

LEGISLATIVE BUDGET BOARD  
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 10, 2025

**TO:** Honorable Morgan Meyer, Chair, House Committee on Ways & Means

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: SB2206** by Bettencourt (Relating to a franchise tax credit for, and the application of sales and use taxes to, certain research and development expenses.), **As Engrossed**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB2206, As Engrossed: a negative impact of (\$247,900,000) through the biennium ending August 31, 2027. The negative impact is expected to grow to (\$1,083,800,000) through the biennium ending August 31, 2029.

General Revenue-Related Funds, Five- Year Impact:

<i>Fiscal Year</i>	Probable Net Positive/(Negative) Impact to <i>General Revenue Related Funds</i>
2026	(\$1,200,000)
2027	(\$246,700,000)
2028	(\$486,600,000)
2029	(\$597,200,000)
2030	(\$684,300,000)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Revenue (Loss) from <i>General Revenue Fund</i> 1
2026	(\$1,200,000)
2027	(\$246,700,000)
2028	(\$486,600,000)
2029	(\$597,200,000)
2030	(\$684,300,000)

Fiscal Analysis

The bill would create a franchise tax credit for certain research and development expenses. The bill would repeal the current franchise tax provision relating to credits for such expenses, as well as a related exemption from sales tax of certain depreciable personal property used in research and development.

A taxable entity would qualify for a credit if, on or after January 1, 2026, the taxable entity incurs qualified research expenses. The credit would equal 8.722 percent of the difference between the qualified research expenses incurred during the period on which the report is based and 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. If the taxable entity contracts with one of more public or private institutions of higher education, the credit would equal 10.903 percent. If the taxable entity did not have qualified research in one or more of the three tax periods preceding the period on which the report is based, then the credit is 4.361 percent of the qualified research expenses incurred during that period (5.451 percent if the taxable entity contracts with one of more public or private institutions of higher education).

The total amount of credit claimed by a taxable entity may not exceed 50 percent of the amount of franchise tax due for the report before applying all other applicable credits. Unused credit may be carried forward for not more than 20 consecutive reports. The credits are not assignable.

The bill defines “qualified research expense” as the portion of the amount reported by a taxable entity as the entity's total qualified research expenses on line 48 of Form 6765 of the Internal Revenue Service, that is attributable to research conducted in Texas.

The bill allows a refundable credit for taxable entities that are not required to pay any franchise tax because the taxable entity qualifies as a new veteran-owned business or has revenue under the no tax due revenue threshold.

The bill would require the Comptroller to deposit to the Property Tax Relief Fund an amount of revenue necessary to offset any decrease in deposits to the fund resulting from provisions of the bill.

The bill would take effect on January 1, 2026.

### **Methodology**

According to the Comptroller of Public Accounts, this estimate is based on franchise taxpayer data for research and development credits, adjusted for the increased credit percent rates proposed by the bill and evaluated against the 50 percent of gross tax liability limit for each taxpayer on the amount of credit that may be claimed on a report. The estimate for 2026 and 2027 is net of the effects of repeal of the research and development sales tax exemption effective January 1, 2026 versus its expiration December 31, 2026 as provided by current law. The bill provides for carry forward of franchise tax credits accrued under the current Subchapter M before its repeal. Costs for this are not included in the estimated costs of the bill below because Subchapter M provides for the same carry forward after its expiration – i.e., the same costs for carry forward of Subchapter M credit accruals would be incurred whether this bill is enacted or not.

### **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** JMc, KK, SD