

BILL ANALYSIS

Senate Research Center

S.B. 372
By: Hancock
Finance
4/1/2021
As Filed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

In response to the COVID-19 pandemic, Congress offered forgivable loans, known as Paycheck Protection Program loans (or PPP loans), to certain businesses, with the allowance that these loans would be forgivable to businesses that use the loans for qualifying expenses, with at least 60 percent of the proceeds required to be spent on payroll cost.

Congress has clarified that PPP loans are not considered income for federal tax purposes. Accordingly, an update to Texas franchise tax law is needed to ensure these businesses are not required to pay state franchise taxes on forgiven PPP loans.

S.B. 372 removes any forgiven PPP loan from a taxable entity's determination of total revenue as it relates to the entity's taxable margin for the purposes of calculating its franchise tax obligation and allows qualifying expenses paid with PPP loan proceeds to be included in a taxable entity's determination of cost of goods or in their determination of compensation.

As proposed, S.B. 372 amends current law relating to the forgiveness of a loan made under the Paycheck Protection Program for franchise tax purposes.

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 Section 171.1011, Tax Code, by adding Subsection (y), as follows:

(y) Provides that total revenue does not include any amount of loan forgiven under the Paycheck Protection Program, as provided for under Section 1106 of the Coronavirus Aid, Relief, and Economic Security Act, as amended by the Paycheck Protection Program Flexibility Act. Authorizes qualifying expenses paid with such loan proceeds to be included in the determination of cost of goods sold under Section 171.1012 (Determination of Cost of Goods Sold) or in the determination of compensation under Section 171.1013 (Determination of Compensation).

SECTION 2. Provides that this Act applies only to a report originally due on or after January 1, 2021.

SECTION 3. Effective date, except as provided in SECTION 2 of this Act: September 1, 2021.