

By: Campbell, et al.

S.B. No. 938

A BILL TO BE ENTITLED

1 AN ACT

2 relating to an exemption from the franchise tax and certain filing  
3 fees for certain businesses owned by veterans during an initial  
4 period of operation in the state.

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

6 SECTION 1. Subchapter A, Chapter 12, Business Organizations  
7 Code, is amended by adding Section 12.005 to read as follows:

8 Sec. 12.005. FEE WAIVER FOR NEW VETERAN-OWNED BUSINESS.

9 The secretary of state shall waive all fees imposed under  
10 Subchapter D, Chapter 4, for an entity that is a new veteran-owned  
11 business as defined by Section 171.0005, Tax Code, until the  
12 earlier of:

13 (1) the fifth anniversary of the date on which the  
14 entity was formed; or

15 (2) the date the entity ceases to qualify as a new  
16 veteran-owned business as defined by Section 171.0005, Tax Code.

17 SECTION 2. Section 171.0001(4), Tax Code, is amended to  
18 read as follows:

19 (4) "Beginning date" means:

20 (A) except as provided by Paragraph (B):

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

24 (ii) [~~(B)~~] for any other taxable entity,

1 the date on which the taxable entity begins doing business in this  
2 state; or

3 (B) for a taxable entity that qualifies as a new  
4 veteran-owned business as defined by Section 171.0005, the earlier  
5 of:

6 (i) the fifth anniversary of the date on  
7 which the taxable entity begins doing business in this state; or

8 (ii) the date the taxable entity ceases to  
9 qualify as a new veteran-owned business as defined by Section  
10 171.0005.

11 SECTION 3. Effective January 1, 2026, Section 171.0001(4),  
12 Tax Code, is amended to read as follows:

13 (4) "Beginning date" means:

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

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

19 SECTION 4. Subchapter A, Chapter 171, Tax Code, is amended  
20 by adding Section 171.0005 to read as follows:

21 Sec. 171.0005. DEFINITION OF NEW VETERAN-OWNED BUSINESS.

22 (a) A taxable entity is a new veteran-owned business only if the  
23 taxable entity is a new business in which each owner is a natural  
24 person who:

25 (1) served in and was honorably discharged from a  
26 branch of the United States armed forces; and

27 (2) provides verification to the comptroller of the

1 person's service and discharge required by Subdivision (1).

2 (b) The Texas Veterans Commission shall provide to a person  
3 who meets the requirements of Subsection (a)(1) written  
4 verification of that status in a form required by the comptroller.  
5 The comptroller shall adopt rules prescribing the form and content  
6 of the verification and the manner in which the verification may be  
7 provided to the comptroller.

8 (c) For purposes of Subsection (a), a new business is a  
9 taxable entity that:

10 (1) is chartered or organized or otherwise formed in  
11 this state; and

12 (2) first begins doing business in this state on or  
13 after January 1, 2022.

14 SECTION 5. Section 171.001, Tax Code, is amended by adding  
15 Subsection (d) to read as follows:

16 (d) Notwithstanding Subsection (a), the tax imposed under  
17 this chapter is not imposed on a taxable entity that qualifies as a  
18 new veteran-owned business as defined by Section 171.0005 until the  
19 earlier of:

20 (1) the fifth anniversary of the date on which the  
21 taxable entity begins doing business in this state; or

22 (2) the date the taxable entity ceases to qualify as a  
23 new veteran-owned business as defined by Section 171.0005.

24 SECTION 6. Section 171.063(g), Tax Code, is amended to read  
25 as follows:

26 (g) If a corporation's federal tax exemption is withdrawn by  
27 the Internal Revenue Service for failure of the corporation to

1 qualify or maintain its qualification for the exemption, the  
2 corporation's exemption under this section ends on the effective  
3 date of that withdrawal by the Internal Revenue Service. The  
4 effective date of the withdrawal is considered the corporation's  
5 beginning date for purposes of determining the corporation's  
6 privilege periods and for all other purposes of this chapter,  
7 except that if the corporation would have been subject to Section  
8 171.001(d) in the absence of the federal tax exemption, and the  
9 effective date of the withdrawal is a date earlier than the date the  
10 corporation would have become subject to the franchise tax as  
11 provided by Section 171.001(d), the date the corporation would have  
12 become subject to the franchise tax under that section is  
13 considered the corporation's beginning date for those purposes.

14 SECTION 7. Effective January 1, 2026, Section 171.063(g),  
15 Tax Code, is amended to read as follows:

16 (g) If a corporation's federal tax exemption is withdrawn by  
17 the Internal Revenue Service for failure of the corporation to  
18 qualify or maintain its qualification for the exemption, the  
19 corporation's exemption under this section ends on the effective  
20 date of that withdrawal by the Internal Revenue Service. The  
21 effective date of the withdrawal is considered the corporation's  
22 beginning date for purposes of determining the corporation's  
23 privilege periods and for all other purposes of this chapter.

24 SECTION 8. Section 171.204, Tax Code, is amended by adding  
25 Subsection (d) to read as follows:

26 (d) The comptroller may require a taxable entity on which  
27 the tax imposed under this chapter is not imposed solely because of

1 the application of Section 171.001(d) to file an information report  
2 stating the taxable entity's beginning date as determined under  
3 Section 171.0001(4)(B) and any other information the comptroller  
4 determines necessary. The comptroller may not require the taxable  
5 entity to report or compute its margin.

6 SECTION 9. Effective January 1, 2026, the following  
7 provisions are repealed:

- 8 (1) Section 12.005, Business Organizations Code;
- 9 (2) Section 171.0005, Tax Code;
- 10 (3) Section 171.001(d), Tax Code; and
- 11 (4) Section 171.204(d), Tax Code.

12 SECTION 10. The changes in law made by this Act that take  
13 effect January 1, 2026, do not apply to a business that first  
14 qualifies before that date as a new veteran-owned business as  
15 defined by Section 171.0005, Tax Code, as that section exists  
16 immediately before that date. A business that first qualifies  
17 before January 1, 2026, as a new veteran-owned business is governed  
18 by the law in effect immediately before that date, and that law is  
19 continued in effect for that purpose.

20 SECTION 11. Except as otherwise provided by this Act, this  
21 Act takes effect January 1, 2022.