

BILL ANALYSIS

C.S.H.B. 1607
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Ways & Means
Committee Report (Substituted)

BACKGROUND AND PURPOSE

The increasing sophistication of defense products means that aerospace and defense contracts span both tangible products and service lines of business in the form of production and continual service and maintenance. There are concerns that under current Texas law, companies can either take a deduction on direct manufacturing costs or employee and contractor direct compensation, but not both. This results in aerospace and defense contractors being limited to a deduction only on a portion of their costs. Other states allow for both deductions, which puts defense-related aerospace companies in Texas at a competitive disadvantage since contracts with the U.S. Department of Defense require not only manufactured goods but the ongoing services to support those goods which incur additional employee compensation costs. C.S.H.B. 1607 seeks to address this issue by expanding the deductions that may be claimed under the franchise tax to allow for the deduction of certain aerospace costs.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 1607 amends the Tax Code to authorize a taxable entity computing its taxable margin for purposes of the franchise tax on the basis of total revenue using the formula that provides for the deduction of costs of goods sold to also deduct aerospace costs, as defined by the bill, on a phased-in basis according to the following schedule:

- 20 percent of aerospace costs for a report originally due on or after January 1, 2020, and before January 1, 2021;
- 40 percent of aerospace costs for a report originally due on or after January 1, 2021, and before January 1, 2022;
- 60 percent of aerospace costs for a report originally due on or after January 1, 2022, and before January 1, 2023;
- 80 percent of aerospace costs for a report originally due on or after January 1, 2023, and before January 1, 2024; and
- 100 percent of aerospace costs for a report originally due on or after January 1, 2024.

C.S.H.B. 1607 sets out certain legislative findings.

EFFECTIVE DATE

January 1, 2020.

COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.H.B. 1607 may differ from the original in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

The substitute does the following:

- revises, by reference to certain provisions of federal law, the costs that may be subtracted by certain taxable entities for purposes of computing taxable margin under the franchise tax;
- revises the taxable entities eligible to subtract those costs by requiring the entities be in the aerospace industry and engaged in activities described by certain North American Industry Classification System codes;
- defines those costs as "aerospace costs;" and
- sets out a schedule to phase-in the ability of those taxable entities to subtract those aerospace costs.