

BILL ANALYSIS

C.S.H.B. 1195
By: Geren
Ways & Means
Committee Report (Substituted)

BACKGROUND AND PURPOSE

In response to the COVID-19 pandemic, the U.S. Congress enacted legislation providing economic relief to businesses through the paycheck protection program (PPP), which allowed businesses to secure forgivable loans and grants in order to continue paying employees while operations were impacted due to the pandemic. While PPP loans may be forgiven under the program, the business receiving the PPP loans or grants would still be taxed on the amount of money received as part of its total revenue subject to the franchise tax. C.S.H.B. 1195 seeks to ensure that businesses that sought federal aid to stay afloat during the pandemic and continue to pay their employees are not subjected to a tax penalty for that effort by providing for the exclusion of qualifying PPP loans and grants from the calculation of total revenue for franchise tax purposes.

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. 1195 amends the Tax Code to require a taxable entity to exclude from its total revenue in computing taxable margin for franchise tax liability purposes the amount of money that is received by the entity in loans or grants under the paycheck protection program (PPP) included as part of the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act and that is not included in the entity's gross income for federal income tax purposes on the basis of guidance under the federal Consolidated Appropriations Act, 2021, providing for the exclusion of an amount forgiven under the program from a borrower's gross income. The bill authorizes a taxable entity to include in the determination of cost of goods sold or in the determination of compensation when calculating its gross margin any allowable expense paid using that amount of money. These provisions apply only to a franchise tax report originally due on or after January 1, 2021.

EFFECTIVE DATE

On passage, or, if the bill does not receive the necessary vote, September 1, 2021.

COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.H.B. 1195 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 clarifies the following:

- its provisions apply to any money received by a taxable entity in PPP loans or grants that is not included in the entity's gross income for federal income tax purposes on the basis of that amount having been forgiven under the program; and
- the authority to include expenses paid with that money in the determination of costs of goods sold or compensation applies with respect to expenses that are otherwise includable as a cost of goods sold or compensation.

The substitute changes the effective date from September 1, 2021, to on passage if it receives the necessary vote and if not, September 1, 2021.