

## Income/Franchise:

### Texas: Labor Costs for Repairing Customer-Owned Parts are Not Includable within Cost of Goods Sold

*Hearing No. 116,007*, Tex. Comptroller of Public Accounts (1/24/24). In a ruling involving a taxpayer providing aircraft instruments along with accessory services and support, the Texas Comptroller of Public Accounts (Comptroller) held the taxpayer's labor costs for repairing defective parts sent by customers for *essential* repairs were *not* includable within cost of goods sold (COGS) for Texas franchise tax purposes. Absent an exception, a taxable entity is only eligible to include within Texas COGS costs related to goods the entity *owns* under state law (see Tex. Tax Code § 171.1012(i)). As explained by the Comptroller, the taxpayer here performed repairs on:

**URL:** <https://star.comptroller.texas.gov/view/202401016H?q1=116,007>

1. Already-completed aircraft parts, and
2. Customer-owned aircraft parts; further, the taxpayer did not in any way modify, make, or complete distinguishable parts as a result of the repairs.

As such, the labor repair costs were determined to not be a cost to produce the parts ultimately sold by the taxpayer. Please contact us with any questions.

— Robert Topp (Houston)  
Managing Director  
Deloitte Tax LLP  
rtopp@deloitte.com

Grace Taylor (Houston)  
Senior Manager  
Deloitte Tax LLP  
grtaylor@deloitte.com

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