

Income/Franchise:

Texas Comptroller Answers Questions on Computing the Cost of Goods Sold Deduction

202202001L, Tex. Comptroller of Public Accounts (2/4/22). The Texas Comptroller of Public Accounts issued answers to frequently asked questions (FAQs) involving calculation of the Texas franchise tax cost of goods sold (COGS) deduction, explaining that the calculation is not necessarily similar to the federal reporting and industry calculations, because allowable costs to be included in COGS are specifically defined for franchise tax reporting purposes in Texas Tax Code section 171.1012. Other topics addressed in the FAQs involve:

[URL: https://star.comptroller.texas.gov/view/202202001L](https://star.comptroller.texas.gov/view/202202001L)

- Inclusion of a contractor's payments to subcontractors in the computation of Texas franchise tax COGS,
- Inclusion of labor costs in Texas franchise tax COGS for certain types of taxpayers,
- Capitalizing and expensing allowable costs for Texas franchise tax COGS,
- Entities that drill for oil and gas,
- Mixed transactions,
- Labor to install tangible personal property,
- Interest expense as a Texas franchise tax COGS, and
- How Internal Revenue Code section 179 expense limitations and federal bonus depreciation amounts are determined for Texas franchise tax COGS purposes.

Please contact us with any questions.

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