

## **BILL ANALYSIS**

Senate Research Center  
80R6255 DAK-F

S.B. 1059  
By: Janek  
Finance  
3/27/2007  
As Filed

### **AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

The high technology industry is a key force in the evolution of economic development in Texas, providing more than 435,000 jobs and an annual payroll of \$31.5 billion. Fifty-seven of every 1,000 private sector workers in this state are employed by high-technology firms. While the aggregate amount of research and development conducted in Texas is quite large, Texas ranks 26th in research and development spending on a per capita basis. To attract investment in their technology industries, states are enacting provisions exempting research and development equipment from sales taxation. According to a survey conducted by *Site Selection* magazine in November 2006, a majority of states now provide a tax exemption to encourage and attract research and development activities. Texas has previously offered a research and development credit which was applied to the franchise tax but this credit was eliminated when the franchise tax was replaced in 2006.

Presently, Texas offers a sales tax exemption for equipment used in manufacturing and specifically excludes research and development equipment. For many companies, this exclusion creates ambiguity and confusion with regard to whether a piece of equipment is research and development equipment or manufacturing equipment. Extending the sales tax exemption to research and development equipment—and continuing to include manufacturing equipment—would resolve this issue and would more realistically reflect the trend in the high-technology industry toward a convergence of the research, development, and manufacturing processes and the accelerated progression of product lifecycles. Extending the exemption also recognizes emerging technologies as holding the greatest promise for future prosperity and promotes their development. Finally, the credit would create jobs in Texas by attracting research and development activities to this state. For every research and development related job directly created, two more jobs are created in trade, services, and other industries.

A sales tax exemption on research and development materials and equipment would benefit many important industries including energy, agriculture, semiconductors, software, chemicals, biotechnology and pharmaceuticals, and many others. A sales tax exemption benefits large businesses and small businesses alike as it applies to all companies regardless of their size or the nature of their research and development efforts.

As proposed, S.B. 1059 establishes a sales tax exemption on research and development equipment that meets the Federal Internal Revenue Code definition for "qualified research." This bill addresses the recent elimination of the research and development credit which had been previously applied to the franchise tax.

### **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. Amends Sections 151.318(a) and (c), Tax Code, as follows:

- (a) Includes certain tangible personal property in the list of items exempted from the taxes imposed by this chapter if sold, leased, or rented to, or stored, used, or consumed by a manufacturer.

(c) Deletes existing text excluding research or development of new products from an exemption.

SECTION 2. Makes the application of this Act prospective.

SECTION 3. Effective date: July 1, 2007, or October 1, 2007.