

## Income/Franchise:

### Texas: New R&D Credit Memos Indicate Depreciable Property Expenses Cannot Qualify as Supplies QREs and Federal Intra-Group Transaction Regs Do Not Apply to Texas R&D Credit

*Letter No. 202503003M*, Tex. Comptroller of Public Accounts (3/24/25); *Letter No. 202503004M*, Tex. Comptroller of Public Accounts (3/24/25). A recently published Texas Comptroller of Public Accounts (Comptroller) memo states that for purposes of Texas franchise tax research and development (R&D) credit calculations, if an expense for depreciable property is allowed under Internal Revenue Code (IRC) section 174, that expense *cannot be* a supply qualified research expense (QRE) under IRC section 41. The Comptroller explains that the definition of supplies in IRC section 41(b)(2)(C) explicitly excludes depreciable property from the definition of supplies, regardless of its deductibility under IRC section 174. Another recent Comptroller memo explains the federal intra-group transaction regulations do *not* apply to Texas' sales tax R&D exemption or franchise tax R&D credit because a federal "group under common control" is not treated as a single taxpayer for Texas tax purposes. Specifically, the memo notes that the Texas Tax Code's definitions and rules for combined groups differ significantly from federal regulations, rendering the federal intra-group transaction rules inapplicable. Please contact us with any questions.

**URL:** <https://star.comptroller.texas.gov/view/202503003M?q1=202503003M>

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