

Alert | State & Local Tax (SALT)



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Texas Legislature Takes Steps to Extend and Expand Research and Development Credit

The 89th Texas legislative session—which runs from Jan. 14 through June 2—has been active. One of the most awaited items on the tax front is whether the state will extend and modify the Texas Research and Development Credit (R&D Credit), which is currently set to expire on Dec. 31, 2026.

Senate Bill 2206 and House Bill 4393

Sens. Paul Bettencourt, Joan Huffman, and Rep. Charlie Geren introduced Senate Bill 2206 and its house companion House Bill 4393 (together referred to as the R&D Bills) in March 2025. The Finance Committee unanimously approved Senate Bill 2206 on April 9 and the bill will now move to the full Senate for consideration. House Bill 4394 was referred to the Ways and Means Committee on April 1.

Per Sens. Bettencourt and Huffman’s [analysis](#), the goal of Senate Bill 2206 is “to extend the franchise tax credit beyond the current Dec. 31, 2026, expiration date and to make the administration of the credit more efficient for both taxpayers and the Comptroller of Public Accounts of the State of Texas (comptroller) by adhering more closely to the federal R&D credit, thereby leveraging the work of the Internal Revenue Service and reducing the demand on resources of the comptroller.”

If passed, the R&D Bills would generally allow for the expiration of Texas’ current regime, instead creating a separate R&D Credit program via the new Subchapter T. Here is an overview of some of the most significant changes the R&D Bills would create:

- Extension of the R&D Credit Beyond Dec. 31, 2026. The current version of the R&D Bills seeks to extend the credit beyond its current expiration date. Although the R&D Bills do not include a specific sunset date, they also do not specifically insure the program's longevity. It is worth noting that the business industry advocated for specific assurances regarding the credit's duration, arguing that strong economic investment in research and manufacturing would grow twofold by removing any tax advantage end date.
- Repeal of the R&D Sales Tax Exemption. The current versions of the R&D Bills do not include a sales tax exemption, purporting to address administrative difficulties that have been experienced under the current regime. Under the existing R&D Credit, the sales tax and franchise tax credits are mutually exclusive, and taxpayers must choose either one or the other (i.e., a taxpayer may only take either (1) a sales and use tax exemption on the purchase, lease, rental, storage, or use of qualified research property, or (2) a franchise tax credit based on qualified research expenses). The R&D Bills would eliminate this choice, maintaining only the franchise tax credit.
- Adherence to the Federal R&D Credit. The R&D Bills would also create a program that adheres more closely to the federal R&D credit. This is a significant change, which is intended to simplify administration of the R&D Credit in Texas. Currently, Texas' R&D Credit uses a separate calculation that does not align with the federal R&D credit program.
- Increase in Expenditures. Additionally, the R&D Bills propose increasing the taxpayer's allowable research and development expenditures from 5% to 8.722% for franchise tax credit purposes. Generally, R&D programs in other states allow for research and development expenditures ranging between 5% to 27%.

GT Insights

A study by Rice University's Baker Institute, published on March 13, found that a strong R&D Credit program may generate over 113,000 jobs in the state by 2035. Likewise, the study concluded that over \$13 billion dollars may be generated with a strong program, including a total investment boost of 0.25% during the first year.

Business representatives have voiced their enthusiastic support that Texas continue to have a strong R&D Credit incentive program. Senate Bill 2206 and House Bill 4393 are first steps towards making that a reality by expanding the R&D Credit and avoiding its expiration.

Authors

This GT Alert was prepared by:

- [Nikki E. Dobay](#) | +1 916.868.0616 | Nikki.Dobay@gtlaw.com
- [Bradley R. Marsh](#) | +1 415.655.1252 | Bradley.Marsh@gtlaw.com
- [Josh Prywes](#) | +1 214.665.3626 | Josh.Prywes@gtlaw.com
- [Catalina Baron](#) | +1 713.374.3656 | Catalina.Baron@gtlaw.com

Greenberg Traurig's State and Local Tax (SALT) Team:

Arizona

- [Jake B. Smith](#) | +1 602.445.8334 | Jake.Smith@gtlaw.com

California

- Bradley R. Marsh | +1 415.655.1252 | Bradley.Marsh@gtlaw.com
- G. Michelle Ferreira | +1 415.655.1305 | ferreiram@gtlaw.com
- Colin W. Fraser | +1 949.732.6663 | frasercw@gtlaw.com
- Courtney A. Hopley | +1 415.655.1314 | hopleyc@gtlaw.com
- Cris K. O'Neill | +1 949.732.6610 | oneallc@gtlaw.com
- Shail P. Shah | +1 415.655.1306 | Shail.Shah@gtlaw.com
- Ruben Sislyan | +1 310.586.7765 | sislyanr@gtlaw.com
- Samuel Weinstein Astorga | +1 415.655.1269 | Sam.Astorga@gtlaw.com
- Bree Burdick | + 949.732.6502 | Bree.Burdick@gtlaw.com
- Katy Stone | +1 415.590.5139 | Katy.Stone@gtlaw.com
- Jennifer A. Vincent | +1 415.655.1249 | vincentj@gtlaw.com

Colorado

- Marc J. Musyl | +1 303.572.6585 | Marc.Musyl@gtlaw.com
- Neil Oberfeld | +1 303.685.7414 | oberfeldn@gtlaw.com

Delaware

- Jonathan I. Lessner | +1 302.661.7363 | lessnerj@gtlaw.com

Florida

- Marvin A. Kirsner | +1 954.768.8224 | kirsnerm@gtlaw.com
- Joel D. Maser | +1 954.765.0500 | Joel.Maser@gtlaw.com

Illinois

- Lawrence H. Brenman | +1 312.456.8437 | brenmanl@gtlaw.com

Massachusetts

- Brian Gaudet | +1 617.310.6000 | Brian.Gaudet@gtlaw.com
- James P. Redding | +1 617.310.6061 | reddingj@gtlaw.com
- Robert C. Ross | +1 617.310.5299 | bob.ross@gtlaw.com

New Jersey

- Martin L. Lepelstat | +1 973.443.3501 | lepelstatm@gtlaw.com

New York

- Scott E. Fink | +1 212.801.6955 | finks@gtlaw.com
- Barbara T. Kaplan | +1 212.801.9250 | kaplanb@gtlaw.com
- Ivy J. Lapidés | +1 212.801.9208 | Ivy.Lapides@gtlaw.com

- Glenn Newman | +1 212.801.3190 | newmang@gtlaw.com
- Shira Peleg | +1 212.801.6754 | pelegs@gtlaw.com

Northern Virginia

- Richard J. Melnick | +1 703.903.7505 | melnickr@gtlaw.com

Oregon

- Nikki E. Dobay | +1 916.868.0616 | Nikki.Dobay@gtlaw.com

Texas

- Josh Prywes | +1 214.665.3626 | Josh.Prywes@gtlaw.com
- Catalina Baron | +1 713.374.3656 | Catalina.Baron@gtlaw.com

Washington, D.C.

- DeAndré R. Morrow | +1 202.533.2317 | morrowde@gtlaw.com
- Samantha K. Trencs | +1 202.331.3100 | Samantha.Trencs@gtlaw.com

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