
27 training a replacement for the individual; and

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

8                    (2) apportioning the taxable entity's margin to this  
9 state as provided by Section 171.106 to determine the taxable  
10 entity's apportioned margin; and

11                    (3) subtracting from the amount computed under  
12 Subdivision (2) any other allowable deductions to determine the  
13 taxable entity's taxable margin.

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

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