

Income/Franchise:

Texas Comptroller Posts Answers to Frequently Asked Questions on Cost of Goods Sold Deduction

Memo 202104008L, Tex. Comptroller (4/6/21); *Memo 202104014L*, Tex. Comptroller (4/7/21). The Texas Comptroller of Public Accounts (Comptroller) has posted some answers to frequently asked questions (FAQs) on whether certain costs are permitted to be included in the cost of goods sold (COGS) deduction for Texas franchise tax purposes. Among them, the Comptroller explains that a contractor's payments to subcontractors for the construction, improvement, remodeling, repair or industrial maintenance of real property may be included in the computation of COGS; however, if the payment has already been excluded from total revenue as a flow-through fund mandated by contract in connection with the actual or proposed design, construction, remodeling or repair of improvements on real property, it generally may *not* be included. That is, "the same subcontractor payment may only be subtracted once, either as a flow-through fund or as COGS, when calculating margin." The Comptroller additionally provides that a taxable entity electing to capitalize allowable costs for COGS generally must capitalize all allowable costs for franchise tax reporting that it capitalized for federal tax purposes; any allowable costs for franchise tax reporting that were not capitalized for federal tax purposes generally must be expensed in computing COGS. Additionally, any costs not allowed under Texas Tax Code section 171.1012 may *not* be included in COGS even if the entity capitalized the cost for federal tax purposes. Other recently posted guidance addresses what a client company of a professional employer organization may include in computing its COGS deduction. Please contact us with any questions.

URL: <https://star.comptroller.texas.gov/view/202104008L>

URL: <https://star.comptroller.texas.gov/view/202104014L>

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