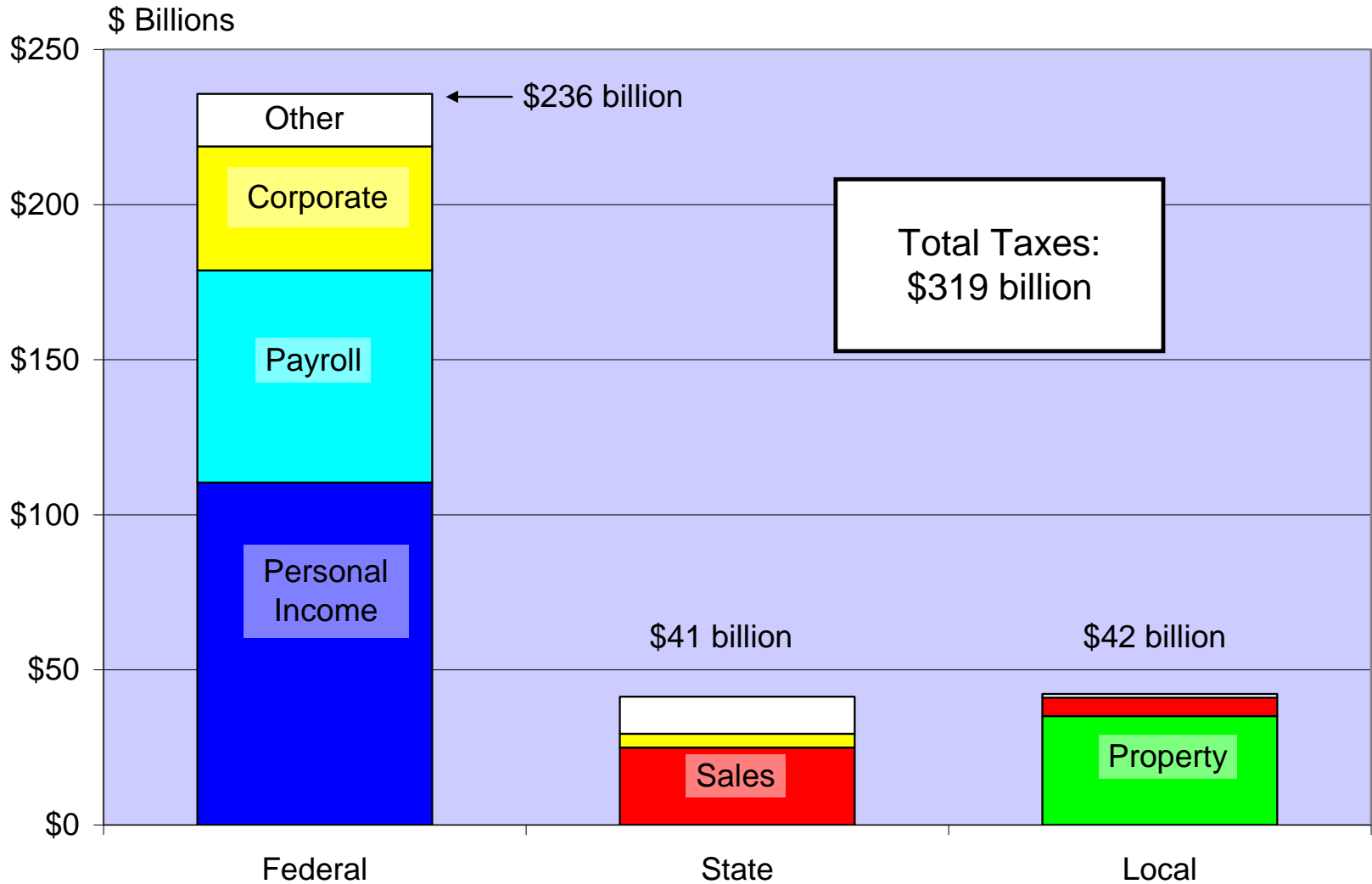


# An Overview of Taxes in Texas

Texas Taxpayers and Research Association

# The Taxes Texans Pay, 2008





# Editorial Comment #1

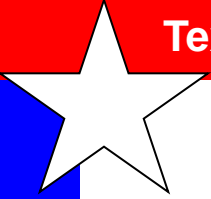
*Simple “per capita” comparisons have no validity because “capitas” don’t pay taxes-- businesses and individuals pay taxes and have dramatically different burdens.*

*An accurate overview of a tax system must evaluate these burdens separately.*

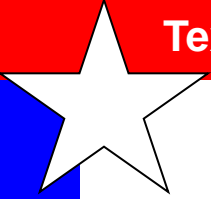


# Editorial Comment #2

- The impact figures presented here look at initial incidence only—i.e. who writes the check for the tax.
- The results of tax incidence studies are driven by their assumptions about how taxes on businesses are passed on to individuals through:
  - 1) pricing of the product or service,
  - 2) payroll and hiring decisions, and
  - 3) return on investment.



Texas is a \_\_\_\_\_  
tax state.

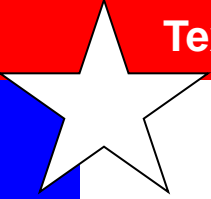


*If you are an individual,*

Texas is a low  
tax state.

Texas ranks 48<sup>th</sup> among the states in terms of taxes paid by individuals relative to personal income.

Council on State Taxation, 2009.



*If you are a business,*

Texas is a high  
tax state.

Texas ranks 18<sup>th</sup> among the states in terms of taxes paid by businesses relative to gross product.

Council on State Taxation, 2009.



# Taxes and Who Pays Them

Tax	Individuals	Businesses
Property Tax	√	√
Sales Tax	√	√
Franchise/Corporate Tax		√
Personal Income Tax	√	





# Taxes and Who Pays Them

Tax	Individuals	Businesses
Property Tax	✓	✓
Sales Tax	✓	✓
Franchise/Corporate Tax		✓



# Texas Tax Rankings

- Texas' tax burden on individuals ranks 48<sup>th</sup>--37 percent below the national average.
- Texas' tax burden on business ranks 18<sup>th</sup> among the states--8 percent above the national average.
- 61% of Texas' state and local taxes are paid by businesses--only 5 states are higher.



# Texas' Lack of an Income Tax

Combined with other factors:

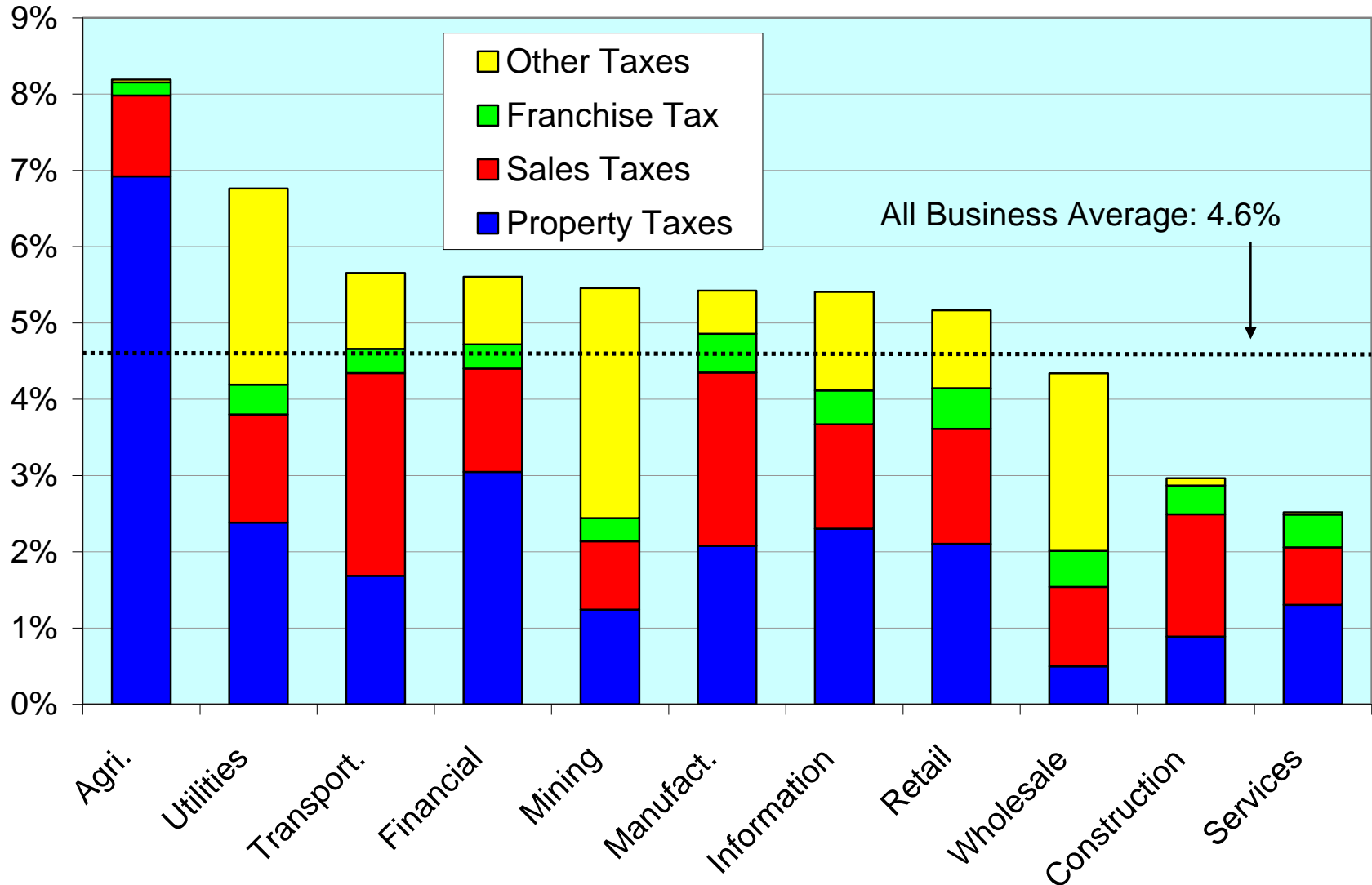
- Provides a better climate for new business incubation
- Makes us an attractive location for corporate headquarters
- Makes us a popular retirement haven
- Means that we rely more heavily on sales and property taxes



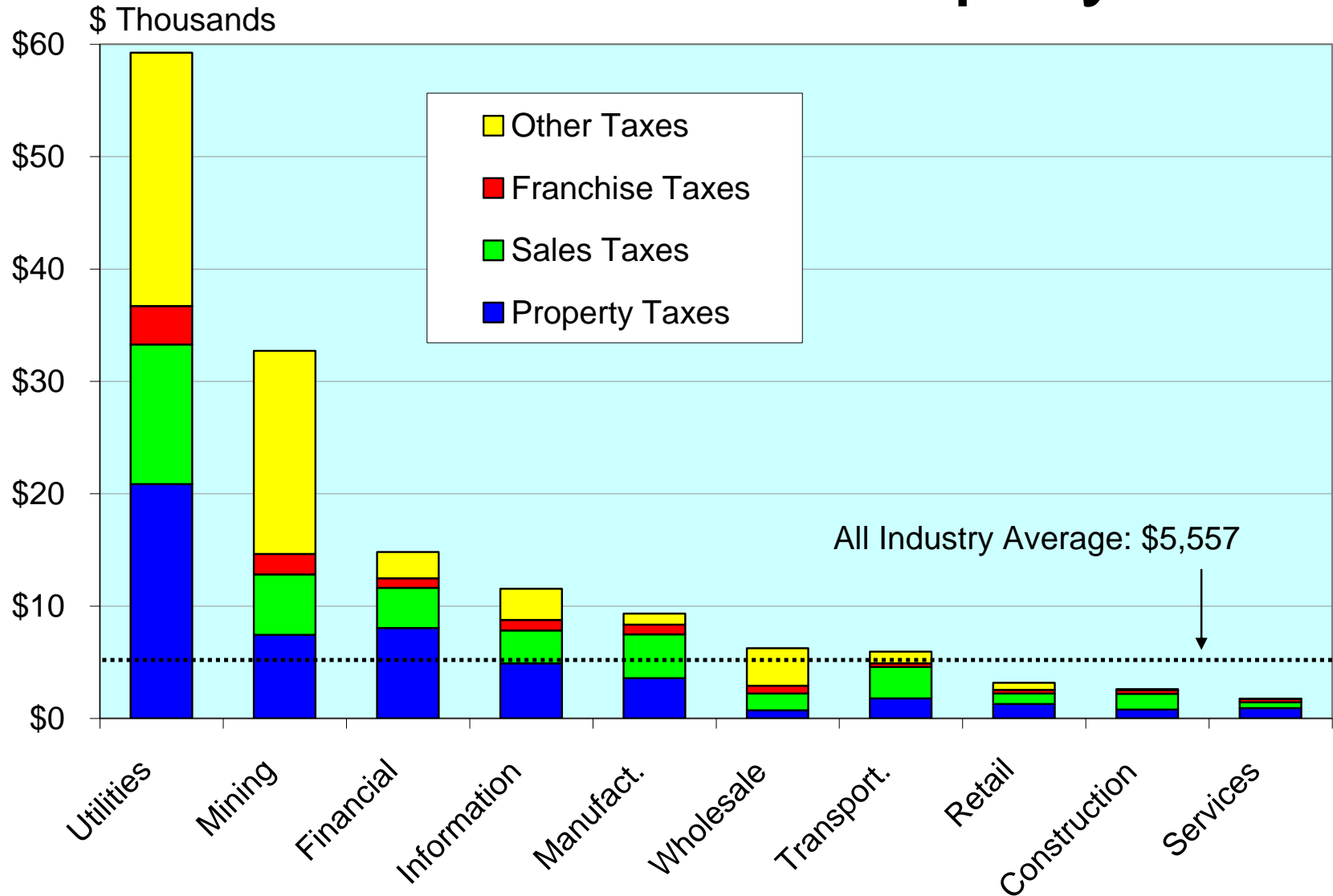
# Texas' Reliance on Sales and Property Taxes

- Heavily ties our tax system to the production and sale of “goods,” placing a high tax burden on capital-intensive businesses
- Results in a relatively “light” tax burden on service businesses, which tend to be less impacted by sales and property taxes.
- Means our tax system is “regressive,” i.e. lower income families see higher effective tax rates than those with upper incomes

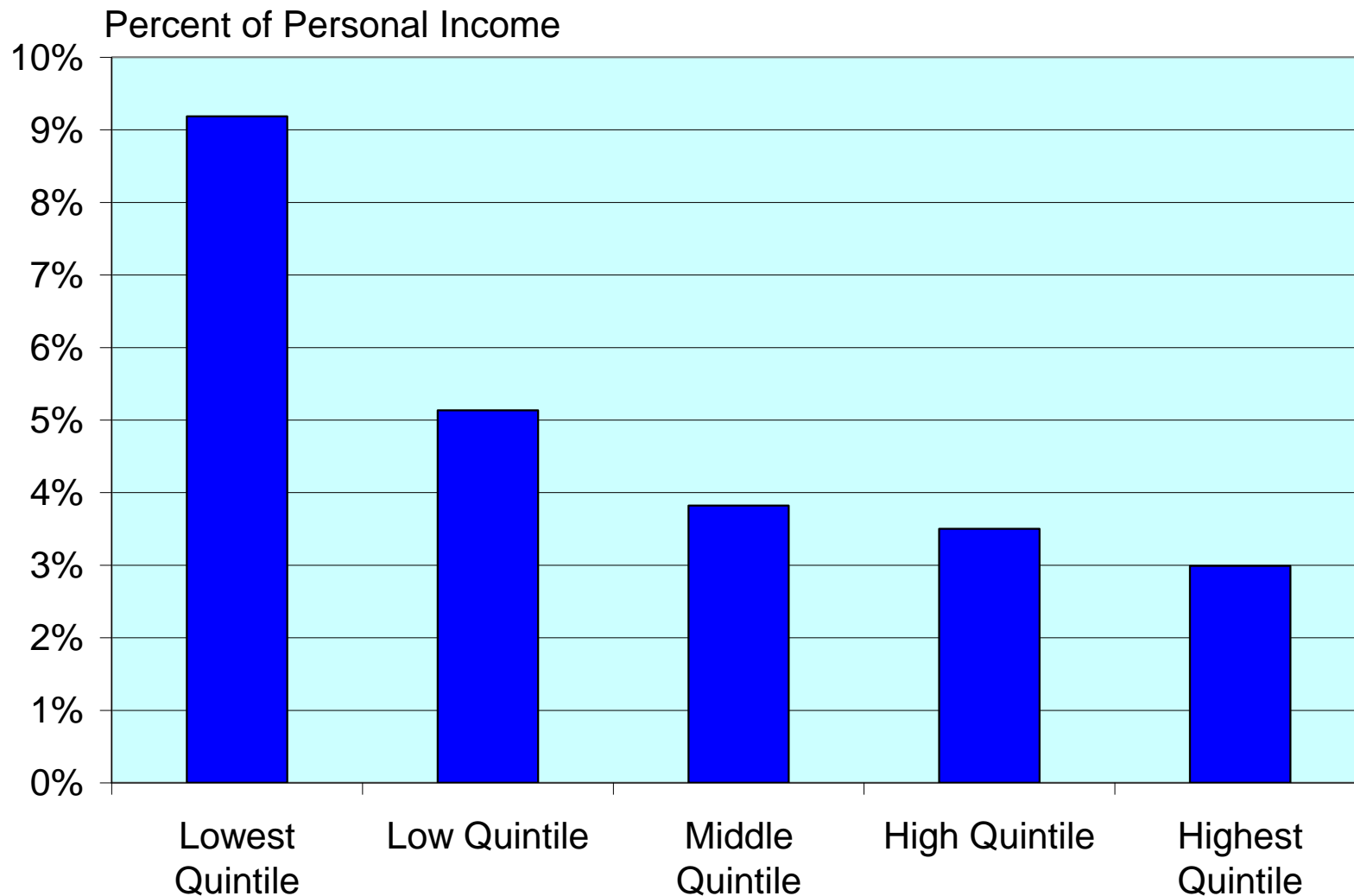
# Tax Burden Relative to Output

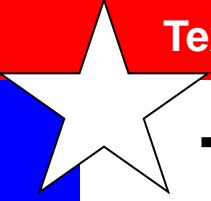


# Tax Burden Per Employee

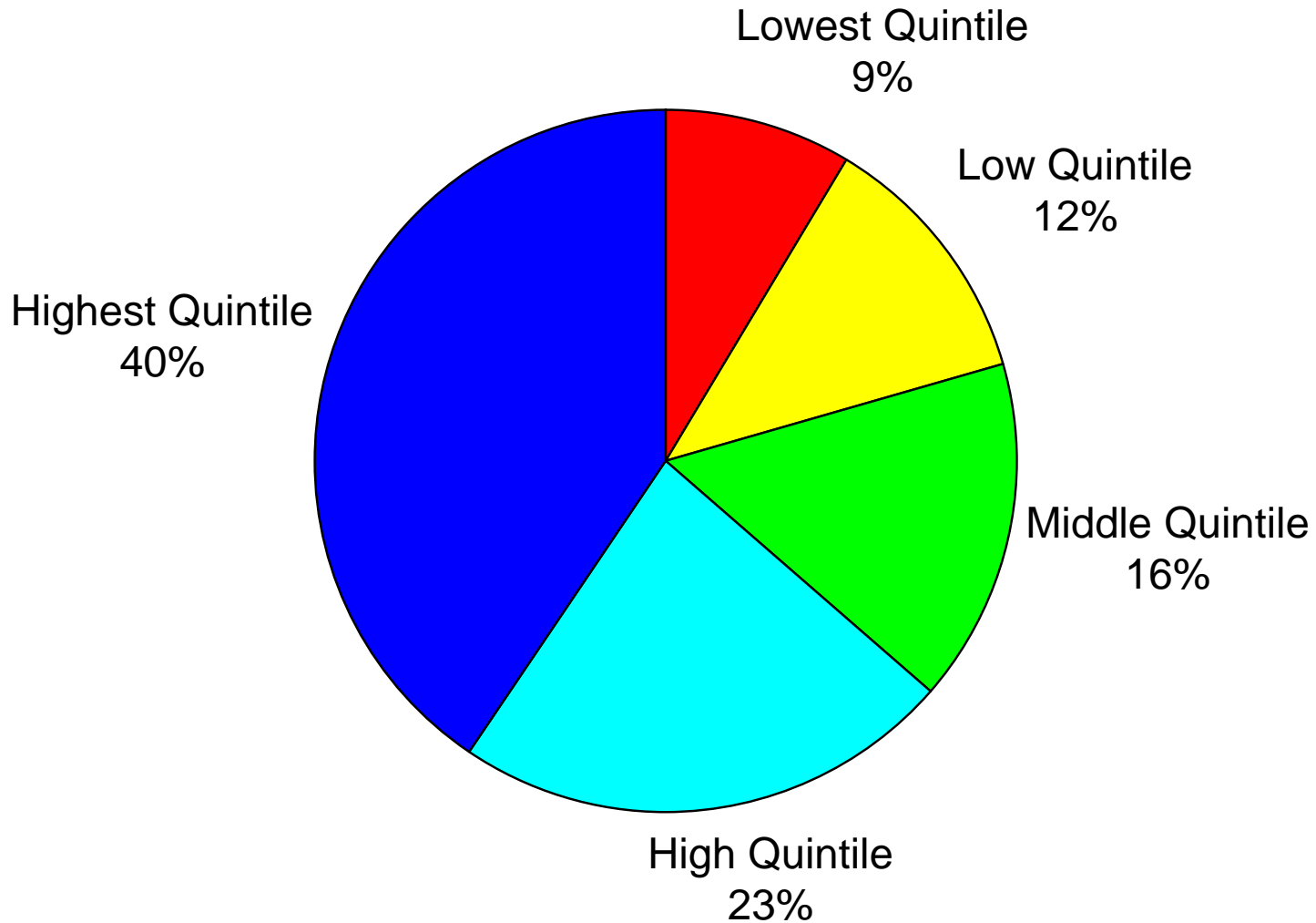


# Texas Taxes Relative to Income

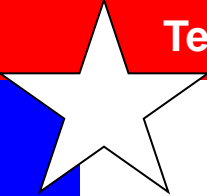




# Taxes Paid by Income Group







# Property Tax Basics

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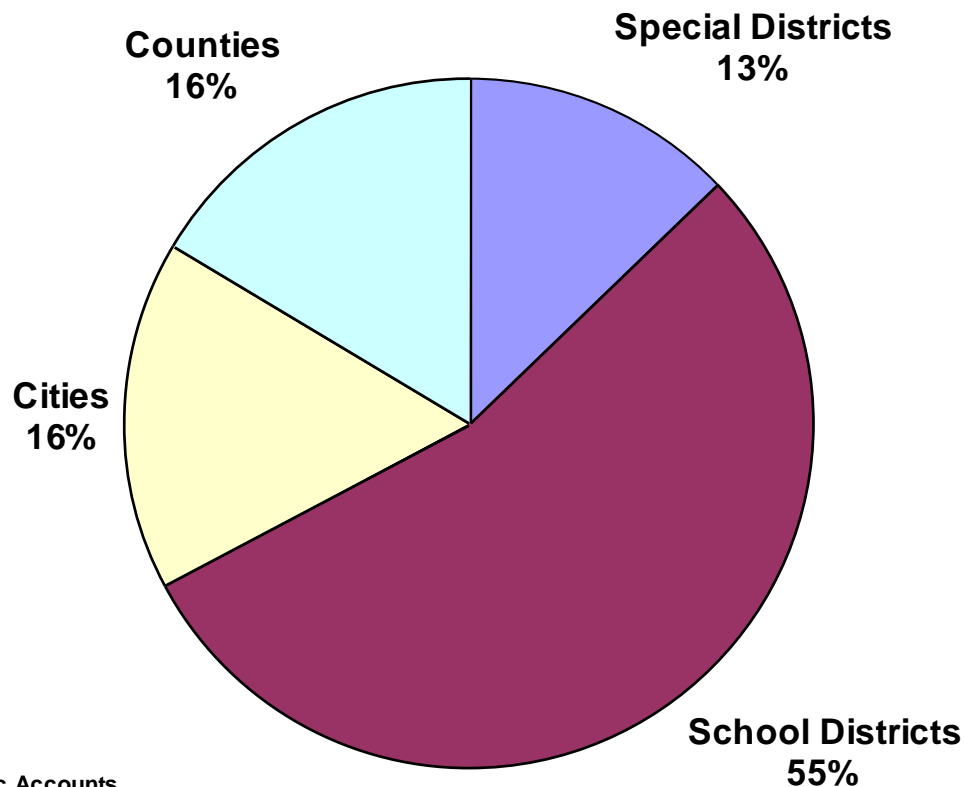


# Texas Property Tax at a Glance

- 2008 total property tax levy: \$39 billion
- 2010 estimated total levy: \$42 billion
- Annual rate of growth in total levy 1989-2008: 6.4%
- Share of total state and local taxes: 45%
- School district share of total levy: 55%
- Number of taxing units: 3,942
- Number of appraisal districts: 253
- Number of parcels: 17 million
- Total property value: \$1.9 trillion
- Cost of administration: \$351 million

Source: Comptroller of Public Accounts, 2008 Annual Property Tax Report, Revised Edition

# Local Government Share of Property Tax Levy



Source: Comptroller of Public Accounts,  
Annual Property Tax Report, 2009



# 2009 Exemptions (Excluding Productivity Valuation)

## \$235.95 Billion (Value)

	Billions \$	% of Total
<b>Residential</b>		
\$15,000 Homestead	\$ 74.22	31.5%
Over 65 Freeze Loss	48.47	20.5%
Local Option % Homestead	34.39	14.6%
10% Residential Value Cap	14.79	6.3%
\$10,000 Over 65 Homestead	13.96	5.9%
Local Option Over 65 or Disabled	7.31	3.1%
Veteran/Surviving Spouse Homestead	4.07	1.7%
Historical Home Designations	0.29	0.1%
	<b>\$197.50</b>	<b>83.7%</b>
<b>Business</b>		
Freeport Exemption	\$ 23.20	9.8%
Pollution Control Exemption	9.11	3.9%
TX Economic Dev Act (Chapter 313)	5.30	2.3%
Low Income Housing	0.27	0.1%
Tax Abatements	0.28	0.1%
Solar and Other	0.29	0.1%
	<b>\$38.45</b>	<b>16.3%</b>
<b>Total</b>	<b>\$235.95</b>	<b>100.0%</b>

**Agriculture Productivity Value Loss = \$200.37 billion**

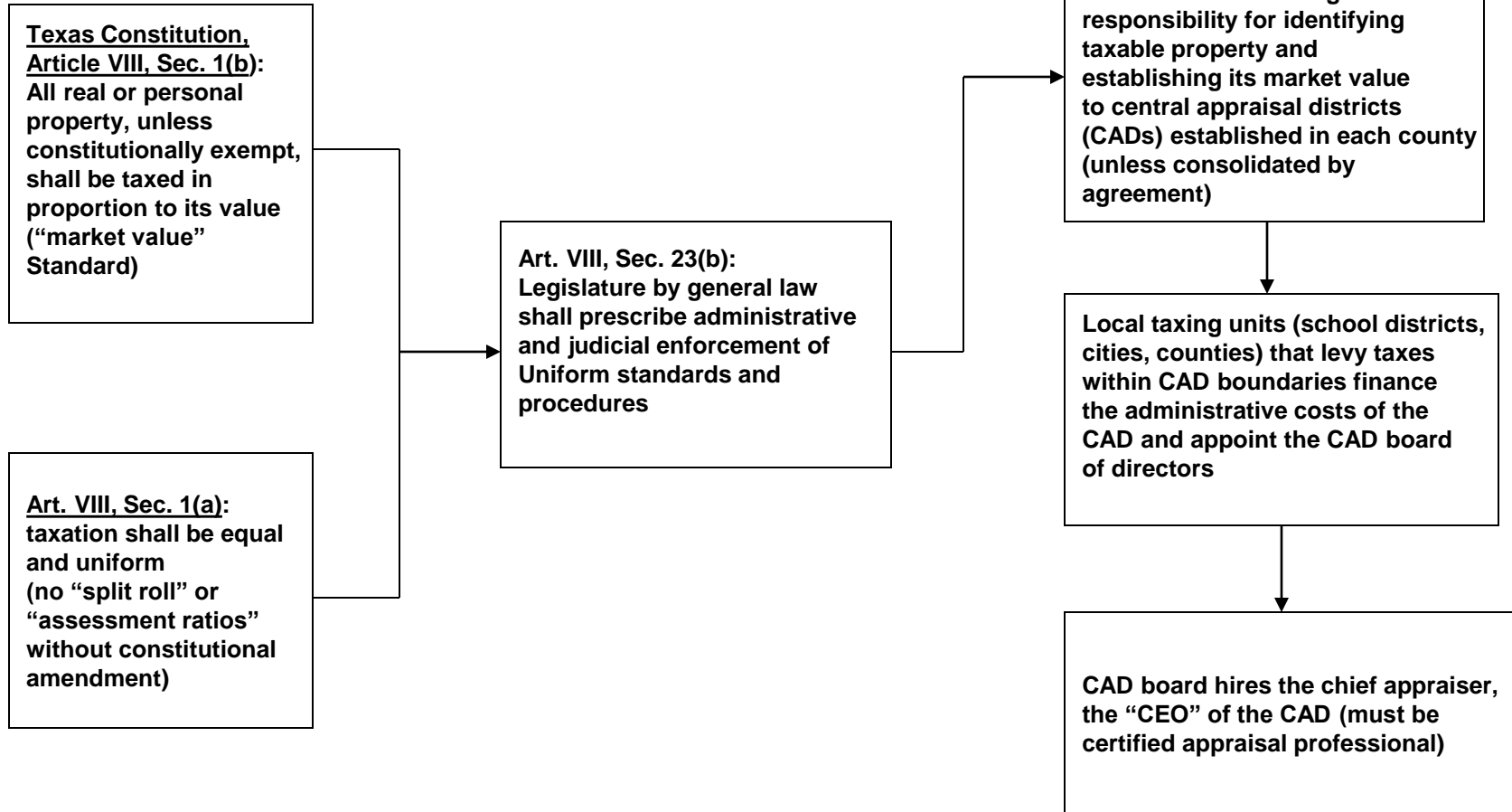
Data Source: 2009 ISD Self Report, Comptroller's Property Tax Assistance Division



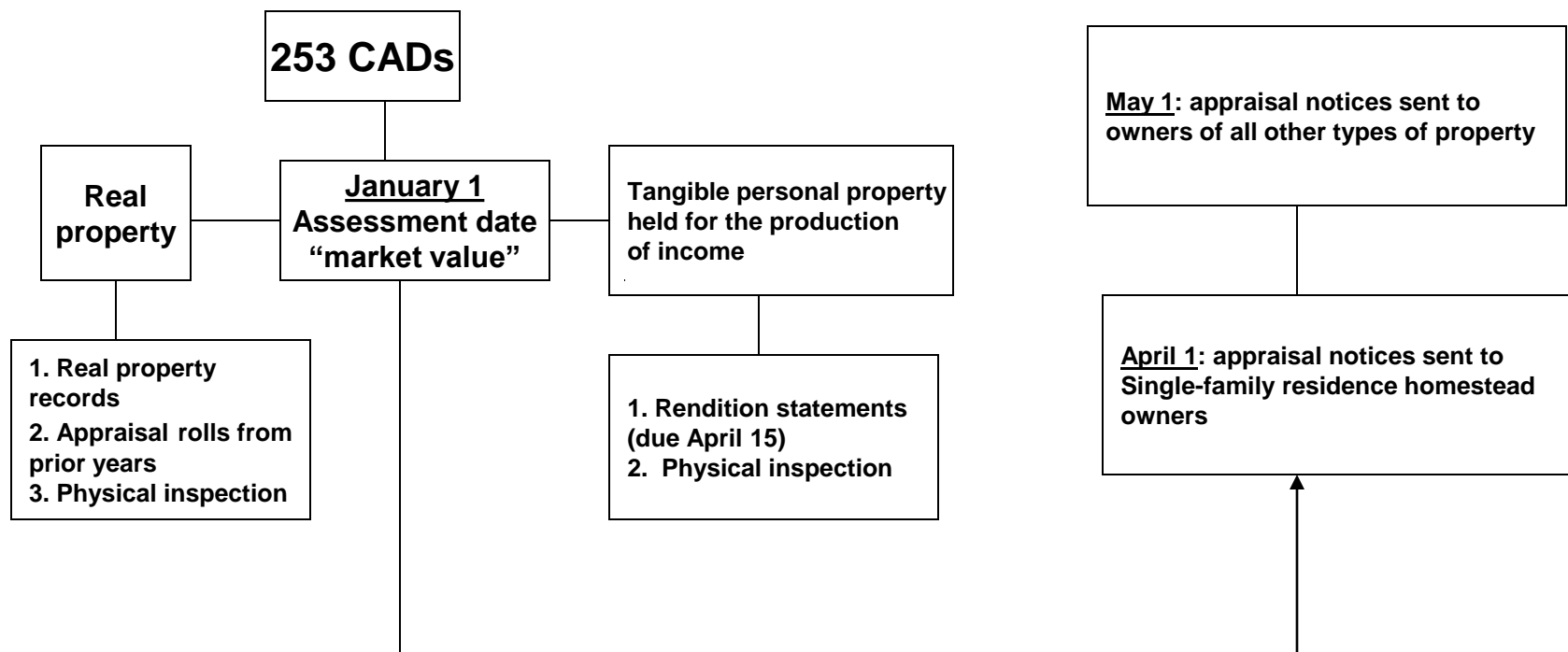
# Property Tax Comparison

Type of Property	Texas Effective Tax Rate	All States Average Tax Rate	Texas Rank
Urban Homestead, Median Value	1.88%	1.27%	10
Industrial Property	2.52%	1.56%	3

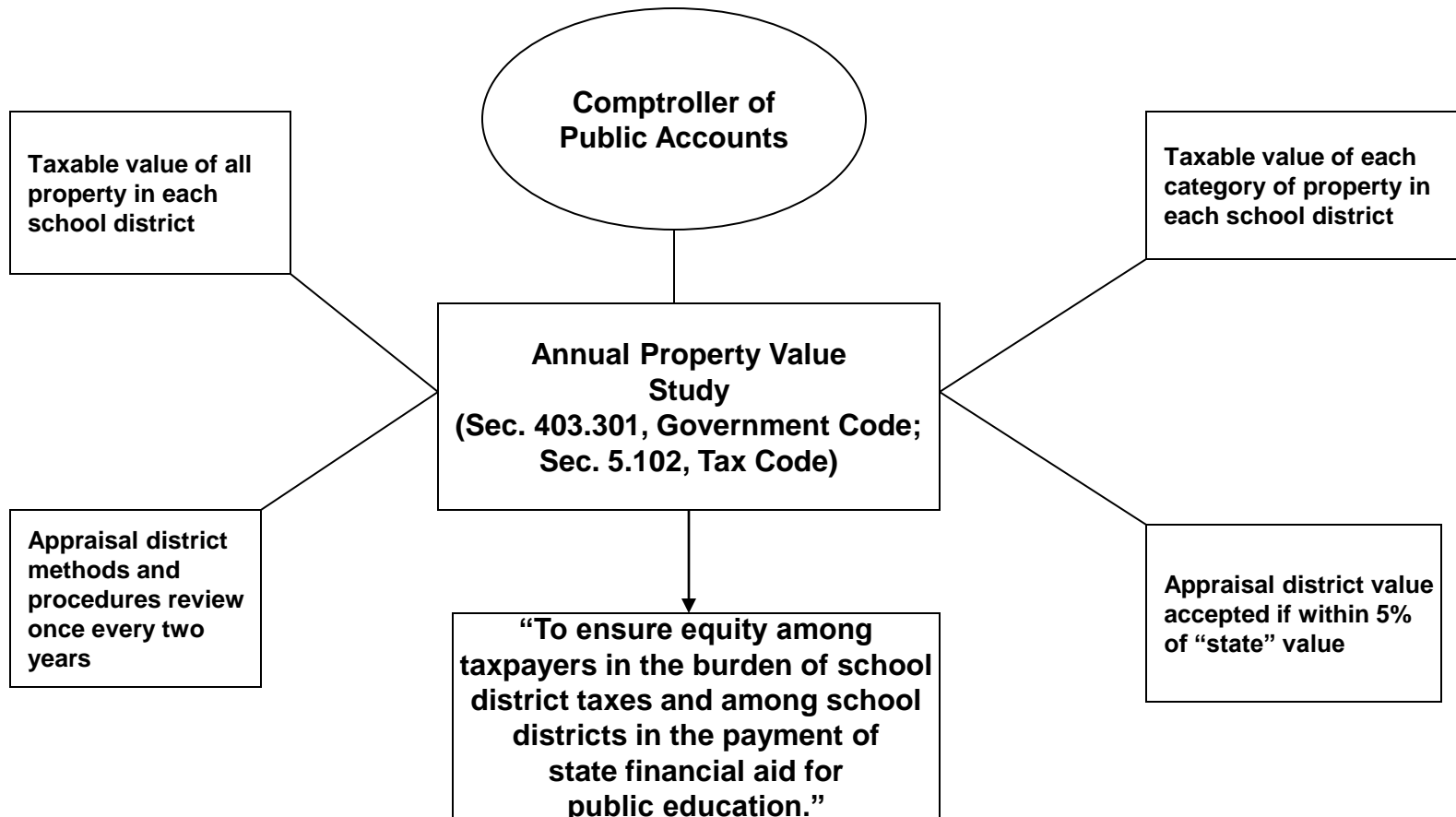
# Legal Framework for Property Appraisal



# Phase I: The Appraisal Process

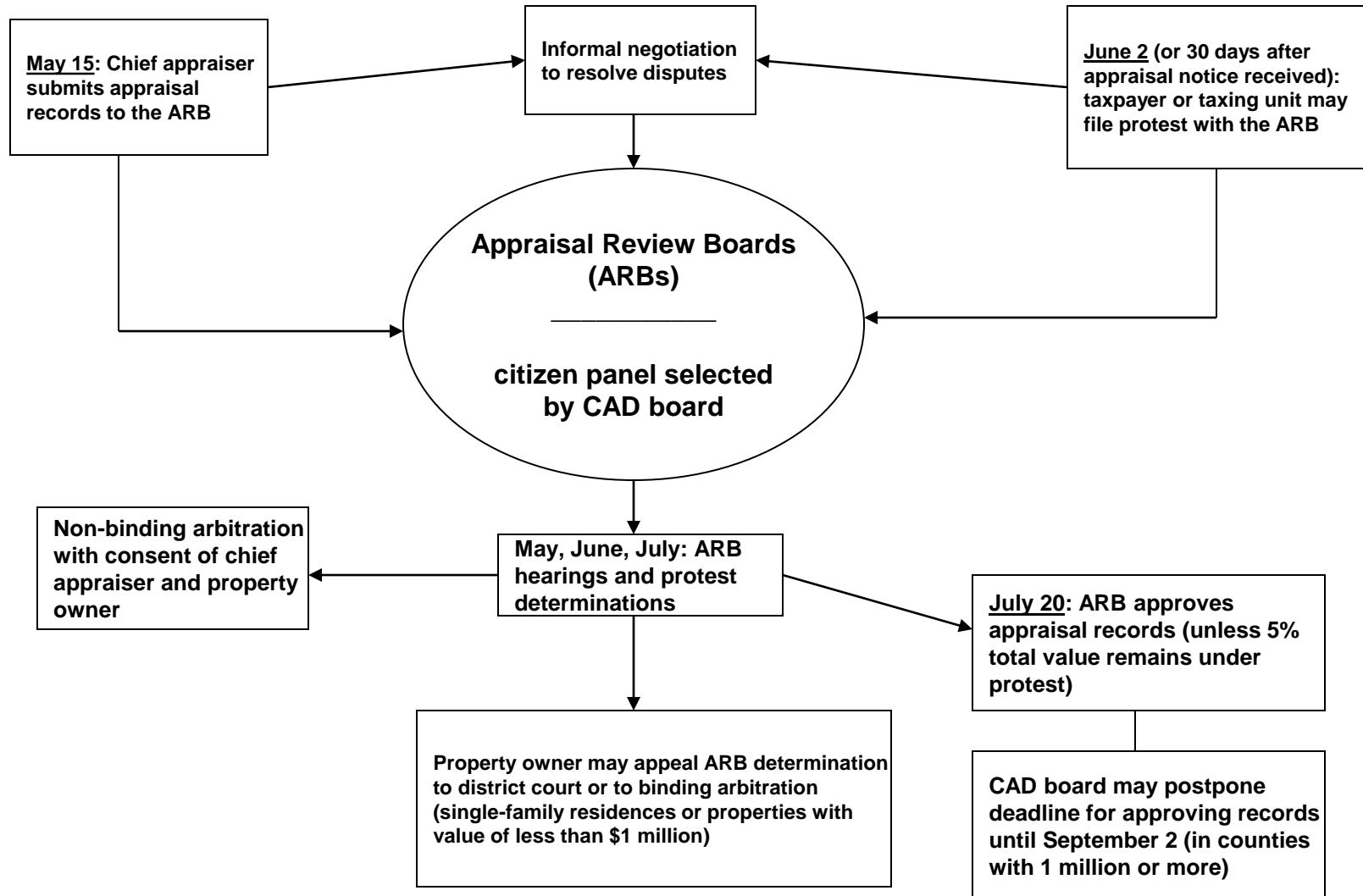


# Phase I (continued): Property Value Study

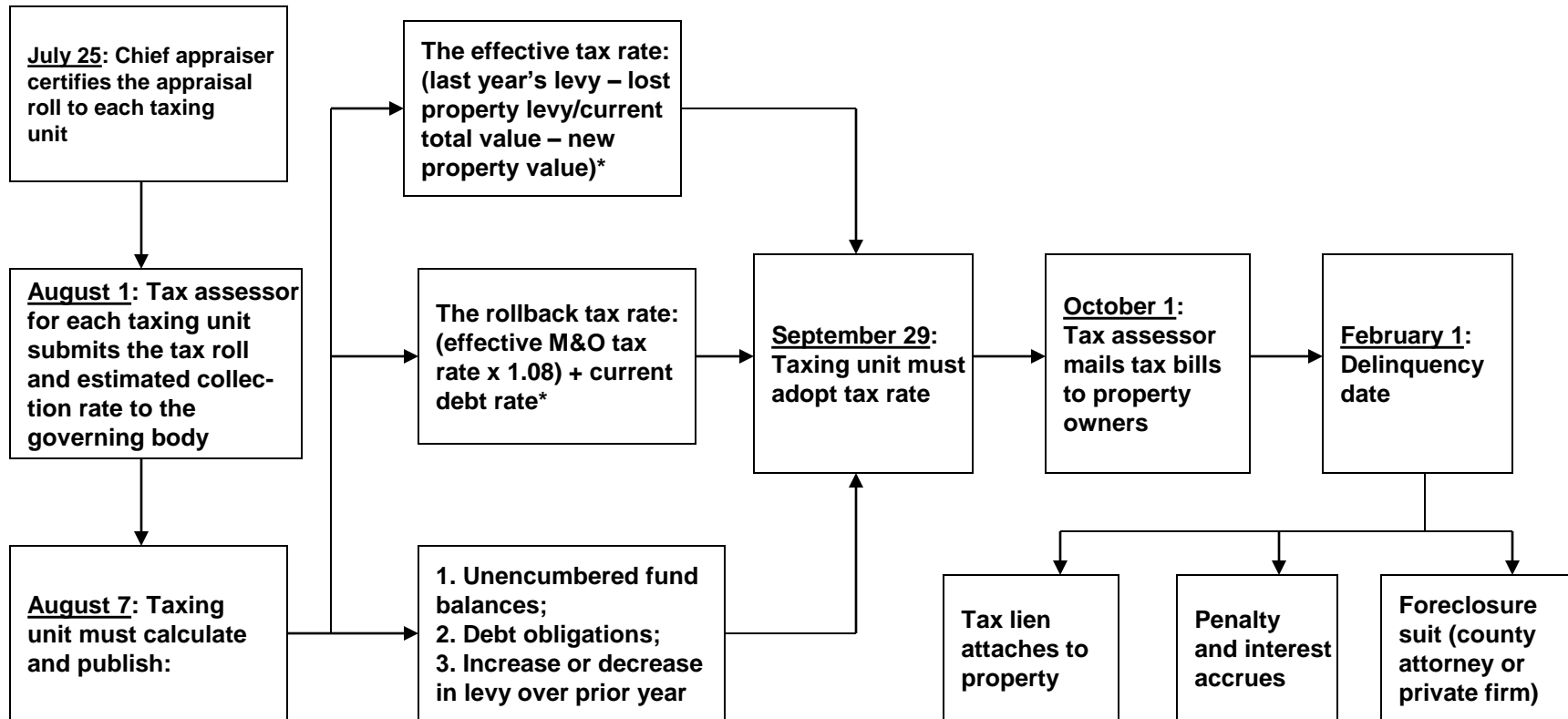




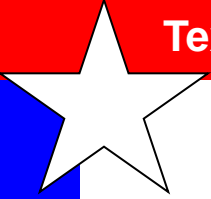
# Phase II: Determination of Property Value and Dispute Resolution



# Phase III: Assessment and Collection



\*For school finance purposes, school districts have different requirements for calculating their effective and rollback tax rates.



# Sales & Use Tax Basics

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# Sales Tax Design

- Tax on final sale or use of good or service
- Liability of purchaser or user
- Collected and remitted by seller engaged in business in taxing jurisdiction



# Tax Rates

- State – 6.25%
- Local – 1,473 – maximum 2%
- Local taxing jurisdictions
  - Cities – 1,142 (.25%-2%)
  - Counties – 123 (.5%-1.5%)
  - Transit Authorities – 10 (.25%-1%)
  - Special Purpose Districts – 198 (.125%-2%)



# Special Purpose Districts-SPDs

- Hospital – 8
- Health Services – 12
- Emergency Services – 47
- Crime Control – 63
- Fire Control – 4
- Library – 14
- Development–Improvement–Management  
– 50



# Sales Tax Rates Comparison

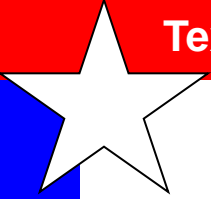
January 1, 2011

	State	Texas	Local	Texas	Max	
	<u>%Rate</u>	<u>Rank</u>	<u>% Rate</u>	<u>Rank</u>	<u>%Rate</u>	<u>Rank</u>
Texas	6.25	11 T	2.00	24 T	8.25	19
Highest	7.25		8.00		12.00	
Lowest	2.90		0.25		4.50	

# Tax Base

- Tangible personal property unless exempted
- Listed services
- State & Local Same – limited exceptions
  - Residential utilities
  - Long distance calls





# Exemption & Exclusion Policies

- Avoid economic distortions
- Avoid adverse economic consequences
- Avoid adverse fiscal impact on individuals
- Facilitate efficient administration/compliance
- Create stable revenue stream consistent with sound tax policy



# Value of Exemptions (2011)

<b>Exemptions Total</b>	<b>\$26.0 B</b>
• Manufacturing	<b>\$12.5</b>
– Raw Materials	10.7
• Taxed by other law	<b>\$8.6</b>
– Insurance Premiums	3.9
– Motor vehicles	2.2
– Gasoline & diesel	1.8



# Value of Exemptions (2011)

<b>Exemptions Total</b>	<b>\$26.0 B</b>
• <b>Consumer Items</b>	<b>\$3.4</b>
– Groceries	1.5
– Residential utilities	0.9
– Drugs	0.7
• <b>Agricultural</b>	<b>\$0.4</b>
– Feed, seed & fertilizer	.3



# Value of Exemptions (2011)

<b>Exemptions Total</b>	<b>\$26.0 B</b>
• Governments & non-profits	0.4
• Newspapers, magazines, internet	0.1
• Everything else	0.7



# Value of Services Exclusions (2011)

<b>Services Total-</b>	<b>\$5.9 B</b>
• Interstate competitiveness issues	<b>\$2.0</b>
– Legal	0.5
– Architectural & engineering	0.4
– Accounting & auditing	0.2
• Health care	<b>\$1.8</b>
– Doctors	0.9
– Dentists	0.3



# Value of Services Exclusions (2011)

<b>Services Total -</b>	<b>\$5.9 B</b>
• Housing costs	<b>\$0.7</b>
– Residential construction	0.4
– Residential repair & remodeling	0.1
– Real estate brokerage & agency	0.2
• Cost of living	<b>\$0.8</b>
– Auto repair	0.3
– Child day care	0.2
• Cost of doing business	<b>\$0.7</b>
– Freight hauling	0.3
– Nonresidential construction	0.2

# Holidays

- Back-to-school
  - Third Friday-Sunday in August for clothing, footwear, backpacks & school supplies less than \$100
- Energy Star
  - Last Saturday-Monday in May for certain energy-efficient products



# Sourcing

- State – destination
  - Goods – possession taken
  - Services – benefit received
- Local – origin
  - Goods – seller's place of business
  - Services – seller's place of business





# Place of Business

- Three or more sales during year
- Multiple places of business
  - Location where order first received if placed in person by purchaser
  - Otherwise location from which order is shipped



# Sourcing Interstate Sales

- *Quill v. North Dakota* (1992)
  - Substantial physical presence
- Streamlined Sales Tax Project
- Presence by agent
  - *Scripto v. Carson* (1960)



# Engaged in Business

- Physical location
- Representative selling, delivering or taking orders for taxable items
- Texas franchisee or licensee making sales
- Trade show participant making sales
- Deriving income from leasing tangible personal property
- Providing taxable services or repairs



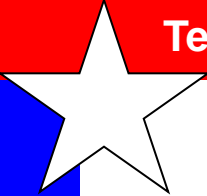
# Returns/Remittances

- Both state and local taxes remitted
- Due 20<sup>th</sup> of month after end of filing period
- Annual – less than \$1,000 a year
- Quarterly – less than \$1,500 per quarter
- Monthly – \$1,500 or more per quarter
- Direct pay permits
  - \$800,000 or more of annual taxable purchases for own use



# Discounts

- Timely Filer - 0.5%
- Prepayment – 1.25%
  - Must remit at least 90% of estimated liability
  - Due 15th of preceding month
  - Due 15th of second month of preceding quarter

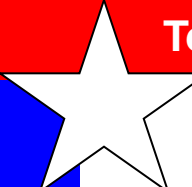


# Franchise Tax Basics

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# Who Pays the Franchise (Margin) Tax?

- Corporations (for profit)
- Limited Liability Companies
- Partnerships
- Business trusts
- Any other registered legal entity enjoying liability protection under state law



# Calculating the Margin Tax

Begin with: Total Revenues

Subtract: The Greater of:

- Cost of Goods Sold (state definition)
- Compensation
- 30% of Total Revenues

Equals: Gross Margin

Multiply by: Percent of Gross Receipts in Texas

Equals: Net Taxable Texas Margin

Multiply by: Tax Rate (0.5% or 1.0%)

Equals: Gross Texas Margin Tax





# Cost of Goods Sold

- Direct cost of acquiring or producing goods sold in the ordinary course of business
- A “good” is real or tangible personal property that can be seen, weighed, measured, felt, or touched or that is perceptible to the senses in any way

# Cost of Goods Sold

- The margin tax definition is very specific and does not entirely match the definition of “cost of goods sold” used by the Internal Revenue Service



# “Compensation” includes

- Up to \$300,000 of cash compensation to an employee (W-2) or partner (Form 1065) indexed to inflation
- Cost of “leased” employees
- Cost of all benefits, including worker’s compensation, health benefits, & retirement contributions, to the extent deductible for federal tax purposes



# Compensation does NOT include

- Payments to independent contractors (Form 1099)
- Wages paid to undocumented workers (not lawfully authorized to be in the U.S.)
- Employer's Social security and Medicare contributions
- Employer's unemployment compensation taxes



# Apportionment

$$\frac{\text{Receipts from Business in Texas}}{\text{Receipts from Business Everywhere}}$$

- A receipt from the sale of a good is generally sourced to the location the customer takes possession of the good.
- A receipt from providing a service is sourced to where the service is performed



# Margin Tax Rate

Wholesalers/Retailers	0.5%
All Others	1.0%

- An entity qualifies for the 0.5% rate if more than half of their receipts is from wholesale or retail trade, and
- Less than 50% of their wholesale/retail receipts are from the sale of products they do not produce, and
- They do not provide retail or wholesale utilities.



# “Cost of Goods” Sold or “Compensation”

Cost of Goods Sold	Compensation
<ul style="list-style-type: none"><li>•Manufacturers</li><li>•Wholesale Trade</li><li>•Retail Trade</li><li>•Utilities</li><li>•Oil and Gas</li><li>•Construction</li><li>•Banks</li><li>•Farming &amp; Ranching</li></ul>	<ul style="list-style-type: none"><li>•Services, including hospitals, doctors, attorneys, and other professionals</li></ul>

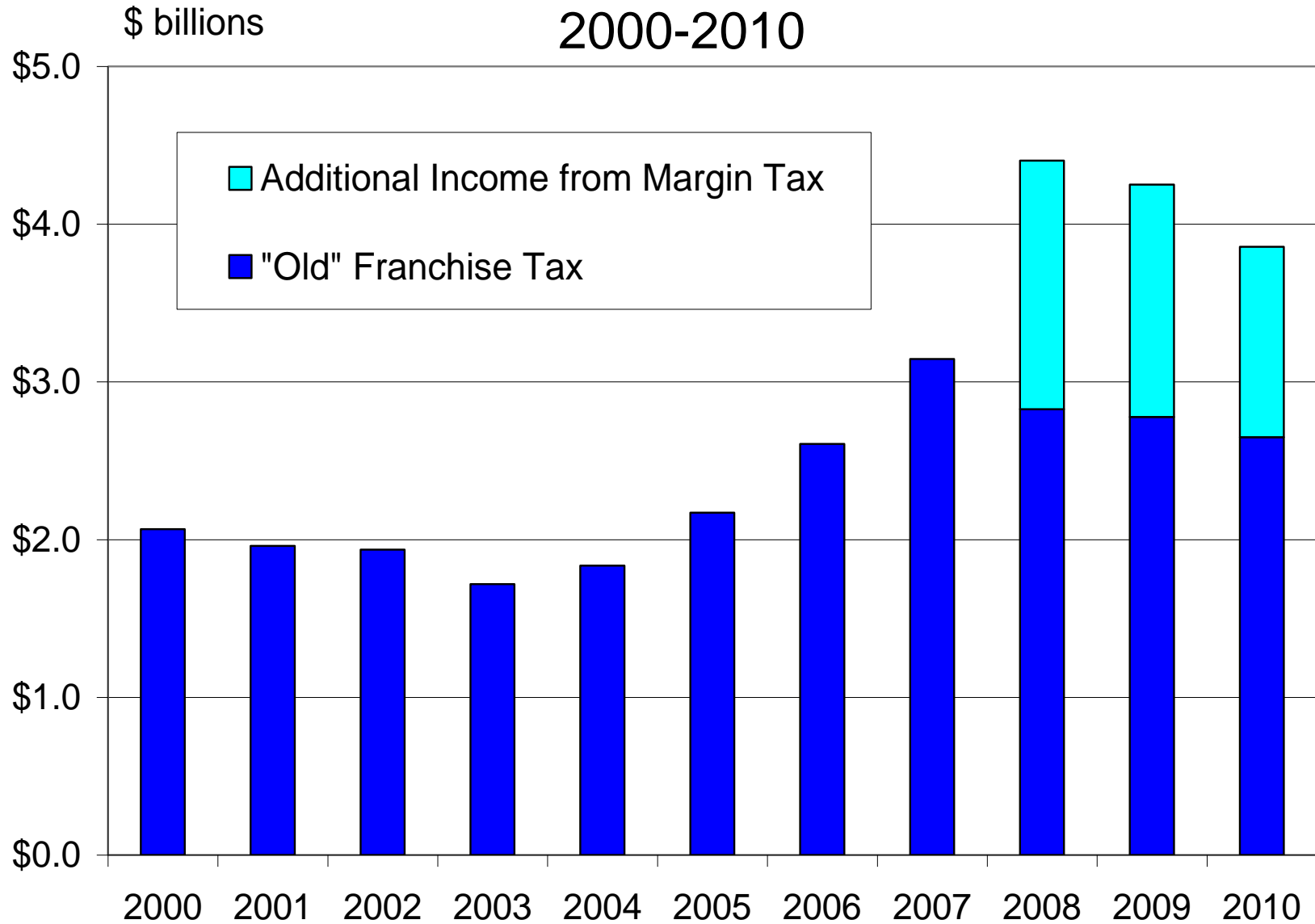


# Small Business Provisions

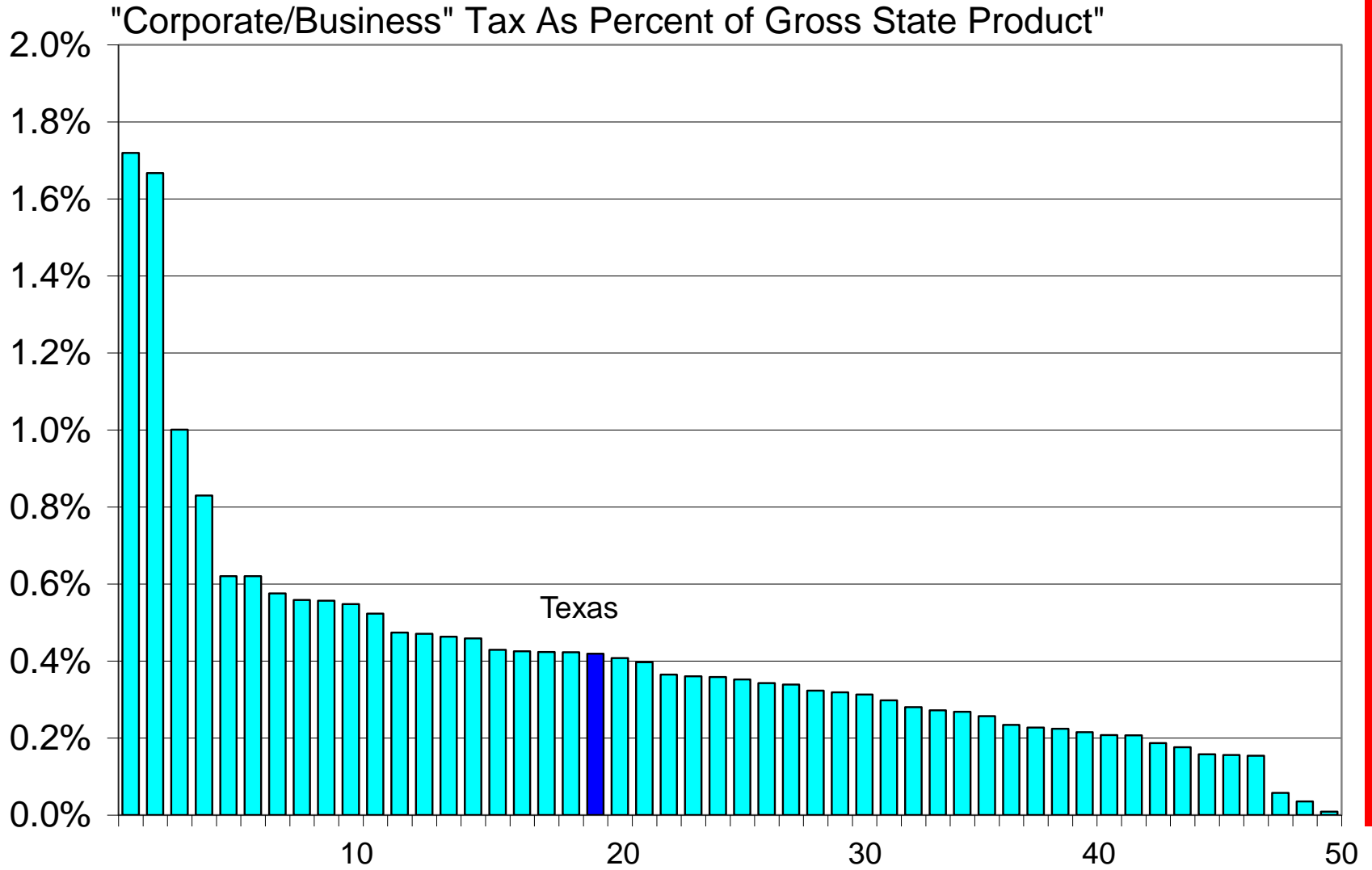
- Taxpayers with under \$1 million in annual receipts are exempt
- Taxpayers with under \$10 million in receipts may opt for the “EZ” computation of 0.575 percent of Texas revenue and avoid all other calculations



# Franchise Tax Revenue



# How the Franchise Tax Compares



# TTARA

Dale Craymer: State Budget, Franchise Tax

Bill Allaway: Transportation Finance

John Kennedy: Sales Tax, Property Tax

Sheryl Pace: School Finance

George Christian: Property Tax

Ryan Ash: Communications