

TTARA State and Local Tax 101

February 1, 2023



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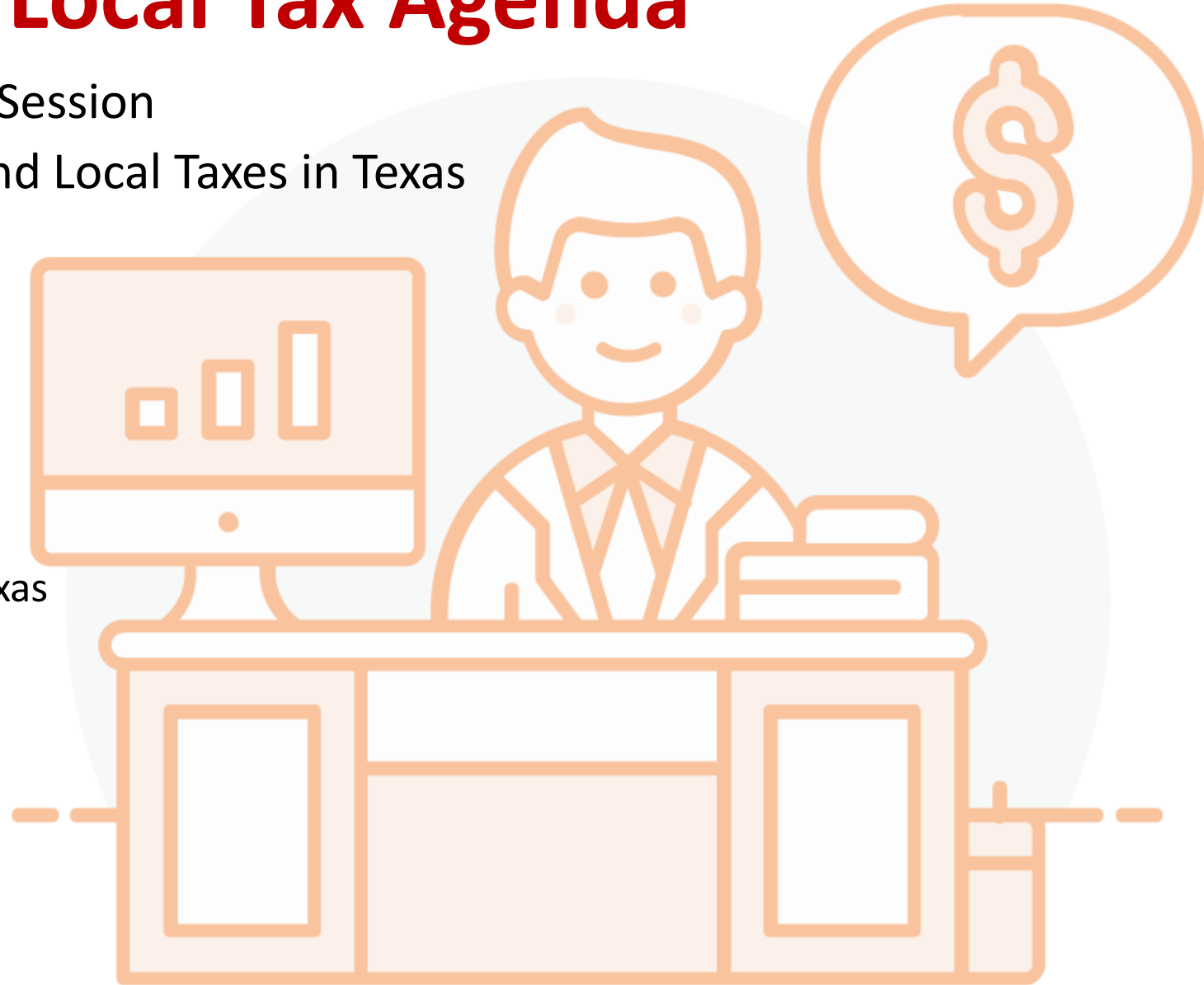
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State and Local Tax Agenda

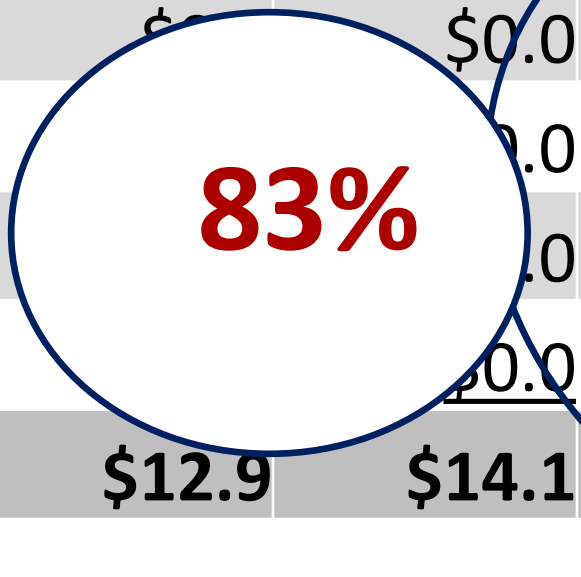
1. Introduction & Purpose of the Session
2. 10,000 Ft. Overview of State and Local Taxes in Texas
3. The Property Tax in Texas
 - i. Property Taxes Pre-Peveto
 - ii. Appraisal Process
 - a) Central Appraisal Districts
 - b) Appraisal Review Boards
 - iii. Budget and Tax Rate Setting Process
4. Sales Tax and Other State Taxes in Texas
 - i. Sales Tax
 - ii. Motor Vehicle Sales and Rental Tax
 - iii. Motor Fuels Tax
 - iv. Franchise (Margin) Tax
 - v. Oil & Gas Production Taxes
 - vi. Other State Taxes
5. Concluding Comments



Texas State and Local Taxes, 2022

Dollars Are in Billions

Tax	State	Schools	Cities	Counties	Special Districts	Total
Property	\$0.0	\$39.0	\$12.5	\$11.7	\$10.4	\$73.6
Sales	\$43.0	\$0.0	\$7.9	\$0.7	\$3.7	\$55.2
MV Sales	\$6.4	\$0.0	\$0.0	\$0.0	\$0.0	\$6.8
Severance	\$10.8	\$0.0	\$0.0	\$0.0	\$0.0	\$10.8
Franchise	\$5.7	\$0.0	\$0.0	\$0.0	\$0.0	\$5.7
Other	<u>\$11.3</u>	<u>\$0.0</u>	<u>\$0.1</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$11.6</u>
Total	\$77.2	\$39.0	\$20.5	\$12.9	\$14.1	\$163.7



83%



Data presented here on tax burden and interstate comparisons are from the Council on State Taxation.

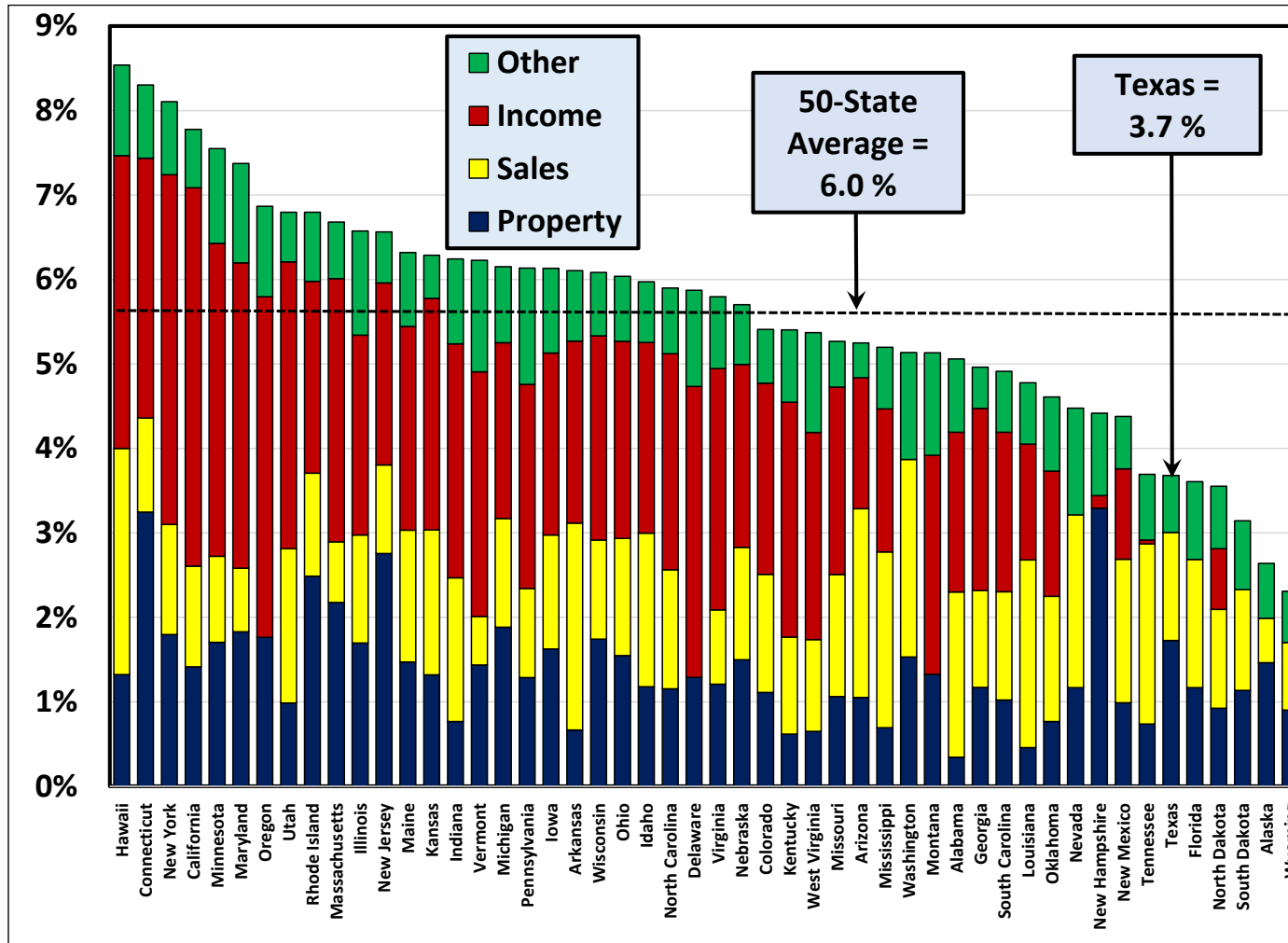
Per Capita State and Local Taxes, Texas and the US, 2020



- Most state and local tax systems are a “3-legged stool” of property, sales, and income taxes. Texas has two legs.
- Texas sales & property taxes are higher than most states.
- Texas severance taxes are a big part of “other revenues” that many states don’t have, however, many states levy other taxes Texas does not.

State & Local Taxes On Individuals

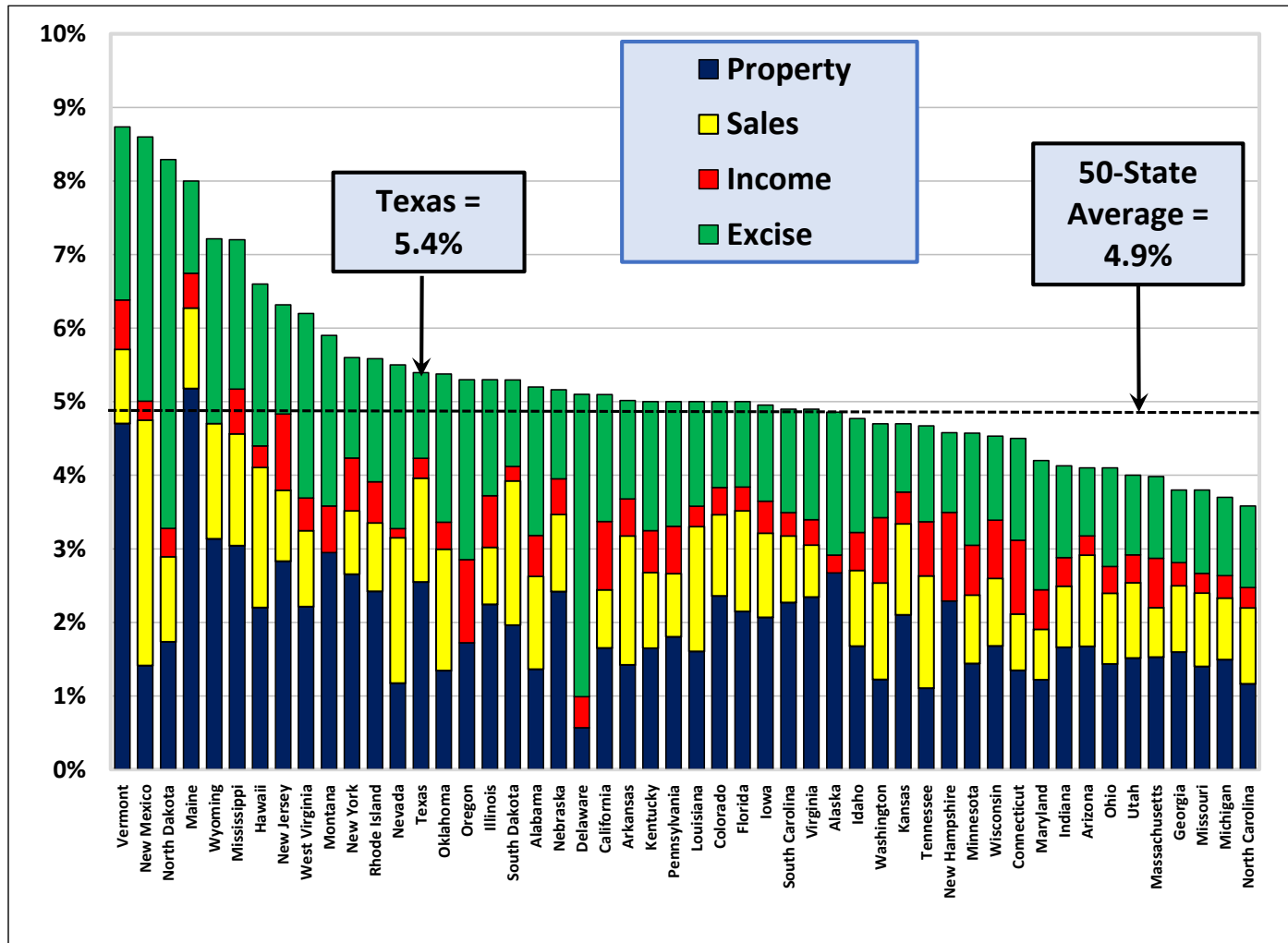
Taxes Paid as Percent of Personal Income



- Texas is a low tax state for individuals, ranking 45th highest or 6th lowest among the states.
- Lacking a personal income tax, Texas' state and local tax burden on individuals is almost 40% lower than the average state.

State & Local Taxes On Business

Taxes Paid as Percent of Economic Output



- Relying more heavily on property and sales taxes, which are imposed on both individuals and businesses alike, Texas is actually a high tax state for business.
- Texas taxes on business rank Texas 14th highest, 10% above the average state.



Property Taxes

The Property Tax in Texas

Flashback:

Creation of the Property Tax System

Pre- "Peveto Bill"

- Decentralized appraisals
- Poorly and unequally administered by thousands of tax offices

Post- "Peveto Bill"

- Centralized county appraisal districts
- Professionally-staffed districts
- Equitable and efficient process of valuation
- A single market value for each property

What is Taxable?

Individual

- Real Property
 - Land
 - Buildings
 - Structures



Business

- Real Property
 - Land
 - Buildings
 - Structures
- Personal Property
 - Inventory
 - Office Furniture
 - Supplies
 - Computers



Who Taxes It and What Does it Pay For?

Local Taxing Jurisdictions

- School Districts
- Counties
- Cities
- Special Districts
 - Road Districts
 - Hospital Districts
 - Municipal Utility Districts (MUD)



Property Tax Equation

Two Distinct and Separate Processes

Value

X

Tax
Rate

- Appraisal Process
- Determines share of the tax.



- Budget and Tax Rate Process
- Determines the size of the total tax.



Appraisal Process



- ***Central Appraisal Districts*** (CAD) are tasked with determining market value within the boundaries of the county.
- CAD is governed by a ***Board of Directors***, nominated and approved by the taxing units.
- Board of Directors appoints a ***Chief Appraiser*** to oversee day to day operations of the CAD.

Appraisal Process



- Tax code requires all taxable property to be appraised at **market value** as of *January 1*.
- Generally accepted appraisal methods and techniques must be used.
- Same or similar methods and techniques must be used in valuing same or similar kinds of property.

Appraisal Process



- Businesses are required to file a *General Personal Property Rendition*
 - **April 15th** deadline to file
 - **May 15th** extension via written request
 - Additional 15 days for show of good cause

Appraisal Process



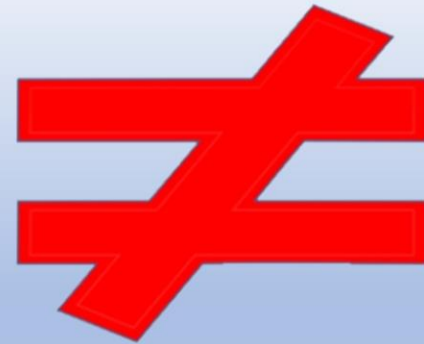
- *Notice of Appraised Value* sent by the chief appraiser to property owners
 - **April 1** for residence homesteads
 - **May 1** for any other property
- Required to send Notice of Appraised Value if one of the following occurs:
 - Value higher than previous year
 - Value higher than rendition filed
 - Property was not on the tax roll in the previous year
 - Exemption from the previous year was canceled or reduced

Appraisal Process



'You absolutely need to protest your appraisal and lower your taxes with Texas

*Protesting
Values*



*Protesting
Taxes*

Tex taxes in Texas

The deadline is May 15.

without going to a hearing

line to reduce

your property tax bill by filing a protest

Appraisal Process



- Protesting your ***valuations*** requires a *Notice of Protest* to be filed by the property owner by **May 15th** or 30 days from the delivery of the Appraisal Notice.
- ***Appraisal Review Boards*** are citizens appointed by the local administrative judge.
 - *Independent* from the CAD and chief appraiser.

Property Tax Equation

Two Distinct and Separate Processes



Value \times Tax
Rate


$$\text{Tax Rate} = \text{Levy} / \text{Tax Roll}$$

Property Tax Equation

$$\text{Tax Rate} = \text{Levy} / \text{Tax Roll}$$

- Levy = Revenue needed to fund the budget that is adopted each year
- Tax Rate is adopted from year to year and moves based on value or the *desired level of revenue* of the taxing unit.
- Value and Rates should have an inverse relationship

Value  Rates 



Budget and Tax Rate Process

- Who determines your Tax?
 - **State Legislature** does not determine your property tax
 - All forms of state property taxation were abolished in 1982
 - **Appraisal districts** do not determine your property tax
 - Appraisal district is only charged with determining the proportionate share of the tax through market appraisal
 - **Local taxing units** do determine your property tax
 - Adopt tax rates needed to raise tax revenue sufficient to fund spending approved in their budgets

**Until the tax rate is adopted,
your tax is.....ZERO!**



Budget and Tax Rate Process

- Two key deadlines linking the Appraisal Process to Budget and Rate Adoption Process:
 1. **July 20** – ARB approves appraisal records
 - May be extended to August 30 in counties with over 1 million population (Harris, Dallas, Tarrant, Bexar, Travis, Collin)
 - ARB may not approve appraisal records if 5% of appraisal roll remains under protest – 10% for counties of 1 million+
 2. **July 25** – Chief Appraiser certifies estimated value
 - If no ARB approval by July 20 Chief Appraiser must prepare and certify an **estimate** of taxing unit taxable value



Budget and Tax Rate Process

- Budget Adoption Process
 - Local Government Code
 - Cities and Municipalities – Chapter 102
 - Counties – Chapter 111
 - Special Districts – Information by individual district in Special District Local Laws Code



Budget and Tax Rate Process

- Budget Adoption Process in *general*
- Annual budgets are required
- Adoption timing based on type of taxing unit
- Key is the amount of ***property tax revenue*** needed to fund the expenditures of the budget





Budget and Tax Rate Process

- ***Budget Cover Page*** is the key element of the budget
- Amount of property tax revenue increase
- More revenue means *property tax increase*

TRAVIS COUNTY ADOPTED BUDGET FOR FISCAL YEAR 2022

This budget will raise more revenue from property taxes than last year's budget by an amount of \$47,295,468, which is a 6.0 percent increase from last year's budget. The property tax revenue to be raised from new property added to the tax roll this year is \$23,293,922.

Record Vote of Commissioners Court

Andy Brown	(In favor of budget)
Jeffrey W. Travillion, Sr.	(In favor of budget)
Brigid Shea	(In favor of budget)
Ann Howard	(In favor of budget)
Margaret J. Gómez	(In favor of budget)

Property Tax Rates and Financial Information:

Travis County Property Tax Rate for 2021 Fiscal Year

Property Tax Rate: \$.374359 per \$100 valuation

Travis County Property Tax Rates for 2022 Fiscal Year

Property Tax Rate:	\$.357365 per \$100 valuation
No New Revenue Rate:	\$.346859 per \$100 valuation
No New Revenue Effective	
Maintenance and Operations Tax Rate:	\$.296919 per \$100 valuation
Voter Approval Rate:	\$.357365 per \$100 valuation
Debt Rate:	\$.050054 per \$100 valuation

Total Debt Obligations: \$1,054,720,000



Budget and Tax Rate Process

- Elements of a Tax Rate
 - **Maintenance & Operations (M&O)**
 - Funds general operations
 - **Interest & Sinking (I&S)**
 - Pays debt service obligations
 - Covers both voter-approved and non-voter-approved debt such as Certificates of Obligation





Budget and Tax Rate Process

- ***No-New-Revenue Tax Rate***
 - What is it?
 - Rate that will generate the previous year's revenue when applied to current values of properties on last year's tax roll.
- ***Voter-Approval Tax Rate***
 - What is it?
 - Rate that triggers an automatic ratification election to obtain voter permission to exceed voter-approval rate



Budget and Tax Rate Process

- ***Proposed Tax Rate***
 - What is it?
 - Rate that will be put up for a vote of the governing body to generate the desired level of revenue needed to fund the expenditures of the budget
- ***Adopted Tax Rate***
 - What is it?
 - Rate that has been voted by the governing body to generate the desired level of revenue needed to fund the expenditures of the budget
 - Final rate applied to taxable property in the jurisdiction



Budget and Tax Rate Process

Voter-Approval Election Matrix					
	<u>Cities < 30,000</u>	<u>Cities >30,000</u>		<u>Special Taxing</u>	<u>All Other</u>
	<u>Population</u>	<u>Population</u>	<u>All Counties</u>	<u>Units</u>	<u>Special Districts</u>
General Rule					
Voter-Approval Rate	3.5%	3.5%	3.5%	8%	3.5%
Election Provision	Automatic Election	Automatic Election	Automatic Election	Automatic Election	Automatic Election
Ballot Language	"Yes" approves the tax rate	"Yes" approves the tax rate	"Yes" approves the tax rate	"Yes" approves the tax rate	"Yes" approves the tax rate
Election Result to Lower Rate	Fails	Fails	Fails	Fails	Fails
Resulting Tax Rate	Voter-Approval Tax Rate @3.5%	Voter-Approval Tax Rate @3.5%	Voter-Approval Tax Rate @3.5%	Voter-Approval Tax Rate @ 8%	Voter-Approval Tax Rate @3.5%
De minimis Rule raising < \$500,000					
Voter-Approval Rate	3.5%	n/a	3.5%	n/a	3.5%
Election Provision	Petition Required	n/a	Petition Required	n/a	Petition Required
Ballot Language	"Yes" reduces the tax Rate	n/a	"Yes" reduces the tax Rate	n/a	"Yes" reduces the tax Rate
Election Result to Lower Rate	Successful	n/a	Successful	n/a	Successful
Resulting Tax Rate	Voter-Approval Tax Rate @3.5%	n/a	Voter-Approval Tax Rate @3.5%	n/a	Voter-Approval Tax Rate @3.5%



Budget and Tax Rate Process

- ***Hearings on both budget and tax rate***
 - Texas.gov/PropertyTaxes
 - One website for each county
 - Each taxing unit is required to provide the following information:
 - Property value
 - Each taxing unit's no-new-revenue, voter-approval, and proposed tax rates and taxes due at those rates
 - Link for electronic submission of comments/opinions
 - Date, time, and place of hearings

Property Tax Transparency in Texas

The budgets adopted by taxing units and the tax rates they set to fund those budgets play a significant role in determining the amount of taxes each property owner pays. In 2019, the Texas Legislature passed legislation to help Texans better understand tax rates in their home county. You can access timely information about how local tax rate decisions affect your tax bill on your county's Truth in Taxation website.

Find your county's website

Property Tax Relief within the Processes

Two Distinct and Separate Processes



Value

X

Tax
Rate



- Appraisal Process
- Exemption and Limitations
 - Shift the tax burden onto property owners who do not have an exemption or limitation.

- Budget and Tax Rate Process
- Limit Tax Revenue and Tax Rates
 - Controls the amount of tax revenue and tax rates while equitably spreading the relief to all owners.



Sales Tax and Other State Taxes in Texas

Sales and Use Tax Overview

Sales tax is imposed on the sale, rental, and lease of tangible personal property and certain services.

- ✓ Responsibility for collecting and reporting the tax resides with the retailer.

What is the “use tax”?

- ✓ A Texas purchaser owes use tax if the purchaser buys taxable goods and services that are stored, used, or consumed in Texas from a seller who does not charge Texas sales tax.

Sales Tax Rate

The state sales and use tax rate is 6.25% of the retail sales price.

Cities, counties, special purpose districts, and transit authorities may impose up to 2.00% sales and use tax.

The maximum combined rate is 8.25%.

Interstate Sales Tax Rate Comparison

The average combined rate for Texas is the 14th highest in the U.S.

- Texas average combined rate: 8.20%

The five states with the highest average combined rates:

- Louisiana (9.55%), Tennessee (9.547%), Arkansas (9.48%), Washington (9.29%), Alabama (9.22%)

The five states with the lowest average combined rates:

- Alaska* (1.76%), Hawaii (4.44%), Wyoming (5.22%), Wisconsin (5.43%), Maine (5.50%)

Five states do not have statewide sales taxes:

- Alaska*, Delaware, Montana, New Hampshire, Oregon

*Alaska allows local sales tax

(Source: Tax Foundation)

The Sales Tax Base

The sale of an item of *tangible personal property* is taxable unless an exemption applies.

- Common retail exemptions: food for home consumption, certain health care items, clothing and footwear and other items sold during “holidays.”

The sale of a *service* is not taxable unless it is listed as a taxable service in law.

- Examples of taxable services: cable television services, information services (-20%), data processing services (-20%), non-residential real property repair and remodeling.

Sales Tax Sourcing

“Sourcing” refers to the location where a retail sale is taxed.

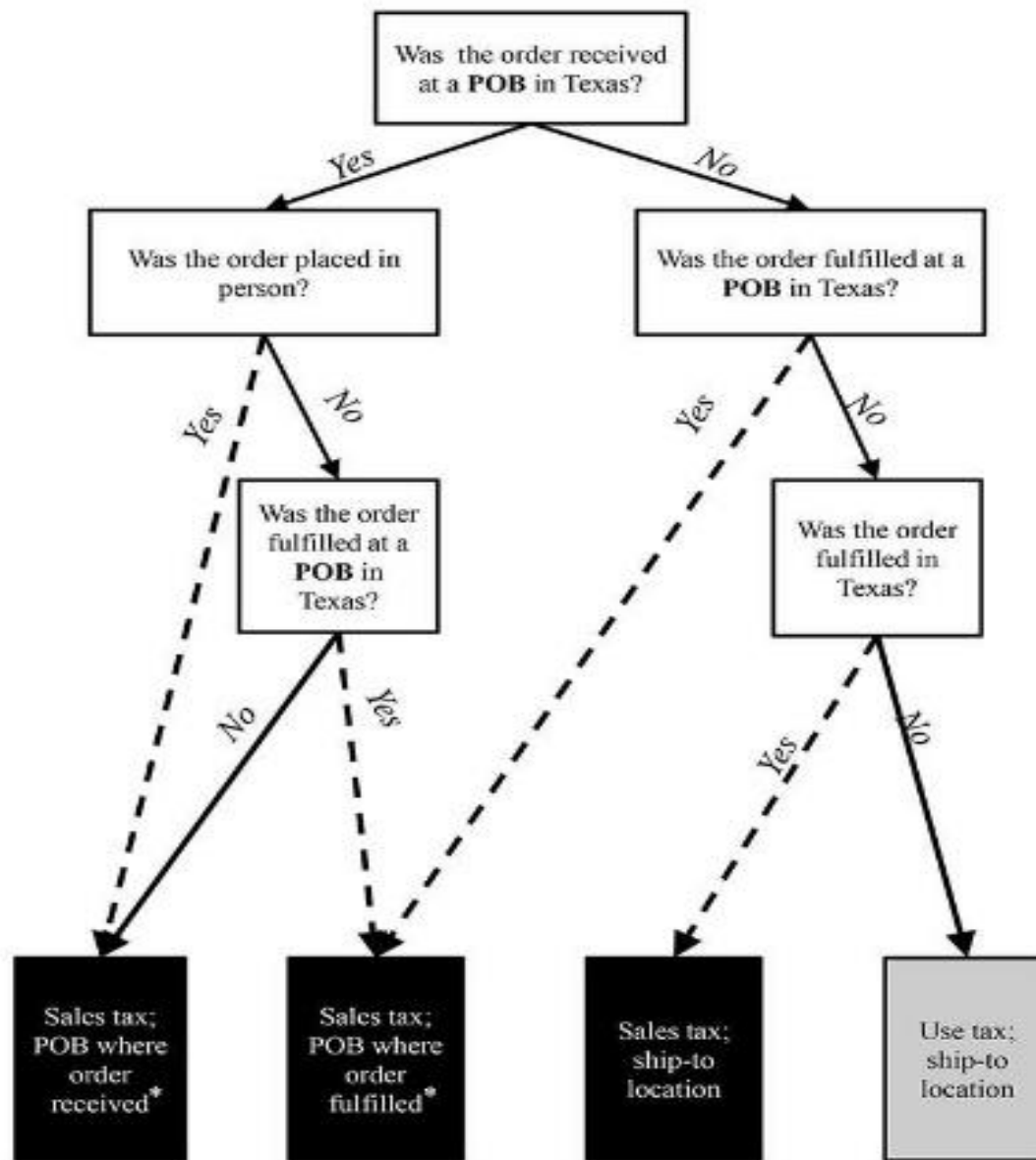
Why is this important?

- ✓ Sourcing determines which local taxing jurisdictions receive local sales tax revenue.
- ✓ When a seller ships from a location *outside* Texas, the sale is sourced to the destination (delivery) point.

Sourcing (continued)

When a seller ships from a location *inside* Texas, where the sale is sourced depends on how the order was placed and where the order was fulfilled:

POB = place of business



Marketplace Providers and Sellers

- ✓ A “marketplace provider” is an entity that operates a marketplace and processes sales for marketplace sellers (e.g., Amazon, eBay).
- ✓ A “marketplace seller” is an individual who sells through a marketplace provider.
- ✓ Marketplace providers engaged in business in Texas must:
 - collect, report, and remit state and local sales tax on all sales made through the marketplace, and
 - certify to marketplace sellers that they will collect sales tax on their behalf.

Sales Tax Filing Discounts

- ✓ Timely Filer – Taxpayers may claim a discount of 0.5% of the amount of tax when timely reported and paid.
- ✓ Prepayment - Taxpayers who prepay may claim 0.5% for timely filing plus 1.25% for prepaying.

Sales Tax and the Budget

Sales Tax Does the Heavy Lifting for the State Budget

- ✓ 59% of all general revenue-related funds comes from state sales and use tax.
- ✓ Sales tax is primarily allocated to the General Revenue Fund.
 - One major exception: Sales tax revenue received in a year above \$28 billion and below \$30.5 billion is sent to the State Highway Fund.
- ✓ For the 24-25 biennium, state sales tax is projected to raise \$87.9 billion.

Motor Vehicle Sales Tax

The motor vehicle sales tax is imposed on the retail sales price, less trade-in allowance, of a motor vehicle sold in Texas.

- ✓ The rate is 6.25%.
- ✓ There is no local motor vehicle sales tax.
- ✓ Counties collect the tax and keep 5%

A motor vehicle that was purchased or leased out of state and brought into Texas is subject to motor vehicle *use tax*.

Motor Vehicle Rental Tax

The motor vehicle rental tax is:

- ✓ 10% of gross rental receipts for contracts of 1-30 days (short-term rentals), and
- ✓ 6.25% of gross rental receipts for contracts of 31-180 days (long-term rentals).

Texas cities and counties may also impose a local tax on short-term rentals.

Motor Vehicle Sales and Rental Taxes

State motor vehicle sales and rental taxes are projected to raise \$12.7 billion for the 24-25 biennium.

35% of revenue above \$5 billion collected during a fiscal year is dedicated to the State Highway Fund.



Motor Fuel Taxes

Tax rates

- ✓ Gasoline and diesel - \$0.20 per gallon
- ✓ Compressed natural gas and liquefied natural gas - \$0.15 per gallon

Allocation

- ✓ Approximately 73% of collections are deposited to the State Highway Fund
 - ✓ \$5.65 billion for the 24-25 biennium
- ✓ Approximately 27% of collections are deposited to General Revenue-Related funds.
 - ✓ \$2.1 billion for the 24-25 biennium

Franchise Tax

The Texas franchise tax is a one-of-a-kind general business tax.

- ✓ A corporate income tax is the principal tax on business entities in 44 states.
- ✓ While several states have business taxes based on gross receipts, Texas is the only state with a business tax based on “margin.”

For the 24-25 biennium, franchise tax is expected to bring in \$12.61 billion, with \$8.8 billion going to GR-R funds and the remainder going to the PTR fund.

Franchise Tax

A business entity formed in Texas or doing business in Texas must file and pay franchise tax.

- ✓ Generally, business entities that enjoy legal liability protection from the state (corporations, limited partnerships, certain general partnerships, business trusts, and the like) are subject to the tax.
- ✓ Entities not subject to franchise tax include sole proprietorships, general partnerships directly owned only by natural persons, and passive entities.

Franchise Tax Margin

The tax is based on “margin.”

A taxable entity may choose the method of margin computation:

- ✓ total revenue times 70%
- ✓ total revenue minus cost of goods sold (COGS)
- ✓ total revenue minus compensation
- ✓ total revenue minus \$1 million

Total revenue is determined from revenue amounts reported for federal income tax minus certain exclusions.

COGS and Compensation

Cost of Goods Sold Deduction

- ✓ COGS generally includes costs related to the acquisition and production of tangible personal property and real property with certain industry-specific allowances.

Compensation Deduction

- ✓ Generally, compensation includes wages and compensation paid to officers, directors, owners, partners, and employees, plus benefits.

Apportionment and Combined Reporting

Apportionment

- ✓ A state may only tax economic activity inside its borders
- ✓ Margin is apportioned to Texas based on sales
 - ✓ Some states apportion based on payroll, property, and/or sales

Combined Reporting

- ✓ Members of an affiliated group engaged in a unitary business must file a combined group report

Franchise Tax: Two Rates

Franchise Tax Rates

- ✓ Retail or wholesale businesses tax rate is 0.375%
- ✓ Other than retail or wholesale tax rate is 0.75%

Franchise Tax for Small Businesses

EZ Computation for Small Business

- ✓ Small businesses with \$20 million or less in total revenue may use a simplified calculation called the EZ computation.
- ✓ The EZ computation uses a reduced tax rate of 0.331% multiplied by a business' revenue apportioned to Texas.
- ✓ This is in addition to computation methods available to all taxable entities.

No Tax Due Thresholds:

- ✓ Less than \$1,230,000 in revenue.
- ✓ Less than \$1,000 in tax liability.

Oil and Gas Production Taxes

The crude oil production tax is levied at 4.6% of market value.

- Lower rates are available in certain circumstances.
- For the 24-25 biennium, the crude oil production tax is expected to raise \$13.26 billion.

The natural gas production tax is levied at 7.5% of value.

- Natural gas condensates are taxed at the oil production rate of 4.6%.
- For the 24-25 biennium, the natural gas production tax is expected to raise \$8.6 billion.

Other State Taxes

Insurance Taxes

- ✓ Applied to gross premiums with varying rates depending on product line.
- ✓ Expected to bring in \$7 billion in the 24-25 biennium.

Alcoholic Beverage Taxes

- ✓ Includes malt beverage, liquor, wine, mixed beverage gross receipts, mixed beverage sales.
- ✓ Expected to raise \$3.6 billion in the 24-25 biennium.

Tobacco Taxes

- ✓ Includes cigarettes, cigars, other tobacco products taxes.
- ✓ Expected to bring in \$2.4 billion in the 24-25 biennium

Other State Taxes

Hotel Occupancy Tax

- ✓ The state tax is 6% of the room rate paid by occupant
- ✓ A local hotel tax may be added.
- ✓ Expected to bring in \$1.6 billion for the 24-25 biennium.

Utility Taxes

- ✓ The gas, electric, and water utility tax, the public utility gross receipts assessment, and the gas utility pipeline tax.
- ✓ Expected to reach \$1.2 billion in the coming biennium.

Concluding Comments & Thanks for Joining Us!

If you have any questions or
comments, please feel free to contact
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