

Income/Franchise:

Texas: Timber Company's Road Construction and Maintenance Costs Eligible for COGS

Letter No. 202502030L, Tex. Comptroller of Public Accounts (2/28/25). In a ruling involving a timber company, the Texas Comptroller of Public Accounts (Comptroller) determined the company's costs of constructing and maintaining logging roads qualify as deductible cost of goods sold (COGS) under Tex. Tax Code section 171.1012(c)(4) related to inbound transportation costs, along with the corresponding depreciation costs under Tex. Tax Code section 171.1012(c)(6), for purposes of the Texas franchise tax margin calculation. The Comptroller explained that when the company extracted and processed the timber into lumber and windows, the company was producing goods that it ultimately sold. Moreover, the company's ability to move the timber from the extraction site to its manufacturing facility required properly constructed logging roads; similar to transporting goods between a taxpayer's storage facilities, the company at issue transported the timber from the extraction site to the next step in processing (*i.e.*, its manufacturing facility), which was operated by a member of the Texas combined filing group. Given the costs to construct and maintain the logging roads were attributable to the transportation of goods to the company's manufacturing facility to process the timber, the costs qualified as inbound transportation costs. Additionally, the logging roads provided access to and were necessary for the extraction and production of the lumber and windows; therefore, to the extent the company depreciated the costs associated with the construction and maintenance of the logging roads on its federal income tax return, those costs were also eligible to be included within COGS for Texas franchise tax purposes subject to any required adjustments (*e.g.*, disallowance of bonus depreciation). Please contact us with any questions.

URL: <https://star.comptroller.texas.gov/view/202502030L>

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

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

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte provides industry-leading audit and assurance, tax and legal, consulting, financial advisory, and risk advisory services to nearly 90% of the Fortune Global 500® and thousands of private companies. Our professionals deliver measurable and lasting results that help reinforce public trust in capital markets, enable clients to transform and thrive, and lead the way toward a stronger economy, a more equitable society and a sustainable world. Building on its 175-plus year history, Deloitte spans more than 150 countries and territories. Learn how Deloitte’s approximately 415,000 people worldwide make an impact that matters at www.deloitte.com.