



MULTISTATE INCOME/FRANCHISE TAX

## Texas enacts changes to research and development tax credit

### Tax Alert

## Overview

On June 22, 2025, Texas [Senate Bill 2206](#) ("S.B. 2206") was enacted into law. S.B. 2206, which is effective January 1, 2026, makes significant changes to the state's research and development ("R&D") tax credits and incentives.

This Tax Alert summarizes some of the relevant provisions in S.B. 2206.

## Texas R&D credit

Currently, qualifying taxpayers in Texas may claim either an R&D credit against the franchise tax or a sales and use tax exemption related to the purchase, lease, rental, storage, or use of depreciable tangible personal property in research and development activities. Qualifying taxpayers may only claim one of these two incentives.

S.B. 2206 repeals these historical incentives and replaces them with a new franchise tax credit effective January 1, 2026. Some of the changes to the R&D credit are detailed below.

### Rate change

- S.B. 2206 increases the R&D franchise tax credit rate from 5% to 8.722% of the excess qualified research expenses ("QREs") incurred in the current year over the base amount.
- If an entity has no Texas QREs in one or more of the three base years, the franchise tax credit rate increases from 2.5% to 4.361% of the QREs incurred during the current year.
- For collaborations with Texas higher education institutions, the franchise tax credit rate increases from 6.25% to 10.903% of the excess QREs incurred in the current year over the base amount.

### Federal conformity

- S.B. 2206 defines QREs as the qualified research expenses reported on line 48 of Federal Form 6765 and performed in Texas. This conformity

makes the Texas R&D franchise tax credit more consistent with the federal R&D calculation.

- S.B. 2206 allows taxpayers to utilize statistical sampling to determine the Texas QREs for the Texas R&D franchise tax credit, which is also consistent with federal treatment.

### Sales tax exemption

- S.B. 2206 repeals the sales and use tax exemption related to the purchase, lease, rental, storage, or use of depreciable tangible personal property in research and development activities. As a result, qualifying taxpayers may only claim the revised franchise tax credit on franchise tax reports due on or after January 1, 2026.

### Sunset provisions

- The Texas R&D franchise tax credit provisions enacted in S.B. 2206 have no sunset date. The Texas R&D tax credits and incentives under prior law were set to sunset December 31, 2026.

### Previously generated credit carry forwards

- S.B. 2206 provides that the franchise tax R&D credit carry forwards generated under the repealed R&D franchise tax credit statute continue to apply. The carry forward period remains as 20 years.

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