By:  Bettencourt, Huffman S.B. No. 2206

(In the Senate - Filed March 11, 2025; March 25, 2025, read first time and referred to Committee on Finance; April 9, 2025, reported favorably by the following vote: Yeas 13, Nays 0; April 9, 2025, sent to printer.)

COMMITTEE VOTE

                      Yea Nay Absent  PNV

Huffman                X

Hinojosa of Hidalgo   X

Alvarado               X

Bettencourt            X

Campbell               X

Creighton              X

Flores                 X

Hall                  X

Kolkhorst                        X

Nichols                           X

Paxton                 X

Perry                  X

Schwertner             X

West                   X

Zaffirini              X

A BILL TO BE ENTITLED

AN ACT

relating to a franchise tax credit for, and the application of sales and use taxes to, certain research and development expenses.

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

SECTION 1.  Chapter 171, Tax Code, is amended by adding Subchapter T to read as follows:

SUBCHAPTER T. TAX CREDIT FOR CERTAIN RESEARCH AND DEVELOPMENT ACTIVITIES

Sec. 171.9201.  DEFINITION. In this subchapter, "public or private institution of higher education" means:

(1)  an institution of higher education, as defined by Section 61.003, Education Code; or

(2)  a private or independent institution of higher education, as defined by Section 61.003, Education Code.

Sec. 171.9202.  QUALIFIED RESEARCH EXPENSE. (a) In this subchapter, "qualified research expense" means, subject to this section, the portion of the amount reported by a taxable entity as the entity's total qualified research expenses on line 9 or 28, as applicable, of Form 6765, that is attributable to research conducted in this state. The term does not include any amount that is not paid or incurred by the taxable entity, a member of the entity's combined group, or a lower tier entity as provided by Section 171.9206.

(b)  For purposes of this section:

(1)  a reference to Form 6765 is a reference to Internal Revenue Service Form 6765 and includes a revised version of that form or a subsequent form with a different number or designation that substantially provides the same information as Form 6765; and

(2)  a reference to a line number on Form 6765 includes a different line number on a revised or subsequent form described by Subdivision (1) that substantially provides the same information as the line number originally referenced.

(c)  Notwithstanding Section 171.0001(9), for purposes of this section, a reference to an amount reported on a line number on Form 6765 is:

(1)  a reference to the amount entered on that line number to the extent the amount entered complies with federal law in effect for the federal tax year for which the form is filed with the Internal Revenue Service;

(2)  if an amended Form 6765 is filed by the taxable entity with the Internal Revenue Service before the expiration of the period for claiming a refund of federal income tax for the federal tax year for which the amended form is filed, a reference to the amount entered on that line number on the amended form; or

(3)  if the Internal Revenue Service has audited the federal income tax return of a taxable entity for a federal tax year for which the taxable entity filed Form 6765 with the Internal Revenue Service and the audit has been made final, a reference to the amount reported on that line number on the form as audited or adjusted by the Internal Revenue Service.

(d)  For purposes of determining the amount on line 9 or 28, as applicable, of Form 6765 under this section:

(1)  a taxable entity or the comptroller may use statistical sampling procedures if the procedures are permitted by the Internal Revenue Service's Revenue Procedure 2011-42 or a successor publication issued by the service; and

(2)  expenses for supplies properly reportable by a taxable entity as qualified research expenses on either of those lines may not be excluded from the computation of those expenses for purposes of this subchapter on the basis that the supplies are taxable, nontaxable, or exempted from taxation under Chapter 151.

(e)  Notwithstanding any other provision of this subchapter, if the Internal Revenue Service or the comptroller determines that a taxable entity has satisfied the requirements of the Internal Revenue Service to accept as sufficient evidence of the entity's qualified research expenses the entity's adjusted Accounting Standards Codification 730 financial statement research and development costs for a federal tax credit year, then the portion of those adjusted costs that is related to research conducted in this state is sufficient evidence of the entity's qualified research expenses for that federal tax credit year for purposes of this subchapter.

Sec. 171.9203.  ELIGIBILITY FOR CREDIT. A taxable entity is eligible for a credit against the tax imposed under this chapter in the amount and under the conditions provided by this subchapter.

Sec. 171.9204.  AMOUNT OF CREDIT. (a) Except as provided by Subsections (b), (c), and (d), the credit for any report equals 8.722 percent of the difference between:

(1)  the qualified research expenses incurred during the period on which the report is based; and

(2)  50 percent of the average amount of qualified research expenses incurred during the three tax periods preceding the period on which the report is based.

(b)  If the taxable entity contracts with one or more public or private institutions of higher education and the entity incurs qualified research expenses under the contract during the period on which the report is based, the credit for the report equals 10.903 percent of the difference between:

(1)  all qualified research expenses incurred during the period on which the report is based; and

(2)  50 percent of the average amount of all qualified research expenses incurred during the three tax periods preceding the period on which the report is based.

(c)  Except as provided by Subsection (d), if the taxable entity has no qualified research expenses in one or more of the three tax periods preceding the period on which the report is based, the credit for the period on which the report is based equals 4.361 percent of the qualified research expenses incurred during that period.

(d)  If the taxable entity contracts with one or more public or private institutions of higher education and the entity incurs qualified research expenses under the contract during the period on which the report is based, but has no qualified research expenses in one or more of the three tax periods preceding the period on which the report is based, the credit for the period on which the report is based equals 5.451 percent of all qualified research expenses incurred during that period.

(e)  Notwithstanding whether the time for claiming a credit under this subchapter has expired for any tax period used in determining the average amount of qualified research expenses under Subsection (a)(2) or (b)(2), the determination of which research expenses are qualified research expenses for purposes of computing that average must be made in the same manner as that determination is made for purposes of Subsection (a)(1) or (b)(1). This subsection does not apply to a credit to which a taxable entity was entitled under Subchapter O, as that subchapter existed before January 1, 2008.

(f)  The comptroller may adopt rules for determining which research expenses are qualified research expenses for purposes of Subsection (a) or (b) to prevent disparities in those determinations that may result from the taxable entity using different accounting methods for the period on which the report is based, as compared to any preceding tax periods used in determining the average amount of qualified research expenses under Subsection (a)(2) or (b)(2).

Sec. 171.9205.  CREDIT FOR CERTAIN TAXABLE ENTITIES THAT OWE NO TAX. (a) A taxable entity that incurs qualified research expenses during a period for which the entity is not required to pay the tax imposed by this chapter under Section 171.001(d) or 171.002(d) may calculate the amount of the credit to which the entity would otherwise be entitled under this subchapter on a report and receive that amount as a refundable credit.

(b)  In determining the amount of the credit that may be refunded to a taxable entity under Subsection (a) of this section, the limitation prescribed by Section 171.9207 does not apply.

(c)  Notwithstanding Section 171.204(b), a taxable entity must apply for a credit under this section on or with the report for the period for which the credit is claimed or, if the entity does not file a report for the applicable period, on a form adopted by the comptroller. The form must be submitted to the comptroller on or before the date a report for the period for which the credit is claimed would be due.

Sec. 171.9206.  COMBINED REPORTING. (a)  A credit under this subchapter for qualified research expenses incurred by a member of a combined group must be claimed on the combined report required by Section 171.1014 for the group, and the combined group is the taxable entity for purposes of this subchapter.

(b)  An upper tier entity that includes the total revenue of a lower tier entity for purposes of computing its taxable margin as authorized by Section 171.1015 may claim the credit under this subchapter for qualified research expenses incurred by the lower tier entity to the extent of the upper tier entity's ownership interest in the lower tier entity.

Sec. 171.9207.  LIMITATION. The total credit claimed under this subchapter for a report, including the amount of any carryforward under Section 171.9208, may not exceed 50 percent of the amount of tax due for the report before any other applicable tax credits.

Sec. 171.9208.  CARRYFORWARD. (a) If a taxable entity is eligible for a credit that exceeds the limitation under Section 171.9207, the entity may carry the unused credit forward for not more than 20 consecutive reports.

(b)  Credits, including credit carryforwards, are considered used in the following order:

(1)  a credit carryforward of unused credits accrued under Subchapter O before its repeal on January 1, 2008, and claimed as authorized by Section 18(d), Chapter 1 (H.B. 3), Acts of the 79th Legislature, 3rd Called Session, 2006;

(2)  a credit carryforward of unused credits accrued under Subchapter M before its repeal on January 1, 2026, and claimed as authorized by Section 4, \_.B. \_, Regular Session, 2025;

(3)  a credit carryforward under this subchapter; and

(4)  a current year credit.

Sec. 171.9209.  ASSIGNMENT PROHIBITED. A taxable entity may not convey, assign, or transfer the credit allowed under this subchapter to another entity unless substantially all of the assets of the taxable entity are conveyed, assigned, or transferred in the same transaction.

Sec. 171.9210.  APPLICATION FOR CREDIT. Except as provided by Section 171.9205(c), a taxable entity must apply for a credit under this subchapter on or with the report for the period for which the credit is claimed.

Sec. 171.9211.  RULES. The comptroller may adopt rules and forms necessary to implement this subchapter.

Sec. 171.9212.  REPORTING OF ESTIMATES. (a) Before the beginning of each regular session of the legislature, the comptroller shall submit to the legislature and the governor estimates of:

(1)  the total number of taxable entities that applied credits under this subchapter against the tax imposed under this chapter or received refundable credits under this subchapter;

(2)  the total amount of those credits and refundable credits; and

(3)  the total amount of unused credits carried forward.

(b)  The comptroller shall provide the estimates required by this section as part of the report required by Section 403.014, Government Code.

Sec. 171.9213.  DEPOSIT OF CERTAIN REVENUE. Notwithstanding any other law, for each state fiscal year, the comptroller shall deposit to the credit of the property tax relief fund an amount of revenue received from the tax imposed under this chapter sufficient to offset any decrease in deposits to that fund for the state fiscal year that results from the implementation of this subchapter.

SECTION 2.  Section 171.212(a), Tax Code, is amended to read as follows:

(a)  In this subsection, "qualified research expense" has the meaning assigned by Section 171.9202. A taxable entity must file an amended report under this chapter if:

(1)  the [~~taxable entity's~~] taxable margin of the taxable entity or the amount of qualified research expenses incurred by the taxable entity is changed as the result of an audit or other adjustment by the Internal Revenue Service or another competent authority; or

(2)  the taxable entity files an amended federal income tax return or other return that changes the [~~taxable entity's~~] taxable margin of the taxable entity or the amount of qualified research expenses incurred by the taxable entity.

SECTION 3.  The following provisions are repealed:

(1)  Section 151.3182, Tax Code; and

(2)  Subchapter M, Chapter 171, Tax Code.

SECTION 4.  (a) The repeal by this Act of Section 151.3182, Tax Code, does not affect tax liability accruing before the effective date of this Act. That liability continues in effect as if Section 151.3182, Tax Code, had not been repealed, and the former law is continued in effect for the collection of taxes due and for civil and criminal enforcement of the liability for those taxes.

(b)  The repeal by this Act of Subchapter M, Chapter 171, Tax Code, does not affect an unused credit a taxable entity was authorized to carry forward under that subchapter. A taxable entity may continue to apply those credits on or with each consecutive report until the date the credit would have expired under Subchapter M, Chapter 171, Tax Code, had that subchapter continued in effect, and the former law under which the taxable entity accrued the credits is continued in effect for purposes of determining the amount of the credits the taxable entity may claim and the manner in which the taxable entity may claim the credits.

SECTION 5.  (a) Subchapter T, Chapter 171, Tax Code, as added by this Act, applies only to a report originally due on or after the effective date of this Act.

(b)  Notwithstanding any other provision of this Act, a taxable entity is not eligible for and may not claim on a report a credit under Subchapter T, Chapter 171, Tax Code, as added by this Act, if the taxable entity, or a member of the taxable entity's combined group if the taxable entity is a combined group, received an exemption under Section 151.3182, Tax Code, during the period for which the report is based.

SECTION 6.  This Act takes effect January 1, 2026.

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