

Presentation to the
Ways and Means Committee
The Honorable Dennis Bonnen, Chair
March 1, 2017

Overview of Taxes Administered by the Comptroller

Presented by
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Taxable Margin

The franchise tax is based on a taxable entity's margin for reports due on or after January 1, 2008. Taxable Entities with Total Revenue of \$1,110,000 or less owe no tax.

Margin is computed in one of four ways:

- 1) Total Revenue times 70%;
- 2) Total Revenue minus Cost of Goods Sold;
- 3) Total Revenue minus Compensation (salary per employee capped at \$360,000); or
- 4) Total Revenue minus \$1 million (for reports originally due on or after Jan. 1, 2014).

Apportioned times applicable tax rate.

or

E-Z Computation – Entities with less than \$20 million in Total Revenue
Apportioned Total Revenue times .331 percent

Summary of Recent Changes

House Bill 500 (2013 legislative session).

- **Revenue Exclusions:**
 - Pharmacy networks
 - Aggregate transporters and barite transporters
 - Landman and waterway transportation services
 - Cost of a vaccine
 - Registered motor carriers for taxes and fees.
- **Cost of goods sold:**
 - Movie theaters' exhibition of motion pictures
 - Pipeline entities transporting goods for others

Summary of Recent Changes (cont.)

House Bill 500 (2013 legislative session) cont.

- **0.5 percent tax rate:**
 - Automotive repair shops (SIC 753)
 - Rental or leasing of tools, party and event supplies, furniture (SIC 7359)
 - Heavy construction equipment rental or leasing (SIC 7353)
 - Rental-purchase agreement activities regulated by Chapter 92, Business & Commerce Code
- **Temporary Rate Reductions**
 - 2.5 percent reduction for reports due in 2014
 - 5 percent reduction for reports due in 2015

Summary of Recent Changes (cont.)

House Bill 32 (2015 legislative session)

- **Permanent Rate Reduction:**
 - Rates reduced by 25 percent for report year 2016 and thereafter
 - 1 percent reduced to .75 percent
 - .5 percent reduced to .375 percent
- **Modifications to EZ Computation**
 - Threshold increased from \$10 million to \$20 million
 - Rate reduced from .575 percent to .331 percent
 - Changes effective for report year 2016 and thereafter

Franchise Tax Filers

Franchise Tax	# of Filers
Total Franchise Tax Filers	1, 574,245
Franchise Tax Filers w/no Tax Due	1,076,661

- 961,978 franchise taxpayers file electronically

Limited Sales & Use Tax Base and Rate

Texas imposes a state sales and use tax on all retail sales, leases and rentals of tangible personal property, unless specifically exempt, as well as certain taxable services. The state sales tax rate is 6.25%.

Texas' 1531 local taxing jurisdictions may impose additional local sales and use taxes up to a combined local sales tax rate of 2% for a maximum combined state and local rate of 8.25%.

Taxable Services

- Amusement services
- Cable and Satellite Television Services
- Credit Reporting Services
- Data Processing Services (80%)
- Debt Collection Services
- Information Services (80%)
- Insurance Services
- Internet Access (1st \$25 exempt)
- Motor Vehicle Parking and Storage
- Nonresidential Repair, Remodeling or Restoration of Real Property
- Repair, Remodeling, Maintenance, and Restoration of tangible personal property except for aircraft, ships, and motor vehicles
- Personal Services (laundry, carpet and drapery cleaning and garment services, except coin operated);
- Real Property Services (landscaping, lawn maintenance, garbage collection, janitorial services, structural pest control, and surveying of real property)
- Security Services
- Telecommunications Services
- Telephone Answering Services
- Utility Transmission and Distribution

Major Sales and Use Tax Exemptions

- Sales for Resale
- Sales to Governmental Bodies
- Health Care Supplies
- Food for Home Consumption
- Agricultural Items
- Residential and Manufacturing Use of Gas and Electricity
- Manufacturing Exemptions for Inputs and Certain Equipment

Sales Tax Filers

Sales Tax Filers	# of Filers	# of Electronic Filers	Percent Filing Electronic
Monthly Filers	195,563	175,603	90 %
Quarterly Filers	274,021	134,596	49 %
Annual Filers	185,914	52,232	28 %
Total Filers	655,498	362,431	55 %

Other Taxes

- Motor Vehicle Sales Tax – Current rate: 6.25%
- Motor Vehicle Rental Tax – Current rates: 10% for less than 30 days, 6.25% for 31 days to 180 days
- Severance Taxes
 - Oil Production Tax – Current Rate: 4.6%
 - Natural Gas Tax – Current Rate: 7.5%
- Insurance Premium Tax – Current Rates: Various from 1.35% to 1.75%
- Insurance Maintenance Taxes – Current Rates: Various from .01% to 1.8%
- Mixed Beverage Taxes – Current Rates: Mixed Beverage Sales Tax: 6.25%
Mixed Beverage Gross Receipts Taxes: 6.7%
- Tobacco Taxes – Current Rates: Cigarette \$1.41/pack
- State Hotel Tax – Current Rate: 6%
- Motor Fuels Taxes – Current Rates: Gasoline and Diesel \$.20/gallon
CNG/LNG \$.15/gallon

Questions?

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