BILL ANALYSIS

Senate Research Center — H.B. 1607
86R30139 BEE-F — By: Goldman et al. (Taylor)
Finance
5/15/2019
Engrossed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Defense-related aerospace is an important contributor to the Texas economy; seventeen of the top twenty firms in the nation have a substantial presence in the state, and more than 44,000 workers currently earn an average of more than $100,000 annually in this industry. The aerospace and aviation industry directly employs more than 135,000 Texas workers at approximately 1,300 firms.

Texas has both lost market share in the defense-related aerospace industry in recent years and is facing an increasingly competitive environment. At least in part, the challenge is due to misalignment of Texas franchise tax policy and the Federal Acquisition Regulation. This bill will ensure that state tax policy fosters a competitive economic climate to ensure growth and retention of jobs related to the development, manufacture, maintenance, and ongoing services for military hardware, aircraft, spacecraft, and weapons systems used by and produced for our armed forces, related federal government agencies, and our global allies.

H.B. 1607 amends current law relating to a deduction under the franchise tax for certain contracts with the federal government.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Provides that the legislature finds that:

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

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

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

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

SECTION 2. Amends Section 171.101, Tax Code, by adding Subsections (e) and (f), as follows:

(e) Defines "aerospace costs" for purposes of Subsection (f). Provides that, for purposes of this subsection, a reference to a federal regulation includes a successor regulation.

(f) Authorizes a taxable entity, in computing the sum for purposes of Subsection (a)(1)(B)(ii) (relating to providing that the taxable margin of a taxable entity is computed by determining the taxable entity's margin, which is the lesser of an amount computed by determining a certain taxable entity's total revenue from its entire business and subtracting the greater of a certain amount), to add to other amounts described by that subparagraph:

(1) for a report originally due on or after January 1, 2020, and before January 1, 2021, 20 percent of aerospace costs;

(2) for a report originally due on or after January 1, 2021, and before January 1, 2022, 40 percent of aerospace costs;

(3) for a report originally due on or after January 1, 2022, and before January 1, 2023, 60 percent of aerospace costs;

(4) for a report originally due on or after January 1, 2023, and before January 1, 2024, 80 percent of aerospace costs; and

(5) for a report originally due on or after January 1, 2024, 100 percent of aerospace costs.

SECTION 3. Effective date: January 1, 2020.