



GLENN HEGAR TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

Tax

A REPORT TO THE GOVERNOR  
AND THE 84TH TEXAS LEGISLATURE  
MARCH 2015

Exemptions

& Tax

Incidence



March 24, 2015

The Honorable Greg Abbott, Governor  
The Honorable Dan Patrick, Lieutenant Governor  
The Honorable Joseph R. Straus, III, Speaker of the House  
Members of the 84th Legislature

Ladies and Gentlemen:

As required by Section 403.014, Texas Government Code, this report estimates the value of each exemption, exclusion, discount, deduction, special accounting method, credit, refund, and special appraisal available under Texas' sales, franchise, motor vehicle sales, and oil production taxes, as well as under the property tax levied by Texas school districts.

For 2015, aggregate exemptions for these revenue sources will total an estimated \$54.2 billion. Of this amount, the exemptions related to the state taxes included in this report will account for \$44.4 billion, and school property tax exemptions will account for the remaining \$9.8 billion.

This report also presents the results of the analysis prepared pursuant to Section 403.0141, Texas Government Code, which directs the Comptroller of Public Accounts to report on the incidence of certain taxes and exemptions.

The material in this report is provided only for informational purposes. This report makes no recommendations for retaining, eliminating, or amending any provisions of the law.

Sincerely,

A handwritten signature in black ink that reads "Glenn Hegar". The signature is fluid and cursive, with the first name "Glenn" written in a larger, more prominent script than the last name "Hegar".

Glenn Hegar

cc: Ursula Parks, Director, Legislative Budget Board



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# Table of Contents

<b>Overview</b> .....	<b>1</b>
About the Estimates .....	1
<b>Limited Sales and Use Tax</b> .....	<b>3</b>
<b>Franchise Tax</b> .....	<b>15</b>
<b>Motor Vehicle Sales and Use Tax</b> .....	<b>29</b>
<b>Oil Production Tax</b> .....	<b>31</b>
<b>School Property Tax</b> .....	<b>33</b>
<b>The Nature of Tax Incidence</b> .....	<b>41</b>
<b>Texas Tax Incidence</b> .....	<b>43</b>
Limited Sales and Use Tax .....	45
Franchise Tax .....	54
Motor Vehicle Sales and Use Tax .....	59
Oil Production Tax .....	60
School Property Tax .....	62
Gasoline Tax .....	67
Cigarette Tax .....	68
Natural Gas Tax .....	69
Insurance Premium Tax .....	70

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# Overview

In state fiscal year 2015—extending from September 1, 2014 to August 31, 2015—exemptions\* from the sales, franchise, motor vehicle sales, and oil production taxes will amount to \$44.41 billion.

Sales tax exemptions will total \$42.37 billion, and franchise tax exemptions will total \$1.88 billion. Motor vehicle sales tax exemptions will total \$79.7 million. Oil production tax exemptions will total \$78.7 million.

Exemptions or special appraisals for local school district property taxes will amount to an estimated \$9.8 billion in tax year 2015. Estimates for 2015 through 2020 are itemized in Table 10.

The above amounts include exemptions and exclusions from the tax base, and special rates, deductions, and discounts.

In fiscal 2014, combined state revenues—accruing to all funds—from the sales, franchise, motor vehicle sales, and oil production taxes totaled \$39.87 billion and accounted for more than 78 percent of the state's total tax revenue. School property taxes generated an estimated \$26.26 billion in tax year 2014.

## About the Estimates

The exemption estimates are unadjusted amounts, meaning that elimination or repeal of a specific exemption would not necessarily produce the dollar amounts cited in this report. Actual receipts would depend on enforcement, taxpayer compliance, effective dates of legislation repealing the exemption, taxpayer discounts, and the exact wording of the legislation.

Each estimate is based on the best information available from public and private sources, including the Comptroller's Office's tax records. The report contains no recommendations related to the exemptions estimated.

This report briefly and generally describes state tax exemptions. These descriptions do not grant rights or impose obligations; the Tax Code and administrative rules determine actual taxability. ⚡

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\* The term "exemptions," as used in this Overview, includes exemptions, exclusions, discounts, deductions, special accounting methods, credits, refunds, and special appraisals.

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# Limited Sales and Use Tax

The sales and use tax is the largest source of tax revenue for Texas state government, bringing in about 54 cents of every state tax dollar in fiscal 2014. The sales tax is a tax on transactions. In general, it is imposed on final sales, rentals, and leases of tangible personal property—physical goods—and on sales of certain services, such as the repair of tangible personal property, amusements, and telephone services.

While sales and use tax collections<sup>1</sup> totaled \$27.33 billion in fiscal 2014, the tax is limited in scope when compared with the total number and kind of transactions in the economy, because of various exemptions and exclusions. For simplicity, this tax is referred to as the “sales tax” throughout the remainder of this discussion.

## Classifying Sales Tax Exemptions

Liability for the sales tax is limited by three statutory mechanisms: *exemptions*, *exclusions*, and *discounts*. Estimates of their values – that is, the cost to the state government in lower sales tax revenue collections – are provided in **Table 1**.

An *exemption* protects items that would be taxable except for specific provisions in the law. For example, since the Texas sales tax law taxes all sales of tangible personal property, groceries would be taxable if they were not specifically exempted.

*Exclusions* are transactions not taxed because they fall outside the legal definition of a taxable sale. Exclusions include sales of intangibles, such as stocks and bonds, sales and rentals of real property, as well as sales of most services. Currently, only certain specified services are subject to the sales tax.

*Discounts* are handling fees that Texas law allows tax-permit holders to retain in exchange for collecting the sales tax and sending it to the state on time. The “timely filer” discount is 0.5 percent of the sales tax collected. An additional 1.25 percent “prepayment” discount is available to those who pay their estimated taxes in advance.

Exemptions are provided for certain basic necessities, such as groceries, residential gas and electric utilities, and prescription and over-the-counter drugs. Other sales are exempted when made to certain groups. For example, governmental bodies and religious and nonprofit educational groups buy items for their own use tax-free.

Other exemptions apply because the tax would be impractical to collect. For example, those who make only occasional sales (one or two sales of taxable items per year) do not collect the tax; however, purchasers with sales tax permits are responsible for remitting the tax.

Most other exemptions and exclusions prevent multiple taxation of the same items or reduce business costs.

## Sales Tax: Exemptions

Specific sections of the Texas Tax Code exempt particular items from the sales tax. The following discussion outlines these exemptions and includes references to the appropriate section of the Tax Code covering those items.

**Table 1**

### Value of Sales Tax Exemptions, Exclusions, and Discounts

Fiscal 2015 to 2020 – In millions of dollars

Item	2015	2016	2017	2018	2019	2020
Exemptions	\$34,631.3	\$35,946.8	\$38,262.8	\$41,114.8	\$43,383.4	\$45,749.8
Exclusions	7,490.1	7,920.5	8,413.0	8,953.5	9,519.8	10,107.0
Discounts	251.3	257.6	274.0	291.7	310.4	330.4
<b>Total</b>	<b>\$42,372.8</b>	<b>\$44,124.9</b>	<b>\$46,949.8</b>	<b>\$50,359.9</b>	<b>\$53,213.6</b>	<b>\$56,187.2</b>

Note: Columns may not sum because of rounding.

<sup>1</sup> Includes revenue collections from the limited sales and use tax (revenue object 3102), prepayments of the limited sales and use tax (3101), the motor fuel lubricants sales tax (3010), the limited sales and use tax for state entity sales (3103), interest on retail credit sales (3100), and the discount for state entities collecting the sales tax (3105).

Table 2 summarizes the estimated values of these exemptions for fiscal 2015 and the following five fiscal years. Exemptions for which the value cannot be estimated because of insufficient data are marked “cbe.”

**Table 2**

**Value of Sales Tax Exemptions**  
Fiscal 2015 to 2020 – In millions of dollars

Tax Code Section	Exemption	2015	2016	2017	2018	2019	2020
151.302	Sales for resale	cbe	cbe	cbe	cbe	cbe	cbe
151.3021	Packaging supplies and wrapping (dry cleaning)	*	*	*	*	*	*
151.303	Previously taxed items	cbe	cbe	cbe	cbe	cbe	cbe
151.304	Occasional sales	cbe	cbe	cbe	cbe	cbe	cbe
151.305	Coin-operated machine sales	*	*	*	*	*	*
151.306	Transfers of common interests in property	cbe	cbe	cbe	cbe	cbe	cbe
151.307	Exemptions required by prevailing law	cbe	cbe	cbe	cbe	cbe	cbe
151.3071	Installation of certain equipment for export	*	*	*	*	*	*
151.308	Items taxed by other law						
	Crude oil	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
	Motor vehicles	4,481.4	4,751.6	5,061.8	5,420.3	5,794.4	6,130.1
	Motor fuels	2,653.8	2,716.6	2,918.9	3,626.1	3,827.8	4,034.2
	Mixed beverages	381.4	403.0	428.0	453.5	479.9	507.7
	Cement	0.0	0.0	0.0	0.0	0.0	0.0
	Sulphur	0.0	0.0	0.0	0.0	0.0	0.0
	Aviation fuel	117.1	120.6	131.7	166.9	178.8	191.5
	Oil well servicing	267.8	160.7	173.5	190.9	200.4	210.4
	Insurance premiums	5,462.4	5,599.0	5,940.5	6,207.9	6,450.0	6,701.5
	Total for items taxed by other law	13,363.9	13,751.6	14,654.4	16,065.5	16,931.4	17,775.4
151.309	Governmental entities	378.1	391.6	410.6	427.3	446.7	467.4
151.310	Religious, educational, and public service organizations						
	Sales to non-profits	34.1	36.0	38.5	40.7	43.1	45.7
	One day sales	7.9	8.3	8.9	9.4	9.9	10.5
151.3101	Amusement services	cbe	cbe	cbe	cbe	cbe	cbe
151.3105	Bingo equipment purchased by certain organizations	0.2	0.3	0.3	0.3	0.3	0.3
151.311	Taxable items incorporated into or used for improvement of realty of an exempt entity	29.6	30.7	32.1	33.5	29.6	36.6
151.3111	Services on certain exempted personal property	cbe	cbe	cbe	cbe	cbe	cbe
151.312	Periodicals and writings of religious, philanthropic, charitable, historical, scientific, and similar organizations	6.1	6.5	6.9	7.3	7.7	8.2
151.313	Health care supplies						
	Prescription medicine and devices	680.7	718.3	767.9	812.0	859.0	911.5
	Over-the-counter drugs	274.5	289.6	309.6	327.4	346.3	367.5
151.314	Food and food products						
	Food for home consumption	1,726.4	1,780.7	1,842.0	1,908.3	1,983.4	2,063.4
	School lunches and certain food sales	51.0	53.3	55.7	58.2	60.8	63.6
151.3141	Food stamp purchases	23.6	24.3	25.1	26.0	27.1	28.2
151.315	Water	267.8	271.5	275.2	278.9	282.8	287.2
151.316	Agricultural items						
	Agricultural feed, seed, chemicals, and supplies	455.3	473.5	492.5	512.2	532.7	554.0
	Livestock for food	19.5	20.3	21.1	21.9	22.8	23.7
	Agricultural machinery and equipment	104.1	108.2	112.5	117.0	121.7	126.6
	Horses, mules, and work animals	13.7	12.6	12.9	13.2	13.5	13.8
	Commercial fishing ice	0.3	0.3	0.3	0.3	0.3	0.3
151.3162	Timber items	28.3	29.4	30.6	31.8	33.1	34.4
151.317	Gas and electricity						
	Manufacturing	595.7	606.3	620.0	632.1	644.3	658.0
	Residential	979.3	996.8	1,019.3	1,039.2	1,059.2	1,081.7
	Agricultural	22.5	22.9	23.4	23.9	24.4	24.9
	Mining	40.0	40.2	40.4	41.2	41.9	42.8
	Timber	2.1	2.2	2.3	2.3	2.3	2.3
151.318	Property used in manufacturing						
	Materials used in manufacturing	13,023.4	13,651.3	14,652.3	15,691.8	16,678.9	17,740.9
	Manufacturing machinery & equipment	757.6	794.1	852.3	912.8	970.2	1,032.0
	Packaging and wrapping supplies	402.8	422.2	453.2	485.3	515.8	548.7
151.3182	Certain property used in research and development activities	126.2	128.7	131.3	133.9	137.9	142.1



**Table 2 (continued)**  
**Value of Sales Tax Exemptions**  
 Fiscal 2015 to 2020 – In millions of dollars

<b>Tax Code Section</b>	<b>Exemption</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
151.3185	Property used in the production of motion pictures or video or audio recordings and broadcast	***	***	***	***	***	***
151.3186	Property used in cable television, Internet access, or telecommunications services	50.0	50.0	50.0	50.0	50.0	50.0
151.319	Newspapers and property used in newspaper publication						
	Newspapers	31.7	30.8	29.8	28.9	28.1	27.2
	Newspaper inserts	7.6	7.6	7.5	7.4	7.3	7.3
151.320	Magazines	15.6	15.5	15.3	15.1	15.0	14.8
151.321	University and college student organizations	*	*	*	*	*	*
151.322	Containers	240.1	255.8	276.5	293.5	312.3	332.1
151.323	Certain telecommunications services	cbe	cbe	cbe	cbe	cbe	cbe
151.324	Equipment used elsewhere for mineral exploration or production	128.4	134.9	165.2	198.2	234.2	273.2
151.325	Basic fee for Internet access service	283.5	296.1	309.9	324.3	338.8	353.6
151.326	Clothing and footwear for limited period	61.9	65.3	69.8	73.8	78.1	82.9
151.327	School supplies and school backpacks before start of school	6.2	6.4	6.6	6.8	7.0	7.2
151.328	Aircraft						
	Certain aircraft	cbe	cbe	cbe	cbe	cbe	cbe
	Repair equipment and services for certain aircraft	52.4	55.4	58.3	61.6	65.2	69.0
151.329	Certain ships and ship equipment	62.4	66.2	70.9	74.7	79.2	84.0
151.3291	Boats and boat motors	56.7	59.3	62.4	65.6	68.7	71.9
151.330	Interstate shipments, common carriers and services across state lines	cbe	cbe	cbe	cbe	cbe	cbe
151.331	Rolling stock; train fuel and supplies						
	Railroad fuel and supplies	49.6	50.6	51.6	52.6	53.7	54.8
	Rolling stock and locomotives	21.3	22.5	24.0	25.3	26.7	28.2
151.332	Certain sales by senior citizen organizations	*	*	*	*	*	*
151.333	Energy-efficient products for a limited period	3.0	3.1	3.2	3.3	3.4	3.5
151.334	Components of tangible personal property used in connection with sequestration of carbon dioxide	cbe	cbe	cbe	cbe	cbe	cbe
151.335	Coin-operated services	38.1	40.2	43.0	45.4	48.1	51.0
151.336	Certain coins and precious metals	cbe	cbe	cbe	cbe	cbe	cbe
151.337	Sales by or to Indian tribes	cbe	cbe	cbe	cbe	cbe	cbe
151.338	Environment and conservation services	cbe	cbe	cbe	cbe	cbe	cbe
151.340	Official state coin	*	*	*	*	*	*
151.341	Items sold to or used by development corporations	*	*	*	*	*	*
151.3415	Items sold to or used to construct, maintain, expand, improve, equip, or renovate media production facilities at media production locations	cbe	cbe	cbe	cbe	cbe	cbe
151.342	Agribusiness items	0.6	0.6	0.6	0.6	0.7	0.7
151.343	Animals sold by nonprofit animal shelters	*	*	*	*	*	*
151.344	Post exchanges on state military property	*	*	*	*	*	*
151.346	Intercorporate services	cbe	cbe	cbe	cbe	cbe	cbe
151.347	Certain lawn and yard services	*	*	*	*	*	*
151.348	Cooperative research and development ventures	cbe	cbe	cbe	cbe	cbe	cbe
151.350	Labor to restore certain property	cbe	cbe	cbe	cbe	cbe	cbe
151.3501	Labor to restore, repair, or remodel historic sites	*	*	*	*	*	*
151.351	Information services and data processing services	44.7	48.1	52.4	55.8	59.9	65.0
151.353	Court reporting services	*	*	*	*	*	*
151.354	Services by employees of property management companies	*	*	*	*	*	*
151.355	Water-related exemptions	9.3	9.8	10.5	11.0	11.6	12.3
151.356	Offshore spill response containment property	*	*	*	*	*	*
151.359	Property used in certain data centers; temporary exemption	9.2	11.0	15.7	16.9	18.2	19.4
151.429	Enterprise projects (refunds)	44.2	46.0	47.8	49.7	50.0	50.0
151.4291	Defense readjustment projects (refunds)	cbe	cbe	cbe	cbe	cbe	cbe
151.431	Job retention in enterprise zones (refunds)	*	*	*	*	*	*
151.432	Ticket or admission document to amusement service	*	*	*	*	*	*
111.302	Sales tax refund for economic development	repealed	repealed	repealed	repealed	repealed	repealed
<b>Total</b>		<b>\$34,631.3</b>	<b>\$35,946.8</b>	<b>\$38,262.8</b>	<b>\$41,114.8</b>	<b>\$43,383.4</b>	<b>\$45,749.8</b>

\* Amount is negligible.

\*\* Included in the estimate of timber operations under Sec. 151.3162.

\*\*\* Included in the estimate of manufacturing machinery and equipment under Sec. 151.318.

cbe: cannot be estimated.

Note: Columns may not sum because of rounding.

Tax Code Sec. 151.302.

### **Sales for Resale**

The sale of a taxable item (tangible personal property or a taxable service) to a purchaser who will resell the item is exempted. For example, when a wholesaler sells books to a book store, tax is not due on the sale because the retailer will resell the books. The Tax Code has exempted such sales since the sales tax was imposed in 1961. One reason for the sales for resale exemption is to keep the sales tax from pyramiding or cascading on every transaction.

Sec. 151.3021.

### **Packaging Supplies and Wrapping**

Internal and external wrapping and packaging supplies are exempt if sold to a dry cleaner for use in the packaging of items laundered by the dry cleaner. This section was added in 2001.

Sec. 151.303.

### **Previously Taxed Items: Use Tax Exemption or Credit**

This section provides that the storage or use of an item is not subject to Texas use tax if the sale of the item was subject to Texas sales tax. It also entitles a taxpayer to credit against the Texas use tax for any similar sales or use tax the taxpayer paid to another state.

Sec. 151.304.

### **Occasional Sales**

An occasional sale of a taxable item is exempted. "Occasional sales" include events such as the sale of the entire operating assets of a business or of an identifiable segment of a business, or one or two sales of taxable items during a 12-month period by a person who is not in the business of selling taxable items. The sales tax law has exempted such sales since the tax was imposed in 1961. The exemption also applies to up to \$3,000 per year of sales by an individual of items that were originally purchased for personal use by the individual or a family member.

Sec. 151.305.

### **Coin-operated Machine Sales**

This provision exempts food (but not beverages), candy, chewing gum, and children's toys that are sold through a "bulk vending machine" (like gumball machines) for 50 cents or less. This exemption was added in 1989.

Sec. 151.306.

### **Transfers of Common Interests in Property**

This provision exempts the sale of an interest in tangible personal property if it is sold to another person who before or after the sale owns a joint or undivided interest in the property with the seller and if the sales tax has previously been paid on the tangible personal property. The law has exempted such sales since the tax was imposed in 1961.

Sec. 151.307.

### **Exemptions Required by Prevailing Law**

This section exempts items that the state is prohibited from taxing by the United States or Texas Constitutions, or by U.S. law. For example, federal law prohibits states from taxing sales to federal credit unions. This provision also lists the documentation required when an exemption is claimed because an item has been exported to a foreign country.

Sec. 151.3071.

### **Installation of Certain Equipment for Export**

Electronic audio equipment purchased in Texas for use outside the U.S. is exempt from Texas sales tax even if the equipment is installed (e.g., in a motor vehicle) in Texas. This section was added in 1993.

Sec. 151.308.

### **Items Taxed by Other Law**

This provision exempts from sales tax items taxed under other Texas tax laws, including oil taxed under the oil production tax, sulphur taxed under the sulphur production tax, fuels covered by motor fuels taxes, cement taxed under the cement production tax, motor vehicles covered by the motor vehicle sales tax, alcoholic beverages taxed under the mixed beverage tax, oil well services taxed under the oil well service tax, and insurance premiums subject to insurance premium taxes. The sales tax law has contained such provisions since 1961.

There is no cost to exempt oil, sulphur, and cement from the sales tax under this section because these items would qualify for exemption as materials used in manufacturing.

The amounts for the other exemptions in this section would be in addition to the revenues collected for those items under taxes authorized elsewhere in the Tax Code.

If motor fuels were taxed under the sales tax, the resulting revenue would be dedicated (for transportation and education spending) according to the Texas Constitution.

Motor vehicles are currently taxed under a separate sales tax at the same rate as the state sales tax; however, there is no local motor vehicle sales tax.

It is assumed that if the sales tax were applied to insurance, buyers would pay sales tax on the purchase of insurance policies, with the revenue collected and remitted by insurance companies.

Sec. 151.309.

### **Governmental Entities**

This section exempts items sold, leased, or rented to governmental entities, including the United States, an agency or instrumentality of the United States, this state, or a county, city, special district, or other political subdivision of this state. The sales tax law has contained such provisions since 1961.

Sec. 151.310.

**Religious, Educational, and Public Service Organizations**

This section exempts items sold, leased, or rented to religious, educational, or charitable organizations; organizations exempted from federal income taxes under Section 501(c)(3), (4), (8), (10), or (19) of the Internal Revenue Code; nonprofit youth athletic organizations; volunteer fire departments; chambers of commerce; and convention and tourist promotional agencies. The section references certain guidelines that nonprofit hospitals, exempted under this section, must meet in providing charity care and community benefits. The sales tax law has contained several of these exemptions since 1961; others were added or expanded since then.

The provision also allows religious, educational and charitable organizations and Section 501(c)(3), (4), (8), (10), or (19) organizations to hold two day-long tax-free sales or auctions during a calendar year. This provision was added in 1977 and subsequently expanded.

Sec. 151.3101.

**Amusement Services**

Amusement services are exempted if they are exclusively provided by certain organizations, including this state, a municipality, county, school district, special district, or other political subdivision of this state or the United States; educational, religious, or charitable organizations; law enforcement associations; and other nonprofit organizations, or if the services are provided in a place designated as a historical landmark. For example, this section exempts sales of tickets to high school and college football games. This exemption was added in 1984, when amusement services became taxable.

Sec. 151.3105.

**Bingo Equipment Purchased by Certain Organizations**

This section exempts bingo equipment purchased by an organization licensed to conduct bingo under Chapter 2001, Occupations Code, that is exempt from the payment of federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended, by being listed as an exempt organization under Sections 501(c)(3), (4), (8), (10), or (19) of the Internal Revenue Code of 1986. This section was added in 2003.

Sec. 151.311.

**Taxable Items Incorporated Into or Used for Improvement of Realty of an Exempt Entity**

This provision exempts certain items used in performing a contract to improve real property for a governmental entity or an organization exempt under Sec. 151.310. For example, a contractor building a new public school can purchase the building materials tax-free. The contractor can also purchase tax-free certain consumable supplies and certain taxable services performed at the job site, such as

surveying or landscaping services. This provision was added in 1969 and has been amended several times since then.

Sec. 151.3111.

**Services on Certain Exempted Personal Property**

This section extends the exemption available for certain tangible personal property to services performed on that tangible personal property. For example, repair services performed on agricultural equipment (like tractors and combines) are exempted from tax by this section. This exemption was added in 1984, when certain services became taxable.

Sec. 151.312.

**Periodicals and Writings of Religious, Philanthropic, Charitable, Historical, Scientific, and Similar Organizations**

This section exempts periodicals and writings that are published and distributed by a nonprofit religious, philanthropic, charitable, historical, scientific, or other similar organization (but not an educational organization). The provision was added in 1989 to replace the previous exemption for religious periodicals which the courts found unconstitutional.

Sec. 151.313.

**Health Care Supplies**

This provision exempts sales of prescription and non-prescription drugs; corrective lenses and therapeutic devices prescribed by a doctor; insulin; hospital beds; hypodermic syringes or needles; braces; hearing aids; orthopedic, dental, or prosthetic devices; blood glucose monitoring test strips; and certain devices used by people who are blind or deaf. Several of these items have been exempt since 1961, but the exemption has been expanded over the years.

Sec. 151.314.

**Food and Food Products**

This section exempts food products for human consumption, like cereals, milk, meat, poultry, fish, eggs, vegetables, fruit, spices, salt, sugar, coffee, and tea. It does not exempt meals sold in restaurants, vitamins, over-the-counter medicines (see Sec. 151.313), soft drinks, ice, and candy.

Meals, soft drinks, and candy are exempted if sold by certain organizations, like elementary or secondary public or private schools, student or parent-teacher organizations, churches, hospitals, retirement facilities, or nonprofit youth athletic organizations. The sales tax law has exempted food products since it was enacted in 1961.

Sec. 151.3141.

**Food Stamp Purchases**

This section exempts items purchased with food stamps. Federal law prohibits states from participating in the food stamp program without such an exemption, which Texas added in 1987.

Sec. 151.315.

### **Water**

This provision, which has been in the law since 1961, exempts sales of water. It does not include the disposal of wastewater, which is a nontaxable service.

Sec. 151.316.

### **Agricultural Items**

This section exempts certain agricultural items, including horses, mules, and work animals; animals that ordinarily constitute food (e.g. cattle, poultry, etc.); feed for farm and ranch animals and for animals held for sale; certain seeds and annual plants; chemicals used on a farm or ranch in production; and machinery and equipment used on a farm or ranch to build roads or water facilities. The section also exempts items used to produce agricultural products for sale, or to process, pack, or market agricultural products; underground irrigation equipment; and ice used by commercial fishing boats. Several of these items have been exempt since 1961. As of January 1, 2012, persons wishing to claim the agriculture or timber exemptions must be registered with the Comptroller's Office.

Sec. 151.3162.

### **Timber Items**

This provision, added in 1999, exempts seedlings, certain chemicals, machinery and equipment, and irrigation systems used in the production of timber. The exemption, phased in over several years, was created as a credit or refund of sales taxes paid on these items beginning on October 1, 2001, and became fully effective January 1, 2008.

Sec. 151.317.

### **Gas and Electricity**

This section exempts certain sales of gas and electricity, including when used in processing a product for sale; in exploring for or producing and transporting a material extracted from the earth; in agricultural operations; by an electric utility; in residences—including apartments, nursing homes, and dormitories; and in timber operations. The section also grants cities the option to tax the residential use of gas and electricity.

Sec. 151.318.

### **Property Used in Manufacturing**

This section exempts several types of items used in manufacturing products for sale, including materials that become part of the manufactured product. It also exempts tangible personal property necessary or essential to the manufacturing operation if it causes a physical or chemical change in the product being manufactured. The section exempts services performed directly on the manufactured product; certain chemicals used during the manufacturing operation; wrapping and packaging materials; certain

equipment used to reduce water use and to reuse and recycle wastewater streams in the manufacturing process; pollution control equipment; and cleanroom equipment.

It also exempts certain purchases by a person overhauling or repairing jet turbine aircraft engines; publishers of newspapers that are distributed free of charge; and purchases of semiconductor fabrication cleanrooms and equipment.

The exemption specifically excludes certain items, including equipment rented for less than a year, hand tools, office supplies, and equipment and supplies used in maintenance and janitorial activities. The exemption also excludes items relating to sales or distribution activities, storage and maintenance, research and development, and transportation.

Sec. 151.3182.

### **Certain Property Used in Research and Development Activities**

This section exempts depreciable tangible personal property when directly used in "qualified research" as defined by Section 41 of the Internal Revenue Code, so long as the taxpayer claiming this exemption doesn't also take the franchise tax exemption for taxable entities engaged in qualified research. It is estimated that a minimum of 825 taxpayers claimed exemptions under this section in fiscal 2014.

Sec. 151.3185.

### **Property Used in the Production of Motion Pictures or Video or Audio Recordings and Broadcasts**

Equipment is exempt when the item is necessary or essential and used directly in the production of motion pictures, video, or audio recordings. This equipment exemption had previously been included under Sec. 151.318. This section was added in 1999.

Sec. 151.3186.

### **Property Used in Cable Television, Internet Access, or Telecommunications Services**

This section allows providers of cable television, Internet access, or telecommunications services a refund of sales and use taxes they pay on most items they use to provide their services. The maximum amount that can be refunded in the aggregate under this section is \$50 million per year.

Sec. 151.319.

### **Newspapers and Property Used in Newspaper Publication**

This section exempts sales of newspapers. It also exempts advertising supplements printed to the special order of a customer, distributed as a part of the newspaper, and delivered to the person who is responsible for the distribution of the newspaper in which the item is distributed (i.e., not delivered to the customer).

Sec. 151.320.

**Magazines**

Sales of subscriptions to magazines that are sold for a semiannual or longer period and sent as second class mail are exempt from tax.

Sec. 151.321.

**University and College Student Organizations**

This section exempts sales by certain qualified student organizations at fundraising events if the event lasts only one day, only one sale is held each month, and the sales price of the item is \$5,000 or less. This exemption was added in 1995.

Sec. 151.322.

**Containers**

This provision exempts sales of certain containers, including a container sold with its contents if the sales price of the contents is not taxed; a nonreturnable container sold without contents to a person who fills the container and sells the contents and the container together; and a returnable container sold with its contents or resold for refilling.

Sec. 151.323.

**Certain Telecommunications Services**

This section exempts several different types of transactions involving the sale of telecommunications services. They include the resale of telecommunications services, long distance services that are neither originated from nor billed to a number or address in Texas, and broadcasts (other than cable TV) by radio or television stations licensed by the FCC.

Sec. 151.324.

**Equipment Used Elsewhere for Mineral Exploration or Production**

This section exempts tangible personal property (e.g., drill pipe, casing, or tubing) used for the exploration for or production of oil, natural gas, sulphur, or other minerals offshore not in this state. The exemption was added in 1967.

Sec. 151.325.

**Basic Fee for Internet Access Service**

This section, added in 1999, exempts the first \$25 of a monthly charge for Internet access. The exemption applies without regard to whether the access service is bundled with another service or to the billing period used by the Internet access service provider. Amounts paid for access service in excess of \$25 (on a monthly basis) are subject to tax.

Sec. 151.326.

**Clothing and Footwear for a Limited Period**

This section exempts items of clothing and footwear. The exemption is limited to items costing less than \$100.

The items are exempt from tax only during a three-day period consisting of Friday, Saturday and Sunday occurring eight days prior to the date all schools in Texas can begin instruction. The exemption does not apply to special or protective clothing or footwear; nor does it apply to accessories such as jewelry, handbags, or luggage. The rental of clothing is not exempt. This section was added in 1999.

Sec. 151.327.

**School Supplies and School Backpacks Before Start of School**

This section exempts the sale of school supplies and backpacks, for use by students in public or private elementary or secondary schools, costing less than \$100. The items are exempt from tax only during a three-day period consisting of a Friday, Saturday, and Sunday of each August in advance of the start of school. This section was added in 2007 for backpacks and amended to add school supplies in 2009.

Sec. 151.328.

**Aircraft**

This provision exempts aircraft (1) sold to a person using the aircraft as a certificated or licensed carrier of persons or property; (2) sold to a person using the aircraft for training or instructing pilots in a licensed course of instruction; (3) sold to a foreign government; (4) sold to a person for use and registration in another state or nation; or (5) sold to a person for agricultural use.

In addition, the repair, remodeling, and maintenance services performed on aircraft operated by carriers or flight schools, and the machinery and equipment used in performing such repair services, are exempt.

Sales of tangible personal property permanently affixed or attached as a component part of an aircraft operated by a carrier or flight school are also exempt.

Sec. 151.329.

**Certain Ships and Ship Equipment**

This section exempts sales of (1) component parts of a vessel of eight or more tons displacement and used in a commercial enterprise or used commercially for pleasure fishing by individuals as paying passengers on the vessel; (2) a commercial vessel of eight or more tons displacement sold by the vessel's builder; (3) materials and labor used in repairing or converting a commercial vessel of eight or more tons displacement; (4) materials and supplies for a vessel operating exclusively in foreign or interstate coastal commerce used in the maintenance and operation of the vessel or become component parts of the vessel; and (5) certain materials and supplies purchased by a provider of stevedoring services for a qualifying vessel.

Sec. 151.3291.

**Boats and Boat Motors**

This provision exempts the sale, but not the lease or rental, of a boat or boat motor taxable under the boat and boat motor sales and use tax (Chapter 160). This section was added in 1991, when the boat and boat motor sales and use tax was enacted.

Sec. 151.330.

**Interstate Shipments, Common Carriers and Services Across State Lines**

This section exempts the sale of tangible personal property shipped outside this state by the seller or delivered by the seller to a carrier or a forwarding agent for shipment outside the state.

The section also exempts tangible personal property acquired outside this state stored in Texas temporarily and used solely outside this state or physically attached to other tangible personal property used solely outside this state.

Services performed for use outside the state are exempt.

The section also exempts tangible personal property sold to a common carrier if the carrier ships the property outside this state using its own facilities and uses the property in its business as a common carrier outside this state. Repair or replacement parts acquired outside this state for a self-propelled vehicle used as a licensed and certificated common carrier are also exempt.

Sec. 151.331.

**Rolling Stock; Train Fuel and Supplies**

Rolling stock, locomotives, fuel, and supplies essential to the operation of trains are exempt, as are electricity and certain fuels used in the repair or maintenance of rolling stock.

Sec. 151.332.

**Certain Sales by Senior Citizen Organizations**

This provision exempts sales of items produced by a person 65 years of age or older if sold at a qualified fundraising sale sponsored by a nonprofit organization that provides assistance to elderly persons. The exemption was added in 1981.

Sec. 151.333.

**Energy-efficient Products for a Limited Period**

This section exempts sales of certain energy-efficient products that have been designated as an Energy Star qualified product. The exemption is limited to: (1) air conditioners not exceeding \$6,000; (2) clothes washers; (3) ceiling fans; (4) dehumidifiers; (5) dishwashers; (6) incandescent or fluorescent light bulbs; (7) programmable thermostats; and (8) refrigerators not to exceed \$2,000. The items are exempt from tax only during a three-day period beginning on the Saturday preceding the last Monday in May and ending on the last Monday in May. This section was added in 2007.

Sec. 151.334.

**Components of Tangible Personal Property Used in Connection with Sequestration of Carbon Dioxide**

This section exempts components of tangible personal property used in connection with an advanced clean energy project that are installed to capture, transport, inject or prepare for transportation or injection of carbon dioxide from an anthropogenic emission source if the carbon dioxide is sequestered in Texas as part of an enhanced oil recovery project under conditions that create a reasonable expectation that at least 99 percent of the carbon dioxide will remain sequestered from the atmosphere for at least 1,000 years.

Sec. 151.335.

**Coin-operated Services**

Amusement and personal services provided through coin-operated machines that are operated by the consumer are exempt. For example, receipts from coin-operated washing machines are exempted by this section. Coin-operated amusement machines are taxed under a separate tax levied on a per machine basis. This section was added in 1984.

Sec. 151.336.

**Certain Coins and Precious Metals**

The sale of gold, silver, or numismatic coins, or of platinum, gold, or silver bullion, is exempt. This section was added in 1989, and amended in 2013 to remove a \$1,000 threshold for the exemption.

Sec. 151.337.

**Sales by or to Indian Tribes**

This section exempts items sold to a tribal council or a business owned by a tribal council of the Alabama-Coushatta Indian Tribe, the Tigua Indian Tribe, or the Texas Band of Kickapoo Indians.

The section also exempts items sold by a tribal council or a business owned by a tribal council if the item is a cultural artifact made by a tribe member and sold within the boundaries of either the reservation or trust land held by the tribe. This exemption was added in 1983.

Sec. 151.338.

**Environment and Conservation Services**

This provision exempts services to repair, remodel, maintain, or restore tangible personal property if the service is required by statute, order, or rule of any commission, agency, court, or political, governmental, or quasi-governmental entity to protect the environment or to conserve energy. The exemption was added in 1984.

Sec. 151.340.

**Official State Coin**

This section exempts the sales of official state coins produced under Section 11.05, State Purchasing and General Services Act (Article 601b, Vernon's Texas Civil Statutes). The exemption was added in 1987.

Sec. 151.341.

**Items Sold to or Used by Development Corporations**

This provision exempts items sold to a nonprofit corporation formed under the Development Corporation Act of 1979 (Article 5190.6, Vernon's Texas Civil Statutes), if the item is for the exclusive use and benefit of the nonprofit corporation.

Sec. 151.3415.

**Items Sold to or Used to Construct, Maintain, Expand, Improve, Equip, or Renovate Media Production Facilities at Media Production Locations**

This section exempts the sale of tangible personal property used (1) for the construction, maintenance, expansion, improvement or renovation of a media production facility at a qualified media production location; (2) to equip a media production facility at a qualified media production location; or (3) for the renovation of a building or facility at a qualified media production location that is to be used exclusively as a media production facility.

Sec. 151.342.

**Agribusiness Items**

This section exempts sales of bins used as containers in transporting fruit, vegetables, or poultry from the farm to a location where the items are processed, packaged, or marketed. Also exempt are poultry cages used in transportation to a location for processing, packaging, or marketing. The exemption was added in 1983 and expanded in 1995.

Sec. 151.343.

**Animals Sold by Nonprofit Animal Shelters**

The sale, including an adoption fee, of an animal by a nonprofit animal shelter is exempt. This section was added in 1999.

Sec. 151.344.

**Post Exchanges on State Military Property**

Taxable items sold, leased, or rented to, or stored, used, or consumed by, Post Exchanges on State Military Property are exempt from sales and use tax. In addition, taxable items sold, leased, or rented by these Post Exchanges are exempt.

Sec. 151.346.

**Intercorporate Services**

This provision exempts certain services provided among affiliated entities, at least one of which is a corporation that report their income to the Internal Revenue Service on a single consolidated return for the tax year in which the transaction occurs. The exemption was added in 1987.

Sec. 151.347.

**Certain Lawn and Yard Services**

This section exempts lawn mowing and other yard maintenance services performed by individuals who are younger than 18 years of age or who are 65 years of age or older, and whose total receipts in the most recent four calendar

quarters do not exceed \$5,000. Additionally, there are no taxes due on services performed by self-employed individuals whose total receipts in the most recent four calendar quarters do not exceed \$5,000. The exemption was added in 1987 and amended in 1989 and 1995.

Sec. 151.348.

**Cooperative Research and Development Ventures**

This provision exempts qualifying items sold in connection with a joint research and development venture as defined by 15 U.S.C. Section 4301 to an entity participating in the venture, if the items are created or substantially modified by or for the joint research and development venture. It also exempts purchases by a joint research and development venture, notice of whose establishment and participants was first published in the Federal Register on January 17, 1985, or May 19, 1988. The section was added in 1987 and expanded in 1989.

Sec. 151.350.

**Labor to Restore Certain Property**

This section exempts charges for labor to restore real or tangible personal property damaged within a disaster area by the condition that caused the area to be declared a disaster area by the Governor or the President. It was added in 1993 and amended in 1995.

Sec. 151.3501.

**Labor to Restore, Repair, or Remodel Historic Sites**

This section exempts the labor to restore, repair, or remodel an improvement to real property if it is performed on property listed in the National Register of Historic Places. This section was added in 2003.

Sec. 151.351.

**Information Services and Data Processing Services**

Twenty percent of the value of information services and data processing services are exempt. This section was added in 1999.

Sec. 151.353.

**Court Reporting Services**

Court reporting services relating to the preparation of a document in a civil or criminal suit are exempt when sold to a participant in the suit. This includes depositions, discovery documents, testimony transcripts, and statements of facts. It also applies to such records on audio or video tape, or provided by a video photographer. This section was added in 1995.

Sec. 151.354.

**Services by Employees of Property Management Companies**

Otherwise taxable services provided by permanently assigned, on-site employees of property management companies are not subject to the sales tax. The exemption does not apply to services performed by an employee for properties other than the one to which the employee is permanently assigned. This section was added in 1999.

Sec. 151.355.

**Water-related Exemptions**

This section exempts equipment, services, and supplies used for rainwater harvesting, desalination of surface water or groundwater, brush control to enhance water availability precipitation enhancement, the construction or operation of certain water supply or wastewater systems, and for certain items used to process, reuse, and recycle wastewater that will be used in fracturing work at an oil or natural gas well. The exemption does not apply to consumer appliances or fixtures (e.g., washing machines, dishwashers, toilets, etc.) that are designed to limit water usage. This section was added in 2001 and amended in 2003 and 2007.

Sec. 151.356.

**Offshore Spill Response Containment property**

This section exempts certain tangible personal property and services related to an offshore spill response containment property as defined by Section 11.271 of the Tax Code.

Sec. 151.359.

**Property Used in Certain Data Centers; Temporary Exemption**

This section exempts certain items necessary to the operation of qualifying data centers. A qualifying data center is one that a taxpayer builds or occupies after September 1, 2013 that is at least 100,000 square feet, creates at least 20 higher paying jobs, and for which the minimum investment over a five year period is \$200 million.

Sec. 151.429.

**Enterprise Projects (Refunds)**

This section makes enterprise projects eligible for a refund of sales tax paid on all taxable items for use at a qualified business site related to the project. The refund amounts vary as a function of the amount of capital investment and the number of jobs created or retained, and are subject to annual limits. Otherwise eligible refund amounts above the annual limits may be carried forward to subsequent years.

This section also entitles the owner of a qualified hotel project to a refund of the sales and hotel occupancy taxes paid or collected by the project or by businesses located in the hotel project during the first 10 years after the hotel project is open for occupancy. This section was added in 1987 and has been expanded several times since then.

Sec. 151.4291.

**Defense Readjustment Projects (Refunds)**

In 1997, tax refunds for defense readjustment projects were authorized for certain equipment, building materials, labor, electricity, and natural gas used in remodeling or constructing structures in a readjustment zone.

Sec. 151.431.

**Job Retention in Enterprise Zones (Refunds)**

A qualified business operating in an enterprise zone is entitled to a one-time refund of sales tax paid on purchases of machinery or equipment used in an enterprise zone if the business has retained 10 or more jobs held by qualified employees during the year. The business must be certified as eligible for a refund by the governing body of the enterprise zone, and no more than three eligible businesses may be so certified by each city or county during each calendar year. The total amount of the one-time refund to a qualified business may not exceed \$500 for each qualified employee retained, up to a limit of \$5,000 for each qualified business. This section was added in 1989.

Sec. 151.432.

**Ticket or Admission Document to Amusement Service**

Resellers of tickets or admissions documents to an amusement service may deduct the face value of gaming tickets, less included taxes, that are purchased for resale and actually sold. This section was added in 1997.

**Sales Tax: Exclusions**

At its inception in 1961, the sales tax was not imposed on sales of services. Beginning in the mid-1980s, certain services have become subject to the sales tax.

In 1984, the sales tax was imposed on laundry and dry cleaning, amusement admissions, cable television service, auto parking, most non-automotive repair services, and certain personal services.

The following year, the tax was extended to intrastate long-distance telephone service.

In 1987, a number of other services were added to the sales tax base, including local and interstate long-distance telephone service, repair and remodeling of nonresidential real property, data processing, landscaping and lawn maintenance, janitorial and extermination services, security services, garbage removal, credit reporting and debt collection, information services, certain surveying services, and insurance services.

Many services remain excluded from the tax, some of which are profiled in **Table 3**. The value of the exclusions shown in **Table 3** is expected to be \$7.49 billion in fiscal 2015, approximately one-quarter of total expected sales tax collections.

Of the services not covered by the Tax Code, the largest group is professional services. These include medical, dental, and other health care; legal services; accounting and



**Table 3****Value of Selected Service Exclusions from the Sales Tax**

Fiscal 2015 to 2020 – In millions of dollars

**Construction Labor**

<b>Service Exclusion</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
New residential construction	\$174.7	\$185.1	\$196.8	\$210.0	\$224.1	\$238.5
New nonresidential construction	406.4	433.1	463.2	497.2	533.5	571.1
Residential repair and remodeling	115.9	121.1	127.1	133.5	140.2	147.2

**Personal Services**

<b>Service Exclusion</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Barber and beauty	\$105.6	\$111.4	\$118.1	\$125.3	\$132.6	\$140.3
Funeral	78.6	82.9	87.9	93.2	98.7	104.4
Child day care	156.9	165.5	175.5	186.1	197.0	208.4
Miscellaneous personal services	27.0	28.5	30.2	32.1	33.9	35.9

**Business and Professional Services**

<b>Service Exclusion</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Physician services	\$1,133.9	\$1,195.9	\$1,268.1	\$1,344.6	\$1,423.4	\$1,505.9
Dental services	432.7	456.3	483.9	513.1	543.2	574.6
Other health care	619.2	653.1	692.5	734.3	777.3	822.4
Legal services	525.5	556.8	592.1	631.9	674.1	717.5
Accounting and audit services	295.0	312.5	332.3	354.7	378.3	402.7
Architectural and engineering services	462.7	490.2	521.3	556.3	593.5	631.7
Management consulting and public relations	233.6	247.5	263.2	280.9	299.6	318.9
Contract computer programming	187.5	198.6	211.2	225.4	240.4	255.9
Research and development services	201.6	213.5	227.1	242.3	258.5	275.2
Marketing research and public opinion polling	31.9	33.8	36.0	38.4	41.0	43.6
Testing labs	45.6	48.3	51.4	54.8	58.5	62.2
Outdoor display advertising	28.3	30.0	31.9	34.0	36.3	38.6
Employment agency services	54.5	57.7	61.4	65.5	69.9	74.4
Temporary labor services	375.9	398.3	423.5	452.0	482.2	513.2
Financial securities brokerage	200.0	211.9	225.3	240.5	256.5	273.1
Other financial services	133.2	141.1	150.1	160.2	170.9	181.9
Real estate brokerage and agency	279.7	296.3	315.1	336.3	358.8	381.9
Freight hauling	378.6	401.2	426.6	455.2	485.6	516.9
Other transportation (except scheduled passenger)	24.1	25.5	27.1	28.9	30.9	32.9
Veterinary service	65.9	69.5	73.7	78.2	82.8	87.5

**Other Services**

<b>Service Exclusion</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Automotive maintenance and repair	\$582.7	\$614.6	\$651.7	\$691.0	\$731.5	\$773.9
Car washes	34.9	36.8	39.1	41.4	43.9	46.4
Private vocational education	55.2	58.2	61.8	65.5	69.3	73.3
Other educational services	42.7	45.0	47.8	50.6	53.6	56.7

<b>Total</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Value of Selected Service Exclusions</b>	<b>\$7,490.1</b>	<b>\$7,920.5</b>	<b>\$8,413.0</b>	<b>\$8,953.5</b>	<b>\$9,519.8</b>	<b>\$10,107.0</b>

Note: Columns may not sum because of rounding.

audit services; engineering and architectural services; real estate brokerage; financial securities brokerage; and veterinary services. (Note: Individuals practicing these professions are subject to a \$200 fee, in addition to other license fees.)

Another large exclusion is for labor charges by contractors on new residential and nonresidential construction jobs. Labor for residential repair and remodeling also remains tax-free. The materials used in construction jobs, however, are subject to sales tax.

**Sales Tax: Discounts**

Texas’ sales tax law allows two kinds of discounts, as shown in **Table 4**.

Taxpayers who report and remit on time may retain 0.5 percent of the taxes they collect as compensation for collecting those taxes. In fiscal 2015, the value of this discount will be an estimated \$130.7 million.

As an incentive for early payment, taxpayers who prepay their taxes based on a reasonable estimate of their tax liability are allowed to retain an additional 1.25 percent. The value of this prepayment discount will be about \$120.6 million in fiscal 2015. ⚙

**Table 4**

**Sales Tax Discounts**

Fiscal 2015 to 2020 – In millions of dollars

<b>Discount</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Timely Filer Discount	\$130.7	\$134.0	\$142.5	\$151.7	\$161.4	\$171.8
Prepayment Discount	120.6	123.6	131.5	140.0	149.0	158.6
<b>Total</b>	<b>\$251.3</b>	<b>\$257.6</b>	<b>\$274.0</b>	<b>\$291.7</b>	<b>\$310.4</b>	<b>\$330.4</b>

*Note: Columns may not sum because of rounding.*

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# Franchise Tax

The franchise tax serves as Texas' primary business tax. Adopted in its modern-day form in 1907, the franchise tax is one of Texas' oldest revenue sources. Originally levied as a tax on corporate assets, the tax changed little but for the rate until 1991. That year, in answer to revenue shortfalls related to legal challenges to the method of tax computation and to long-standing equity concerns, the Legislature reformulated the tax. The franchise tax from 1992 to 2007 was computed on a dual tax base of capital (net worth) and earned surplus (modified net income).

Prior to the 3rd called session, 79th Legislature, a commission appointed by Governor Perry proposed a major rewrite of the franchise tax to include many partnerships in the tax base, along with corporations, and provide some of the revenue needed for reducing the maintenance and operation component of local school district property tax rates. In May of 2006, the 79th Legislature, 3rd called session, adopted a major restructuring of the tax in House Bill 3, with those changes becoming effective for tax due in 2008.

The changes affected many aspects of the franchise tax. Legal forms of business subject to the tax were expanded to include partnerships, trusts, and other business forms. Sole proprietorships and general partnerships consisting solely of natural persons are still excluded from the tax. For 2014, the most recent year of the new tax with complete reporting, nearly 1.4 million business entities were included on tax reports. For 2007, the last year of the old tax, 700,000 business entities reported. Under the requirements of the old tax, each legal entity subject to the tax owed a report on its activity for the tax period. Under the revised tax, commonly owned entities engaged in a unitary business are required to file a single combined report aggregating the activity of all the entities in the group. Partly for that reason the number of tax reports showing tax owed fell to 111,000 in 2014 from 167,000 in 2007. There were, however, 95,000 affiliate entities on 2014 reports owing tax. In fiscal 2014, franchise tax collections<sup>2</sup> were \$4.73 billion.

## How the Franchise Tax Is Computed

The computation of the franchise tax completely changed with the revisions effective in 2008. The old tax was based on a corporation's capital (net worth) and earned surplus (modified federal taxable income). The base for the new franchise tax is margin, to be determined using one of four methods.

Each method begins with the business's total revenue. Total revenue is closely related to a business's gross receipts with some additions and subtractions. From total revenue a business may subtract one of three amounts to arrive at its margin:

- 1) \$1 million
- 2) cost of goods sold;
- 3) compensation; or
- 4) 30 percent of total revenue.

Businesses apportion margin to Texas according to the share of their total business done in the state, as measured by their gross receipts. Depending on the line of business the firm is in, a tax rate of either 1 percent or 0.5 percent is

applied to the apportioned margin to arrive at the amount of tax due. Most businesses use the 1 percent rate. Those primarily engaged in wholesale or retail trade (including food service) use the 0.5 percent rate.

An additional method for calculating tax may be used by businesses with total revenue of \$10 million or less, known as the E-Z calculation. Under this method, a business determines total revenue and the apportionment factor, then multiplies apportioned revenue by a rate of 0.575 percent to determine the tax due.

Tax payments and tax reports are due annually to the Comptroller of Public Accounts on May 15 and cover the taxpayer's previous fiscal year. A report extension to November 15 can be requested.

## Origin of Franchise Tax Exemptions

While many aspects of the franchise tax were changed for 2008 and beyond, the provisions in the law related to tax exempt entities were left the same.

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<sup>2</sup> Includes revenue collections from the franchise/business margins tax (revenue object 3130) and the franchise tax (3131).

Some exemptions under the franchise tax arise due to federal law. For example, federally-chartered credit unions and federal financial agencies—such as the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal Reserve Banks, etc.—are outside the bounds of the federal and state tax systems. These organizations are exempt not only from the franchise tax, but also from the registration requirements of the Secretary of State and the Comptroller’s Office. For this reason, data on these organizations are not provided in this report.

The Tax Code also recognizes federal exemptions for nonprofit organizations exempt under Internal Revenue Code (IRC) sections 501(c)(3), (4), (5), (6), (7), (8), (10), (16), and (19). In addition, the Tax Code follows federal tax exemptions for profit-making organizations under IRC sections 501(c)(2) and (25). Exemptions for these organizations are discussed in Tax Code Section 171.063.

A third group of organizations are franchise tax-exempt due to specific state exemptions. These exemptions are found in Tax Code Sections 171.051 through 171.062 and 171.064 through 171.087. In some cases the state exemption overlaps with a federal exemption, and an organization may qualify under either. For example, a church might qualify for exemption under its federal 501(c)(3) exemption (Tax Code 171.063(a)(1)) or under a state exemption for religious organizations (Tax Code 171.058).

The changes in the franchise tax beginning in 2008 included the expansion of the types of entities subject to tax beyond corporations. The Legislature also added Tax Code Section 171.088 which provides exemptions to non-corporate entities that would qualify under the exemption provisions if the entity had been organized as a corporation. Any reference in the following discussion to corporations should be read to include other types of business entities now subject to the franchise tax. The estimates in Tables 5 through 7 include both corporate and newly taxable entities.

**Nonprofit vs. Exempted**

A nonprofit entity is not by that reason alone exempt from the franchise tax. For many of the exemptions, nonprofit status is only one of several requirements for exemption. Common requirements are that the organization be engaged in serving a particular type of client, be engaged in a particular line of work, or be organized for, and involved in, a specified type of pursuit.

**Classifying Franchise Tax Exemptions**

Four broad categories of franchise tax relief exist:

- statutory exemptions,
- deductions and exclusions,
- special accounting methods, and
- credits and refunds.

**Statutory Exemptions**

A statutory exemption is used to grant certain types of firms a full waiver from all franchise tax liability and reporting. For example, insurance companies are granted a full exemption because they are required to pay a separate tax on their gross premiums.

To become exempt, a nonprofit organization or company is generally required to prove itself eligible for the exemption. However, in three cases the taxpayer is not required to register with the Comptroller’s Office before receiving the exemption: insurance companies (exempt under Tax Code Section 171.052); state-chartered credit unions (171.077); and trade show participants (171.084) (See Table 6).

**Deductions and Exclusions**

A tax deduction or exclusion grants a taxable firm a subtraction from its tax base or from its apportionment computation. Generally, all other franchise tax regulations must

**Table 5**

**Value of Franchise Tax Exemptions, Deductions, Special Accounting Methods, and Credits and Refunds**

Fiscal 2015 to 2020 – In millions of dollars

Item	2015	2016	2017	2018	2019	2020
Exemptions: For Profit Entities	\$429.4	\$452.5	\$460.7	\$458.9	\$467.5	\$474.0
Exemptions: Nonprofit Entities	417.3	439.8	447.7	445.9	454.2	460.6
Deductions	434.4	466.3	479.8	493.4	504.4	520.4
Special Accounting Methods	481.9	253.6	254.6	254.2	254.8	256.0
Credits and Refunds	119.1	120.1	110.5	181.3	177.0	164.0
<b>Total</b>	<b>\$1,882.1</b>	<b>\$1,732.3</b>	<b>\$1,753.4</b>	<b>\$1,833.7</b>	<b>\$1,857.8</b>	<b>\$1,874.9</b>

Note: Columns may not sum because of rounding.

Table 6

## Value of Franchise Tax Exemptions

Fiscal 2015 to 2020 – In millions of dollars

Tax Code Section	Exemption	2015	2016	2017	2018	2019	2020
171.051(d)	Exemptions granted before September 1, 1975	<i>Included with IRS 501(c)(3)</i>					
171.052-.0525	Insurance company	\$271.2	\$285.8	\$291.0	\$289.9	\$295.2	\$299.4
171.053	Railway terminal corporation	*	*	*	*	*	*
171.055	Open-end investment company	156.0	164.4	167.4	166.7	169.8	172.2
171.056	Corporation with business interest in solar energy devices	2.2	2.2	2.3	2.3	2.4	2.4
171.057	Nonprofit corporation organized to promote a county, city, or another area of state	<i>Included with IRS 501(c)(6)</i>					
171.058	Nonprofit corporation organized for religious purposes	<i>Included with IRS 501(c)(3)</i>					
171.059	Nonprofit corporation organized to provide burial places	1.6	1.7	1.7	1.7	1.7	1.7
171.060	Nonprofit corporation organized for agricultural purposes	<i>Included with IRS 501(c)(5)</i>					
171.061	Nonprofit corporation organized for educational purposes	<i>Included with IRS 501(c)(3)</i>					
171.062	Nonprofit corporation organized for public charity	<i>Included with IRS 501(c)(3)</i>					
171.063	Nonprofit corporation exempt from federal income tax						
	IRS Sec 501(c)(2)	0.3	0.3	0.3	0.3	0.3	0.3
	IRS Sec 501(c)(3)	353.0	372.1	378.8	377.3	384.3	389.7
	IRS Sec 501(c)(4)	16.9	17.8	18.1	18.1	18.4	18.7
	IRS Sec 501(c)(5)	3.1	3.3	3.3	3.3	3.4	3.4
	IRS Sec 501(c)(6)	11.6	12.2	12.4	12.4	12.6	12.8
	IRS Sec 501(c)(7)	6.0	6.3	6.4	6.4	6.5	6.6
	IRS Sec 501(c)(8)	1.2	1.3	1.3	1.3	1.3	1.3
	IRS Sec 501(c)(10)	0.1	0.1	0.1	0.1	0.1	0.1
	IRS Sec 501(c)(16)	*	*	*	*	*	*
	IRS Sec 501(c)(19)	0.3	0.3	0.3	0.3	0.3	0.3
	IRS Sec 501(c)(25)	0.0	0.0	0.0	0.0	0.0	0.0
171.064	Nonprofit corporation organized for conservation purposes	<i>Included with IRS 501(c)(3)</i>					
171.065	Nonprofit corporation organized to provide water supply or sewer services	1.7	1.8	1.8	1.8	1.9	1.9
171.066	Nonprofit corporation involved with city natural gas facility	0.0	0.0	0.0	0.0	0.0	0.0
171.067	Nonprofit corporation organized to provide convalescent homes for elderly	0.1	0.1	0.1	0.1	0.1	0.1
171.068	Nonprofit corporation organized to provide cooperative housing	*	*	*	*	*	*
171.069	Agricultural marketing association	<i>Included with IRS 501(c)(5)</i>					
171.070	Lodges	<i>Included with IRS 501(c)(8)</i>					
171.071	Farmers' cooperative society	<i>Included with IRS 501(c)(5)</i>					
171.072	Housing finance corporation	<i>Included with IRS 501(c)(3)</i>					
171.073	Hospital laundry cooperative association	*	*	*	*	*	*
171.074	Development corporation	<i>Included with IRS 501(c)(6)</i>					
171.075	Cooperative association	<i>Included with IRS 501(c)(3)</i>					
171.076	Cooperative credit association	*	*	*	*	*	*
171.077	Credit union	1.8	1.9	1.9	1.9	2.0	2.0
171.079	Electric cooperative corporation	15.7	16.5	16.8	16.8	17.1	17.3
171.080	Telephone cooperative corporation	3.5	3.7	3.8	3.7	3.8	3.9
171.081	Corporation exempt by another law	*	*	*	*	*	*
171.082	Certain homeowners' associations	0.4	0.4	0.4	0.4	0.4	0.4
171.083	Emergency medical service corporation	<i>Included with IRS 501(c)(3)</i>					
171.084	Certain trade show participants	*	*	*	*	*	*
171.085	Sludge recycling operation	*	*	*	*	*	*
171.086	Political subdivisions	*	*	*	*	*	*
171.087	Nonprofit corporation organized for student loan funds or student scholarship purposes	<i>Included with IRS 501(c)(3)</i>					
<b>Total</b>		<b>\$846.7</b>	<b>\$892.3</b>	<b>\$908.4</b>	<b>\$904.8</b>	<b>\$921.7</b>	<b>\$934.6</b>

\*Amount is negligible

Note: Columns may not sum because of rounding.

be followed. A deduction can lower a firm’s overall tax bill, but usually not by the full amount of the deduction.

A deduction is applied to the firm’s tax base or apportionment formula before the application of a tax rate. Because the tax rate is applied after the deduction is taken, the reduction in tax liability is generally less than the deduction amount. If the deduction is taken against the tax base, the resulting reduction in tax liability will usually equal the deduction (in dollars) multiplied by the tax rate (in percent). If the deduction is taken from the apportionment computation, the reduction in tax liability is not readily apparent without actual computation.

One reason for granting special deductions or exclusions is to promote certain activities or behavior. For example, to encourage the development of solar energy sources, the Legislature has permitted firms to exclude from their tax base their purchases of qualifying solar energy devices.

Some deductions or exclusions may be granted to prevent the taxation of items exempt from taxation under federal law, such as interest income on U.S. Government obligations. Other deductions or exclusions grant tax relief to small firms (See **Table 7**).

**Special Accounting Rules**

A special accounting rule allows a qualifying firm to use an accounting or computation method not available to all other franchise taxpayers. The special accounting rule may be designed to relieve small firms of certain accounting burdens. Also, in the same manner as a deduction or exclusion, a special accounting rule may be used to encourage certain activities or to treat otherwise similar businesses in a consistent manner. For example, regulated investment management service companies benefit from a special apportionment rule because the Legislature sought to encourage these firms to locate in Texas. Likewise certain entities that rent goods are treated as retailers because they directly compete with entities that are in retail trade.

**Credits and Refunds**

A credit allows a taxpayer a subtraction directly from tax owed. For this reason, a tax credit provides greater financial relief to taxpayers than a deduction of the same dollar amount.

Tax credits come in two types, distinguished by their frequency. One-time credits are available for a single tax period (or until they are used up). In contrast, continuing credits are available for use year after year. Each type can be

**Table 7**

**Value of Franchise Tax Deductions, Exclusions, Special Accounting Methods, and Credits and Refunds**

Fiscal 2015 to 2020 – In millions of dollars

**Deductions and Exclusions**

Tax Code Section	Item	2015	2016	2017	2018	2019	2020
171.002(d)	Small business exception	\$256.6	\$270.5	\$275.4	\$274.3	\$279.4	\$283.3
171.006	Adjustment of eligibility for no tax due and compensation deduction	25.1	35.1	35.3	45.4	45.5	55.7
171.101(a)(1)(B)(i)	Optional subtraction of \$1 million from total revenue for determination of taxable margin	62.0	65.0	65.0	64.5	65.0	65.0
171.107	Deduction of cost of solar energy device from margin apportioned to this state	*	*	*	*	*	*
171.108	Deduction of cost of clean coal project from margin apportioned to this state	*	*	*	*	*	*
171.109	Deduction of relocation costs by certain taxable entities from margin apportioned to this state	0.1	0.1	0.1	0.1	0.1	0.1
171.1011(g-3)(3)	Exclusion from total revenue for handling pro bono service cases by attorneys	*	*	*	*	*	*
171.1011(g-4)	Exclusion from total revenue of certain flow-through funds and reimbursements for pharmacy cooperatives and pharmacy network providers	0.6	0.6	0.6	0.6	0.6	0.6
171.1011(g-5)	Exclusion from total revenue of payments made to artists by a qualified live event promotion company	1.0	1.0	1.0	1.0	1.0	1.0
171.1011(g-6)	Exclusion from total revenue or certain payments made by qualified destination management companies	*	*	*	*	*	*
171.1011(g-7)	Exclusion from total revenue of certain payments made by qualified courier and logistics companies	0.3	0.3	0.3	0.3	0.3	0.3

Table 7 (continued)

**Value of Franchise Tax Deductions, Exclusions, Special Accounting Methods, and Credits and Refunds**

Fiscal 2015 to 2020 – In millions of dollars

Tax Code Section	Item	2015	2016	2017	2018	2019	2020
171.1011(g-8)	Exclusion from total revenue of certain payments made by aggregate transporters	1.1	1.2	1.2	1.2	1.2	1.2
171.1011(g-10)	Exclusion from total revenue of certain payments made by barite transporters	*	*	*	*	*	*
171.1011(g-11)	Exclusion from total revenue of certain payments made by an entity performing landman services	0.9	0.9	0.9	0.9	0.9	0.9
171.1011(m)	Exclusion from total revenue of dividends and interest received from federal obligations	10.2	12.5	18.5	21.3	24.1	24.5
171.1011(n),(o)	Exclusion from total revenue by health care providers of payments received from certain health care program payers and for costs of uncompensated care	63.1	65.2	67.5	69.8	72.0	73.3
171.1011(u)	Exclusion from total revenue for the cost of a vaccine	3.2	3.3	3.3	3.3	3.4	3.4
171.1011(v)	Exclusion from total revenue of certain costs incurred by certain taxable entities engaged in the transportation of goods by waterways	2.2	2.3	2.4	2.4	2.4	2.4
171.1011(w-1)	Exclusion from total revenue of certain costs incurred by taxable entities that provide agricultural aircraft operation services	0.1	0.1	0.1	0.1	0.1	0.1
171.1012(k-2)	Cost of goods sold subtraction for certain pipeline entities	4.9	5.2	5.3	5.2	5.3	5.4
171.1012(t)	Additional cost of goods sold subtraction for movie theaters	3.0	3.0	3.0	3.0	3.0	3.0
171.1013(b-1)	Additional subtraction of newly provided health benefit costs	0.1	0.1	0.1	0.1	0.1	0.1
<b>Total</b>	<b>Deductions, Discounts and Exclusions</b>	<b>\$434.4</b>	<b>\$466.3</b>	<b>\$479.8</b>	<b>\$493.4</b>	<b>\$504.4</b>	<b>\$520.4</b>

**Special Accounting Methods**

Tax Code Section	Item	2015	2016	2017	2018	2019	2020
171.0001(12)(B), (D),(E) and (F)	Definition of retail includes certain rental activities	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0
171.0001(12)(C)	Definition of retail includes automotive repair services	7.5	7.8	7.6	7.6	7.6	7.8
171.0023	Temporary permissive alternative rates for 2015	232.0	0.0	0.0	0.0	0.0	0.0
171.1016	E-Z computation and rate	27.9	29.4	29.9	29.8	29.8	30.2
171.106(b),(c)	Apportionment for certain investment management companies	6.4	6.7	6.9	6.8	6.8	6.9
171.106(f),(f-1)	Apportionment of proceeds from the sale of certain loans and securities	170.0	170.0	170.0	170.0	170.0	170.0
171.106(g)	Apportionment for Internet hosting	2.5	2.5	2.5	2.5	2.5	2.5
Rule 3.591(e)(32)	Apportionment for transportation companies	10.5	11.1	11.3	11.2	11.4	11.6
Rule 3.591(e)(30)	Apportionment for telephone companies	18.1	19.1	19.4	19.3	19.7	20.0
<b>Total</b>	<b>Special Accounting Methods</b>	<b>\$481.9</b>	<b>\$253.6</b>	<b>\$254.6</b>	<b>\$254.2</b>	<b>\$254.8</b>	<b>\$256.0</b>

**Credits and Refunds**

Tax Code Section	Item	2015	2016	2017	2018	2019	2020
171.111	Temporary credit on taxable margin	\$56.1	\$57.1	\$58.5	\$127.3	\$125.0	\$123.5
Rule 3.593(e),(f),(g)	Franchise tax credits carried forward from prior credit provisions	20.0	16.0	8.0	7.5	5.0	3.5
171.652	Tax credit for a clean energy project	0.0	0.0	0.0	0.0	cbe	cbe
Subchapter M	Tax credit for certain research and development activities	43.0	39.0	34.0	34.0	33.0	22.0
Subchapter S	Tax credit for certified rehabilitation of certified historic structures	0.0	8.0	10.0	12.5	14.0	15.0
171.501	Refund for job creation in enterprise zone	*	*	*	*	*	*
<b>Total</b>	<b>Credits and Refunds</b>	<b>\$119.1</b>	<b>\$120.1</b>	<b>\$110.5</b>	<b>\$181.3</b>	<b>\$177.0</b>	<b>\$164.0</b>

\*Amount is negligible

Note: Columns may not sum because of rounding.

used for a variety of public policy purposes—e.g., to influence taxpayer behavior, to grant tax relief, or to smooth the flow of state and local tax receipts.

Refunds operate much like credits, with one important difference. With credits, taxpayers receive a reduction in their tax liability. With refunds, taxpayers receive a payment from the state.

Refunds are typically established for the same policy purposes as are tax credits.

### Franchise Tax: **Exemptions**

Tax Code Sec. 171.051(d).

#### **Franchise Tax Exemptions Granted Before September 1, 1975**

Corporations that received exemptions before September 1, 1975 retain their exemptions. Before this date, exemptions were administered by the Secretary of State. These exemptions may be of any type and include schools, churches, water supply corporations, and foundations.

Sec. 171.052 and 171.0525.

#### **Insurance Company**

An insurance organization, title insurance company, or title insurance agent that is authorized to engage in insurance business in Texas and required to pay an annual premium tax levied under the Insurance Code is exempt from franchise tax. Farm mutuals, local mutual aid associations, and burial associations also are not subject to the franchise tax.

Sec. 171.053.

#### **Railway Terminal Corporation**

A railway terminal corporation organized under Texas' railroad statutes, subject to regulation by the Railroad Commission and that has no annual net income from its business, is exempt.

Sec. 171.055.

#### **Open-end Investment Company**

An open-end investment company as defined by the Federal Investment Company Act of 1940, and that is registered under the Texas Securities Act, is exempt. An open-end investment company is one that offers for sale, or has outstanding, any redeemable security of which it is the issuer. A mutual fund is an example of an open-end investment company.

Sec. 171.056.

#### **Corporation with Business Interest in Solar Energy Devices**

A corporation engaged exclusively in the business of manufacturing, selling, or installing solar energy devices is exempt.

Sec. 171.057.

#### **Nonprofit Corporation Organized to Promote a County, City, or Another Area of State**

A nonprofit corporation organized solely to promote the public interest of a county, city, town, or another area in the state is exempt. Examples include chambers of commerce, civic league organizations, local youth programs, and volunteer fire departments.

Sec. 171.058.

#### **Nonprofit Corporation Organized for Religious Purposes**

A nonprofit corporation organized primarily for the purpose of religious worship is exempt.

Sec. 171.059.

#### **Nonprofit Corporation Organized to Provide Burial Places**

A nonprofit corporation that provides plots for the burial of human remains is exempt.

Sec. 171.060.

#### **Nonprofit Corporation Organized for Agricultural Purposes**

A nonprofit corporation organized to hold agricultural fairs and encourage agricultural pursuits is exempt. An example is a county fair association.

Sec. 171.061.

#### **Nonprofit Corporation Organized for Educational Purposes**

A nonprofit corporation seeking exemption under this provision must show that (1) its activities are devoted exclusively to systematic instruction, particularly in the commonly accepted arts, sciences, and vocations; (2) it has a regularly scheduled curriculum, using commonly accepted methods of teaching; (3) it has a faculty of qualified instructors; and (4) it has an enrolled student body or students in attendance at a place where the educational activities are regularly conducted. Private primary and secondary schools are examples.

Sec. 171.062.

#### **Nonprofit Corporation Organized for Public Charity**

A nonprofit corporation organized for purely public charity that devotes all or substantially all of its efforts to the alleviation of poverty, disease, pain, and suffering by providing food, clothing, drugs, treatment, shelter, or psychological counseling directly to indigent or similarly deserving members of society and deriving its funds primarily from sources other than fees or charges for its services is exempt.



Sec. 171.063.

**Nonprofit Corporation Exempt from Federal Income Tax**

A nonprofit corporation that is exempt from federal income tax under Internal Revenue Code Sections 501(c)(2), (3), (4), (5), (6), (7), (8), (10), (16), (19), and (25) is exempt from the franchise tax.

Section 501(c)(3) exempts religious, educational, charitable, scientific, and literary organizations. This group includes organizations that test for public safety, societies to foster national or international amateur sports competition, and societies for the prevention of cruelty to children or animals. Examples include churches, private schools, museums, theaters, evangelistic associations, YMCAs, YWCAs, and humane societies.

Section 501(c)(4) exempts civic leagues, social welfare organizations, and local associations of employees. Examples include Lions Clubs, Rotary Clubs, associations of retired persons, volunteer fire departments, and employees' clubs.

Section 501(c)(5) exempts labor, agricultural, and horticultural organizations. In general, the organizations are educational or instructive for the purpose of improving conditions of work and for improving products and efficiency. Examples include flower societies, police unions, bovine breeder associations, and irrigation councils.

Section 501(c)(6) exempts business leagues, chambers of commerce, real estate boards, and other similar organizations. These organizations typically concern themselves with the improvement of business conditions of one or more lines of business.

Section 501(c)(7) exempts organizations of a social and recreational nature. The activities of these organizations primarily relate to pleasure, recreation, and social activities. Examples are college and university social sororities and fraternities, country clubs, and adult athletic associations.

Section 501(c)(8) exempts fraternal beneficiary societies and associations. These organizations include lodges providing payments of life, sickness, accident or other benefits to members. Examples are the Independent Order of Odd Fellows and the Elks Lodge.

Section 501(c)(10) exempts domestic fraternal societies and associations. Generally, these are lodge organizations that devote their net earnings to charitable, fraternal, and other specified purposes. These organizations do not provide life, sickness, or accident benefits to members. Examples are the Scottish Rite and the Fraternal Order of Eagles.

Section 501(c)(16) exempts cooperative organizations that finance crop operations, generally in connection with activities of a marketing or purchasing association. An example is a livestock credit corporation.

Section 501(c)(19) exempts organizations of past or present members of the armed forces. Examples are Veterans of Foreign Wars (VFW) Posts and their auxiliary organizations.

Sections 501(c)(2) and 501(c)(25) exempt a particular type of for-profit corporation. These corporations hold the title to the property of another affiliated exempt organization and pass funds to the other exempt organization.

Sec. 171.064.

**Nonprofit Corporation Organized for Conservation Purposes**

A nonprofit corporation organized solely to educate the public about the protection and conservation of fish, game, other wildlife, grasslands, or forests is exempt. Examples are a wetland habitat preservation alliance and a society to preserve a particular forest.

Sec. 171.065.

**Nonprofit Corporation Organized to Provide Water Supply or Sewer Services**

A nonprofit water supply or sewer service corporation organized under Article 1434a, Vernon's Texas Civil Statutes, is exempt. These special corporations may serve cities, towns, and political subdivisions, but not municipal utility districts.

Sec. 171.066.

**Nonprofit Corporation Involved with City Natural Gas Facility**

A nonprofit corporation organized to construct, acquire, own, lease, or operate a natural gas facility on behalf of and for the benefit of a city or residents of a city is exempt.

Sec. 171.067.

**Nonprofit Corporation Organized to Provide Convalescent Homes for Elderly**

A nonprofit corporation organized to provide convalescent housing for persons at least 62 years old or that are handicapped or disabled is exempt.

Sec. 171.068.

**Nonprofit Corporation Organized to Provide Cooperative Housing**

A nonprofit corporation engaged solely in the business of owning residential property for the purpose of providing cooperative housing for individuals is exempt.

Sec. 171.069.

**Agricultural Marketing Association**

A marketing association incorporated under Chapter 52, Agricultural Code, is exempt. A marketing association generally provides a means or vehicle for selling the agricultural products produced by its collective members.

Sec. 171.070.

**Lodges**

A lodge incorporated under Article 1399 et seq., Revised Civil Statutes of Texas, 1925, is exempt. Examples of lodges qualifying for this exemption are the Masons and Elks.

Sec. 171.071.

**Farmers' Cooperative Society**

A farmers' cooperative society incorporated under Chapter 51, Agricultural Code, is exempt. A farmers' cooperative may provide its members with an economical and effective means of purchasing farming supplies and materials such as tractor fuel and fertilizer.

Sec. 171.072.

**Housing Finance Corporation**

A housing finance corporation incorporated under Chapter 394, Local Government Code, is exempt. A housing finance corporation is a financing vehicle used by local governments to provide safe and sanitary housing at affordable prices for its residents.

Sec. 171.073.

**Hospital Laundry Cooperative Association**

A hospital laundry cooperative association incorporated under Subchapter A, Chapter 301, Health and Safety Code, is exempt. The eligible institutions include: a municipality; a political subdivision of the state; a state-supported health-related institution, including the Texas A&M University System, the University of Texas System, and Texas Woman's University; a nonprofit health-related institution; and a cooperative association created under Subchapter B, Chapter 301, Health and Safety Code, a unit of which is located in a county with a population of more than 2.5 million.

Sec. 171.074.

**Development Corporation**

A nonprofit corporation organized under the Development Corporation Act of 1979 (Article 5190.6, Vernon's Texas Civil Statutes) is exempt. The purpose of a development corporation is to provide communities in Texas with a means for financing private industrial and manufacturing enterprises that will benefit the economic development of the community.

Sec. 171.075.

**Cooperative Association**

A cooperative association incorporated under Subchapter B, Chapter 301, Health and Safety Code, or under the Cooperative Association Act (Article 1396-50.01, Vernon's Texas Civil Statutes) is exempt. Qualified associations may be formed by institutions exempt under Sec. 171.073.

The cooperative may provide services to its members, including central heating and cooling services, steam and chilled water supply, and child care services for the children of employees, consultants, students, and volunteers of cooperative association members, as well as temporary child care services for the children of patients and customers of those members.

Another category includes cooperatives with commercial activities. These organizations are typically classified along functional lines: consumer cooperatives, purchasing cooperatives, marketing cooperatives, workers' productive cooperatives, farmers' cooperatives, insurance companies, and financial cooperatives.

Sec. 171.076.

**Cooperative Credit Association**

A cooperative credit association incorporated under Chapter 55, Agriculture Code, is exempt. A cooperative credit association's purpose is to provide a financing source for its members. A cooperative credit association may be formed only by persons that are Texas citizens and that are engaged in the production, or production and marketing, of staple agricultural products or in the raising, breeding, feeding, fattening, or marketing of livestock.

Sec. 171.077.

**Credit Union**

A credit union incorporated under the Texas Credit Union Act (Subtitle D, Title 3, Finance Code) is exempt. State-chartered credit unions exempt under this section are not required to register with the Comptroller.

Sec. 171.079.

**Electric Cooperative Corporation**

An electric cooperative incorporated under the Electric Cooperative Corporation Act (Chapter 161, Utilities Code) that is not a participant in a joint powers agency is exempt. The purpose of electric cooperatives is to provide electricity to rural areas.

A joint powers agency is formed with one or more public entities, and the agency formed is a governmental body subject to Chapter 551, Government Code. A joint powers agency's business activities are confined to the generation, transmission, and sale of electricity to the participant entities and to private entities that are joint owners with the agency of an electric generating facility located within Texas.

Sec. 171.080.

**Telephone Cooperative Corporation**

A telephone cooperative corporation incorporated under the Telephone Cooperative Act (Chapter 162, Utilities Code) is exempt. The purpose of a telephone cooperative is to provide telephone service to rural areas.

Sec. 171.081.

**Corporation Exempt by Another Law**

This section provides that a corporation that is exempt from the franchise tax under another federal or state statute is not affected by a lack of a specific exemption provision in Chapter 171 of the Tax Code. An example is a health facilities development corporation created under Chapter 221 of the Health and Safety Code, in which Section 221.033 exempts such a corporation from all state taxes. Accordingly, even though there is no provision in Chapter 171 exempting the corporation, it is exempt from franchise tax.

Sec. 171.082.

**Certain Homeowners' Associations**

A nonprofit corporation is exempt if the corporation is organized and operated primarily to obtain, manage, construct, and maintain the common property in or of a residential condominium or residential real estate development and the collective individual resident owners control at least 51 percent of the votes of the corporation. A project or development is considered residential if the project or development is legally restricted for residential use.

Sec. 171.083.

**Emergency Medical Service Corporation**

A nonprofit corporation organized solely to provide emergency medical services, including rescue and ambulance service, is exempt.

Sec. 171.084.

**Certain Trade Show Participants**

This provision exempts a foreign corporation from the franchise tax for certain solicitation of orders for personal property by its representatives, as would typically be found in a trade show. The solicitation must be limited to five periods during a specified time span, and a solicitation period may not exceed 120 consecutive hours.

Sec. 171.085.

**Sludge Recycling Operation**

A corporation engaged solely in the business of recycling municipal sludge is exempt.

Sec. 171.086.

**Political Subdivisions**

Political Subdivision corporations are exempted from the franchise tax.

Sec. 171.087.

**Nonprofit Corporation Organized for Student Loan Funds or Student Scholarship Purposes**

A nonprofit corporation organized solely to provide financial aid to students is exempt.

**Deductions, Discounts, Exclusions, Special Accounting Methods, and Credits and Refunds**

For many of the allowable deductions, exclusions, or special accounting methods, taxpayers are not required to alert the Comptroller when employing the deduction or accounting method. For this reason, the number of taxpayers taking advantage of these forms of tax relief is not precisely known. The fiscal impacts of these tax benefits are estimated using a variety of computation methods, including comparison with federal tax information, if appropriate.

Other deductions or special accounting methods require the entry of data on the franchise tax report in a manner that allows the identification of each taxpayer using that deduction or method. Tax credits and discounts can also be identified on a taxpayer-specific basis.

**Franchise Tax: Deductions and Exclusions**

Sec. 171.002(d).

**Small Business Exception**

Firms with a tax liability of less than \$1,000 are not required to remit the tax. Firms with total revenue from their entire business of not more than \$1 million, adjusted per Sec. 171.106, are not required to remit the tax, although they must file information reports.

Sec. 171.006.

**Adjustment of Eligibility for No Tax Due and Compensation Deduction**

The threshold on total revenue for the small business exception (Sec. 171.002(d)) is adjusted at the beginning of each even numbered year by a percentage equal to the percentage increase or decrease in the Consumer Price Index for All Urban Consumers (CPI-U) during the preceding state fiscal biennium rounded to the nearest \$10,000. A similar adjustment is made to the maximum allowable subtraction for a single employee's compensation found in Sec. 171.1013(c). The first adjustment became effective on January 1, 2010; additional adjustments became effective January 1, 2012 and January 1, 2014.

Sec. 171.101(a)(1)(B)(i).

**Optional Subtraction of \$1 Million from Total Revenue for Determination of Taxable Margin**

A taxable entity may elect to subtract \$1 million from their total revenue to determine taxable margin in lieu of subtracting cost of goods sold, compensation or the standard deduction of 30 percent of total revenue.

Sec. 171.107.

**Deduction of Cost of Solar Energy Device From Margin Apportioned to this State**

Taxpayers may deduct 10 percent of the amortized cost of solar energy equipment installed from the taxable margin base.

Sec. 171.108.

**Deduction of Cost of Clean Coal Project From Margin Apportioned to this State**

Taxpayers may deduct 10 percent of the amortized cost of equipment used in a clean coal project from the taxable margin base.

Sec. 171.109.

**Deduction of Relocation Costs by Certain Taxable Entities From Margin Apportioned to this State**

A taxable entity that relocates its main office or principal of business to this state from another state and that did not do business in this state prior to the relocation may take a one-time deduction from margin apportioned to this state for relocation expenses.

Sec. 171.1011(g-3)(3).

**Exclusion from Total Revenue for Handling Pro Bono Service Cases by Attorneys**

Taxpayers who are attorneys may exclude \$500 per pro bono services case handled by the attorney, but only if the attorney maintains records of the pro bono services for auditing purposes in accordance with the manner in which those services are reported to the State Bar of Texas.

Sec. 171.1011(g-4).

**Exclusion from Total Revenue of Certain Flow-through Funds and Reimbursements for Pharmacy Cooperatives and Pharmacy Network Providers**

A taxable entity that is a pharmacy cooperative may exclude from total revenue rebates from pharmacy wholesalers distributed to the pharmacy cooperative's shareholders. A taxable entity that provides a pharmacy network may exclude reimbursements, pursuant to contractual agreements, for payments to pharmacies in the pharmacy network.

Sec. 171.1011(g-5).

**Exclusion from Total Revenue of Payments Made to Artists by a Qualified Live Event Promotion Company**

A taxable entity that is a qualified live event promotion company may exclude from total revenue payments made to an artist in connection with the provision of a live entertainment event.

Sec. 171.1011(g-6).

**Exclusion from Total Revenue of Certain Payments Made by Qualified Destination Management Companies**

A taxable entity that is a qualified destination management company may exclude from total revenue payments made to other persons to provide services, labor, or materials in connection with the provision of destination management services as defined by law.

Sec. 171.1011(g-7).

**Exclusion from Total Revenue of Certain Payments Made by Qualified Courier and Logistics Companies**

A taxable entity that is a qualified courier and logistics company may exclude from total revenue subcontracting payments made to nonemployee agents for the performance of delivery services on behalf of the taxable entity.

Sec. 171.1011(g-8).

**Exclusion from Total Revenue of Certain Payments Made by Aggregate Transporters**

A taxable entity that is primarily engaged in the business of transporting aggregates may exclude from total revenue subcontracting payments made to independent contractors for delivery services on behalf of the taxable entity.

Sec. 171.1011(g-10).

**Exclusion from Total Revenue of Certain Payments Made by Barite Transporters**

A taxable entity that is primarily engaged in the business of transporting barite may exclude from total revenue subcontracting payments made to independent contractors for delivery services on behalf of the taxable entity.

Sec. 171.1011(g-11).

**Exclusion from Total Revenue of Certain Payments Made by an Entity Performing Landman Services**

A taxable entity that is primarily engaged in the business of providing landman services may exclude from total revenue subcontracting payments made to nonemployees for performance of landman services on behalf of the taxable entity.

Sec. 171.1011(m).

**Exclusion from Total Revenue of Dividends and Interest Received from Federal Obligations**

Taxpayers may exclude from total revenue dividends and interest received from federal obligations.

Sec. 171.1011(n) and (o).

**Exclusion from Total Revenue by Health Care Providers of Payments Received from Certain**

### **Health Care Program Payers and for Costs of Uncompensated Care**

Payments received from the Medicaid program, Medicare program, Indigent Health Care, Children's Health Insurance Program, or for professional services provided in relation to a workers' compensation claim or to a beneficiary rendered under the TRICARE military health system are excluded from the total revenue of a health care provider. The health care provider may also exclude from total revenue the actual cost of uncompensated care. The amount of exclusion of the listed payments and costs is 50 percent for a health care provider that is a health care institution (Sec. 171.1011(o)) and 100 percent for other health care providers (Sec. 171.1011(n)).

Sec. 171.1011(u).

### **Exclusion from Total Revenue for the Cost of a Vaccine**

A taxable entity shall exclude from total revenue the actual cost paid for a vaccine.

Sec. 171.1011(v).

### **Exclusion from Total Revenue of Certain Costs Incurred by Certain Taxable Entities Engaged in the Transportation of Goods by Waterways**

A taxable entity that is primarily engaged in transporting goods by waterways that does not subtract cost of goods sold in computing taxable margin shall exclude from total revenue direct costs of providing transportation services to the same extent that a taxable entity that sells in the ordinary course of business real or tangible property would be authorized to subtract those costs as cost of goods sold in computing its taxable margin.

Sec. 171.1011(w-1).

### **Exclusion from Total Revenue of Certain Costs Incurred by Taxable Entities that Provide Agricultural Aircraft Operation Services**

A taxable entity primarily engaged in the business of providing services as an agricultural aircraft operation as defined in federal regulations may exclude from its total revenue the cost of labor, equipment, fuel, and materials used in providing those services.

Sec. 171.1012(k-2).

### **Cost of Goods Sold Subtraction for Certain Pipeline Entities**

A taxable entity that provides pipeline transportation services for others, and only for that portion of the product to which the entity does not own title, may subtract as a cost of goods sold its depreciation, operations, and maintenance costs allowed by law.

Sec. 171.1012(t).

### **Additional Cost of Goods Sold Subtraction for Movie Theaters**

If a taxable entity that is a movie theater elects to subtract cost of goods sold, the cost of goods sold for the taxable entity shall be the costs related to the acquisition, production, exhibition, or use of a film or motion picture, including the expenses for the right to use the film or motion picture.

Sec. 171.1013(b-1).

### **Additional Subtraction of Newly Provided Health Benefit Costs for Certain Small Employers**

This provision applies to small employers as defined by the Insurance Code that have not provided health care benefits to any of its employees in the calendar year preceding the beginning date of the reporting period and that elects to subtract compensation for calculating taxable margin. If a qualified employer provides health benefits to all employees during the reporting period, the employer may subtract an additional amount equal to 50 percent of the cost of providing health benefits in the first 12-month period on which margin is based and an amount equal to 25 percent of the cost during the second 12-month period.

## **Franchise Tax: Special Accounting Methods**

Sec. 171.0001(12)(B), (D), (E) and (F).

### **Definition of Retail Includes Certain Rental Activities**

Taxable entities that are primarily engaged in renting of apparel, rental-purchase agreement activities, renting or leasing of tools, party and event supplies and furniture, or renting or leasing of heavy construction equipment are defined to be engaged in retail trade and eligible for a tax rate of 0.5 percent of taxable margin.

Sec. 171.0001(12)(C).

### **Definition of Retail Includes Automotive Repair Services**

Taxable entities that are primarily engaged in providing automotive repair services are defined to be engaged in retail trade and eligible for a tax rate of 0.5 percent of taxable margin.

Sec. 171.0023.

### **Temporary Permissive Alternative Rates for 2015**

For reports due in 2015 taxable entities may calculate tax using a rate of 0.95 percent of taxable margin or 0.475 percent of taxable margin if the taxable entity is primarily engaged in retail or wholesale trade. This provision expires December 31, 2015.

Sec. 171.1016.

**E-Z Computation and Rate**

A taxable entity with not more than \$10 million in total revenue from its entire business may elect to pay the franchise tax using the E-Z computation and rate. Tax is calculated by multiplying the taxable entity's total revenue by the taxable entity's apportionment factor and then multiplying the result by a tax rate of 0.0575. A taxable entity electing the E-Z method may apply applicable deductions from the tax provided by Sec. 171.002. A taxable entity electing the E-Z method may not take other credits, deductions, or adjustments.

Sec. 171.106(b) and (c).

**Apportionment for Certain Investment Management Companies**

Most firms that provide services (as opposed to tangible goods) are required to source their receipts to the location where the service was performed. Sec. 171.106(b) sources receipts from regulated investment company management services to the domicile of the owners of the investment funds. Sec. 171.106(c) sources receipts from employee retirement plan managers to the state of the plan's beneficiaries.

Sec. 171.106(f) and (f-1).

**Apportionment of Proceeds from the Sale of Certain Loans and Securities**

Section 171.1055 requires a taxable entity to exclude from gross receipts for apportionment any receipts that were excluded from total revenue. For taxpayers who sell loans or securities treated as inventory or financial institutions that sell loans or securities categorized as "Securities Available for Sale" or "Trading Securities" under Financial Accounting Standard 115, gross receipts for apportionment include the gross proceeds from the sale, not just the net gain which is included in total revenue.

Sec 171.106(g).

**Apportionment for Internet Hosting**

For most services receipts are sourced to the location where the services are performed. A receipt for Internet hosting is a receipt for business done in this state only if the customer to whom the services is provided is located in this state.

Rule 3.591(e)(32).

**Apportionment for Transportation Companies**

Transportation companies are permitted to exclude from their Texas receipts the Texas portion of interstate transportation services in computing taxable margin.

Rule 3.591(e)(30).

**Apportionment for Telephone Companies**

Telephone companies are permitted to exclude from their Texas receipts the Texas portion of interstate calls in computing taxable margin.

Franchise Tax: **Credits**

Sec. 171.111.

**Temporary Credit on Taxable Margin**

A taxable entity that has properly notified the Comptroller in writing may apply a tax credit against the franchise tax owed calculated on margin. The credit is based on the amount of business loss carryforwards of the taxable entity on tax reports due before January 1, 2008 that were not exhausted on a report due before that date. The credit is calculated for reports due after January 1, 2008 and before January 1, 2018 as 2.25 percent of the unexhausted business loss carryforwards amount times 4.5 percent. For periods after January 1, 2018 and before September 1, 2027 the credit equals 7.75 percent of the unexhausted business loss carryforward amount times 4.5 percent.

Rule 3.593(e), (f) and (g).

**Franchise Tax Credits Carried Forward from Prior Credit Provisions**

Taxpayers who had established research and development, jobs creation, or capital investment credits on reports due before January 1, 2008 may apply credits carried forward to reports due after January 1, 2008, under the installment and carry forward provisions that existed at the time the credits were established. The provisions expire December 31, 2016 for the job creation and capital investment credits. Any job creation or capital investment credits used in 2013 through 2016 trigger a sales tax provision (Tax Code Section 151.802), which requires a transfer of sales tax revenue equal to the credits used to the Property Tax Relief Fund 304.

Sec. 171.652.

**Subchapter L. Tax Credit for a Clean Energy Project**

A taxable entity operating a certified clean energy project may receive a franchise tax credit equal to of the lesser of 10 percent of the capital costs of the project or \$100 million. The Comptroller may not issue a credit before September 1st of 2018.

Sec. 171.651 - 171.665.

**Subchapter M. Tax Credit for Certain Research and Development Activities**

A taxable entity may earn a franchise tax credit for qualified research expenses incurred in this state that exceed the amount of such expenses incurred during a base period. The credit is equal to 5 percent of the increased expenses or 6.25 percent of the increased expenses if the taxable entity contracts with an institution of higher education for the performance of qualified research.

Sec. 171.663 requires the comptroller to provide certain information regarding the credits for Research and Development Activities. For activity shown on 2014

franchise tax reports, 825 taxable entities applied credits; the amount of credits applied was \$125.7 million, and the amount of unused credit carried forward was \$100.9 million.

Sec. 171.901 - 171.909.

**Subchapter S. Tax Credit for Certified Rehabilitation of Certified Historic Structures**

An entity may earn a franchise tax credit for expenses incurred for the rehabilitation of a certified historic structure in which the entity has an ownership interest in the year during which the structure is placed in service after the rehabilitation and the certified cost and expenses incurred exceed \$5,000. In order to establish a credit the entity must obtain a certificate of eligibility from the Texas Historical Commission. The amount of credit is limited to 25 percent of the total eligible cost and expenses incurred. The amount of credit claimed on a report may not exceed the amount of franchise tax due on that report. An entity may carry unused credits forward for not more than five years. An entity that has established a credit may assign or sell the credit to another entity.

**Franchise Tax: Refunds**

Sec. 171.501.

**Refund for Job Creation in Enterprise Zone**

Taxpayers located in an enterprise zone that create at least 10 new jobs can qualify for a franchise tax refund. Qualifying firms must be certified by the Texas Economic Development Bank. The refund is the lesser of \$5,000 or 25 percent of the amount of franchise tax due for the period. ☛





# Motor Vehicle Sales and Use Tax

The motor vehicle sales tax is a transaction tax paid on each purchase of a qualifying motor vehicle. There is also a use tax component for a vehicle purchased out of state and then brought into Texas. Motor vehicle sales tax collections<sup>3</sup> in fiscal 2014 totaled \$3.94 billion.

## Motor Vehicle Sales and Use Tax: Exemptions

Motor vehicle sales tax exemptions are based on either the status of the purchaser or the intended use of the motor vehicle. **Table 8** summarizes the estimated values of these exemptions for fiscal 2015 through 2020. The exemptions are as follows:

Tax Code Sec. 152.081.

### Driver Training Motor Vehicles

Motor vehicles used by a public school in an approved standard driver training course are exempt when they are owned by a dealer, purchased in Texas, and loaned free of charge by the dealer to a public school.

Sec. 152.082.

### Sale of Motor Vehicle to or Use of Motor Vehicle by Public Agency

Motor vehicles purchased or used by public agencies are exempt. These vehicles must be operated with exempt license plates.

Sec. 152.083.

### Lease of Motor Vehicle to Public Agency

This provision exempts the purchase of motor vehicles by a leasing company when the vehicles will be leased to a public agency. Under the Tax Code it is ordinarily the lessor's purchase transaction that is taxable rather than the lease contract (defined in Chapter 152 to include only contracts providing exclusive use of the vehicle in excess of 180 days). Vehicles taking advantage of this exemption must be operated with exempt license plates.

**Table 8**

## Value of Motor Vehicle Sales Tax Exemptions

Fiscal 2015 to 2020 – In millions of dollars

Tax Code Section	Exemption	2015	2016	2017	2018	2019	2020
152.081	Driver training motor vehicles	*	*	*	*	*	*
152.082	Sale of motor vehicle to or use of motor vehicle by public agency	\$30.7	\$31.3	\$31.9	\$32.9	\$33.9	\$34.9
152.083	Lease of motor vehicle to public agency	**	**	**	**	**	**
152.084	Rental of motor vehicle to public agency	**	**	**	**	**	**
152.086	Motor vehicles driven by handicapped persons	4.2	4.3	4.4	4.5	4.7	4.8
152.087	Fire trucks and emergency medical services vehicles	1.4	1.5	1.5	1.5	1.6	1.6
182.088	Motor vehicles used for religious purposes	1.2	1.3	1.3	1.4	1.4	1.4
152.089	Exempt vehicles	6.9	7.1	7.3	7.5	7.8	8.0
152.090	Certain hydrogen-powered motor vehicles	cbe	cbe	cbe	cbe	cbe	cbe
152.091	Farm or timber use	33.0	33.7	34.7	35.8	36.8	37.9
152.092	Motor vehicles transported out of state	cbe	cbe	cbe	cbe	cbe	cbe
152.093	Motor vehicles sold to certain licensed child-care facilities	2.2	2.3	2.4	2.4	2.5	2.6
<b>Total</b>	<b>Value of Motor Vehicle Sales Tax Exemptions</b>	<b>\$79.7</b>	<b>\$81.4</b>	<b>\$83.5</b>	<b>\$86.1</b>	<b>\$88.6</b>	<b>\$91.3</b>

\* Amount is negligible

\*\* Cannot be separated from the public agency purchases estimate.

cbe: cannot be estimated

Note: Columns may not sum because of rounding.

<sup>3</sup> Includes revenue collections from the general motor vehicle sales tax (revenue object 3004) as well as that tax on motor carriers (3003) and seller financed motor vehicle sales (3016).

Sec. 152.084.

**Rental of Motor Vehicle to Public Agency**

This provision exempts the rental of a motor vehicle to a public agency.

Sec. 152.086.

**Motor Vehicles Driven by Handicapped Persons**

The tax does not apply to the sale or use of motor vehicles that have been modified before the second anniversary of the date of purchase primarily for operation by, or for the transportation of, an orthopedically handicapped person.

Sec. 152.087.

**Fire Trucks and Emergency Medical Services Vehicles**

The tax does not apply to the purchase, rental, or use of a fire truck, emergency medical services vehicle, or other motor vehicle used exclusively for fire-fighting purposes or for emergency medical services. The vehicle must be purchased by a volunteer fire department, by a nonprofit emergency medical service provider that receives a federal tax exemption under Section 501(c)(3) of the Internal Revenue Code, or by certain emergency medical service providers to which Section 502.456 Transportation Code applies.

Sec. 152.088.

**Motor Vehicles Used for Religious Purposes**

The tax does not apply to the sale or use or the receipts for the rental of a motor vehicle that is used for religious purposes.

Sec. 152.089.

**Exempt Vehicles**

The tax does not apply to interstate motor vehicles, trailers, and semitrailers, unless they cease to be used for interstate commerce within one year of the date the vehicle was purchased in Texas or the date the vehicle was first brought into Texas. When a leased vehicle is no longer used for interstate commerce, the owner owes tax on the vehicle's book value.

An "interstate motor vehicle" means a motor vehicle operated in this state and another state or country, and for which registration fees could be apportioned if the motor

vehicle were registered in a state or province of a country that is a member of the International Registration Plan. This definition includes a bus used in transportation of chartered parties if it meets all standards required of other motor vehicles for apportioned registration fees. This definition does not include a vehicle leased for less than 181 days or a vehicle that has Texas license plates and does not operate under the International Registration Plan.

Sec. 152.090.

**Certain Hydrogen-powered Motor Vehicles**

The tax does not apply to vehicles meeting the definition of a "hydrogen-powered" motor vehicle that is hydrogen power capable with a fuel economy of at least 45 miles per gallon; or meets the definition and is fully hydrogen-powered.

Sec. 152.091.

**Farm or Timber Use**

The tax does not apply to the sale, purchase, use, or rental of a machine, trailer, or semitrailer for use primarily for farming, ranching, or timber operations.

Sec. 152.092.

**Motor Vehicles Transported Out of State**

Motor vehicles that are transported out of state, prior to use in this state (other than removal) and for exclusive use outside of this state, are not subject to the tax. The purchaser must sign an exemption certificate provided by the Comptroller's Office that authorizes the Comptroller's Office to provide a copy of the exemption certificate to the state of intended use and registration.

Sec. 152.093.

**Motor Vehicles Sold to Certain Licensed Child-care Facilities**

The tax does not apply to a motor vehicle purchased, used, or rented by a qualified residential child-care facility for the primary purpose of transporting the children residing in the facility. The facility must be licensed by the state to provide 24-hour care to both emotionally disturbed children and to children who do not require specialized services. The facility must be licensed for both groups of children who live together in a single residential group. ✪

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# Oil Production Tax

The oil production tax is an occupation tax on the business of producing crude oil within the state, and therefore one-quarter of the revenue collected is set apart annually for the benefit of public schools with the remainder deposited to the General Revenue Fund.

The tax rate is the greater of 4.6 percent of the oil's taxable market value or 4.6 cents for each barrel of oil produced in the state. In determining the taxable market value, the gross market value of the produced oil at the wellhead is reduced by the non-taxable value of royalties paid to governmental entities and the transportation costs to move the oil from well to market. Total oil production tax collections in fiscal 2014 were \$3.87 billion, an all-time high surpassing the record set in 2013 of \$2.99 billion.

## Oil Production Tax: Exemptions

Chapter 202 of the Tax Code includes six types of exemptions from the oil production tax. The estimated value of these exemptions is provided in **Table 9**. The exemptions are as follows:

Tax Code Sec. 202.054.

### **Qualification of Oil from New or Expanded Enhanced Recovery Project for Special Tax Rate**

The Enhanced Oil Recovery (EOR) program was created by the 71st Legislature (1989) to provide a 10 year tax incentive for oil produced by processes other than the primary recovery method and with a qualifying time limit. The incentive was made permanent by the 78th Legislature (2003).

Sec. 202.0545.

### **Enhanced Recovery Projects Using Anthropogenic Carbon Dioxide**

The tax incentive was created by the 80th Legislature (2007) to provide additional tax relief for oil produced from EOR projects using anthropogenic carbon dioxide for 30 years. This exemption has not been used since the inception.

Sec. 202.056.

### **Oil and Gas Wells Previously Inactive**

The inactive well exemption was created by the 75th Legislature (1997) to provide a 10 year severance tax exemption for a well that was previously inactive for two years as certified by the Railroad Commission prior to February 2010.

Sec. 202.058.

### **Qualifying Low-Producing Oil Leases**

This tax incentive program was created by the 79th Legislature (2005) to provide tax credits to qualifying low-producing oil leases based on the preceding three month average production and the average taxable oil price adjusted to 2005 dollars. The tax credits were made permanent by the 80th Legislature (2007). The tax incentive has three levels of tax credits: for oil prices averaging \$22 or less during the previous three months, the tax credit is 100 percent; for oil prices averaging between \$22 and \$25, the tax credit is 50 percent; and for oil prices averaging between \$25 and \$30, the tax credit is 25 percent. Because the oil price triggers have not been met, the tax credits have never been used.

Sec. 202.060.

### **Oil and Gas from Reactivated Orphaned Wells**

The tax incentive was created by the 79th Legislature (2005) to provide a tax exemption for oil produced from certified orphaned wells, as defined in Section 89.047(a)(3) of the Natural Resources Code. The exemption is not transferable from the original certified operator of the well to the well's new operator.

Sec. 202.063.

### **Oil Incidentally Produced in Association with the Production of Geothermal Energy**

The exemption of oil incidentally produced in association with the production of geothermal energy was created by the 81st Legislature (2009). This exemption has never been used. ☹

**Table 9**

**Value of Oil Production Tax Exemptions**

Fiscal 2015 to 2020 - In millions of dollars

<b>Tax Code Section</b>	<b>Exemption</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
202.054	Qualification of oil from new or expanded enhanced recovery project for special tax rate	\$41.9	\$42.0	\$45.1	\$47.3	\$51.3	\$54.2
202.0545	Enhanced recovery projects using anthropogenic carbon dioxide	*	*	*	*	*	*
202.056	Oil and gas from wells previously inactive	36.8	32.0	29.7	27.0	25.4	0.3
202.058	Qualifying low-producing oil leases	*	*	*	*	*	*
202.060	Oil and gas from reactivated orphaned wells	*	*	*	*	*	*
202.063	Oil incidentally produced in association with the production of geothermal energy	*	*	*	*	*	*
<b>Total</b>	<b>Value of Crude Oil Production Tax Exemptions</b>	<b>\$78.7</b>	<b>\$73.9</b>	<b>\$74.8</b>	<b>\$74.3</b>	<b>\$76.6</b>	<b>\$54.5</b>

\* Amount is negligible.

Note: Columns may not sum because of rounding.

# School Property Tax

The Texas Constitution authorizes local governments to levy property taxes. Property taxes are levied by counties, cities, school districts, and special districts such as junior colleges, hospitals, and flood control districts. School property taxes were 55 percent of the total property taxes levied in tax year 2013.

The total school property tax collected by school districts in tax year 2014 was \$26.26 billion.

There is no state property tax; nevertheless, property taxes levied by school districts are important to the state because they help determine how much state money is forwarded to school districts to support public education.

There are two types of school property tax levies: one to cover maintenance and operating costs (M&O), and another to pay interest and sinking fund (I&S) debt service for financing building programs. In tax year 2014, the statewide weighted average M&O tax rate was \$1.049 per \$100 valuation, and the I&S tax rate was \$0.266 per \$100 valuation, for a combined statewide weighted average school tax rate of \$1.315 per \$100 valuation.

All real and tangible personal property, unless required or permitted to be exempt by the Texas Constitution, must be taxed in proportion to its value. Under the Tax Code, Section 11.02, most intangible personal property is not taxable. In order to receive property tax exemptions or special appraisals, in most cases a property owner must file an application with the county appraisal district of the county in which the property is located.

The total estimated cost of local school district property tax exemptions or special appraisals is \$9.8 billion in tax year 2015, and the amount is estimated to increase to \$12.01 billion in 2020. Estimates for 2015 through 2020, reflecting anticipated school property tax rates, are itemized in **Table 10**. The exemptions or special appraisals are explained below:

**Table 10**

## Cost of School Property Tax Exemptions or Special Appraisals

Tax Year 2015 to 2020 – In millions of dollars

Section Tax Code	Item	2015	2016	2017	2018	2019	2020
11.11	Public property (state and local)	cbe	cbe	cbe	cbe	cbe	cbe
11.111	Public property for housing indigent persons	1.0	1.0	1.0	1.0	1.0	1.0
11.12	Federal exemptions	cbe	cbe	cbe	cbe	cbe	cbe
	Residence homesteads						
11.13(b)	Mandated \$15,000 exemption	\$998.3	\$1,014.6	\$1,031.0	\$1,047.8	\$1,065.0	\$1,083.4
11.13(c)	Mandated \$10,000 exemption: age 65 and older or disabled	220.4	228.8	237.6	247.2	257.1	268.0
11.13(d)	Optional exemption: age 65 and older or disabled	116.5	120.5	124.7	129.3	133.9	139.1
11.13(n)	Optional exemption of up to 20 percent	530.4	553.1	576.7	601.3	627.0	654.1
11.131	100 percent disabled or unemployable veterans	95.5	109.2	123.7	138.9	154.6	170.5
11.132	Donated residence homestead of partially disabled veteran	cbe	cbe	cbe	cbe	cbe	cbe
11.132	Residence homestead of surviving spouse of member of armed killed in action	cbe	cbe	cbe	cbe	cbe	cbe
11.14	Personal property not used for producing income	cbe	cbe	cbe	cbe	cbe	cbe
11.145	Income-producing personal property valued under \$500	0.3	0.3	0.3	0.3	0.3	0.3
11.146	Mineral interest valued under \$500	2.6	2.6	2.6	2.6	2.6	2.6

(continued)

**Table 10 (continued)**

**Cost of School Property Tax Exemptions or Special Appraisals**  
 Tax Year 2015 to 2020 – In millions of dollars

Section Tax Code	Item	2015	2016	2017	2018	2019	2020
11.15	Family supplies for home or farm use	cbe	cbe	cbe	cbe	cbe	cbe
11.16	Farm products	cbe	cbe	cbe	cbe	cbe	cbe
11.161	Implements of husbandry	cbe	cbe	cbe	cbe	cbe	cbe
11.17	Cemeteries	cbe	cbe	cbe	cbe	cbe	cbe
11.18	Charitable Organizations	cbe	cbe	cbe	cbe	cbe	cbe
11.181	Improving property for housing with volunteer labor	0.3	0.3	0.3	0.3	0.3	0.3
11.182	Community housing development organizations improving property for housing	12.3	12.3	12.3	12.3	12.3	12.3
11.1825	Constructing or rehabing housing not previously exempt	0.9	0.9	0.9	0.9	0.9	0.9
11.1827	Community Land Trust	0.0	0.0	0.0	0.0	0.0	0.0
11.183	Assisting ambulatory health care centers	6.1	6.1	6.1	6.1	6.1	6.1
11.184	Performing charitable functions	2.8	2.8	2.8	2.8	2.8	2.8
11.185	Developing model colonia subdivisions	0.1	0.1	0.1	0.1	0.1	0.1
11.19	Youth spiritual, mental, and physical development organizations	6.4	6.4	6.4	6.4	6.4	6.4
11.20	Religious organizations	cbe	cbe	cbe	cbe	cbe	cbe
11.21	Private Schools	56.5	56.5	56.5	56.5	56.5	56.5
11.22	Disabled veterans	23.3	23.9	24.5	25.1	25.7	26.4
11.23	Miscellaneous exemptions	22.8	22.8	22.8	22.8	22.8	22.8
11.231	Providing economic development services to local community	8.5	8.5	8.5	8.5	8.5	8.5
11.24	Historic or archeological sites	6.0	6.1	6.2	6.3	6.4	6.5
11.25	Marine cargo containers	0.0	0.0	0.0	0.0	0.0	0.0
11.251, 11.437	Freeport property and cotton stored in warehouses	367.7	376.0	388.3	404.9	426.3	453.2
11.252	Motor vehicles leased for personal use	8.8	8.8	8.8	8.8	8.8	8.8
11.253	Tangible personal property in transit	0.7	0.7	0.7	0.7	0.7	0.7
11.254	Motor Vehicles for income production and personal use	0.3	0.3	0.3	0.3	0.3	0.3
11.26	School tax ceiling: age 65 and older or disabled	662.9	690.4	719.3	751.0	783.6	820.0
11.27	Solar and wind energy devices	0.9	1.1	1.2	1.3	1.5	1.6
11.271	Offshore drilling equipment not in use	0.1	0.1	0.1	0.1	0.1	0.1
11.28	Tax abatement agreement	0.0	0.0	0.0	0.0	0.0	0.0
11.29	Intracoastal waterway dredge disposal site	cbe	cbe	cbe	cbe	cbe	cbe
11.30	Nonprofit water or wastewater corporation	3.5	3.5	3.5	3.5	3.5	3.5
11.31	Pollution control property	137.5	140.6	143.1	145.6	148.2	151.0
11.311	Temporary exemption: landfill-generated gas conversion facilities	cbe	cbe	cbe	cbe	cbe	cbe
11.315	Energy storage system in nonattainment area	cbe	cbe	cbe	cbe	cbe	cbe
11.32	Certain water conservation initiatives	0.0	0.0	0.0	0.0	0.0	0.0
11.33	Raw cocoa and green coffee held in Harris County	1.4	1.4	1.4	1.4	1.4	1.4
11.34	Limitation on certain properties in certain municipalities	0.0	0.0	0.0	0.0	0.0	0.0
23.23	Limitation on appraised value of residence homestead (10% cap)	417.5	418.5	419.6	420.7	421.8	423.1
23.41-23.9803	Special appraisal for agriculture and timber land	3,125.1	3,258.5	3,364.9	3,474.9	3,588.6	3,707.4
23.48-23.60	Agricultural and open-space land reappraisal for temporary tick quarantine	0.0	0.0	0.0	0.0	0.0	0.0
26.10, 26.11, 26.111, 26.113	Prorations and Other Partial Exemptions	1.6	1.7	1.7	1.7	1.7	1.7
Ch. 311	Tax Increment Financing Act	186.7	205.9	227.1	250.4	276.2	304.7
Ch. 313	Texas Economic Development Act	221.5	398.7	525.1	505.1	536.6	538.0
	<b>Exemptions that can be separately estimated</b>	<b>\$7,247.1</b>	<b>\$7,682.9</b>	<b>\$8,050.0</b>	<b>\$8,287.0</b>	<b>\$8,589.7</b>	<b>\$8,884.3</b>
	Exemptions that can not be separately estimated	2,553.3	2,706.8	2,836.2	2,919.7	3,026.3	3,130.1
<b>Total</b>	<b>School Property Tax Exemptions or Special Appraisals</b>	<b>\$9,800.4</b>	<b>\$10,389.7</b>	<b>\$10,886.2</b>	<b>\$11,206.7</b>	<b>\$11,616.0</b>	<b>\$12,014.4</b>

"Tax Year" is equivalent to calendar year.

cbe: cannot be estimated because of unavailable appraisal data.

Note: Columns may not sum because of rounding.

Ch. 313 estimates reflect only school property tax levy loss and tax credit costs for projects with Comptroller approved draft and executed agreements through Jan 31, 2015.

Tax Code Sec. 11.11.

### **Public Property**

Property owned by the state or a political subdivision of the state and used for a public purpose is exempt from taxation. Included within this exemption are all oil, natural gas or other minerals owned by an institution of higher education. Several other specific types of public property also are exempt from property taxes.

- ***Institution of Higher Education Public Property Held in Trust***

Property owned by a private person but dedicated or held for the support, maintenance, or benefit of a public institution of higher education is exempt.

- ***Alumni Association Property Built on State-owned Land***

Property owned by an alumni association or a higher education development foundation and located on land owned by a public institution of higher education is exempt if certain conditions are met.

- ***Leased Prison Property to the State***

Privately-owned improvements located on land owned, leased or lease-purchased by the Texas Department of Criminal Justice (TDCJ), and used by TDCJ, are exempt. The lease-purchase agreement under which TDCJ uses the property must provide that TDCJ will own the property at the end of the lease.

- ***Lease-Purchase Agreements of Public Property***

If a lease-purchase agreement provides that the state or a political subdivision of the state is entitled to the tangible personal property at the end of the lease, the property is exempt.

Sec. 11.111.

### **Public Property Used to Provide Transitional Housing for Indigent Persons**

The governing body of a taxing unit may exempt from property taxation residential property owned by an agency of the U.S. government. The property must be used to provide transitional housing for the indigent under certain types of programs operated or directed by the U.S. Department of Housing and Urban Development.

Sec. 11.12.

### **Federal Exemptions**

Property exempt from ad valorem taxation by federal law is exempt. As a result, in general, federal property is exempt from property taxation. Examples include U.S. Post Office buildings, military bases, federal courthouses, and property located in a foreign trade zone.

Sec. 11.13.

### **Residence Homestead**

Residence homesteads receive exemptions that apply to a portion of the appraised value of the home. These exemptions are separated into those that are mandated by the state and those that are optional, subject to approval by school districts.

- ***State-Mandated***

1. A school district must grant an exemption of \$15,000 from the appraised value of all qualified residence homesteads in the district.
2. A school district also must grant an additional exemption of \$10,000 from the appraised value of a residence homestead for adults who are disabled or 65 years of age or older.

- ***Optional***

1. The governing body of a school district may grant an additional exemption of up to 20 percent of the appraised value of a residence homestead. The exemption must be at least \$5,000.
2. The governing body of a school district, or by favorable vote of a majority of the qualified voters of a school district at a properly called election, may grant an additional exemption of at least \$3,000 of the appraised value of a residence homestead for adults who are disabled or 65 years of age or older. There is no maximum amount for this exemption.

Sec. 11.131.

### **Residence Homestead of 100 Percent or Totally Disabled Veteran**

The total appraised value of residence homesteads owned by veterans receiving 100 percent disability compensation from the U.S. Department of Veterans Affairs and have either 100 percent disability rating or individual unemployment as determined by the U.S. Department of Veterans Affairs is exempt from property taxation. The disabled veteran's surviving spouse may also qualify for the exemption.

Sec. 11.132.

### **Donated Residence Homestead of Partially Disabled Veteran and Residence Homestead of Surviving Spouse of Member of Armed Services Killed in Action**

A disabled veteran is entitled to a percentage exemption equal to the veteran's disability rating, if less than 100 percent, on the veteran's homestead if the home was donated to the veteran at no cost to the veteran. The disabled veteran's surviving spouse may also qualify for the exemption.

The surviving spouse of a member of the armed services killed in action is entitled to exemption of the total appraised value of their residence so long as the surviving spouse has not remarried.

Sec. 11.14.

**Tangible Personal Property Not Producing Income**

Tangible personal property not used to produce income is exempt unless the taxing entity elects to tax the property. Mobile or manufactured homes are not included in this exemption.

Sec. 11.145.

**Income-producing Tangible Personal Property Having Value of Less Than \$500**

A person is entitled to an exemption on tangible personal property that is held or used for the production of income and valued at less than \$500. The exemption applies to each separate taxing unit in which a person uses the property for the production of income. All property in each taxing unit is aggregated to determine taxable value.

Sec. 11.146.

**Mineral Interest Having Value of Less than \$500**

A person is entitled to an exemption from property taxation of a mineral interest the person owns if the taxable value is less than \$500. This exemption applies to each separate taxing unit in which a person owns a mineral interest. All mineral interests located in each taxing unit are aggregated to determine taxable value.

Sec. 11.15.

**Family Supplies**

Family supplies—food, clothing, and other consumables—for home or farm use are exempt.

Sec. 11.16.

**Farm Products**

Farm products in the hands of the producer are exempt from property taxation. Farm products include crops, livestock, poultry, timber, and nursery products in a growing state.

Sec. 11.161.

**Implements of Husbandry**

All machinery and equipment used in the production of farm or ranch products or timber are considered to be implements of husbandry and are exempt from property taxation.

Sec. 11.17.

**Cemeteries**

Property is exempt from taxation if it is used exclusively for human burial and is not held for profit.

Sec. 11.18 - 11.185.

**Charitable Organizations**

Property owned and used exclusively by institutions engaged primarily in public charitable functions is exempt. The following types of charitable organizations receive specific mention in the Property Tax Code and are exempt from school property taxes if they meet certain qualifications.

- Charitable organizations performing enumerated functions (Sec. 11.18);
- Charitable hospitals performing enumerated functions (Sec. 11.1801);
- Charitable organizations improving property for low-income housing (Sec. 11.181);
- Community housing development organizations improving property for low-income and moderate-income housing prior to 2004 (Sec. 11.182);
- Organizations constructing or rehabilitating low-income housing not previously exempt including new constructions beginning January 1, 2004 (Sec. 11.1825);
- Community land trusts if the exemption is adopted by the governing body of the taxing unit on or after January 1, 2012 (11.1827)
- Associations providing assistance to ambulatory health care centers (Sec. 11.183);
- Organizations engaged primarily in performing charitable functions (Sec. 11.184); and
- Organizations developing model colonia subdivisions (Sec. 11.185).

Sec. 11.19.

**Youth Spiritual, Mental, and Physical Development Associations**

Property owned and used exclusively by qualified associations promoting youth spiritual, mental, and physical development is exempt.

Sec. 11.20.

**Religious Organizations**

Property owned by a qualified religious organization and used as a place of worship or clergy residence is exempt.

Sec. 11.21.

**Schools**

Property owned and used by a nonprofit private school may be exempt from taxation.

Sec. 11.22.

**Disabled Veterans**

Property owned and designated by a disabled veteran or surviving spouse or children may qualify for a partial exemption. The exemption applies to one property owned and designated by the veteran or surviving spouse or child. The property does not have to be a residence.



Property owned by a surviving spouse or child of a person who dies while on active duty in the U.S. armed services may qualify for a partial exemption of \$5,000 of the value of a property designated by the surviving spouse or child.

Sec. 11.23.

**Miscellaneous Exemptions**

Some specific property, and property owned by specific organizations, are exempt under this section.

- ***Veterans' Organizations***

A nonprofit organization, composed primarily of members or former members of the U.S. armed forces or its allies and chartered or incorporated by Congress, may apply for exemption from taxation. Veteran's organizations include the American Legion, Veterans of Foreign Wars of the U.S., American Veterans of World War II, Disabled American Veterans, Jewish War Veterans, Catholic War Veterans, and the American GI Forum.

- ***Nature Conservancy of Texas***

The Nature Conservancy of Texas was entitled to an exemption from taxation of the tangible property it owns if the property is not held for gain. Although this exemption is still in the Tax Code, it was held to be unconstitutional.

- ***County Fair Associations***

A county fair association organized to hold agricultural fairs and encourage agricultural pursuits is entitled to an exemption from taxation of the land and buildings that it owns and uses to hold agricultural fairs.

- ***Federation of Women's Clubs***

The tangible property owned by the Federation of Women's Clubs is exempt if the property is not held for profit or gain.

- ***Congress of Parents and Teachers***

The Texas Congress of Parents and Teachers state headquarters buildings are exempt from state and county taxes, along with the land that is reasonably necessary for use of, access to, and ornamentation of the buildings.

- ***Private Enterprise Demonstration Associations***

Tangible real and personal property that is owned and used exclusively by a qualified private enterprise demonstration organization and that is reasonably necessary for the organization's operations is exempt.

- ***Bison, Buffalo, and Cattalo***

The exemption of bison, buffalo, and cattalo applies only to those animals not held for profit and used in experimental breeding to produce an improved strain or kept in parks to preserve the species.

- ***Theater Schools***

Property owned by a qualified school devoted to teaching dramatic arts and used in the school's operation is exempt from taxation.

- ***Community Service Clubs***

Tangible property owned by a qualified community service organization and not used for profit or held for private gain is exempt.

- ***Medical Center Development***

Real and personal property used in developing a medical center area may be exempt from property taxation. The property must be owned by a nonprofit corporation under the Texas Non-Profit Corporation Act. Additional requirements apply.

- ***Scientific Research Corporations***

Property owned and used by a qualified scientific research organization for scientific research and educational activities for the benefit of one or more colleges or universities is exempt. An organization qualifies if it is a nonprofit corporation organized under the Texas Non-Profit Corporation Act.

Sec. 11.231.

**Nonprofit Community Business Organization Providing Economic Development Services to Local Community**

The exemption applies to buildings and tangible personal property owned and used exclusively by nonprofit community business organizations to provide economic development services to a local community.

Sec. 11.24.

**Historic Sites**

The archeological or historic site exemption is a local option, granted by the governing body of a taxing unit.

Sec. 11.25.

**Marine Cargo Containers Used Exclusively in International Commerce**

Marine cargo containers and associated equipment used exclusively in international commerce are exempt from property tax. The property must be owned by a citizen or entity organized under the laws of a foreign country.

Sec. 11.251, 11.437.

**Tangible Personal Property (Freeport) and Cotton Stored in a Warehouse**

Tangible personal property that qualifies as "Freeport goods" and is used for manufacturing, processing, fabricating, storing, or assembling and transported out of Texas within 175 days may be exempt. On official action of a taxing entity, the 175 day period may be extended to 730 days for aircraft parts. This exemption also applies to all cotton stored in a warehouse for transportation outside of this state, regardless of the 175 day requirement. Provisions for local taxation under certain circumstances exist in law.

Sec. 11.252.

**Motor Vehicles Leased for Personal Use**

The owner of a leased vehicle is entitled to a tax exemption from tax imposed on the vehicle if the lessee does not hold or use the vehicle primarily for the production of income.

Sec. 11.253.

**Tangible Personal Property in Transit**

Tangible personal property may be exempt from taxation if it is acquired in, or imported into, this state to be forwarded to another location in this state or outside of this state within 175 days and is stored under a contract for bailment by a public warehouse operator. Only under certain limited conditions may a taxing entity elect to tax goods-in-transit.

Sec. 11.254.

**Motor Vehicle Used for Production of Income and For Personal Activities**

A person is entitled to an exemption from taxation of one personally owned motor vehicle that is used for both business and personal activities.

Sec. 11.26.

**Limitation of School Tax on Homesteads of Elderly or Disabled**

The school tax ceiling, or “tax freeze,” is provided to homeowners receiving the mandatory “disabled or 65 years of age or older” \$10,000 homestead exemption granted by a school district. The tax ceiling is not an exemption, but it is triggered by an exemption.

The tax ceiling provides that school taxes on a residence homestead will not increase above the amount of tax imposed in the first year the individual qualified for the “disabled or 65 years of age or older” exemption on that homestead. As long as the homeowner who qualified for the exemption remains in that home and does not change the homestead, the school taxes on the homestead will not increase above the amount levied in the first year qualified.

Homeowners are allowed to transfer their tax ceiling to a different home. The school tax ceiling on the new home is calculated to give the homeowner the same percentage of tax paid as the original home’s tax ceiling.

Sec. 11.27.

**Solar and Wind-powered Energy Devices**

Value attributable to the installation or construction of solar or wind-powered energy devices may be exempt. The devices must be used for on-site production and distribution of energy.

Sec. 11.271.

**Offshore Drilling Equipment Not in Use**

Certain stored equipment used in offshore drilling for oil or natural gas, or personal property that is part of offshore spill containment systems, may be exempt.

Sec. 11.28.

**Property Exempted from City Taxation by Agreement**

Under Chapter 312, Property Redevelopment and Tax Abatement Act, a tax abatement agreement exempts all or part of the increase in value of a qualified taxpayer’s real property and/or tangible personal property for a period not to exceed 10 years. Section 312.002(f) prohibits school districts from entering into tax abatement agreements on or after September 1, 2001. The exemption figures in **Table 10** are for tax abatement agreements executed after May 31, 1993, and expected to expire by 2014.

Sec. 11.29.

**Intracoastal Waterway Dredge Disposal Site**

Land dedicated by a recorded donated easement as a disposal site for depositing and discharging materials dredged from the main channel of the Gulf Intracoastal Waterway or under the direction of the state or federal government is exempt. An exemption terminates when the land ceases to be used as an active dredge material disposal site and is no longer dedicated for that purpose.

Sec. 11.30.

**Nonprofit Water Supply or Wastewater Service Corporation**

Property owned and reasonably necessary for, and used in the operation of, a corporation to acquire, treat, store, transport, sell, or distribute water or to provide wastewater service may be exempt.

Sec. 11.31.

**Pollution Control Property**

All or part of real and personal property that is owned and used wholly or partly as a facility, device, or method for the control of air, water, or land pollution, as designated by the Texas Commission on Environmental Quality, is exempt.

Sec. 11.311.

**Temporary Exemption: Landfill-Generated Gas Conversion Facilities**

A person is entitled to an exemption on property located near a landfill and used to collect, compress and transport, process, and deliver gas generated by the landfill. This exemption expires Dec. 31, 2015.

Sec. 11.315.

**Energy Storage System in Nonattainment Area**

Under specific circumstances, a property owner is entitled to an exemption on energy storage systems if the exemption is adopted by governing bodies of taxing entities meeting certain criteria.

Sec. 11.32.

**Certain Water Conservation Initiatives**

The governing body of a taxing unit may exempt all or part of the value of property on which approved water conservation initiatives, desalination projects, or brush control initiatives have been implemented.

Sec. 11.33.

**Raw Cocoa and Green Coffee Held in Harris County**

Raw cocoa and green coffee held in Harris County are exempt.

Sec. 11.34.

**Limitation of Taxes on Real Property in Designated Areas of Certain Municipalities**

Cities with a population of less than 10,000 may call elections to enter into agreements with owners of property located in, or adjacent to, areas operated with certain funding from the Texas Department of Agriculture to limit property taxes for five years.

Sec. 23.23.

**Limitation on Appraised Value of Residence Homestead**

The appraised value of a residence homestead for a tax year is limited to the lesser of the market value of the property or the sum of 110 percent of the appraised value for the preceding tax year plus the market value of all new improvements.

Sec. 23.41, 23.52, 23.73 and 23.9803.

**Appraisal of Agricultural Land and Timber Land**

Certain land devoted to farm, ranch, wildlife management, or timber is appraised at productivity value—a value based on the land's capacity to produce agricultural products.

Sec. 23.48 and 23.60.

**Reappraisal of Land Subject to Temporary Quarantine for Ticks**

An owner of qualified agricultural or open-space land may request a reappraisal of land subject to a temporary quarantine of at least 90 days in the current tax year. The reappraised value may not exceed the lesser of the market value or one-half of the original appraised value for the current tax year.

Ch. 311.

**Tax Increment Financing Act**

Tax increment financing (TIF) zones are designated by a city or county. The tax increments generated by the increase of the property value inside the TIF zone are used to finance development costs of improvements and infrastructure to promote and attract new developments within the area. The TIF exemption figures in **Table 10** are for zones in which school districts participated before September 1, 1999. A school district entering into an agreement after this date is not held harmless by the state for losses in revenue as a result of the agreement.

Ch. 313.

**Texas Economic Development Act**

Property used in connection with manufacturing; research and development; a clean coal project as defined by Section 5.001, Water Code; an advanced clean energy project as defined by Section 382.003, Health and Safety Code; renewable energy electric generation; electric power generation using integrated gasification combined cycle technology; or nuclear electric power generation may be subject to value limitation agreements. These agreements are entered into by school districts and property owners making a certain level of investment and creating jobs. The agreements limit the taxable value of qualifying investments for property tax purposes. ⚡



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# The Nature of Tax Incidence

The final incidence of a tax often cannot be directly observed, nor even estimated with absolute objectivity. The subjective selection of economic and behavioral assumptions exerts a heavy influence on the calculated incidence, and myriad assumptions are possible.

Economic analysis, at heart, involves the study of how a change in one segment of the economy is diffused throughout the rest of the economy. Those who have studied in the field of public finance have long recognized that the person from whom a given tax is collected is not necessarily the one who ultimately pays the tax.

It should be recognized that any tax levied directly on a business will ultimately be paid by real, live people—if not consumers via higher prices, then business owners via reduced profits or employees via reduced wages. In the first instance, the tax is considered to be shifted “forward,” and in the second and third instances it is considered to be shifted “backward” to the factors of production. (Taxes also may be exported out of state, thereby relieving the burden in state. Of course, other states’ taxes may end up being imported into Texas as well.) In any case, or in any combination where the tax burden is borne jointly, the old cliché is true: “Only people pay taxes.”

Governments levy taxes, for the most part, to cover the costs of their expenditures. In and of itself, a tax will have two direct economic effects. First, it will alter the relative prices of goods and services, affecting what is produced and how. Second, to the extent that virtually every tax takes more income from some groups than from others, it will alter the distribution of income.

Incidence analysis attempts to identify who bears the ultimate burden of a given tax. The analysis can be conducted on two levels: first, measurement of the initial direct “impact” of the tax in terms of the shares borne by consumers and/or different business sectors; and second, measurement of the ultimate “incidence,” frequently represented by translating the initial impacts in terms of their effects on different household income groups.

The analysis is complicated because it is difficult, if not impossible, to isolate a change in one tax without taking into account the effect on other taxes or expenditures. For example, eliminating an exemption in one tax would imply either an equal decrease in another tax (to compensate for the increased revenues) or an equal increase in spending—either of which would have its own incidence implications above and beyond the incidence of the exemption being repealed.

The study of tax incidence is also made difficult because of competing policy goals. That is, while some taxes are justified on the basis of fairness or equity (the “ability to pay” principle), others are justified as user fees (the “benefits received” principle). The former is best exemplified by the federal income tax; the latter, by federal and state motor fuels taxes, which are earmarked for highway construction and maintenance and other public transportation.

A tax is considered “regressive” when the tax burden as a share of income increases as income decreases; “proportional,” when the share of tax burden relative to income remains constant for all income groups; and “progressive,” when the share of tax burden relative to income grows larger as income increases. As such, taxes on alcohol and tobacco are considered regressive (because consumption levels remain relatively flat as income rises); a “flat” single-rate income tax (without any deductions or exemptions) is considered proportional; and the current federal income tax, with its schedule of increasing marginal tax rates, is considered progressive. Note that under either a proportional tax or a progressive tax, the ability to pay principle may be satisfied, because people with higher incomes pay more under either tax.

For practical purposes, most empirical incidence analyses are reduced to measuring the effects of a single tax in isolation from all others, without taking into account the effects of other taxes or any government expenditures or transfers. Even here, however, economists must confront the problem of accurate income measurement. That is, the results can vary depending upon whether income is measured at the individual or household level, in terms of “current” or “lifetime” income, and whether it is “gross,” “adjusted gross,” or “taxable” income. This problem becomes particularly difficult at the lower end of the income scale, where transfers—which are not always susceptible to accurate quantification—make up a significant portion of the income stream.

In addition, and equally complicated, is the problem of determining the proper “shifting” assumptions—what portion of the tax is shifted to consumers, what portion is

shifted to labor, what portion is shifted to capital, and what portion is exported out of state.

The shifting effects will depend on many things, including how producers and consumers respond to price changes and whether a particular market is competitive or monopolistic. In general, most tax burdens are believed to be borne jointly by producers and consumers—raising the price paid by consumers and reducing the revenue received by producers, with the share of the burden depending upon the level of competition and the price elasticity of demand for the item being taxed. The more inelastic the demand, the greater the burden shifted to the consumer (consider the tax on cigarettes). The more elastic the demand, the greater the burden borne by the producer (consider a tax on milk in glass milk bottles but not on milk in paper cartons, each a close substitute for the other in the eyes of most consumers).

Similarly, when the producer enjoys a near monopoly over the good being taxed (consider a tax on local natural gas utility service), the greater the ability to shift the tax forward onto consumers by raising prices; but when the individual producer has no ability to set prices (consider the world oil market), the less their ability to shift the tax burden.

Finally, the answer to who bears the tax burden can vary depending upon whether the analysis focuses on the short term or the long term. For example, imposition of an

increase in the fee for a liquor license or an annual occupation tax would not be expected to be shifted forward in higher prices in the short term because the fee would be considered part of the firm's fixed costs, whereas prices are determined by marginal costs (the cost of producing one incremental unit of the item sold). In this instance, the fee would be borne entirely by the producer.

In the long run, however, when all costs are taken into account, resources would shift and prices would adjust to take the tax into account in determining price, and as such the producer would be able to shift at least a portion of the burden forward onto consumers.

Recognizing the impracticality of developing an incidence model that satisfies all the demands of pure economic theory, the tables in the following section reflect the necessity of making certain basic assumptions, which are described in the beginning of that section. Perhaps key among these assumptions is that consumers will bear the ultimate burden of any taxes levied directly upon them.

While the following tables may be of great interest for policy makers, it nevertheless must be recognized that the results depend not upon hard science but upon subjective assumptions—and that the only thing that can be said with certainty is that no one really knows how taxes (particularly those levied on property and business) are shifted. 🌀

# Texas Tax Incidence

The taxes discussed in the report's tax incidence section include the sales and use tax, the franchise tax, the motor vehicle sales and use tax, the oil production tax, and the school property tax, the same taxes discussed in the preceding tax exemption sections. Under the Government Code's tax incidence reporting requirements, this section also presents incidence tables for the gasoline tax, the natural gas production tax, and the insurance premium tax.

To conduct this incidence analysis, certain assumptions had to be developed concerning the measurement of income and how tax burdens shift. As discussed in the previous section concerning the nature of tax incidence, the outcome of any incidence study depends to a significant degree on the initial assumptions relating to income, shifting, and the relative demographic cohort and time period.

For the purposes of this study, the relative demographic cohort is the household rather than the individual, and the relative time periods are short-term—for the study of initial distributions or burdens—and intermediate term—for the final incidences. In the intermediate term it is assumed that any tax changes affecting businesses will be shifted until the final incidence is absorbed by households—whether by consumers, workers, or owners. However, in the case of taxable purchases for household consumption, it is assumed that the household will bear the initial as well as final tax burdens. In contrast, a long-term full equilibrium analysis would allow for backward shifting brought about by consumer reactions to the tax change and then another round of shifting by business until the final incidence was redistributed. The various types of income that are included within this report's definition of household income are provided in **Exhibit A**.

For each of the taxes covered in this section, the incidence analysis begins with a summary table that lays out the initial

distribution and the final incidence of that tax. Where applicable, each summary table is followed by a series of tables that show the incidence effects of each statutory exemption or exclusion that reduces revenues from the tax by more than 1 percent.

The tables in this section describe final incidence by household income groups referred to as "quintiles." Each quintile includes approximately 2,082,460 households, representing one-fifth of the households in the state, ordered by total income. Thus, Quintile 1 represents the 2,082,460 households with incomes less than \$34,161; Quintile 2 represents the 2,082,460 households with incomes from \$34,161 to \$61,955; and so forth, up to Quintile 5, which represents the 2,082,460 households in Texas with incomes of \$147,411 or more.

Each of the eight total tax summary tables has five displays. The two displays at the top of each table relate to initial distribution and show, first, how the initial burden is distributed among various industry sectors and consumers, and second, how the initial burden is distributed by type of

## Exhibit A Components of Household Income

Components	Definition
Federal Adjusted Gross Income	The total income from all taxable sources less certain expenses incurred in earning that income. Other sources of cash income are excluded by statute from the federal income tax. These are called statutory adjustments.*
Nontaxable Interest Income	Interest income that is not taxed by the federal government.
Nontaxable Pension Income**	Pension income that is not taxed by the federal government.
Nontaxable Social Security Benefits	Not all Social Security benefits are taxable by the federal government.
Nonfiler Income (from Census)	Income received by persons whose annual income is below that of the income required to file a tax return.***

\* Statutory adjustments are the deductions listed on page 1 of the 1040 form.

\*\* Capital gains and pension benefits are included when realized, not as they accrue.

\*\*\* This income includes public assistance, workers' compensation, Social Security benefits, and unemployment compensation.

Note: Adjustments were made to total income for the lowest quintiles due to lack of sufficient data.

business organization. The two displays in the middle relate to final incidence and show, first, how final incidence is either exported or distributed by family income quintile, and second, how the final incidence is either exported or distributed between renters and homeowners.

The final display, at the bottom left of each tax summary table, involves a calculation of the overall equity of the tax—that is, its degree of progressivity or regressivity. This calculation, known as the “Suits Index,” ranges from +1.0 to -1.0, with a 0.0 indicating that the tax burden is perfectly proportional to income at all quintiles. At the extremes, a +1.0 would indicate an extremely progressive tax, and a -1.0 would indicate an extremely regressive tax, (i.e., with the entire incidence borne entirely by the lowest quintile).

The total tax summary tables for the limited sales and use tax, the franchise tax, the motor vehicle sales and use tax,

the oil production tax, and the school property tax are each followed by a series of smaller tables, each with two displays. These tables relate to Tax Code provisions that reduce overall collections for each particular tax by more than 1 percent. The first display shows how the initial impact is distributed among consumers and various industry groups, and the second shows how the final incidence is exported or borne by households, categorized by income quintile.

Finally, for contributions to the incidence material contained in this report, the Comptroller’s Office would like to acknowledge the Minnesota Department of Revenue’s “Minnesota Tax Incidence Study” (several editions), data providers (both public and private), and the staff of the Texas Legislative Budget Board. 🌐



Table 1

### Initial Distribution and Final Incidence of Total Limited Sales and Use Tax Revenue Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Tax -- By Industry		
Industry	Amount	Percent
Agriculture	\$63.2	0.2%
Mining	1,865.5	5.9%
Utilities & Transportation	1,739.0	5.5%
Construction	1,897.1	6.0%
Manufacturing	1,422.9	4.5%
Trade (Wholesale and Retail)	1,612.6	5.1%
Information	948.6	3.0%
Finance, Insurance, and Real Estate	822.1	2.6%
Other Services	2,592.8	8.2%
Government	0.0	0.0%
Individual Consumers	18,655.2	59.0%
<b>TOTAL</b>	<b>\$31,619.0</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Initial Distribution of Tax -- By Industry Type		
	Amount	Percent
Corporations	\$9,932.3	31.4%
Partnerships	2,328.0	7.4%
Sole Proprietors	703.6	2.2%
Subtotal	\$12,963.8	41.0%
Individual Consumers	\$18,655.2	59.0%
<b>TOTAL</b>	<b>\$31,619.0</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Tax -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as a Percent of Total Income
1	Less than \$34,161	\$2,171.9	6.9%	7.5%
2	\$34,161 - 61,955	3,136.1	9.9%	4.1%
3	\$61,955 - 94,319	4,374.3	13.8%	3.6%
4	\$94,319 - 147,411	5,944.4	18.8%	3.1%
5	\$147,411 and higher	9,370.3	29.6%	1.7%
Residents		\$24,997.0	79.1%	
Exported		\$6,621.6	20.9%	
<b>TOTAL</b>		<b>\$31,619.0</b>	<b>100.0%</b>	

**Estimated Equity of Tax**

Suits Index	-0.254
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*Totals may not add due to rounding.*

Final Incidence of Tax -- By Homeowners/Renters		
	Amount	Percent
Homeowners	\$17,114.0	54.1%
Renters	7,883.4	24.9%
Subtotal	\$24,997.4	79.1%
Exported	\$6,621.6	20.9%
<b>TOTAL</b>	<b>\$31,619.0</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

**Table 2: Incidence Analysis**

**Limited Sales and Use Tax Exemption for Items Taxed by Other Law**

Tax Code 151.308

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$176.9	1.2%
Mining	322.2	2.2%
Utilities & Transportation	2,625.1	17.9%
Construction	1,468.4	10.0%
Manufacturing	1,216.1	8.3%
Trade (Wholesale and Retail)	75.7	0.5%
Information	1.9	0.0%
Finance, Insurance, and Real Estate	34.5	0.2%
Other Services	92.7	0.6%
Government	0.0	0.0%
Individual Consumers	8,640.9	59.0%
<b>TOTAL</b>	<b>\$14,654.4</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$1,050.7	7.2%	3.6%
2	\$34,161 - 61,955	1,585.1	10.8%	2.1%
3	\$61,955 - 94,319	2,232.3	15.2%	1.9%
4	\$94,319 - 147,411	2,852.7	19.5%	1.5%
5	\$147,411 and higher	3,944.2	26.9%	0.7%
Residents		\$11,665.0	79.6%	
Exported		\$2,989.4	20.4%	
<b>TOTAL</b>		<b>\$14,654.4</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 3: Incidence Analysis**

**Limited Sales and Use Tax Exemption for Sales to Government Entities**

Tax Code 151.309

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	410.6	100.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$410.6</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$27.0	6.6%	0.1%
2	\$34,161 - 61,955	39.7	9.7%	0.1%
3	\$61,955 - 94,319	51.4	12.5%	0.0%
4	\$94,319 - 147,411	74.1	18.0%	0.0%
5	\$147,411 and higher	134.7	32.8%	0.0%
Residents		\$326.9	79.6%	
Exported		\$83.7	20.4%	
<b>TOTAL</b>		<b>\$410.6</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 4: Incidence Analysis****Limited Sales and Use Tax Exemption for Health Care Supplies**

Tax Code 151.313

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$1.1	0.1%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	10.8	1.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	121.8	11.3%
Government	0.0	0.0%
Individual Consumers	944.0	87.6%
<b>TOTAL</b>	<b>\$1,077.6</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$163.3	15.2%	0.6%
2	\$34,161 - 61,955	219.3	20.4%	0.3%
3	\$61,955 - 94,319	207.4	19.2%	0.2%
4	\$94,319 - 147,411	204.6	19.0%	0.1%
5	\$147,411 and higher	228.6	21.2%	0.0%
Residents		\$1,023.2	95.0%	
Exported		\$54.4	5.0%	
<b>TOTAL</b>		<b>\$1,077.6</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 5: Incidence Analysis****Limited Sales and Use Tax Exemption for Food for Home Consumption**

Tax Code 151.314

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	1,842.0	100.0%
<b>TOTAL</b>	<b>\$1,842.0</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$230.6	12.5%	0.8%
2	\$34,161 - 61,955	289.2	15.7%	0.4%
3	\$61,955 - 94,319	333.5	18.1%	0.3%
4	\$94,319 - 147,411	412.1	22.4%	0.2%
5	\$147,411 and higher	526.4	28.6%	0.1%
Residents		\$1,791.8	97.3%	
Exported		\$50.2	2.7%	
<b>TOTAL</b>		<b>\$1,842.0</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 6: Incidence Analysis**

**Limited Sales and Use Tax Exemption for Agricultural Items**

Tax Code 151.316

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$639.3	100.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$639.3</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$32.3	5.1%	0.1%
2	\$34,161 - 61,955	49.9	7.8%	0.1%
3	\$61,955 - 94,319	68.3	10.7%	0.1%
4	\$94,319 - 147,411	82.9	13.0%	0.0%
5	\$147,411 and higher	116.0	18.1%	0.0%
Residents		\$349.4	54.7%	
Exported		\$289.9	45.3%	
<b>TOTAL</b>		<b>\$639.3</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 7: Incidence Analysis**

**Limited Sales and Use Tax Exemption for Gas and Electricity**

Tax Code 151.317

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$23.9	1.4%
Mining	59.7	3.5%
Utilities & Transportation	46.0	2.7%
Construction	17.1	1.0%
Manufacturing	620.7	36.4%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	937.9	55.0%
<b>TOTAL</b>	<b>\$1,705.3</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$154.3	9.0%	0.5%
2	\$34,161 - 61,955	209.1	12.3%	0.3%
3	\$61,955 - 94,319	245.4	14.4%	0.2%
4	\$94,319 - 147,411	296.2	17.4%	0.2%
5	\$147,411 and higher	384.4	22.5%	0.1%
Residents		\$1,289.5	75.6%	
Exported		\$415.8	24.4%	
<b>TOTAL</b>		<b>\$1,705.3</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 8: Incidence Analysis****Limited Sales and Use Tax Exemption for Manufacturing**

Tax Code 151.318

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	414.9	2.6%
Construction	0.0	0.0%
Manufacturing	15,175.9	95.1%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	367.0	2.3%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$15,957.8</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$629.2	3.9%	2.2%
2	\$34,161 - 61,955	841.9	5.3%	1.1%
3	\$61,955 - 94,319	1,124.9	7.0%	0.9%
4	\$94,319 - 147,411	1,614.0	10.1%	0.8%
5	\$147,411 and higher	2,667.6	16.7%	0.5%
Residents		\$6,877.6	43.1%	
Exported		\$9,080.2	56.9%	
<b>TOTAL</b>		<b>\$15,957.8</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 9: Incidence Analysis****Limited Sales and Use Tax Exclusion for New Nonresidential Construction Labor**

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exclusion -- By Industry		
Industry	Amount	Percent
Agriculture	\$1.4	0.3%
Mining	\$33.4	7.2%
Utilities & Transportation	\$68.1	14.7%
Construction	\$9.3	2.0%
Manufacturing	\$68.1	14.7%
Trade (Wholesale and Retail)	\$117.2	25.3%
Information	\$29.6	6.4%
Finance, Insurance, and Real Estate	\$19.0	4.1%
Other Services	\$117.2	25.3%
Government	\$0.0	0.0%
Individual Consumers	\$0.0	0.0%
<b>TOTAL</b>	<b>\$463.2</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exclusion -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion Percent of Total Income
1	Less than \$34,161	\$27.5	5.9%	0.1%
2	\$34,161 - 61,955	40.3	8.7%	0.1%
3	\$61,955 - 94,319	56.1	12.1%	0.0%
4	\$94,319 - 147,411	79.9	17.2%	0.0%
5	\$147,411 and higher	145.3	31.4%	0.0%
Residents		\$349.2	75.4%	
Exported		\$114.0	24.6%	
<b>TOTAL</b>		<b>\$463.2</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 10: Incidence Analysis**

**Limited Sales and Use Tax Exclusion for Temporary Labor Services**

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exclusion -- By Industry		
Industry	Amount	Percent
Agriculture	\$1.0	0.2%
Mining	15.1	3.6%
Utilities & Transportation	25.3	6.0%
Construction	21.3	5.0%
Manufacturing	14.6	3.4%
Trade (Wholesale and Retail)	50.7	12.0%
Information	4.1	1.0%
Finance, Insurance, and Real Estate	31.6	7.5%
Other Services	258.5	61.1%
Government	0.0	0.0%
Individual Consumers	1.4	0.3%
<b>TOTAL</b>	<b>\$423.5</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exclusion -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion Percent of Total Income
1	Less than \$34,161	\$18.1	4.3%	0.1%
2	\$34,161 - 61,955	33.2	7.8%	0.0%
3	\$61,955 - 94,319	48.3	11.4%	0.0%
4	\$94,319 - 147,411	62.1	14.7%	0.0%
5	\$147,411 and higher	100.6	23.8%	0.0%
Residents		\$262.3	61.9%	
Exported		\$161.2	38.1%	
<b>TOTAL</b>		<b>\$423.5</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 11: Incidence Analysis**

**Limited Sales and Use Tax Exclusion for Health Care Services (Physicians, Dentists and Other Health Care Services)**

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exclusion -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	2,444.5	100.0%
<b>TOTAL</b>	<b>\$2,444.5</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exclusion -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion Percent of Total Income
1	Less than \$34,161	\$217.8	8.9%	0.8%
2	\$34,161 - 61,955	384.3	15.7%	0.5%
3	\$61,955 - 94,319	509.9	20.9%	0.4%
4	\$94,319 - 147,411	601.6	24.6%	0.3%
5	\$147,411 and higher	711.7	29.1%	0.1%
Residents		\$2,425.3	99.2%	
Exported		\$19.2	0.8%	
<b>TOTAL</b>		<b>\$2,444.5</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 12: Incidence Analysis****Limited Sales and Use Tax Exclusion for Legal Services**

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exclusion -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.6	0.1%
Mining	27.9	4.7%
Utilities & Transportation	37.3	6.3%
Construction	10.7	1.8%
Manufacturing	43.6	7.4%
Trade (Wholesale and Retail)	18.4	3.1%
Information	7.1	1.2%
Finance, Insurance, and Real Estate	57.7	9.7%
Other Services	148.3	25.0%
Government	0.0	0.0%
Individual Consumers	240.6	40.6%
<b>TOTAL</b>	<b>\$592.1</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exclusion -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion Percent of Total Income
1	Less than \$34,161	\$30.4	5.1%	0.1%
2	\$34,161 - 61,955	64.6	10.9%	0.1%
3	\$61,955 - 94,319	79.7	13.5%	0.1%
4	\$94,319 - 147,411	97.4	16.5%	0.1%
5	\$147,411 and higher	171.6	29.0%	0.0%
Residents		\$443.7	74.9%	
Exported		\$148.4	25.1%	
<b>TOTAL</b>		<b>\$592.1</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 13: Incidence Analysis****Limited Sales and Use Tax Exclusion for Architectural and Engineering Services**

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exclusion -- By Industry		
Industry	Amount	Percent
Agriculture	\$2.2	0.4%
Mining	21.6	4.1%
Utilities & Transportation	31.7	6.1%
Construction	202.8	38.9%
Manufacturing	70.5	13.5%
Trade (Wholesale and Retail)	11.6	2.2%
Information	45.2	8.7%
Finance, Insurance, and Real Estate	40.9	7.8%
Other Services	83.1	15.9%
Government	0.0	0.0%
Individual Consumers	11.8	2.3%
<b>TOTAL</b>	<b>\$521.3</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exclusion -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion Percent of Total Income
1	Less than \$34,161	\$25.2	4.8%	0.1%
2	\$34,161 - 61,955	38.3	7.3%	0.1%
3	\$61,955 - 94,319	52.0	10.0%	0.0%
4	\$94,319 - 147,411	70.1	13.4%	0.0%
5	\$147,411 and higher	123.4	23.7%	0.0%
Residents		\$309.0	59.3%	
Exported		\$212.3	40.7%	
<b>TOTAL</b>		<b>\$521.3</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 14: Incidence Analysis**

**Limited Sales and Use Tax Exclusion for Accounting and Audit Services**

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exclusion -- By Industry		
Industry	Amount	Percent
Agriculture	\$1.2	0.4%
Mining	2.4	0.7%
Utilities & Transportation	24.8	7.5%
Construction	14.5	4.4%
Manufacturing	22.9	6.9%
Trade (Wholesale and Retail)	42.0	12.6%
Information	32.7	9.8%
Finance, Insurance, and Real Estate	42.5	12.8%
Other Services	118.6	35.7%
Government	0.0	0.0%
Individual Consumers	30.7	9.2%
<b>TOTAL</b>	<b>\$332.3</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exclusion -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion Percent of Total Income
1	Less than \$34,161	\$14.2	4.3%	0.0%
2	\$34,161 - 61,955	23.3	7.0%	0.0%
3	\$61,955 - 94,319	37.0	11.1%	0.0%
4	\$94,319 - 147,411	49.3	14.8%	0.0%
5	\$147,411 and higher	89.3	26.9%	0.0%
Residents		\$213.1	64.1%	
Exported		\$119.2	35.9%	
<b>TOTAL</b>		<b>\$332.3</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 15: Incidence Analysis**

**Limited Sales and Use Tax Exclusion for Freight Hauling**

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exclusion -- By Industry		
Industry	Amount	Percent
Agriculture	\$7.7	1.8%
Mining	9.7	2.3%
Utilities & Transportation	66.4	15.6%
Construction	24.9	5.8%
Manufacturing	110.6	25.9%
Trade (Wholesale and Retail)	73.4	17.2%
Information	3.0	0.7%
Finance, Insurance, and Real Estate	6.6	1.5%
Other Services	29.9	7.0%
Government	0.0	0.0%
Individual Consumers	94.3	22.1%
<b>TOTAL</b>	<b>\$426.6</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exclusion -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion Percent of Total Income
1	Less than \$34,161	\$25.5	6.0%	0.1%
2	\$34,161 - 61,955	35.9	8.4%	0.0%
3	\$61,955 - 94,319	53.6	12.6%	0.0%
4	\$94,319 - 147,411	59.4	13.9%	0.0%
5	\$147,411 and higher	97.6	22.9%	0.0%
Residents		\$272.0	63.8%	
Exported		\$154.6	36.2%	
<b>TOTAL</b>		<b>\$426.6</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*



**Table 16: Incidence Analysis****Limited Sales and Use Tax Exclusion for Automotive Maintenance and Repair**

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exclusion -- By Industry		
Industry	Amount	Percent
Agriculture	\$1.3	0.2%
Mining	0.7	0.1%
Utilities & Transportation	31.3	4.8%
Construction	9.8	1.5%
Manufacturing	49.5	7.6%
Trade (Wholesale and Retail)	10.4	1.6%
Information	2.6	0.4%
Finance, Insurance, and Real Estate	3.3	0.5%
Other Services	31.9	4.9%
Government	0.0	0.0%
Individual Consumers	510.9	78.4%
<b>TOTAL</b>	<b>\$651.7</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exclusion -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion Percent of Total Income
1	Less than \$34,161	\$56.9	8.7%	0.2%
2	\$34,161 - 61,955	76.6	11.8%	0.1%
3	\$61,955 - 94,319	105.1	16.1%	0.1%
4	\$94,319 - 147,411	138.4	21.2%	0.1%
5	\$147,411 and higher	203.7	31.3%	0.0%
Residents		\$580.8	89.1%	
Exported		\$70.9	10.9%	
<b>TOTAL</b>		<b>\$651.7</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 17**

**Initial Distribution and Final Incidence of Total Franchise Tax Revenue**  
Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Tax -- By Industry		
Industry	Amount	Percent
Agriculture	\$14.6	0.3%
Mining	423.3	8.8%
Utilities & Transportation	298.5	6.2%
Construction	176.2	3.7%
Manufacturing	857.4	17.8%
Trade (Wholesale and Retail)	762.9	15.8%
Information	360.8	7.5%
Finance, Insurance, and Real Estate	503.8	10.4%
Other Services	1,430.1	29.6%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$4,827.6</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Initial Distribution of Tax -- By Industry Type		
	Amount	Percent
Corporations	\$4,103.5	85.0%
Partnerships	724.1	15.0%
Sole Proprietors	0.0	0.0%
Subtotal	\$4,827.6	100.0%
Individual Consumers	\$0.0	0.0%
<b>TOTAL</b>	<b>\$4,827.6</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Tax -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as a Percent of Total Income
1	Less than \$34,161	\$232.4	4.8%	0.8%
2	\$34,161 - 61,955	361.8	7.5%	0.5%
3	\$61,955 - 94,319	510.0	10.6%	0.4%
4	\$94,319 - 147,411	733.4	15.2%	0.4%
5	\$147,411 and higher	1,387.2	28.7%	0.3%
Residents		\$3,224.8	66.8%	
Exported		\$1,602.8	33.2%	
<b>TOTAL</b>		<b>\$4,827.6</b>	<b>100.0%</b>	

**Estimated Equity of Tax**

Suits Index	-0.080
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*Totals may not add due to rounding.*

Final Incidence of Tax -- By Homeowners/Renters		
	Amount	Percent
Homeowners	\$2,311.9	47.9%
Renters	912.9	18.9%
Subtotal	\$3,224.8	66.8%
Exported	\$1,602.8	33.2%
<b>TOTAL</b>	<b>\$4,827.6</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

**Table 18: Incidence Analysis****Franchise Tax Exemption for Insurance Companies**

Tax Code 171.052

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	291.0	100.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$291.0</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$13.4	4.6%	0.0%
2	\$34,161 - 61,955	19.2	6.6%	0.0%
3	\$61,955 - 94,319	26.4	9.1%	0.0%
4	\$94,319 - 147,411	38.5	13.2%	0.0%
5	\$147,411 and higher	73.6	25.3%	0.0%
Residents		\$171.0	58.8%	
Exported		\$120.0	41.2%	
<b>TOTAL</b>		<b>\$291.0</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 19: Incidence Analysis****Franchise Tax Exemption for Open-End Investment Companies**

Tax Code 171.055

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	167.4	100.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$167.4</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$7.7	4.6%	0.0%
2	\$34,161 - 61,955	11.0	6.6%	0.0%
3	\$61,955 - 94,319	15.5	9.3%	0.0%
4	\$94,319 - 147,411	22.5	13.4%	0.0%
5	\$147,411 and higher	42.0	25.1%	0.0%
Residents		\$98.8	59.0%	
Exported		\$68.6	41.0%	
<b>TOTAL</b>		<b>\$167.4</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 20: Incidence Analysis**

**Franchise Tax Exemption for Nonprofit Corporations Exempt from Federal Income Tax: IRS Sec. 501(c)(3)**

Tax Code 171.063

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	421.1	100.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$421.1</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$23.1	5.5%	0.1%
2	\$34,161 - 61,955	38.0	9.0%	0.1%
3	\$61,955 - 94,319	52.2	12.4%	0.0%
4	\$94,319 - 147,411	72.7	17.3%	0.0%
5	\$147,411 and higher	132.2	31.4%	0.0%
Residents		\$318.2	75.6%	
Exported		\$102.9	24.4%	
<b>TOTAL</b>		<b>\$421.1</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 21: Incidence Analysis**

**Franchise Tax Exemption for Temporary Credit on Taxable Margin**

Tax Code 171.111

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.1	0.1%
Mining	6.9	11.7%
Utilities & Transportation	5.6	9.5%
Construction	0.6	1.0%
Manufacturing	20.4	34.9%
Trade (Wholesale and Retail)	5.6	9.5%
Information	5.0	8.5%
Finance, Insurance, and Real Estate	3.8	6.6%
Other Services	10.6	18.2%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$58.5</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$4.0	6.9%	0.0%
2	\$34,161 - 61,955	5.3	9.0%	0.0%
3	\$61,955 - 94,319	7.1	12.1%	0.0%
4	\$94,319 - 147,411	9.5	16.3%	0.0%
5	\$147,411 and higher	15.8	27.0%	0.0%
Residents		\$41.7	71.3%	
Exported		\$16.8	28.7%	
<b>TOTAL</b>		<b>\$58.5</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 22: Incidence Analysis****Franchise Tax Small Business Exception**

Tax Code 171.002(d)

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$5.8	2.1%
Mining	6.0	2.2%
Utilities & Transportation	7.6	2.8%
Construction	24.1	8.8%
Manufacturing	8.6	3.1%
Trade (Wholesale and Retail)	24.7	9.0%
Information	2.9	1.0%
Finance, Insurance, and Real Estate	63.1	22.9%
Other Services	132.6	48.1%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$275.4</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$16.8	6.1%	0.1%
2	\$34,161 - 61,955	23.7	8.6%	0.0%
3	\$61,955 - 94,319	33.7	12.2%	0.0%
4	\$94,319 - 147,411	48.4	17.6%	0.0%
5	\$147,411 and higher	86.2	31.3%	0.0%
Residents		\$208.9	75.8%	
Exported		\$66.5	24.2%	
<b>TOTAL</b>		<b>\$275.4</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 23: Incidence Analysis****Franchise Tax Health Care Provider Exclusions**

Tax Code 171.1011 (n) and (o)

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exclusion -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	67.5	100.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$67.5</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exclusion -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion Percent of Total Income
1	Less than \$34,161	\$4.2	6.2%	0.0%
2	\$34,161 - 61,955	6.1	9.0%	0.0%
3	\$61,955 - 94,319	8.0	11.9%	0.0%
4	\$94,319 - 147,411	11.5	17.1%	0.0%
5	\$147,411 and higher	19.6	29.1%	0.0%
Residents		\$49.5	73.3%	
Exported		\$18.0	26.7%	
<b>TOTAL</b>		<b>\$67.5</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 24: Incidence Analysis**

**Franchise Tax Special Accounting Methods for Apportionment of Proceeds from Sales of Certain and Loans and Securities**

Tax Code 171.106 (f) and (f-1)

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exclusion -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	40.0	23.5%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	130.0	76.5%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$170.0</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exclusion -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion Percent of Total Income
1	Less than \$34,161	\$7.8	4.6%	0.0%
2	\$34,161 - 61,955	11.2	6.6%	0.0%
3	\$61,955 - 94,319	15.8	9.3%	0.0%
4	\$94,319 - 147,411	22.8	13.4%	0.0%
5	\$147,411 and higher	42.7	25.1%	0.0%
Residents		\$100.3	59.0%	
Exported		\$69.7	41.0%	
<b>TOTAL</b>		<b>\$170.0</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

Table 25

### Initial Distribution and Final Incidence of Total Motor Vehicle Sales and Use Tax Revenue Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Tax -- By Industry		
Industry	Amount	Percent
Agriculture	\$56.1	1.1%
Mining	171.7	3.5%
Utilities and Transportation	253.6	5.2%
Construction	256.7	5.2%
Manufacturing	151.6	3.1%
Trade (Wholesale and Retail)	200.2	4.1%
Information	48.4	1.0%
Finance, Insurance and Real Estate	108.9	2.2%
Other services	696.8	14.2%
Government	0.0	0.0%
Individual Consumers	2,963.7	60.4%
<b>TOTAL</b>	<b>\$4,907.9</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Initial Distribution of Tax -- By Industry Type		
	Amount	Percent
Corporations	\$1,460.6	29.8%
Partnerships	345.9	7.0%
Sole Proprietors	137.6	2.8%
Subtotal	\$1,944.1	39.6%
Individual Consumers	\$2,963.7	60.4%
<b>TOTAL</b>	<b>\$4,907.9</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Tax -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as a Percent of Total Income
1	Less than \$34,161	\$288.7	5.9%	1.0%
2	\$34,161 - 61,955	441.5	9.0%	0.6%
3	\$61,955 - 94,319	738.6	15.0%	0.6%
4	\$94,319 - 147,411	1,053.0	21.5%	0.5%
5	\$147,411 and higher	1,705.2	34.7%	0.3%
Residents		\$4,227.0	86.1%	
Exported		\$680.9	13.9%	
<b>TOTAL</b>		<b>\$4,907.9</b>	<b>100.0%</b>	

**Estimated Equity of Tax**

Suits Index	-0.202
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*Totals may not add due to rounding.*

Final Incidence of Tax -- By Homeowners/Renters		
	Amount	Percent
Homeowners	\$2,851.1	58.1%
Renters	1,375.9	28.0%
Subtotal	\$4,227.0	86.1%
Exported	\$680.9	13.9%
<b>TOTAL</b>	<b>\$4,907.9</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

**Table 26**

**Initial Distribution and Final Incidence of Total Oil Production Tax Revenue**  
Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Tax -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	2,946.1	100.0%
Utilities and Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance and Real Estate	0.0	0.0%
Other services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$2,946.1</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Initial Distribution of Tax -- By Industry Type		
	Amount	Percent
Corporations	\$1,655.7	56.2%
Partnerships	763.6	25.9%
Sole Proprietors	526.8	17.9%
Subtotal	\$2,946.1	100.0%
Individual Consumers	\$0.0	0.0%
<b>TOTAL</b>	<b>\$2,946.1</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Tax -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as a Percent of Total Income
1	Less than \$34,161	\$47.1	1.6%	0.2%
2	\$34,161 - 61,955	94.1	3.2%	0.1%
3	\$61,955 - 94,319	153.2	5.2%	0.1%
4	\$94,319 - 147,411	264.8	9.0%	0.1%
5	\$147,411 and higher	572.1	19.4%	0.1%
Residents		\$1,131.2	38.4%	
Exported		\$1,814.9	61.6%	
<b>TOTAL</b>		<b>\$2,946.1</b>	<b>100.0%</b>	

  

Estimated Equity of Tax	
Suits Index	-0.052

*Totals may not add due to rounding.*

Final Incidence of Tax -- By Homeowners/Renters		
	Amount	Percent
Homeowners	\$819.7	27.8%
Renters	311.6	10.6%
Subtotal	\$1,131.2	38.4%
Exported	\$1,814.9	61.6%
<b>TOTAL</b>	<b>\$2,946.1</b>	<b>100.0%</b>

*Totals may not add due to rounding.*



**Table 27: Incidence Analysis****Oil Production Tax Exemptions for Qualification of Oil From New or Expanded Enhanced Recovery Project for Special Tax Rate**

Tax Code 202.054

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	45.1	100.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$45.1</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$0.7	1.6%	0.0%
2	\$34,161 - 61,955	1.4	3.2%	0.0%
3	\$61,955 - 94,319	2.3	5.2%	0.0%
4	\$94,319 - 147,411	4.1	9.0%	0.0%
5	\$147,411 and higher	8.8	19.4%	0.0%
Residents		\$17.3	38.4%	
Exported		\$27.8	61.6%	
<b>TOTAL</b>		<b>\$45.1</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 28: Incidence Analysis****Oil Production Tax Exemptions for Oil and Gas from Wells Previously Inactive**

Tax Code 202.056

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	29.7	100.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$29.7</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$0.4	1.4%	0.0%
2	\$34,161 - 61,955	0.9	3.0%	0.0%
3	\$61,955 - 94,319	1.4	4.9%	0.0%
4	\$94,319 - 147,411	2.1	7.2%	0.0%
5	\$147,411 and higher	4.1	14.0%	0.0%
Residents		\$9.0	30.4%	
Exported		\$20.7	69.6%	
<b>TOTAL</b>		<b>\$29.7</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 29**

**Initial Distribution and Final Incidence of Total School Property Tax Revenue**  
 Tax Year 2017 (dollar amounts in millions)

Initial Distribution of Tax -- By Industry		
Industry	Amount	Percent
Agriculture	\$528.7	1.7%
Mining	\$1,701.2	5.5%
Utilities & Transportation	\$2,351.7	7.6%
Construction	\$256.7	0.8%
Manufacturing	\$2,580.6	8.3%
Trade (Wholesale and Retail)	\$1,391.5	4.5%
Information	\$1,198.8	3.9%
Finance, Insurance, and Real Estate	\$4,788.4	15.5%
Other Services	\$1,426.8	4.6%
Government	\$0.0	0.0%
Individual Consumers	\$14,706.9	47.5%
<b>TOTAL</b>	<b>\$30,931.4</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Initial Distribution of Tax -- By Industry Type		
	Amount	Percent
Corporations	\$13,176.1	42.6%
Partnerships	2,226.5	7.2%
Sole Proprietors	821.9	2.7%
Subtotal	\$16,224.5	52.5%
Individual Consumers	\$14,706.9	47.5%
<b>TOTAL</b>	<b>\$30,931.4</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Tax -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as a Percent of Total Income
1	less than 34,161	\$1,840.4	5.9%	6.4%
2	34,161 - 61,955	2,570.4	8.3%	3.4%
3	61,955 - 94,319	3,433.3	11.1%	2.8%
4	94,319 - 147,411	5,326.3	17.2%	2.8%
5	147,411 and higher	11,169.3	36.1%	2.0%
Residents		\$24,339.7	78.7%	
Exported		\$6,591.7	21.3%	
<b>TOTAL</b>		<b>\$30,931.4</b>	<b>100.0%</b>	

**Estimated Equity of Tax, Tax Year 2017**

Suits Index	-0.084
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*Totals may not add due to rounding.*

Final Incidence of Tax -- By Homeowners/Renters		
	Amount	Percent
Homeowners	\$18,741.6	60.6%
Renters	5,598.1	18.1%
Subtotal	\$24,339.7	78.7%
Exported	\$6,591.7	21.3%
<b>TOTAL</b>	<b>\$30,931.4</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

**Table 30: Incidence Analysis****School Property Tax General Homestead Exemption of \$15,000**

Tax Code 11.13 (b)

Tax Year 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	1,031.0	100.0%
<b>TOTAL</b>	<b>\$1,031.0</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$85.6	8.3%	0.3%
2	\$34,161 - 61,955	119.1	11.5%	0.2%
3	\$61,955 - 94,319	145.7	14.1%	0.1%
4	\$94,319 - 147,411	200.2	19.4%	0.1%
5	\$147,411 and higher	281.9	27.3%	0.1%
Residents		\$832.5	80.7%	
Exported		\$198.5	19.3%	
<b>TOTAL</b>		<b>\$1,031.0</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 31: Incidence Analysis****School Property Tax Optional Percentage Homestead Exemption**

Tax Code 11.13 (n)

Tax Year 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	553.1	100.0%
<b>TOTAL</b>	<b>\$576.7</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$27.0	4.7%	0.1%
2	\$34,161 - 61,955	35.1	6.1%	0.0%
3	\$61,955 - 94,319	51.5	8.9%	0.0%
4	\$94,319 - 147,411	93.2	16.2%	0.0%
5	\$147,411 and higher	264.9	45.9%	0.0%
Residents		\$471.7	81.8%	
Exported		\$105.0	18.2%	
<b>TOTAL</b>		<b>\$576.7</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 32: Incidence Analysis**

**School Property Tax Freeport Property Exemption**

Tax Code 11.251 and 11.437

Tax Year 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$14.5	3.7%
Mining	1.0	0.2%
Utilities & Transportation	67.6	17.4%
Construction	6.3	1.6%
Manufacturing	171.1	44.1%
Trade (Wholesale and Retail)	41.2	10.6%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	51.3	13.2%
Other Services	35.3	9.1%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$388.3</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$16.7	4.3%	0.1%
2	\$34,161 - 61,955	29.8	7.7%	0.0%
3	\$61,955 - 94,319	43.0	11.1%	0.0%
4	\$94,319 - 147,411	63.4	16.3%	0.0%
5	\$147,411 and higher	118.8	30.6%	0.0%
Residents		\$271.7	70.0%	
Exported		\$116.6	30.0%	
<b>TOTAL</b>		<b>\$388.3</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 33: Incidence Analysis**

**School Property Tax Ceiling for Disabled or Age 65 and Older**

Tax Code 11.26

Tax Year 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	719.3	100.0%
<b>TOTAL</b>	<b>\$719.3</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$107.8	15.0%	0.4%
2	\$34,161 - 61,955	118.4	16.5%	0.2%
3	\$61,955 - 94,319	109.3	15.2%	0.1%
4	\$94,319 - 147,411	114.7	15.9%	0.1%
5	\$147,411 and higher	142.5	19.8%	0.0%
Residents		\$592.6	82.4%	
Exported		\$126.7	17.6%	
<b>TOTAL</b>		<b>\$719.3</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 34: Incidence Analysis****School Property Tax Texas Economic Development Act**

Tax Code 313

Tax Year 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	212.7	40.5%
Construction	0.0	0.0%
Manufacturing	312.4	59.5%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$525.1</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$20.7	3.9%	0.1%
2	\$34,161 - 61,955	27.7	5.3%	0.0%
3	\$61,955 - 94,319	37.0	7.0%	0.0%
4	\$94,319 - 147,411	53.1	10.1%	0.0%
5	\$147,411 and higher	87.8	16.7%	0.0%
Residents		\$226.3	43.1%	
Exported		\$298.8	56.9%	
<b>TOTAL</b>		<b>\$525.1</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 35: Incidence Analysis****School Property Tax Special Appraisal for Agricultural and Timber Land**

Tax Code 23.41, 23.52, 23.73, and 23.9803

Tax Year 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$3,364.9	100.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$3,364.9</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$165.3	4.9%	0.6%
2	\$34,161 - 61,955	260.3	7.7%	0.3%
3	\$61,955 - 94,319	392.9	11.7%	0.3%
4	\$94,319 - 147,411	602.2	17.9%	0.3%
5	\$147,411 and higher	975.8	29.0%	0.2%
Residents		\$2,396.5	71.2%	
Exported		\$968.4	28.8%	
<b>TOTAL</b>		<b>\$3,364.9</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

**Table 36: Incidence Analysis**

**School Property Tax Limitation on Appraised Value of Residential Homestead (10% Cap)**

Tax Code 23.23

Tax Year 2017 (dollar amounts in millions)

Initial Distribution of Exemption -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	419.6	100.0%
<b>TOTAL</b>	<b>\$419.6</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Exemption -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption Percent of Total Income
1	Less than \$34,161	\$19.6	4.7%	0.1%
2	\$34,161 - 61,955	25.5	6.1%	0.0%
3	\$61,955 - 94,319	37.5	8.9%	0.0%
4	\$94,319 - 147,411	67.8	16.2%	0.0%
5	\$147,411 and higher	192.7	45.9%	0.0%
Residents		\$343.2	81.8%	
Exported		\$76.4	18.2%	
<b>TOTAL</b>		<b>\$419.6</b>	<b>100.0%</b>	

*Totals may not add due to rounding.*

Table 37

**Initial Distribution and Final Incidence of Total Gasoline Tax Revenue**

Fiscal 2017 (dollar amount in millions)

Initial Distribution of Tax -- By Industry		
Industry	Amount	Percent
Agriculture	\$18.3	0.7%
Mining	31.4	1.2%
Utilities & Transportation	138.5	5.3%
Construction	91.5	3.5%
Manufacturing	177.7	6.8%
Trade (Wholesale and Retail)	5.2	0.2%
Information	2.6	0.1%
Finance, Insurance, and Real Estate	2.6	0.1%
Other Services	13.1	0.5%
Government	10.5	0.4%
Individual Consumers	2,121.7	81.2%
<b>TOTAL</b>	<b>\$2,612.9</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Initial Distribution of Tax -- By Industry Type		
	Amount	Percent
Corporations	\$384.2	14.7%
Partnerships	74.9	2.9%
Sole Proprietors	32.2	1.2%
Subtotal	\$491.2	18.8%
Individual Consumers	\$2,121.7	81.2%
<b>TOTAL</b>	<b>\$2,612.9</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Tax -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as a Percent of Total Income
1	Less than \$34,161	\$224.7	8.6%	0.8%
2	\$34,161 - 61,955	316.2	12.1%	0.4%
3	\$61,955 - 94,319	457.3	17.5%	0.4%
4	\$94,319 - 147,411	598.4	22.9%	0.3%
5	\$147,411 and higher	749.9	28.7%	0.1%
Residents		\$2,346.4	89.8%	
Exported		\$266.5	10.2%	
<b>TOTAL</b>		<b>\$2,612.9</b>	<b>100.0%</b>	

**Estimated Equity of Tax**

Suits Index	-0.261
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*Totals may not add due to rounding.*

Final Incidence of Tax -- By Homeowners/Renters		
	Amount	Percent
Homeowners	\$1,468.5	56.2%
Renters	877.9	33.6%
Subtotal	\$2,346.4	89.8%
Exported	\$266.5	10.2%
<b>TOTAL</b>	<b>\$2,612.9</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

**Table 38**

**Initial Distribution and Final Incidence of Total Cigarette Tax Revenue**

Fiscal 2017 (dollar amount in millions)

Initial Distribution of Tax -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	1,134.9	100.0%
<b>TOTAL</b>	<b>\$1,134.9</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Initial Distribution of Tax -- By Industry Type		
	Amount	Percent
Corporations	\$0.0	0.0%
Partnerships	0.0	0.0%
Sole Proprietors	0.0	0.0%
Subtotal	\$0.0	0.0%
Individual Consumers	\$1,134.9	100.0%
<b>TOTAL</b>	<b>\$1,134.9</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Tax -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as a Percent of Total Income
1	Less than \$34,161	\$216.8	19.1%	0.8%
2	\$34,161 - 61,955	202.6	17.8%	0.3%
3	\$61,955 - 94,319	228.7	20.1%	0.2%
4	\$94,319 - 147,411	272.6	24.0%	0.1%
5	\$147,411 and higher	193.2	17.0%	0.0%
Residents		\$1,113.8	98.1%	
Exported		\$21.1	1.9%	
<b>TOTAL</b>		<b>\$1,134.9</b>	<b>100.0%</b>	

**Estimated Equity of Tax, Fiscal 2017**

Suits Index	-0.442
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*Totals may not add due to rounding.*

Final Incidence of Tax -- By Homeowners/Renters		
	Amount	Percent
Homeowners	\$662.1	58.3%
Renters	451.7	39.8%
Subtotal	\$1,113.8	98.1%
Exported	\$21.1	1.9%
<b>TOTAL</b>	<b>\$1,134.9</b>	<b>100.0%</b>

*Totals may not add due to rounding.*



Table 39

### Initial Distribution and Final Incidence of Total Natural Gas Tax Revenue

Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Tax -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	1,647.1	100.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$1,647.1</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Initial Distribution of Tax -- By Industry Type		
	Amount	Percent
Corporations	\$922.2	56.0%
Partnerships	381.1	23.1%
Sole Proprietors	343.8	20.9%
Subtotal	\$1,647.1	100.0%
Individual Consumers	\$0.0	0.0%
<b>TOTAL</b>	<b>\$1,647.1</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Tax -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as a Percent of Total Income
1	Less than \$34,161	\$30.2	1.8%	0.1%
2	\$34,161 - 61,955	64.2	3.9%	0.1%
3	\$61,955 - 94,319	97.4	5.9%	0.1%
4	\$94,319 - 147,411	115.0	7.0%	0.1%
5	\$147,411 and higher	246.8	15.0%	0.0%
Residents		\$553.7	33.6%	
Exported		\$1,093.4	66.4%	
<b>TOTAL</b>		<b>\$1,647.1</b>	<b>100.0%</b>	

ESTIMATED EQUITY OF TAX

Suits Index	-0.076
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*Totals may not add due to rounding.*

Final Incidence of Tax -- By Homeowners/Renters		
	Amount	Percent
Homeowners	\$378.6	23.0%
Renters	175.0	10.6%
Subtotal	\$553.7	33.6%
Exported	\$1,093.4	66.4%
<b>TOTAL</b>	<b>\$1,647.1</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

**Table 40**

**Initial Distribution and Final Incidence of Total Insurance Premium Tax Revenue**  
Fiscal 2017 (dollar amounts in millions)

Initial Distribution of Tax -- By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Trade (Wholesale and Retail)	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance, and Real Estate	2,058.5	100.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>TOTAL</b>	<b>\$2,058.5</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Initial Distribution of Tax -- By Industry Type		
	Amount	Percent
Corporations	\$1,605.6	78.0%
Partnerships	308.8	15.0%
Sole Proprietors	144.1	7.0%
Subtotal	\$2,058.5	100.0%
Individual Consumers	\$0.0	0.0%
<b>TOTAL</b>	<b>\$2,058.5</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

Final Incidence of Tax -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as a Percent of Total Income
1	Less than \$34,161	\$212.0	10.3%	0.7%
2	\$34,161 - 61,955	304.4	14.8%	0.4%
3	\$61,955 - 94,319	373.2	18.1%	0.3%
4	\$94,319 - 147,411	431.8	21.0%	0.2%
5	\$147,411 and higher	579.8	28.2%	0.1%
Residents		\$1,901.1	92.4%	
Exported		\$157.4	7.6%	
<b>TOTAL</b>		<b>\$2,058.5</b>	<b>100.0%</b>	

Estimated Equity of Tax

Suits Index	-0.316
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*Totals may not add due to rounding.*

Final Incidence of Tax -- By Homeowners/Renters		
	Amount	Percent
Homeowners	\$1,304.1	63.4%
Renters	596.9	29.0%
Subtotal	\$1,901.1	92.4%
Exported	\$157.4	7.6%
<b>TOTAL</b>	<b>\$2,058.5</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

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