

PUBLICATION

Spotlight on Texas: Legislative Measures Benefitting Businesses and R&D Investors

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Governor Rick Perry recently signed into law two new measures aimed at lessening the tax burden on existing businesses and further incentivizing investment within the state of Texas. Except where provided otherwise in the text of the bill, H.B. 500 goes into effect January 1, 2014, and (among other changes) makes permanent a \$1 million margins tax exemption for all Texas businesses, including those businesses making over \$1 million. Since the inception of the margins tax exemption, there has existed an inherent risk for businesses of forfeiting the entire benefit if revenues exceed \$1 million -- even if only by a single cent. But for reports due on or after January 1, 2014, the \$1 million margin tax exemption and other available benefits are available to all Texas businesses, regardless of how much revenue they generate. This bill also includes a margin tax deduction for relocation costs incurred by businesses which relocate their main offices to the state of Texas. The change takes effect September 1, 2013 and further includes a franchise tax credit, effective January 1, 2015, for costs incurred during the rehabilitation of certified historic structures that taxpayers are permitted to sell to other entities.

A second piece of legislation, H.B. 800, also effective January 1, 2014, provides either an exemption from sales and use tax or a credit against franchise tax to investors who make certain investments in research and development activities within the state of Texas. The franchise tax credit is available for taxpayers who have qualified research expenses, as defined in the statute; while the sales and use tax exemption can only be applied against purchases of depreciable tangible personal property used for qualified research. Taxpayers who make eligible investments may elect to claim either, but not both, of these incentives within a single tax period. For those taxpayers who choose to claim the franchise tax credit, however, the maximum benefit allowed in a tax period is equal to 50 percent of the taxpayer's current franchise tax burden. Any portion of the franchise tax credit in excess of the limitation is carried forward to the next period for up to 20 periods.

These measures are evidence of a visible campaign by Texas lawmakers to aggressively retain and attract investment within their state. For more information concerning how these and other tax incentives can benefit you and your business, please contact one of the attorneys in the Firm's Tax Department.