



Analysis of Texas' New R&D Tax Credit Legislation by Prime Tax Group

CLAIM MORE, RISK LESS: SB 2206 UNLOCKS POWERFUL NEW TAX CREDITS FOR TEXAS INNOVATORS

Texas just gave innovative businesses a major reason to double down on research: Senate Bill 2206 (SB 2206), unanimously passed by the Texas Senate, is set to *expand and supercharge* the state's Research and Development (R&D) tax credit.

This legislation provides a simplified, more lucrative, and long-term tax incentive for companies investing in product development, process improvement, and technological advancement within the state. Whether you're a startup refining prototypes or a mid-size firm scaling a new manufacturing system, the updates in SB 2206 are designed to help you *claim more and risk less*—while staying aligned with the federal credit structure.

Key Provisions of SB 2206

1. Higher Credit Amounts for Franchise Taxpayers

Under SB 2206, the base R&D tax credit available against the Texas franchise tax increases from roughly **5% to 8.722%** of eligible R&D expenses. If your company conducts research in collaboration with a Texas college or university, that credit increases even further—to **10.903%**. This is a strategic move to foster partnerships between private enterprise and the state's top research institutions.

2. Simplified Structure: No More Sales Tax Exemption

The bill removes the current sales tax exemption on tangible personal property used in R&D, choosing instead to focus exclusively on the franchise tax credit. This change simplifies administration and maximizes credit potential for most businesses.

3. Aligned with the IRS: Use Form 6765

SB 2206 streamlines documentation by aligning Texas's R&D credit with the federal credit claimed via **IRS Form 6765**. That means less redundancy, smoother audits, and easier compliance for companies already claiming the federal credit.

4. Long-Term Flexibility: 20-Year Carryforward

Unused credits can now be carried forward for **up to 20 consecutive years**. For high-growth businesses still investing heavily in R&D but not yet posting significant taxable income, this extended window is a major advantage.

Why It Matters for Your Business

- **Reduced Tax Liability** – Immediate relief against the Texas franchise tax.
- **Larger Claims, Lower Risk** – More generous rates, fewer limitations, and better long-term value.
- **Predictable Documentation** – Use your existing federal credit calculations as a baseline.
- **Strategic Partnering** – Boost your credit rate by working with Texas universities and labs.
- **Support for Startups** – The 20-year carryforward ensures that early-stage innovators benefit as they grow.

The Economic Case: More Jobs, More Growth

Independent analysis from Rice University’s Baker Institute projects that SB 2206 could generate **over 113,000 new jobs** and **\$8.5 billion in wage growth** by 2035. It’s a policy that works: rather than relying on subsidies, it rewards risk-takers and innovators with real tax relief. And it’s not just for tech giants—this credit is designed for *every Texas business with a good idea and the will to build it*.

A Conservative, Pro-Business Solution

Senator Paul Bettencourt’s SB 2206 is grounded in the belief that economic growth comes from the private sector—not government spending. By creating targeted, performance-based incentives, Texas is ensuring that its low-tax promise includes high-value rewards for the companies driving tomorrow’s economy.

What Comes Next

SB 2206 passed the Texas Senate unanimously and is now under consideration in the House. If it passes, these changes could take effect as early as January 1, 2026—giving Texas businesses time to prepare, document, and plan for maximized R&D credit utilization.

If you’re investing in designing and/or improving new products, (*including engineering plans, and “intangible” deliverables*), improving internal processes, and/or developing custom software or hardware, now is the time to act.

We’re here to help you identify qualifying activities, calculate your enhanced credits, and ensure compliance with both federal and state rules. *Contact us today to discuss how SB 2206 can improve your R&D tax position.*