



A Message From The Comptroller

February 27, 2009

The Honorable Rick Perry, Governor
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Joe Straus III, Speaker of the House
Members of the 81st 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, gasoline, motor vehicle sales, and natural gas taxes, as well as under the property tax levied by Texas school districts.

For 2009, aggregate exemptions for the above revenue sources will total an estimated \$39.0 billion. Of this amount, the exemptions related to state taxes will account for \$33.5 billion, and school property tax exemptions will account for the remaining \$5.5 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,

Susan Combs
Texas Comptroller

c: John O'Brien, Director, Legislative Budget Board

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Overview

In state fiscal year 2009—extending from September 1, 2008 to August 31, 2009—exemptions* from the sales, franchise, gasoline, motor vehicle sales, and natural gas taxes will amount to \$33.5 billion.

Sales tax exemptions will total \$30.0 billion, and franchise tax exemptions will total \$2.1 billion. Gasoline tax exemptions will amount to \$130 million, motor vehicle sales tax exemptions will total \$171 million, and natural gas tax exemptions will total \$1,051 million.

Exemptions from local school district property taxes will amount to an additional \$5.5 billion in tax year 2009.

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

In fiscal 2008, the combined state revenues—accruing to all funds—from the sales tax, franchise tax, gasoline tax, motor vehicle sales tax, and natural gas tax totaled \$34.4 billion and accounted for over 83 percent of the state's total tax revenue. School property taxes generated an additional \$18.9 billion for tax year 2007, the latest year for which complete data are available.

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 informational report is intended to provide brief descriptions of state tax exemptions. These descriptions should be used as guidelines only; actual taxability is determined by the Tax Code and administrative rules. ☼

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

Limited Sales and Use Tax

THE sales and use tax is the largest source of tax revenue for Texas state government, bringing in about 52 cents of every state tax dollar in fiscal 2008. 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 totaled \$21.6 billion in fiscal 2008, 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 can be reduced 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, and sales and rentals of real property. 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 permits are responsible for remitting the tax.

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

Table 1

Value of Sales Tax Exemptions, Exclusions, and Discounts

Fiscal 2009 to 2014 – In millions of dollars

Item	2009	2010	2011	2012	2013	2014
Exemptions	\$24,454.0	\$25,193.2	\$26,015.5	\$26,857.5	\$27,733.3	\$28,585.0
Exclusions	5,366.4	5,615.2	5,884.6	6,144.5	6,386.9	6,625.8
Discounts	189.5	190.5	198.5	207.8	216.1	224.7
Total	\$30,009.8	\$30,998.8	\$32,098.6	\$33,209.8	\$34,336.3	\$35,435.5

Note: Columns may not sum because of rounding.

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 2 summarizes the estimated values of these exemptions for fiscal 2009 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 2009 to 2014 – In millions of dollars

Tax Code Section	Exemption	2009	2010	2011	2012	2013	2014
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	2,046.2	2,140.9	2,234.7	2,324.0	2,417.0	2,513.7
	Motor fuels	1,735.2	1,711.9	1,755.8	1,766.3	1,794.5	1,803.7
	Mixed beverages	233.8	238.4	250.7	266.8	285.3	304.8
	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	319.8	323.3	337.5	345.1	356.2	363.2
	Oil well servicing	89.5	84.4	104.6	121.3	131.9	142.6
	Insurance premiums	3,678.4	3,797.9	3,911.9	4,029.2	4,155.2	4,285.0
	Total for items taxed by other law	8,102.9	8,296.8	8,595.2	8,852.7	9,140.0	9,413.0
151.309	Governmental entities	275.8	296.8	316.2	334.5	354.9	375.6
151.310	Sales to religious, educational, and public service organizations						
	Sales to nonprofits	27.4	29.1	30.8	32.7	34.5	36.5
	One day sales	6.3	6.7	7.1	7.5	8.0	8.4
151.3101	Amusement services	cbe	cbe	cbe	cbe	cbe	cbe
151.3105	Bingo equipment purchased by certain organizations	0.2	0.2	0.2	0.2	0.2	0.2
151.311	Improvement of realty of an exempt entity	21.9	23.1	24.2	25.5	26.8	28.2
151.3111	Services on certain exempted personal property	cbe	cbe	cbe	cbe	cbe	cbe
151.312	Nonprofit or religious organization periodicals and writings	13.3	13.5	13.8	14.1	14.3	14.6
151.313	Health care supplies						
	Prescription medicine and devices	410.6	424.8	438.8	452.8	467.0	482.0
	Over-the-counter drugs	203.6	210.7	217.6	224.6	231.6	239.1
151.314	Food and food products						
	Food for home consumption	1,378.2	1,430.5	1,482.2	1,533.7	1,586.2	1,641.6
	School lunches and certain food sales	46.2	47.8	49.3	50.9	52.5	54.2
151.3141	Food stamp purchases	16.6	17.2	17.7	18.3	18.9	19.5
151.315	Water	248.5	254.9	261.4	268.2	275.2	282.4
151.316	Agricultural items						
	Agricultural feed, seed, chemicals, and supplies	270.3	271.1	272.6	275.4	278.5	280.8
	Livestock for food	12.9	13.0	13.0	13.2	13.3	13.4
	Agricultural machinery and equipment	68.6	68.9	69.2	70.0	70.7	71.3
	Horses, mules, and work animals	6.5	6.6	6.8	6.8	7.0	7.0
	Commercial fishing ice	0.1	0.1	0.1	0.1	0.1	0.1
151.3162	Timber operations (equipment)	20.2	21.3	22.3	23.4	24.6	25.8
151.317	Gas and electricity						
	Manufacturing	688.0	751.6	782.1	810.8	836.4	863.0
	Residential	791.6	824.6	852.9	879.2	904.4	927.3
	Agricultural	15.5	16.1	16.3	16.5	16.8	17.0
	Mining	134.4	125.4	116.6	109.0	101.6	95.3
	Timber	**	**	**	**	**	**
151.318	Property used in manufacturing						

Value of Sales Tax Exemptions

Fiscal 2009 to 2014 – In millions of dollars

Tax Code Section	Exemption	2009	2010	2011	2012	2013	2014
	Materials used in manufacturing	10,102.7	10,399.2	10,717.3	11,072.5	11,427.9	11,774.2
	Manufacturing machinery & equipment	596.2	614.0	633.0	654.7	676.4	697.3
	Packaging and wrapping supplies	301.9	316.0	330.7	353.1	375.8	395.8
151.3185	Film production equipment	***	***	***	***	***	***
151.319	Newspapers						
	Newspapers	22.2	22.0	21.8	21.6	21.4	21.2
	Newspaper inserts	11.9	11.8	11.6	11.5	11.4	11.3
151.320	Magazine subscriptions	10.0	10.1	10.2	10.3	10.4	10.5
151.321	University student organizations	*	*	*	*	*	*
151.322	Containers	130.6	137.4	145.7	153.6	160.3	166.3
151.323	Certain telecommunications services	cbe	cbe	cbe	cbe	cbe	cbe
151.324	Equipment for mineral exploration or production	125.1	122.0	109.8	112.6	118.2	124.1
151.325	Basic fee for Internet access	84.9	89.4	94.1	98.8	103.7	108.9
151.326	Clothing and footwear for a limited period	44.1	45.6	47.2	48.7	50.2	51.9
151.327	School backpacks before start of school	0.4	0.4	0.4	0.5	0.5	0.5
151.328	Aircraft						
	Certain aircraft	*	*	*	*	*	*
	Repair equipment for certain aircraft	16.4	17.2	18.1	19.0	19.9	20.9
151.329	Certain ships and ship equipment	31.3	34.0	36.0	38.0	40.4	42.6
151.3291	Boats and boat motors	45.3	45.3	46.2	47.1	48.0	49.0
151.330	Interstate shipments	cbe	cbe	cbe	cbe	cbe	cbe
151.331	Rolling stock, train fuel, and supplies						
	Railroad fuel and supplies	38.6	39.0	40.7	41.6	42.9	43.8
	Rolling stock and locomotives	3.1	3.3	3.4	3.6	3.8	4.0
151.332	Certain sales by senior citizen organizations	*	*	*	*	*	*
151.333	Energy-efficient products for a limited period	2.3	2.4	2.5	2.6	2.7	2.8
151.335	Coin-operated services	57.5	61.1	64.7	68.4	72.2	76.2
151.336	Certain coins and precious metals	*	*	*	*	*	*
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	Development corporations	*	*	*	*	*	*
151.342	Agribusiness items	0.5	0.5	0.5	0.5	0.6	0.6
151.343	Animals sold by nonprofit animal shelters	*	*	*	*	*	*
151.346	Intercompany 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 and data processing services	37.4	38.8	40.5	43.2	46.1	48.7
151.353	Court reporting services	*	*	*	*	*	*
151.354	Services by employees of property management companies	*	*	*	*	*	*
151.355	Water-related equipment, services, and supplies	5.5	5.6	5.8	5.9	6.1	6.2
151.429	Enterprise projects (refunds)	17.7	18.8	19.8	20.9	22.0	23.0
151.4921	Defense readjustment projects (refunds)	0.0	0.0	0.0	0.0	0.0	0.0
151.431	Job retention in enterprise zones (refunds)	*	*	*	*	*	*
151.432	Certain tickets to amusement services	*	*	*	*	*	*
111.302	Sales tax refund for economic development	8.7	8.7	8.7	8.7	8.7	8.7
Total		\$24,454.0	\$25,193.2	\$26,015.5	\$26,857.5	\$27,733.3	\$28,585.0

* 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.

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 from the sales tax. 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 sale 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 from the sales tax. "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.

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 Tax Code (mixed beverages), 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 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.

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 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), Internal Revenue Code of 1986, as amended, by being listed as an exempt organization under Section 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 exempts a service performed on tangible personal property also exempt from tax. 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 non-profit 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 was 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.

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 gas and electricity used in processing a product for sale; exploring for or producing and

transporting a material extracted from the earth; agricultural operations; gas and electricity used by an electric utility; gas and electricity used in residences—including apartments, nursing homes, and dormitories; and gas and electricity used 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; and certain equipment used to reduce water use and to reuse and recycle wastewater streams in the manufacturing process.

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. 151.3185.

Film Production Equipment

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. 151.319.

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 mailed 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, gas, sulphur, or other minerals offshore and not in this state. The exemption was added in 1967.

Sec. 151.325.

Basic Fee for Internet Access

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 from the sales tax. The exemption is limited to items costing less than \$100. The items are exempt from tax only during a three-day period consisting of the third Friday, Saturday, and Sunday of each August. 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. Local taxing authorities may opt to not offer this exemption as it applies to their sales taxes. This section was added in 1999.

Sec. 151.327.

School Backpacks Before Start of School

This section exempts the sale of 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 the third Friday, Saturday, and Sunday of each August. This section was added in 2007.

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; or (4) sold to a person for use and registration in another state or nation.

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 from the sales tax.

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 from the sales tax.

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 fund-raising 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. 151.335.

Coin-operated Services

Amusement and personal services provided through coin-operated machines that are operated by the consumer are exempt from the sales tax. 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 if the total sales price of all of the items sold equals \$1,000 or more. This section was added in 1989.

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 Coins

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. 151.342.

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. 151.346.

Intercompany 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 self-employed 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 from the sales tax. 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 Equipment, Services, and Supplies

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 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. 151.429.

Enterprise Projects (Refunds)

This section makes enterprise projects eligible for a refund of sales tax paid on purchases of machinery or equipment, gas and electricity used in an enterprise zone, and labor and materials to remodel or construct a structure in an enterprise zone. The project may obtain a refund of \$2,000 for each permanent job for a qualified employee added or retained by the project, up to a total refund of \$250,000 per fiscal year. Refunds of amounts above this limit may be carried forward to subsequent years.

This provision 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.

Certain Tickets to Amusement Services

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.

Sec. 111.302.

Refund for Economic Development, Reinvestment Zone/Abatement Agreement

Taxpayers who paid ad valorem taxes to a school district on property located in a reinvestment zone or that is exempt under a tax abatement agreement may apply for a franchise or sales tax refund. The total combined amount of franchise tax and sales tax refunded to all eligible taxpayers is capped at \$10 million per fiscal year.

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 in **Table 3** is expected to exceed \$5.3 billion in fiscal 2009, more than 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,

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

Fiscal 2009 to 2014 – In millions of dollars

Construction Labor

Service Exclusion	2009	2010	2011	2012	2013	2014
New residential construction	\$ 317.1	\$ 334.5	\$ 362.0	\$ 379.6	\$ 387.4	\$ 395.4
New nonresidential construction	203.9	207.9	212.1	216.3	220.7	225.1
Residential repair and remodeling	125.6	128.1	130.6	133.2	135.9	138.6

Personal Services

Service Exclusion	2009	2010	2011	2012	2013	2014
Barber and beauty	\$ 82.7	\$ 87.7	\$ 92.9	\$ 98.6	\$ 104.2	\$ 110.1
Funeral	57.2	58.4	59.5	60.7	61.9	63.2
Child day care	206.7	211.5	217.4	224.4	231.5	239.2
Miscellaneous personal services	14.8	15.7	16.6	17.6	18.6	19.7

Business and Professional Services

Service Exclusion	2009	2010	2011	2012	2013	2014
Physician services	\$ 879.9	\$ 903.5	\$ 924.1	\$ 942.9	\$ 963.0	\$ 983.6
Dental services	301.4	312.1	321.6	330.3	339.7	349.4
Other health care	446.9	467.8	489.1	511.8	534.5	558.0
Legal services	447.3	458.8	472.5	489.1	504.7	521.7
Accounting and audit services	201.8	213.9	226.6	240.5	254.2	268.4
Architectural and engineering services	343.9	366.2	390.3	415.4	438.9	453.8
Management consulting and public relations	174.6	187.5	200.7	210.0	216.5	224.2
Contract computer programming	127.8	135.5	143.5	152.3	160.9	170.0
Research and development laboratory services	134.5	138.0	142.1	147.1	151.8	156.9
Economic and sociological research	21.8	22.3	23.0	23.8	24.6	25.4
Testing labs	52.2	53.6	55.2	57.1	58.9	60.9
Billboard advertising	25.8	26.6	28.5	30.6	32.6	34.7
Employment agency services	31.5	33.8	36.2	37.9	39.1	40.5
Temporary labor supply	46.7	50.5	54.4	57.2	59.1	61.4
Financial services brokerage	143.8	158.5	175.5	189.3	201.3	210.6
Other financial	61.1	66.1	71.4	76.2	80.9	85.2
Real estate brokerage and agency	201.1	218.5	236.7	253.5	269.6	284.6
Freight hauling	232.0	246.0	260.6	276.5	292.2	308.6
Other transportation (except scheduled passenger)	24.7	26.2	27.7	29.4	31.1	32.8
Veterinary service	47.6	49.5	51.5	53.5	55.7	57.9

Other Services

Service Exclusion	2009	2010	2011	2012	2013	2014
Automotive maintenance and repair	\$ 270.6	\$ 286.9	\$ 303.9	\$ 322.5	\$ 340.8	\$ 359.9
Car washes	32.9	34.8	36.9	39.2	41.4	43.7
Travel arrangements	13.8	14.7	15.5	16.5	17.4	18.4
Private vocational education	50.0	53.0	56.1	59.5	62.9	66.5
Other educational services	36.1	38.3	40.5	43.0	45.5	48.0
Interior design	8.8	8.9	9.1	9.2	9.3	9.5

TOTAL	2009	2010	2011	2012	2013	2014
Value of Selected Service Exclusions	\$5,366.4	\$5,615.2	\$5,884.6	\$6,144.5	\$6,386.9	\$6,625.8

Note: Columns may not sum because of rounding.

dental, and other health care; legal services; accounting and 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 2009, the value of this discount will be an estimated \$98.6 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 \$90.9 million in fiscal 2009.⚡

Table 4

Sales Tax Discounts

Fiscal 2009 to 2014 – In millions of dollars

Discount	2009	2010	2011	2012	2013	2014
Timely Filer Discount	\$ 98.6	\$ 99.1	\$ 103.3	\$ 108.1	\$ 112.4	\$ 116.9
Prepayment Discount	90.9	91.4	95.2	99.7	103.7	107.8
Total	\$189.5	\$190.5	\$198.5	\$207.8	\$216.1	\$224.7

Note: Columns may not sum because of rounding.

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 2008, the first effective year of the new tax, 900,000 business entities were included on tax reports. For 2007, the last year of the old tax, 700,000 business 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 140,000 in 2008 from 167,000 the prior year.

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 three 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) cost of goods sold;
- 2) compensation; or
- 3) 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, except those primarily engaged in wholesale or retail trade (including food service) which 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 0.0575 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 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.

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 1** through **3** 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.

Table 5

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

Fiscal 2009 to 2014 – In millions of dollars

Item	2009	2010	2011	2012	2013	2014
Exemptions: For Profit Entities	\$1,076.5	\$1,130.4	\$1,186.9	\$1,246.2	\$1,308.5	\$1,374.0
Exemptions: Nonprofit Entities	545.1	572.4	601.0	631.0	662.6	695.7
Deductions	318.4	344.6	361.6	389.5	408.4	438.2
Special Accounting Methods	55.8	58.6	61.6	64.8	68.1	71.6
Credits and Refunds	135.0	115.6	99.1	84.2	73.4	62.4
Total	\$2,130.8	\$2,221.6	\$2,310.2	\$2,415.7	\$2,521.0	\$2,641.9

Note: Columns may not sum because of rounding.

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 exempt under Tax Code Section 171.077, and trade show participants exempt under Tax Code Section 171.084 merit their exempt status without registration (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 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. 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.

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 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 Companies

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 Companies

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.

Table 6**Value of Franchise Tax Exemptions**

Fiscal 2009 to 2014 – In millions of dollars

Tax Code Section	Exemption	2009	2010	2011	2012	2013	2014
171.051(d)	Exemptions granted before fiscal 1976	Included with IRS 501(c)(3)					
171.052-.0525	Insurance companies	\$495.0	\$ 519.8	\$ 545.7	\$ 573.0	\$ 601.7	\$ 631.8
171.053	Railway terminal corporations	*	*	*	*	*	*
171.055	Mutual funds investment companies	581.0	610.1	640.6	672.6	706.2	741.5
171.056	Solar energy corporations	0.5	0.6	0.6	0.6	0.7	0.7
171.057	Promote local area	Included with IRS 501(c)(6)					
171.058	Religious organizations	Included with IRS 501(c)(3)					
171.059	Burial organizations	0.5	0.5	0.5	0.6	0.6	0.6
171.060	Agriculture fairs	Included with IRS 501(c)(5)					
171.061	Educational organizations	Included with IRS 501(c)(3)					
171.062	Public charities	Included with IRS 501(c)(3)					
171.063	Nonprofit corporation exempt from federal taxes						
	IRS Sec 501(c)(2)	0.1	0.1	0.1	0.1	0.1	0.1
	IRS Sec 501(c)(3)	458.8	481.7	505.8	531.1	557.6	585.5
	IRS Sec 501(c)(4)	8.5	9.0	9.4	9.9	10.4	10.9
	IRS Sec 501(c)(5)	12.4	13.0	13.6	14.3	15.0	15.8
	IRS Sec 501(c)(6)	10.2	10.7	11.2	11.8	12.4	13.0
	IRS Sec 501(c)(7)	3.7	3.9	4.1	4.3	4.5	4.7
	IRS Sec 501(c)(8)	3.3	3.4	3.6	3.8	4.0	4.2
	IRS Sec 501(c)(10)	0.0	0.0	0.0	0.0	0.0	0.0
	IRS Sec 501(c)(16)	*	*	*	*	*	*
	IRS Sec 501(c)(19)	0.1	0.1	0.1	0.1	0.1	0.1
	IRS Sec 501(c)(25)	0.0	0.0	0.0	0.0	0.0	0.0
171.064	Nature conservation	Included with IRS 501(c)(3)					
171.065	Water supply and sewer services	4.6	4.8	5.1	5.3	5.6	5.9
171.066	Natural gas facility	0.0	0.0	0.0	0.0	0.0	0.1
171.067	Convalescent homes	0.1	0.1	0.1	0.1	0.1	0.1
171.068	Cooperative housing	*	*	*	*	*	*
171.069	Agricultural marketing association	Included with IRS 501(c)(5)					
171.070	Lodges	Included with IRS 501(c)(8)					
171.071	Farmers' cooperative society	Included with IRS 501(c)(5)					
171.072	Housing finance corporation	Included with IRS 501(c)(3)					
171.073	Hospital laundry cooperative	*	*	*	*	*	*
171.074	Development corporation	Included with IRS 501(c)(6)					
171.075	Cooperative association	Included with IRS 501(c)(3)					
171.076	Cooperative credit association	0.0	0.0	0.0	0.0	0.0	0.0
171.077	Credit union	12.0	12.6	13.2	13.9	14.6	15.3
171.079	Electric cooperative corporation	26.9	28.2	29.7	31.1	32.7	34.3
171.080	Telephone cooperative corporation	1.5	1.6	1.7	1.7	1.8	1.9
171.081	Corporation exempt by other law	*	*	*	*	*	*
171.082	Certain homeowners' associations	2.6	2.7	2.9	3.0	3.2	3.3
171.083	Emergency medical service corporations	Included with IRS 501(c)(3)					
171.084	Certain trade show participants	*	*	*	*	*	*
171.085	Sludge recycling operation	*	*	*	*	*	*
171.087	Student financial aid organizations	Included with IRS 501(c)(3)					
Total		\$1,621.7	\$1,702.8	\$1,787.9	\$1,877.3	\$1,971.1	\$2,069.7

*Amount is negligible

Note: Columns may not sum because of rounding.

Table 7**Value of Franchise Tax Deductions, Special Accounting Methods, and Credits and Refunds**

Fiscal 2009 to 2014 – In millions of dollars

Deductions

Tax Code Section	Item	2009	2010	2011	2012	2013	2014
171.002(d)	Small business exception	\$137.3	\$144.3	\$151.7	\$159.4	\$167.5	\$176.1
171.0021	Discounts for small businesses	74.1	77.9	81.9	86.0	90.4	95.0
171.006	Adjustments based on consumer price index	0.0	10.0	10.0	20.0	20.0	30.0
171.107	Solar energy device purchases	*	*	*	*	*	*
171.108	Clean coal project equipment purchases	*	*	*	*	*	*
171.1011(g-3)(3)	Pro bono services	*	*	*	*	*	*
171.1011(m)	Dividends and interest on federal obligations	17.6	18.5	19.4	20.4	21.5	22.6
171.1011(n),(o)	Health care provider exclusions	88.9	93.4	98.2	103.1	108.4	113.9
171.1013(b-1)	New health benefits subtraction	0.5	0.5	0.5	0.5	0.6	0.6
Total	Deductions	\$318.4	\$344.6	\$361.6	\$389.5	\$408.4	\$438.2

Special Accounting Methods

Tax Code Section	Item	2009	2010	2011	2012	2013	2014
171.1016	E-Z computation and rate	\$18.5	\$19.4	\$20.4	\$21.5	\$22.6	\$23.7
171.106(b),(c)	Investment management firm apportionment	6.5	6.8	7.2	7.5	7.9	8.3
Rule 3.591(e)(32)	Transportation company apportionment	16.0	16.8	17.7	18.6	19.5	20.5
Rule 3.591(e)(30)	Telephone company apportionment	14.8	15.6	16.3	17.2	18.1	19.0
Total	Special Accounting Methods	\$55.8	\$58.6	\$61.6	\$64.8	\$68.1	\$71.6

Credits and Refunds

Tax Code Section	Item	2009	2010	2011	2012	2013	2014
171.111	Temporary credit on taxable margin	\$ 50.0	\$ 50.0	\$50.0	\$50.0	\$50.0	\$50.0
171.815-.825	Investment credit for enterprise projects	2.2	1.7	1.4	1.1	0.5	0.1
Rule 3.593(e),(f),(g)	Franchise tax carryforwards	81.5	62.6	46.4	31.8	21.6	11.0
171.501	Job creation in enterprise zones refund	*	*	*	*	*	*
111.302	Franchise tax refund for economic development	1.3	1.3	1.3	1.3	1.3	1.3
Total	Credits and Refunds	\$135.0	\$115.6	\$99.1	\$84.2	\$73.4	\$62.4

Amount is negligibleNote: Columns may not sum because of rounding.*

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 Worship

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 from the franchise tax. 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 recreation 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 Associations

A marketing association incorporated under Chapter 52 of the Agricultural Code is exempt from franchise tax. 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 from the franchise tax. 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 from the franchise tax. 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 from the franchise tax. 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 Section 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 from the franchise tax. 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 statute, federal or state, 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. Section 221.033, Health and Safety Code, exempts such a corporation from all state taxes. Accordingly, even though there is no provision in Chapter 171 of the Tax Code exempting the corporation, it is exempt from franchise tax.

Sec. 171.082.

Certain Homeowners' Associations

A nonprofit corporation is exempt from the franchise tax 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. 171.087.

Nonprofit Corporation Organized for Student Loan Fund 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 and firms with total gross receipts of less than \$300,000 are not required to remit the tax, although they must file information reports.

Sec. 171.0021.

Discounts from Tax Liability for Small Businesses

A taxable entity that has total revenue of less than \$900,000 from its entire business is entitled to a discount of the tax determined under the standard or E-Z calculation. The discount is 80 percent of the calculated tax if total revenue is greater than \$300,000 but less than \$400,000. The discount is 60 percent of the calculated tax if total revenue is greater than \$400,000 but less than \$500,000. The discount is 40 percent of the calculated tax if total revenue is greater than \$500,000 but less than \$700,000. The discount is 20 percent of the calculated tax if total revenue is greater than \$700,000 but less than \$900,000. If the amount of tax owed after application of the allowable discount is less than \$1,000, the taxable entity owes no tax per the provisions of Sec. 171.002(d).

Sec. 171.006.

Adjustment of Eligibility for No Tax Due, Discounts, and Compensation Deduction

The thresholds on total revenue for the small business exception (Sec 171.002(d)) and the brackets in the discount provisions (Sec 171.0021) are 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 Section 171.1013(c). The first adjustment will become effective on January 1, 2010.

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 amortized cost of equipment used in a clean coal project from either the taxable margin base.

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(m).

Exclusion from Total Revenue of Dividends and Interest Received on 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. 171.1013(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 has 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. 171.1016.

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 may not take other credits, deductions, or adjustments.

Sec. 171.106(b) and (c).

Special Apportionment Method 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. Section 171.106(b) sources receipts from regulated investment company management services to the domicile of the owners of the investment funds. Section 171.106(c) sources receipts from employee retirement plan managers to the state of the plan's beneficiaries.

Rule 3.591(e)(32).

Transportation Company Apportionment for Margin

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).

Telephone Company Apportionment for Margin

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 who 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.

Sec. 171.815-171.825. Subchapter Q-1:

Tax Credits for Enterprise Projects for Certain Capital Investments

The investment credit is available to an enterprise project designated under the Government Code on or after September 1, 2003 but before January 1, 2005. The credit is calculated by multiplying the amount of capital investment made by the enterprise project on or after January 1, 2005, and before January 1, 2007 by 7.5 percent. The capital investment must be located in an enterprise zone. Investment in depreciable tangible assets, other than buildings and structures, qualifies for the credit. An enterprise project who claimed an investment credit under the repealed Subchapter Q is not eligible for the credit under Subchapter Q-1.

The enterprise project may claim the entire credit on a report due after January 1, 2008 and before January 1, 2009. The credit is limited to 50 percent of the amount of franchise tax due before any other applicable credits. If an enterprise project is eligible for a credit that exceeds the limit, the enterprise project may carry the unused credit forward for not more than five consecutive reports.

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.

Franchise Tax: Refunds

Sec. 171.501.

Refund for Job Creation in an Enterprise Zone

Taxpayers located in an enterprise zone that create at least ten 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.

Sec. 111.302.

Refund for Economic Development, Reinvestment Zone/Abatement Agreement

Taxpayers who paid ad valorem taxes to a school district on property located in a reinvestment zone or that is exempt under a tax abatement agreement may apply for a franchise or sales tax refund. The total combined amount of franchise tax and sales tax refunded to all eligible taxpayers is capped at \$10 million per fiscal year. ★

Gasoline Tax

THE gasoline tax is a consumption tax on gasoline. In general, the tax is charged on each gallon of gasoline sold in Texas used to propel vehicles on Texas' public roads. Total gasoline tax collected in fiscal 2008 was \$2.3 billion.

Liability for the gasoline tax can be reduced by three statutory mechanisms: exemptions, refunds, and discounts. Estimates of their values, that is the cost to the state government in lower gasoline tax revenue collections, are provided in **Table 8**. Gasoline sales are not taxed until gasoline moves outside the bulk transfer system of refineries, pipelines, marine transport vessels, and IRS-approved terminals.

Exemptions include uses or sales of gasoline where the tax does not apply because the fuel is not used to propel a vehicle on Texas' public roads or because the sale is made to an exempt purchaser. Exempt purchasers are licensed aviation fuel dealers, the federal government, Texas public school districts, and nonprofit electric and telephone cooperatives organized under the Texas Utilities Code.

Refunds may be applied for by licensed suppliers, distributors, Texas public school districts, non-highway users, the federal government, and other license holders.

Discounts are handling fees that license holders are allowed to keep in exchange for timely collecting and remitting the gasoline tax.

The following discussion outlines the exemptions, refunds, and discounts.

Gasoline Tax: Exemptions, Refunds, and Discounts

Tax Code Sec. 162.104.

Exemptions;

Sec. 162.125.

Refund or Credit

Gasoline sold to the federal government or to a Texas public school district for their exclusive use is exempt from taxation. Similarly, gasoline sold to a commercial transportation company and used exclusively to provide transportation services for a public school district is not subject to this tax. If the tax is paid, a person may claim a refund.

Gasoline delivered to a licensed aviation fuel dealer and solely for use in aircraft and aircraft servicing equipment is excluded from taxation. Likewise, gasoline sold from one aviation fuel dealer to another aviation fuel dealer is not subject to tax. Taxes paid on gasoline for aircraft and aircraft servicing equipment uses are subject to refund.

Gasoline sales between licensed suppliers that do not leave the bulk transfer system are not subject to tax.

Except for licensed interstate truckers, gasoline that arrives in Texas in the fuel tank of a motor vehicle is exempt from Texas' tax. This includes both passenger vehicles and commercial vehicles.

A person also may claim a refund of taxes paid on gasoline when quantities of 100 gallons or more are lost by fire, theft, or accident.

A transit company that paid tax on the purchase of gasoline may seek a refund with the Comptroller's Office in an amount equal to one cent per gallon for gasoline used in eligible transit vehicles. These companies must hold an exemption certificate issued by the Comptroller.

Refunds are made for taxes paid on gasoline used in motorboats, tractors or similar agricultural equipment, or gasoline used in other off road equipment.

The taxes paid on gasoline used to power auxiliary equipment, such as winches or refrigeration units, and not used to directly propel a motor vehicle, may be refunded. These auxiliary uses predominately are in agriculture, construction, and other commercial activities.

Because there are insufficient data to distinguish tax exempt gasoline sales for exempted uses from refunds of taxes on exempted uses, the estimates of the values of these exemptions are presented together.

Sec. 162.113 and 162.116.

Credits and Allowances

Section 162.113 allows a licensed distributor or a licensed importer who makes timely payments of this tax to retain an amount equal to 1.75 percent of the tax payable to cover their administrative expenses. Section 162.116 allows a licensed supplier or a licensed permissive supplier who timely pays this tax to retain a collection allowance in an amount equal to 0.25 percent of the tax payable.

Sec. 162.113 and 162.126.

Credit or Refund for Bad Debts

Section 162.113 allows a licensed supplier or licensed permissive supplier who cannot secure the payment of the tax due from a licensed distributor or a licensed importer to take an equivalent credit against a subsequent payment of this tax. Section 162.126 allows a licensed distributor to file a refund claim with the Comptroller's Office for tax paid on gasoline sales that are written off as a bad debt. A refund may not be claimed for gasoline sales that were delivered into the fuel supply tank of a motor vehicle or motorboat and for which payment was made through the use and acceptance of a credit card.

Utilities Code Sec. 161.062 and 162.062.

Exemption from Excise Taxes

These sections exempt an electric cooperative or a telephone cooperative, organized under the Texas Utilities Code, from all excise taxes. ⚡

Table 8**Value of Gasoline Tax Exemptions, Refunds, and Discounts**

Fiscal 2009 to 2014 – In millions of dollars

Tax Code

Code and Section	Item	2009	2010	2011	2012	2013	2014
162.104,162.116,	Exemptions and refunds						
162.125	Federal government	\$10.5	\$10.5	\$10.7	\$10.8	\$11.0	\$11.1
	Public schools and transportation services for public schools	5.2	5.2	5.2	5.3	5.4	5.4
	Sales between license holders	cbe	cbe	cbe	cbe	cbe	cbe
	Sales for export	cbe	cbe	cbe	cbe	cbe	cbe
	Aviation use	4.7	4.7	4.8	4.8	4.9	4.9
	Gasoline in tanks of vehicles entering Texas (except interstate truckers)	cbe	cbe	cbe	cbe	cbe	cbe
	Fire, theft, or accident losses	0.4	0.4	0.4	0.4	0.4	0.4
	Marine use	11.4	11.5	11.5	11.7	11.8	12.0
	Agricultural use	12.9	12.9	13.0	13.1	13.3	13.5
	Construction use	8.0	9.1	9.1	9.3	9.4	9.5
	Industry and commercial use	24.9	25.0	25.1	25.5	25.9	26.1
	Transit company use	*	*	*	*	*	*
162.113,162.126	Refunds and credits for bad debts	0.5	0.5	0.5	0.5	0.5	0.5
162.113,162.116	Discount for tax collection	47.6	47.8	48.0	48.7	49.5	50.0

Utilities Code

Code and Section	Item	2009	2010	2011	2012	2013	2014
161.062,162.062	Exemptions for electric/telephone cooperative use	0.4	0.4	0.4	0.4	0.4	0.4

		2009	2010	2011	2012	2013	2014
Total	Value of Gasoline Tax Exemptions, Refunds, and Discounts	\$126.5	\$128.0	\$128.7	\$130.5	\$132.5	\$133.8

*Amount is negligible.

cbe: cannot be estimated

Note: Columns may not sum because of rounding.

Motor Vehicle Sales and Use Tax

THE motor vehicle sales tax is a transaction tax paid on each purchase of a qualifying motor vehicle. Motor vehicle sales tax collections in fiscal 2008 totaled approximately \$3.0 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 9** summarizes the estimated values of these exemptions for fiscal 2009 through 2014. The exemptions are as follows:

Tax Code Sec. 152.081.

Driver Training

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.

Public Agency Purchases

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

Sec. 152.083.

Public Agency Leases

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 (a lease contract is defined to include only contracts in excess of 180 days). These vehicles must be operated with exempt license plates.

Table 9

Value of Motor Vehicle Sales Tax Exemptions

Fiscal 2009 to 2014 – In millions of dollars

Tax Code Section	Exemption	2009	2010	2011	2012	2013	2014
152.081	Driver training	*	*	*	*	*	*
152.082	Public agency purchases	\$ 38.0	\$ 38.4	\$ 38.9	\$ 39.7	\$ 40.5	\$ 41.5
152.083	Public agency leases	**	**	**	**	**	**
152.084	Public agency rentals	**	**	**	**	**	**
152.086	Modified for handicapped persons	6.4	6.4	6.5	6.6	6.8	6.9
152.087	Fire trucks and emergency vehicles	3.3	3.3	3.3	3.4	3.5	3.6
182.088	Vehicles for religious purposes	1.2	1.3	1.5	1.6	1.7	1.8
152.089	Vehicles taxed by other law	82.3	85.2	88.6	92.5	96.4	100.9
152.090	Certain hydrogen-powered vehicles	*	*	*	*	cbe	cbe
152.091	Farm or timber use	21.5	22.8	24.2	25.7	27.3	29.0
152.092	Vehicles transported out of state	cbe	cbe	cbe	cbe	cbe	cbe
152.093	Certain licensed child-care facilities	2.2	2.2	2.3	2.3	2.4	2.4
Total	Value of Motor Vehicle Sales Tax Exemptions	\$154.8	\$159.6	\$165.3	\$171.9	\$178.6	\$186.1

* Amount is negligible.

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

cbe: cannot be estimated

Note: Columns may not sum because of rounding.

Sec. 152.084.

Public Agency Rentals

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

Sec. 152.086.

Modifications for Handicapped Persons

Motor vehicles modified before the second anniversary of the date of purchase primarily for operation by, or for the transportation of, an orthopedically handicapped person are exempt.

Sec. 152.087.

Fire Trucks and Emergency Medical Services Vehicles

The tax does not apply to the purchase 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), Internal Revenue Code, or by certain emergency medical service providers.

Sec. 152.088.

Vehicles Used for Religious Purposes

The tax does not apply to the sale or use of a motor vehicle designed to carry more than six people and used for transportation to religious services or meetings.

Sec. 152.089.

Vehicles Taxed by Other Law

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 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 Vehicles

The tax does not apply to vehicles meeting the definition of a "hydrogen-powered" motor vehicle and 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.

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 certificate to the state of intended use and registration.

Sec. 152.093.

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.

Natural Gas Tax

THE natural gas production tax is an occupation tax on the business of producing natural gas within the state; thus, one-quarter of the revenue is to be set apart annually for the benefit of public schools.

A tax rate of 7.5 percent of market value is imposed on the amount of gas produced and saved within the state. In determining the taxable value of natural gas, marketing costs incurred by the producer to move the gas from the well to the market may be subtracted from gross receipts. Marketing costs totaled 5.8 percent (or \$1.9 billion) of the reported gross taxable value in fiscal 2008. Total natural gas tax collections in fiscal 2008 were \$2.7 billion.

In the 70th Legislature, Regular Session (1987), House Joint Resolution 2 was passed, and on November 8, 1988, Texas voters approved the establishment of the Economic Stabilization Fund. Using fiscal 1987 as the reference year, the law requires the Comptroller's Office to determine the difference between the applicable preceding fiscal year's collections to those in fiscal 1987. An amount equal to 75 percent of that difference is transferred from General Revenue Fund to the Economic Stabilization Fund.

Classifying Natural Gas Tax Exemptions

Chapter 201 of the Tax Code includes five types of exemptions from the natural gas tax. The estimated value of these exemptions is provided in **Table 10**. The exemptions are as follows:

Tax Code Sec. 201.057(c).

Exemption or Tax Reduction for High-cost Natural Gas

The high-cost gas program was created during the 71st Legislature, Regular Session (1989) with the passage of S.B. 963. The high-cost gas program was extended and modified many times and finally made permanent during the 78th Legislature, Regular Session (2003), with the passage of H.B. 2424. The current program provides a tax exemption or tax reduction for each qualified gas well. The exemption is based on the ratio of drilling and completion costs for each well to two times the median drilling and completion cost for all wells making an application with the Comptroller's Office in the prior fiscal year. The time period for drilling or completing a qualified well began September 1, 1996. The tax exemption/reduction for each well is effective for 120 consecutive calendar months from the date of first production or until the cumulative value of the tax

reduction equals 50 percent of the drilling and completion costs incurred, whichever occurs first.

Sec. 201.058(a) and 202.056.

Oil or Gas from Wells Previously Inactive

The two-year inactive well program was created by the 75th Legislature (1997). The program provides a 10 year exemption for oil and gas production from a wellbore that has not produced oil or gas in the two years preceding the date of application for exemption. The time period for application for certification will end on August 31, 2009.

Sec. 201.058(a) and 202.060.

Orphan Well Program

HB 2161, 79th Legislature, Regular Session (2005), granted an exemption for gas and casinghead gas produced from a certified "orphan well," defined in Section 89.047(a)(3) of the Natural Resources Code as one that has a Texas Railroad Commission permit, has not reported production for the preceding 12 months, and whose current operator's commission-approved organization report has lapsed. When a certified orphan well is put back into production by a certified orphan well operator, the well is eligible for a 100 percent exemption from the

natural gas tax and the oilfield cleanup fee for as long the certified operator operates the well. This incentive took effect January 1, 2006.

Sec. 201.058(b).

Flared/Released Gas

S.B. 1440, 75th Legislature, Regular Session (1997), provided a lifetime exemption for gas produced from an oil well that increases its production by marketing gas that previously had been flared or released into the air for 12 months or more, pursuant to the rules of the Texas Railroad Commission. This exemption is good for the life of the oil well or oil lease. This exemption does not have an expiration date.

Sec. 201.059.

Credits for Qualifying Low-producing Gas Wells

Pursuant to H.B. 2161, 79th Legislature, Regular Session (2005), qualified gas wells that produce less than 90 Mcf (thousand cubic feet) per day during a three-month period are eligible for three different tiers of tax reduction based on the price of natural gas. If the price is more than \$3.00/Mcf but less than \$3.50/Mcf, a 25 percent reduction applies. If the price is more than \$2.50/Mcf and not more than \$3.00/Mcf, a 50 percent reduction applies. A 100 percent reduction would apply if the price is not more than \$2.50/Mcf. Because the price triggers have not been met, this exemption has not been used. ☛

Table 10

Value of Natural Gas Tax Exemptions

Fiscal 2009 to 2014 – In millions of dollars

Tax Code Section	Exemption	2009	2010	2011	2012	2013	2014
201.057(c)	High-cost natural gas	\$980.0	\$861.0	\$962.5	\$1,081.2	\$1,215.2	\$1,374.3
201.058(a), 202.056	Wells previously inactive	71.1	62.2	69.2	77.3	86.5	97.3
201.058(a), 202.060	Orphan well program	*	*	*	*	*	*
201.058(b)	Flared/released gas	*	*	*	*	*	*
201.059	Low-producing gas wells	0.0	0.0	0.0	0.0	0.0	0.0
Total	Value of Natural Gas Tax Exemptions	\$1,051.1	\$923.2	\$1,031.7	\$1,158.5	\$1,301.7	\$1,471.6

* Amount is negligible.
cbe: cannot be estimated.

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 represented 53.8 percent of the total property taxes levied in tax year 2007.

The total school property tax levied by school districts in 2007 was \$18.9 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 the other to pay interest and sinking fund (I&S) debt service for financing building programs. In tax year 2007, the statewide weighted average M&O tax rate was \$1.033 per \$100 valuation, and the I&S tax rate was \$0.221 per \$100 valuation, for a combined statewide weighted average school tax rate of \$1.254 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. To receive property tax exemptions or special appraisals, in most cases a person must file an application with the county appraisal district that serves the taxing units in which the property is located.

The estimated cost of the exemptions or special appraisals, shown in **Table 11**, reflects anticipated school property tax rates. The exemptions or special appraisals are explained below:

Table 11

Cost of School Property Tax Exemptions or Special Appraisals

Tax Year 2009 to 2014 – In millions of dollars

Tax Code Section	Exemption	2009	2010	2011	2012	2013	2014
11.11	Public property (state and local)	cbe	cbe	cbe	cbe	cbe	cbe
11.111	Public property for housing indigent persons	cbe	cbe	cbe	cbe	cbe	cbe
11.12	Federal exemptions	cbe	cbe	cbe	cbe	cbe	cbe
Residence Homesteads:							
11.13(b)	Mandated \$15,000 exemption	\$945.7	\$975.5	\$1,006.3	\$1,038.0	\$1,070.6	\$1,104.3
11.13(c)	Mandated \$10,000 exemption: age 65 and older or disabled	184.3	195.7	207.8	220.6	234.3	248.7
11.13(d)	Optional exemption: age 65 and older or disabled	92.6	96.0	99.5	103.1	106.9	110.8
11.13(n)	Optional exemption of up to 20 percent	428.2	452.6	478.3	505.4	534.1	564.4
11.14	Personal property not used to produce income	cbe	cbe	cbe	cbe	cbe	cbe

(continued)

Table 11 (continued)**Cost of School Property Tax Exemptions or Special Appraisals**

Tax Year 2009 to 2014 – In millions of dollars

Tax Code Section	Exemption	2009	2010	2011	2012	2013	2014
11.145	Income-producing personal property valued under \$500	cbe	cbe	cbe	cbe	cbe	cbe
11.146	Mineral interest property valued under \$500	cbe	cbe	cbe	cbe	cbe	cbe
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
Charitable Organizations:							
11.181	Improving property for housing	cbe	cbe	cbe	cbe	cbe	cbe
11.182	Community housing development organizations improving property for housing	cbe	cbe	cbe	cbe	cbe	cbe
11.1825	Constructing or rehabing housing not previously exempt	cbe	cbe	cbe	cbe	cbe	cbe
11.183	Assisting ambulatory health care centers	cbe	cbe	cbe	cbe	cbe	cbe
11.184	Performing charitable functions	cbe	cbe	cbe	cbe	cbe	cbe
11.185	Developing model colonia subdivisions	cbe	cbe	cbe	cbe	cbe	cbe
11.19	Youth spiritual, mental, and physical development organizations	cbe	cbe	cbe	cbe	cbe	cbe
11.20	Religious organizations	cbe	cbe	cbe	cbe	cbe	cbe
11.21	Private schools	cbe	cbe	cbe	cbe	cbe	cbe
11.22	Disabled veterans	23.1	24.7	26.4	28.3	30.2	32.3
11.23	Miscellaneous exemptions	cbe	cbe	cbe	cbe	cbe	cbe
11.24	Historic or archeological sites	3.9	3.9	4.0	4.0	4.1	4.1
11.25	Marine cargo containers	cbe	cbe	cbe	cbe	cbe	cbe
11.251,11.437	Freeport property and cotton stored in warehouses	302.9	317.1	350.3	403.6	448.9	508.1
11.252	Motor vehicles leased for personal use	29.3	25.0	24.0	25.1	27.9	30.6
11.253(a)	Motor vehicles for income production and personal use	cbe	cbe	cbe	cbe	cbe	cbe
11.253(b)	Tangible personal property in transit	cbe	cbe	cbe	cbe	cbe	cbe
11.26	School tax ceiling: age 65 and older or disabled	592.8	611.5	654.2	701.2	752.8	819.4
11.27	Solar and wind energy devices	2.7	2.9	3.1	3.3	3.5	3.7
11.271	Offshore drilling equipment not in use	cbe	cbe	cbe	cbe	cbe	cbe
11.28	Tax abatement agreement	3.7	3.0	2.4	1.9	1.6	1.3
11.29	Intracoastal waterway dredge disposal site	cbe	cbe	cbe	cbe	cbe	cbe
11.30	Nonprofit water or wastewater corporation	cbe	cbe	cbe	cbe	cbe	cbe
11.31	Pollution control property	116.6	124.1	132.2	140.8	150.0	159.7
11.32	Certain water conservation initiatives	cbe	cbe	cbe	cbe	cbe	cbe
11.33	Raw cocoa and green coffee held in Harris County	cbe	cbe	cbe	cbe	cbe	cbe
23.23	Limitation on appraisal of residence homestead (10% cap)	283.3	293.2	307.8	323.2	339.4	356.3
23.41-23.9803	Special appraisal for agriculture and timber land	2,206.0	2,283.2	2,397.4	2,517.2	2,643.1	2,775.3
23.48-23.60	Agricultural and open-space land reappraisal for temporary tick quarantine	cbe	cbe	cbe	cbe	cbe	cbe
Ch. 311	Tax Increment Financing Act	152.8	150.0	150.0	150.0	150.0	150.0
*Ch. 313	Texas Economic Development Act	82.1	182.5	282.9	302.0	294.8	277.3
Total	School Property Tax Exemptions or Special Appraisals	\$5,499.9	\$5,740.9	\$6,126.6	\$6,467.8	\$6,792.2	\$7,146.3

*"Tax Year" is equivalent to calendar year.**cbe: cannot be estimated because of unavailable appraisal data.***Based on 2007 tax rates and only projects with Chapter 313 agreements.**Note: Columns may not sum because of rounding.*

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 and 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 a program operated or directed by the U.S. Department of Housing and Urban Development.

Sec. 11.12.

Federal Exemptions

Property exempt from federal taxation is automatically exempt from state and local taxation. Examples include a U.S. Post Office building, military base, federal courthouse, and property located in a foreign trade zone.

Sec. 11.13.

Residence Homestead

Texas homeowners may be eligible for various types and amounts of exemptions from school property taxes for residence homesteads. The exemptions 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 market value of all qualified residence homesteads in the district.
2. A school district must grant an additional exemption of \$10,000 from the market 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 market value of a residence homestead. The exemption must be at least \$5,000.
2. The governing body of a school district may grant an additional exemption of at least \$3,000 of the market 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. 11.14.

Personal Property Not Used to Produce Income

Persons are entitled to an exemption for all tangible personal property they own if the property is not used to produce income. Mobile or manufactured homes are not included in this exemption.

Sec. 11.145.

Personal Property—Income Producing—Valued at Less than \$500

A person is entitled to an exemption on tangible personal property 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 Property Valued at 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 for Home or Farm Use

A family is entitled to an exemption from taxation of its family supplies—food, clothing, and other consumables—for home or farm use.

Sec. 11.16.

Farm Products

Producers are entitled to an exemption of the farm products that they produce and own. Farm products include crops, livestock, poultry, and timber. Nursery products in a growing state are farm products.

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 exempt from property taxation.

Sec. 11.17.

Cemeteries

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

Sec. 11.181 -11.185.

Charitable Organizations

Property owned and used exclusively by institutions of purely public charity 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 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);

- Associations providing assistance to ambulatory health care centers (Sec. 11.183);
- Organizations performing charitable functions (Sec. 11.184); and
- Organizations developing model colonia subdivisions (Sec. 11.185).

Sec. 11.19.

Youth Spiritual, Mental, and Physical Development Organizations

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

Sec. 11.20.

Religious Organizations

Some property owned by a qualified religious organization may qualify for a property tax exemption. An organization must first show that it qualifies before any of its property is entitled to an exemption. Eligible property includes a place of worship and the residence of clergy.

Sec. 11.21.

Private Schools

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

Sec. 11.22.

Disabled Veterans

Disabled veterans and their surviving spouses or children may apply for a partial exemption to one designated property. The qualified individual must own the property and designate it for the exemption. A disabled veteran can designate a property other than a home. However, most disabled veterans do designate the homestead property for this exemption.

Sec. 11.23.

Miscellaneous Exemptions

Some entities are specifically exempted from property taxes and are identified under this section of the Property Tax Code.

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 is entitled to an exemption from taxation of the tangible property it owns if the property is not held for gain, as long as the organization is a nonprofit corporation as defined by the Texas Non-Profit Corporation Act.

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. The Property Tax Code provides that the organization's land that is reasonably necessary for use of, access to, and ornamentation of the buildings is also exempt.

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 qualifies for a total exemption. Property qualifies if the organization:

- engages exclusively in conducting nonprofit educational programs to demonstrate the American private enterprise system to children; and
- operates under a similar state or national organization set up to demonstrate American private enterprise to children.

Bison, Buffalo, and Cattalo

The exemption of bison, buffalo, and cattalo applies only to those animals not held for profit and those used in experimental breeding to produce an improved meat strain or animals 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. A theater school's property qualifies if the school meets certain qualifications. The school must be a nonprofit corporation organized under the Texas Non-Profit Corporation Act.

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

A nonprofit corporation may apply for exemption of its real and personal property used in developing a medical center area. The corporation must be nonprofit under the Texas Non-Profit Corporation Act. Medical center development property qualifies if the corporation has donated land for a state medical, dental, or nursing school and for other hospital, medical, or educational uses reasonably related to the state medical-type school use.

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. 11.24.***Historic or Archeological Sites***

The archeological or historic site exemption is a local-option exemption, granted by the governing body of a taxing unit. A property may receive an exemption from some taxing units but not others.

Sec. 11.25.***Marine Cargo Containers***

A person is entitled to an exemption from taxation of a marine cargo container and associated equipment used exclusively in international commerce.

Sec. 11.251, 11.437.***Freeport Property and Cotton Stored in a Warehouse***

The "freeport exemption" provides an exemption for goods transported out of Texas within 175 days of acquisition in the state. Certain types of local taxing units may continue to tax the property if the unit's governing bodies took action to do so before April 1990. This exemption also applies to all cotton stored in a warehouse for transportation outside of this state, regardless of the 175 day requirement.

Sec. 11.252.***Motor Vehicles Leased for Personal Use***

The owner of a motor vehicle is entitled to an exemption for the vehicle if the lessee does not hold or use the vehicle primarily for the production of income.

Sec. 11.253(a).

Motor Vehicle for Production of Income and Personal Use

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. 11.253(b).

Tangible Personal Property in Transit

A person is entitled to an exemption from taxation of the appraised value of that portion of the person's property that consists of goods-in-transit which are used for manufacturing, processing, fabricating, storing, and assembling. Goods-in-transit does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory.

Sec. 11.26.

School Tax Ceiling

The school tax ceiling, or "tax freeze" as it is often called, 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 Energy Devices

Solar or wind-powered energy devices are subject to exemption. The amount of a property's appraised 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

A property owner may apply to exempt certain stored equipment used in offshore drilling for oil or gas.

Sec. 11.28.

Tax Abatement 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. Value lost to tax abatements entered into after May 31, 1993, is not deductible from a school district's total taxable value. Furthermore, Section 312.002(f) prohibits school districts from entering into tax abatement agreements on or after September 1, 2001. The exemption figures in **Table 11** are for tax abatement agreements executed after May 31, 1993, and expected to expire by 2014.

Sec. 11.29.

Intracoastal Waterway Dredge Disposal Site

A person is entitled to an exemption for 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. 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

A corporation is entitled to an exemption for property that it owns and that is reasonably necessary for and used in the operation of the corporation:

- to acquire, treat, store, transport, sell, or distribute water; or
- to provide wastewater service.

The corporation must be organized under Chapter 67 of the Water Code.

Sec. 11.31.

Pollution Control Property

A person is entitled to an exemption for all or part of real and personal property that the person owns that is used wholly or partly as a facility, device, or method for the control of air, water, or land pollution.

Sec. 11.32.

Certain Water Conservation Initiatives

The governing body of a taxing unit may exempt all or part of the assessed 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

A person is entitled to an exemption from taxation of raw cocoa and green coffee held in Harris County.

Sec. 23.23.

Limitation on Appraised Value of Residence Homestead (10% Cap)

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.

Special Appraisal for Agricultural Open-space Land and Timber Land

Certain land devoted to farm, ranch, or wildlife management purposes and timber land is appraised not at market value but at productivity value—a value based solely on the land's capacity to produce agricultural products.

Sec. 23.48 and 23.60.

Reappraisal of Agricultural and Open-space 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

A tax increment financing (TIF) zone is a designated area that a city or county uses to publicly finance improvements and infrastructure to promote and attract new developments within that area. The tax increments generated by the increase of the property value inside the TIF zone are used to finance development costs. Section 403.302, Government Code, prohibits the deduction from a school district's taxable value of the district's captured appraised value subject to TIF agreements entered into after August 31, 1999. The TIF exemption figures in Table 11 are for zones in which school districts participated before September 1, 1999.

Ch. 313.

Texas Economic Development Act

Firms, including corporations and limited liability companies, making a certain level of investment and creating jobs in specified numbers are entitled to a limitation on the taxable value of qualifying investments for property tax purposes. The tax limitation only applies to 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. ⚡

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 may also 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 federal tax on luxury automobiles 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 of all others, without taking into account the effects of other taxes or any government expenditures or transfers. Even here, however, economists must confront the thorny 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,” 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 telephone 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 this section include the sales and use tax, the franchise tax, the gasoline tax, the motor vehicle sales and use tax, the natural gas tax, and the school property tax. (These are the same taxes discussed in the preceding sections.)

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 1,818,160 households, representing one-fifth of the households in the state, ordered by total income. Thus, Quintile 1 represents the

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 deciles due to lack of sufficient data.

1,818,160 households with incomes less than \$27,088; Quintile 2 represents the 1,818,160 households with incomes from \$27,088 up to \$49,112; and so forth, up to Quintile 5, which represents the 1,818,160 households in Texas with incomes of \$117,899 or more.

Each of the six 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 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 summary tables for the sales and use tax, the franchise tax, the gasoline tax, the motor vehicle sales and use tax, the natural gas 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: Incidence Analysis

Initial Distribution and Final Incidence of Total Limited Sales and Use Tax Revenue

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Tax by Industry

Industry	Amount	Percent
Agriculture	\$ 55.1	0.2%
Mining	640.3	2.8
Utilities & Transportation	1,444.7	6.4
Construction	145.9	0.6
Manufacturing	959.3	4.2
Trade (Wholesale and Retail)	1,135.4	5.0
Information	1,073.8	4.8
Finance, Insurance and Real Estate	882.7	3.9
Other Services	3,644.6	16.1
Government	0.0	0.0
Individual Consumers	12,608.9	55.8
TOTAL	\$22,590.7	100.0%

Totals may not add due to rounding.

Initial Distribution of Tax by Industry Type

	Amount	Percent
Corporations	\$ 7,819.5	34.6%
Partnerships	1,495.2	6.6
Sole Proprietors	666.6	3.0
SUBTOTAL	\$ 9,981.2	44.2%
Individual Consumers	\$ 12,608.9	55.8%
TOTAL	\$22,590.7	100.0%

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 \$27,088	\$ 1,499.1	6.6%	5.4%
2	\$27,088 to \$49,112	2,213.0	9.8	3.2
3	\$49,112 to \$75,402	3,069.6	13.6	2.7
4	\$75,402 to \$117,899	4,229.7	18.7	2.4
5	\$117,899 and over	6,849.1	30.3	1.7
Residents		\$ 17,846.7	79.0%	
Exported		\$ 4,744.0	21.0%	
TOTAL		\$22,590.7	100.0%	

Estimated Equity of Tax

Suits Index	-0.171
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Totals may not add due to rounding.

Final Incidence of Tax by Homeowners/Renters

	Amount	Percent
Homeowners	\$ 12,334.5	54.4%
Renters	\$ 5,510.4	24.4
SUBTOTAL	\$ 17,846.7	79.0
Exported	\$ 4,744.0	21.0
TOTAL	\$22,590.7	100.0%

Table 2: Incidence Analysis**Limited Sales and Use Tax: Exemption for Items Taxed by Other Law**

Tax Code 151.308

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exemption by Industry

Industry	Amount	Percent
Agriculture	\$ 92.2	1.1%
Mining	53.7	0.6
Utilities & Transportation	1,536.5	17.9
Construction	877.5	10.2
Manufacturing	694.4	8.1
Trade (Wholesale and Retail)	48.0	0.6
Information	1.3	0.0
Finance, Insurance, and Real Estate	62.8	0.7
Other Services	75.3	0.9
Government	0.0	0.0
Individual Consumers	5,135.5	60.0
TOTAL	\$8,595.2	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 604.1	7.0%	2.2%
2	\$27,088 to \$49,112	928.3	10.8	1.4
3	\$49,112 to \$75,402	1,308.2	15.2	1.1
4	\$75,402 to \$117,899	1,688.5	19.6	1.0
5	\$117,899 and over	2,304.1	26.8	0.6
Residents		\$ 6,833.2	79.5%	
Exported		\$ 1,762.0	20.5%	
TOTAL		\$8,595.2	100.0%	

Table 3: Incidence Analysis**Limited Sales and Use Tax: Exemption for Sales to Governmental Entities**

Tax Code 151.309

Fiscal 2011 (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	316.2	100.0
Individual Consumers	0.0	0.0
TOTAL	\$316.2	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 18.0	5.7%	0.1%
2	\$27,088 to \$49,112	27.5	8.7	0.0
3	\$49,112 to \$75,402	38.7	12.2	0.0
4	\$75,402 to \$117,899	57.5	18.2	0.0
5	\$117,899 and over	107.9	34.1	0.0
Residents		\$ 249.8	79.0%	
Exported		\$ 66.4	21.0%	
TOTAL		\$316.2	100.0%	

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

Tax Code 151.313

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exemption by Industry

Industry	Amount	Percent
Agriculture	\$ 0.4	0.1%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	13.1	2.0
Trade (Wholesale and Retail)	0.2	0.0
Information	0.2	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	74.2	11.3
Government	0.0	0.0
Individual Consumers	568.4	86.6
TOTAL	\$656.4	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 85.4	13.0%	0.3%
2	\$27,088 to \$49,112	136.6	20.8	0.2
3	\$49,112 to \$75,402	127.4	19.4	0.1
4	\$75,402 to \$117,899	120.7	18.4	0.1
5	\$117,899 and over	139.6	21.3	0.0
Residents		\$ 609.8	92.9%	
Exported		\$ 46.6	7.1%	
TOTAL		\$656.4	100.0%	

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

Tax Code 151.314

Fiscal 2011 (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	1,482.2	100.0
TOTAL	\$1,482.2	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 179.9	12.1%	0.7%
2	\$27,088 to \$49,112	233.3	15.7	0.3
3	\$49,112 to \$75,402	271.2	18.3	0.2
4	\$75,402 to \$117,899	323.2	21.8	0.2
5	\$117,899 and over	397.7	26.8	0.1
Residents		\$ 1,405.1	94.8%	
Exported		\$ 77.1	5.2%	
TOTAL		\$1,482.2	100.0%	

Table 6: Incidence Analysis**Limited Sales and Use Tax: Exemption for Water**

Tax Code 151.315

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exemption by Industry

Industry	Amount	Percent
Agriculture	\$ 0.8	0.3%
Mining	1.6	0.6
Utilities & Transportation	1.8	0.7
Construction	2.1	0.8
Manufacturing	9.1	3.5
Trade (Wholesale and Retail)	3.9	1.5
Information	0.3	0.1
Finance, Insurance, and Real Estate	11.2	4.3
Other Services	7.8	3.0
Government	0.0	0.0
Individual Consumers	222.7	85.2
TOTAL	\$261.4	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 30.0	11.5%	0.1%
2	\$27,088 to \$49,112	39.3	15.0	0.1
3	\$49,112 to \$75,402	45.7	17.5	0.0
4	\$75,402 to \$117,899	54.8	21.0	0.0
5	\$117,899 and over	68.3	26.1	0.0
Residents		\$ 238.1	91.1%	
Exported		\$ 23.3	8.9%	
TOTAL		\$261.4	100.0%	

Table 7: Incidence Analysis**Limited Sales and Use Tax: Exemption for Agricultural Items**

Tax Code 151.316

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exemption by Industry

Industry	Amount	Percent
Agriculture	\$361.7	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
TOTAL	\$361.7	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 16.2	4.5%	0.1%
2	\$27,088 to \$49,112	25.3	7.0	0.0
3	\$49,112 to \$75,402	34.6	9.6	0.0
4	\$75,402 to \$117,899	45.6	12.6	0.0
5	\$117,899 and over	71.7	19.8	0.0
Residents		\$ 193.1	53.4%	
Exported		\$ 168.6	46.6%	
TOTAL		\$361.7	100.0%	

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

Tax Code 151.317

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exemption by Industry

Industry	Amount	Percent
Agriculture	\$21.2	1.2%
Mining	76.0	4.3
Utilities & Transportation	63.6	3.6
Construction	24.3	1.4
Manufacturing	672.3	38.1
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	0.0	0.0
Government	0.0	0.0
Individual Consumers	910.4	51.4%
TOTAL	\$1,767.9	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 164.2	9.3%	0.6%
2	\$27,088 to \$49,112	222.1	12.6	0.3
3	\$49,112 to \$75,402	259.8	14.7	0.2
4	\$75,402 to \$117,899	308.3	17.4	0.2
5	\$117,899 and over	391.7	22.2	0.1
Residents		\$ 1,346.2	76.1%	
Exported		\$ 421.7	23.9%	
TOTAL		\$1,767.9	100.0%	

Table 9: Incidence Analysis**Limited Sales and Use Tax: Exemption for Manufacturing**

Tax Code 151.318

Fiscal 2011 (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	303.7	2.6
Construction	0.0	0.0
Manufacturing	11,108.6	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	268.7	2.3
Government	0.0	0.0
Individual Consumers	0.0	0.0
TOTAL	\$11,681.0	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 321.4	2.8%	1.2%
2	\$27,088 to \$49,112	528.6	4.5	0.8
3	\$49,112 to \$75,402	752.7	6.4	0.7
4	\$75,402 to \$117,899	1,023.3	8.8	0.6
5	\$117,899 and over	1,602.6	13.7	0.4
Residents		\$ 4,228.5	36.2%	
Exported		\$ 7,452.5	63.8%	
TOTAL		\$11,681.0	100.0%	

Table 10: Incidence Analysis

Limited Sales and Use Tax: Exclusion for New Nonresidential Construction Labor

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exclusion by Industry

Industry	Amount	Percent
Agriculture	\$ 0.5	0.2%
Mining	15.7	7.4
Utilities & Transportation	23.1	10.9
Construction	5.3	2.5
Manufacturing	32.9	15.5
Trade (Wholesale and Retail)	58.7	27.7
Information	10.6	5.0
Finance, Insurance, and Real Estate	7.8	3.7
Other Services	57.5	27.1
Government	0.0	0.0
Individual Consumers	0.0	0.0
TOTAL	\$212.1	100.0%

Totals may not add due to rounding.

Final Incidence of Exclusion by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 12.3	5.8%	0.0%
2	\$27,088 to \$49,112	19.0	9.0	0.0
3	\$49,112 to \$75,402	26.1	12.3	0.0
4	\$75,402 to \$117,899	36.3	17.1	0.0
5	\$117,899 and over	63.5	29.9	0.0
Residents		\$ 157.2	74.1%	
Exported		\$ 54.9	25.9%	
TOTAL		\$212.1	100.0%	

Table 11: Incidence Analysis

Limited Sales and Use Tax: Exclusion for Residential Construction Labor

Fiscal 2011 (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	45.8	9.3
Other Services	0.0	0.0
Government	0.0	0.0
Individual Consumers	446.8	90.7
TOTAL	\$492.6	100.0%

Totals may not add due to rounding.

Final Incidence of Exclusion by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 25.9	5.2%	0.1%
2	\$27,088 to \$49,112	31.8	6.3	0.0
3	\$49,112 to \$75,402	51.1	10.3	0.0
4	\$75,402 to \$117,899	78.0	15.8	0.0
5	\$117,899 and over	177.9	36.3	0.0
Residents		\$ 364.7	74.0%	
Exported		\$ 127.9	26.0%	
TOTAL		\$492.6	100.0%	

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

(Physicians, Dentists and Other Health Care Services)

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exclusion by Industry

Industry	Amount	Percent
Agriculture	\$ 0.9	0.1%
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	1,733.9	99.9
TOTAL	\$1,734.8	100.0%

Totals may not add due to rounding.

Final Incidence of Exclusion by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 147.2	8.5%	0.6%
2	\$27,088 to \$49,112	238.9	13.8	0.5
3	\$49,112 to \$75,402	341.1	19.7	0.4
4	\$75,402 to \$117,899	446.7	25.7	0.2
5	\$117,899 and over	557.5	32.1	0.1
Residents		\$ 1,731.3	99.8%	
Exported		\$ 3.5	0.2%	
TOTAL		\$1,734.8	100.0%	

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

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exclusion by Industry

Industry	Amount	Percent
Agriculture	\$ 0.6	0.1%
Mining	10.8	2.3
Utilities & Transportation	33.1	7.0
Construction	8.1	1.7
Manufacturing	29.1	6.2
Trade (Wholesale and Retail)	17.4	3.7
Information	7.5	1.6
Finance, Insurance, and Real Estate	48.1	10.2
Other Services	121.5	25.7
Government	0.0	0.0
Individual Consumers	196.3	41.5
TOTAL	\$472.5	100.0%

Totals may not add due to rounding.

Final Incidence of Exclusion by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 23.9	5.1%	0.1%
2	\$27,088 to \$49,112	51.3	10.8	0.1
3	\$49,112 to \$75,402	64.2	13.6	0.1
4	\$75,402 to \$117,899	76.9	16.3	0.0
5	\$117,899 and over	134.8	28.5	0.0
Residents		\$ 351.1	74.3%	
Exported		\$ 121.4	25.7%	
TOTAL		\$472.5	100.0%	

Table 14: Incidence Analysis

Limited Sales and Use Tax: Exclusion for Architectural and Engineering Services

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exclusion by Industry

Industry	Amount	Percent
Agriculture	\$ 1.8	0.4%
Mining	12.6	3.2
Utilities & Transportation	26.7	6.8
Construction	164.9	42.3
Manufacturing	54.5	14.0
Trade (Wholesale and Retail)	5.3	1.4
Information	39.2	10.0
Finance, Insurance, and Real Estate	30.5	7.8
Other Services	54.9	14.1
Government	0.0	0.0
Individual Consumers	0.0	0.0
TOTAL	\$390.3	100.0%

Totals may not add due to rounding.

Final Incidence of Exclusion by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 18.0	4.6%	0.1%
2	\$27,088 to \$49,112	27.2	7.0	0.0
3	\$49,112 to \$75,402	37.0	9.5	0.0
4	\$75,402 to \$117,899	51.5	13.2	0.0
5	\$117,899 and over	89.1	22.8	0.0
Residents		\$ 222.8	57.1%	
Exported		\$ 167.5	42.9%	
TOTAL		\$390.3	100.0%	

Table 15: Incidence Analysis

Limited Sales and Use Tax: Exclusion for Real Estate Brokerage and Agency

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exclusion by Industry

Industry	Amount	Percent
Agriculture	\$ 2.7	1.1%
Mining	0.8	0.3
Utilities & Transportation	7.7	3.2
Construction	2.0	0.9
Manufacturing	3.8	1.6
Trade (Wholesale and Retail)	25.1	10.6
Information	2.7	1.1
Finance, Insurance, and Real Estate	31.2	13.2
Other Services	78.7	33.2
Government	0.0	0.0
Individual Consumers	82.1	34.7
TOTAL	\$236.7	100.0%

Totals may not add due to rounding.

Final Incidence of Exclusion by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 24.3	10.3%	0.1%
2	\$27,088 to \$49,112	31.8	13.4	0.0
3	\$49,112 to \$75,402	37.9	16.0	0.0
4	\$75,402 to \$117,899	38.5	16.3	0.0
5	\$117,899 and over	49.0	20.7	0.0
Residents		\$ 181.5	76.7%	
Exported		\$ 55.2	23.3%	
TOTAL		\$236.7	100.0%	

Table 16: Incidence Analysis**Limited Sales and Use Tax: Exclusion for Freight Hauling**

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exclusion by Industry

Industry	Amount	Percent
Agriculture	\$ 5.0	1.9%
Mining	2.6	1.0
Utilities & Transportation	43.8	16.8
Construction	15.6	6.0
Manufacturing	100.9	38.7
Trade (Wholesale and Retail)	6.3	2.4
Information	2.3	0.9
Finance, Insurance, and Real Estate	5.0	1.9
Other Services	14.3	5.5
Government	0.0	0.0
Individual Consumers	64.9	24.9
TOTAL	\$260.6	100.0%

Totals may not add due to rounding.

Final Incidence of Exclusion by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 14.9	5.7%	0.1%
2	\$27,088 to \$49,112	21.5	8.3	0.0
3	\$49,112 to \$75,402	33.4	12.8	0.0
4	\$75,402 to \$117,899	29.1	11.1	0.0
5	\$117,899 and over	61.5	23.6	0.0
Residents		\$ 160.5	61.6%	
Exported		\$ 100.1	38.4%	
TOTAL		\$260.6	100.0%	

Table 17: Incidence Analysis**Limited Sales and Use Tax: Exclusion for Automotive Maintenance and Repair**

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exclusion by Industry

Industry	Amount	Percent
Agriculture	\$ 0.4	0.1%
Mining	0.2	0.1
Utilities & Transportation	11.8	3.9
Construction	4.2	1.4
Manufacturing	19.8	6.5
Trade (Wholesale and Retail)	4.2	1.4
Information	0.9	0.3
Finance, Insurance, and Real Estate	1.1	0.4
Other Services	15.0	4.9
Government	0.0	0.0
Individual Consumers	246.4	81.1
TOTAL	\$303.9	100.0%

Totals may not add due to rounding.

Final Incidence of Exclusion by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 25.0	8.2%	0.1%
2	\$27,088 to \$49,112	35.9	11.8	0.1
3	\$49,112 to \$75,402	48.7	16.0	0.0
4	\$75,402 to \$117,899	66.1	21.7	0.0
5	\$117,899 and over	96.3	31.7	0.0
Residents		\$ 271.9	89.5%	
Exported		\$ 32.0	10.5%	
TOTAL		\$303.9	100.0%	

Table 18: Incidence Analysis**Initial Distribution and Final Incidence of Total Franchise Tax Revenue**

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Tax by Industry

Industry	Amount	Percent
Agriculture	\$ 18.0	0.4%
Mining	440.5	9.8
Utilities & Transportation	310.2	6.9
Construction	233.8	5.2
Manufacturing	849.6	18.9
Trade (Wholesale and Retail)	777.7	17.3
Information	215.8	4.8
Finance, Insurance and Real Estate	570.9	12.7
Other Services	1,078.6	24.1
Government	0.0	0.0
Individual Consumers	0.0	0.0
TOTAL	\$4,495.2	100.0%

Totals may not add due to rounding.

Initial Distribution of Tax by Industry Type

	Amount	Percent
Corporations	\$ 3,910.8	87.0%
Partnerships	584.4	13.0
Sole Proprietors	0.0	0.0
SUBTOTAL	\$ 4,495.2	100.0
Individual Consumers	0.0	0.0
TOTAL	\$4,495.2	100.0%

Final Incidence of Tax by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 220.5	4.9%	0.8%
2	\$27,088 to \$49,112	336.9	7.5	0.5
3	\$49,112 to \$75,402	480.8	10.7	0.4
4	\$75,402 to \$117,899	710.5	15.8	0.4
5	\$117,899 and over	1,313.8	29.2	0.3
Residents		\$ 3,062.4	68.1%	
Exported		\$ 1,432.8	31.9%	
TOTAL		\$4,495.2	100.0%	

Estimated Equity of Tax

Suits Index	-0.11
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Totals may not add due to rounding.

Final Incidence of Tax by Homeowners/Renters

	Amount	Percent
Homeowners	\$ 2,252.9	50.1%
Renters	809.4	18.0
SUBTOTAL	\$ 3,062.4	68.1
Exported	\$ 1,432.8	31.9
TOTAL	\$4,495.2	100.0%

Table 19: Incidence Analysis**Franchise Tax: Exemption for Insurance Companies**

Tax Code 171.052

Fiscal 2011 (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	545.7	100.0
Other Services	0.0	0.0
Government	0.0	0.0
Individual Consumers	0.0	0.0
TOTAL	\$545.7	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 23.7	4.3%	0.1%
2	\$27,088 to \$49,112	35.2	6.5	0.1
3	\$49,112 to \$75,402	49.3	9.0	0.0
4	\$75,402 to \$117,899	72.7	13.3	0.0
5	\$117,899 and over	139.3	25.5	0.0
Residents		\$ 320.3	58.7%	
Exported		\$ 225.4	41.3%	
TOTAL		\$545.7	100.0%	

Table 20: Incidence Analysis**Franchise Tax: Exemption for Mutual Funds**

Tax Code 171.055

Fiscal 2011 (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	640.6	100.0
Other Services	0.0	0.0
Government	0.0	0.0
Individual Consumers	0.0	0.0
TOTAL	\$640.6	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 28.2	4.4%	0.1%
2	\$27,088 to \$49,112	42.1	6.6	0.1
3	\$49,112 to \$75,402	58.7	9.2	0.1
4	\$75,402 to \$117,899	86.1	13.4	0.0
5	\$117,899 and over	160.9	25.1	0.0
Residents		\$ 376.0	58.7%	
Exported		\$ 264.6	41.3%	
TOTAL		\$640.6	100.0%	

Table 21: Incidence Analysis**Franchise Tax:** Exemption for IRS Sec. 501(c)(3)

Tax Code 171.063

Fiscal 2011 (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	505.8	100.0
Government	0.0	0.0
Individual Consumers	0.0	0.0
TOTAL	\$505.8	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 28.1	5.6%	0.1%
2	\$27,088 to \$49,112	41.9	8.3	0.1
3	\$49,112 to \$75,402	58.4	11.5	0.1
4	\$75,402 to \$117,899	85.6	16.9	0.0
5	\$117,899 and over	160.4	31.7	0.0
Residents		\$ 374.3	74.0%	
Exported		\$ 131.5	26.0%	
TOTAL		\$505.8	100.0%	

Table 22: Incidence Analysis**Franchise Tax:** Discounts for Small Businesses

Tax Code 171.0021

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exemption by Industry

Industry	Amount	Percent
Agriculture	\$ 1.6	2.0%
Mining	1.5	1.8
Utilities & Transportation	2.3	2.8
Construction	6.7	8.2
Manufacturing	2.6	3.2
Trade (Wholesale and Retail)	9.1	11.1
Information	0.9	1.1
Finance, Insurance, and Real Estate	19.2	23.5
Other Services	37.9	46.3
Government	0.0	0.0
Individual Consumers	0.0	0.0
TOTAL	\$81.9	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 4.9	6.0%	0.0%
2	\$27,088 to \$49,112	7.2	8.7	0.0
3	\$49,112 to \$75,402	9.9	12.0	0.0
4	\$75,402 to \$117,899	14.5	17.7	0.0
5	\$117,899 and over	26.4	32.2	0.0
Residents		\$ 62.8	76.7%	
Exported		\$ 19.1	23.3%	
TOTAL		\$81.9	100.0%	

Table 23: Incidence Analysis**Franchise Tax: Small Business Exception**

Tax Code 171.002(d)

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exemption by Industry

Industry	Amount	Percent
Agriculture	\$ 3.6	2.4%
Mining	2.4	1.6
Utilities & Transportation	3.5	2.3
Construction	12.6	8.3
Manufacturing	4.9	3.2
Trade (Wholesale and Retail)	22.5	14.8
Information	1.5	1.0
Finance, Insurance, and Real Estate	31.7	20.9
Other Services	69.0	45.5
Government	0.0	0.0
Individual Consumers	0.0	0.0
TOTAL	\$151.7	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 9.1	6.0%	0.0%
2	\$27,088 to \$49,112	13.2	8.7	0.0
3	\$49,112 to \$75,402	18.2	12.0	0.0
4	\$75,402 to \$117,899	26.7	17.6	0.0
5	\$117,899 and over	48.9	32.2	0.0
Residents		\$ 116.2	76.6%	
Exported		\$ 35.5	23.4%	
TOTAL		\$151.7	100.0%	

Table 24: Incidence Analysis**Franchise Tax: Health Care Provider Exclusions**

Tax Code 171.1011 (n) and (o)

Fiscal 2011 (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	98.2	100.0
Government	0.0	0.0
Individual Consumers	0.0	0.0
TOTAL	\$98.2	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 4.4	4.5%	0.0%
2	\$27,088 to \$49,112	6.6	6.7	0.0
3	\$49,112 to \$75,402	9.2	9.4	0.0
4	\$75,402 to \$117,899	13.6	13.9	0.0
5	\$117,899 and over	26.0	26.5	0.0
Residents		\$ 59.9	61.0%	
Exported		\$ 38.3	39.0%	
TOTAL		\$98.2	100.0%	

Table 25: Incidence Analysis**Initial Distribution and Final Incidence of Total Gasoline Tax Revenue**

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Tax by Industry

Industry	Amount	Percent
Agriculture	\$ 15.7	0.7%
Mining	9.1	0.4
Utilities & Transportation	118.4	5.0
Construction	86.7	3.7
Manufacturing	151.2	6.4
Trade (Wholesale and Retail)	4.7	0.2
Information	0.1	0.0
Finance, Insurance and Real Estate	2.9	0.1
Other Services	7.5	0.3
Government	0.0	0.0
Individual Consumers	1,960.4	83.2
TOTAL	\$2,356.7	100.0%

Totals may not add due to rounding.

Initial Distribution of Tax by Industry Type

	Amount	Percent
Corporations	\$ 325.5	13.8%
Partnerships	47.2	2.0
Sole Proprietors	23.6	1.0
SUBTOTAL	\$396.3	16.8%
Individual Consumers	\$ 1,960.4	83.2%
TOTAL	\$2,356.7	100.0%

Final Incidence of Tax by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 195.7	8.3%	0.7%
2	\$27,088 to \$49,112	298.1	12.7	0.4
3	\$49,112 to \$75,402	417.3	17.7	0.4
4	\$75,402 to \$117,899	525.0	22.3	0.3
5	\$117,899 and over	680.2	28.9	0.2
Residents		\$ 2,116.3	89.8%	
Exported		\$ 240.4	10.2%	
TOTAL		\$2,356.7	100.0%	

Estimated Equity of Tax

Suits Index	-0.25
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Totals may not add due to rounding.

Final Incidence of Tax by Homeowners/Renters

	Amount	Percent
Homeowners	\$ 1,352.7	57.4%
Renters	763.6	32.4
SUBTOTAL	\$ 2,116.3	89.8%
Exported	\$ 240.4	10.2%
TOTAL	\$2,356.7	100.0%

Table 26: Incidence Analysis**Gasoline Tax:** Exemption for Two Percent Distributor Discount

Tax Code 162.113 and 162.116

Fiscal 2011 (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)	48.0	100.0
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
TOTAL	\$48.0	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 3.3	7.0%	0.0%
2	\$27,088 to \$49,112	5.1	10.6	0.0
3	\$49,112 to \$75,402	7.1	14.9	0.0
4	\$75,402 to \$117,899	9.0	18.7	0.0
5	\$117,899 and over	11.6	24.2	0.0
Residents		\$ 36.2	75.4%	
Exported		\$ 11.8	24.6%	
TOTAL		\$48.0	100.0%	

Table 27: Incidence Analysis

Initial Distribution and Final Incidence of Total Motor Vehicle Sales and Use Tax Revenue

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Tax by Industry

Industry	Amount	Percent
Agriculture	\$ 34.9	1.4%
Mining	32.4	1.3
Utilities & Transportation	137.0	5.5
Construction	127.1	5.1
Manufacturing	49.8	2.0
Trade (Wholesale and Retail)	97.2	3.9
Information	12.5	0.5
Finance, Insurance and Real Estate	44.8	1.8
Other Services	426.0	17.1
Government	0.0	0.0
Individual Consumers	1,529.7	61.4
TOTAL	\$2,491.3	100.0%

Totals may not add due to rounding.

Initial Distribution of Tax by Industry Type

	Amount	Percent
Corporations	\$ 734.0	29.5%
Partnerships	142.3	5.7
Sole Proprietors	85.3	3.4
SUBTOTAL	\$ 961.6	38.6%
Individual Consumers	\$ 1,529.7	61.4%
TOTAL	\$2,491.3	100.0%

Final Incidence of Tax by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 137.3	5.5%	0.5%
2	\$27,088 to \$49,112	212.2	8.5	0.3
3	\$49,112 to \$75,402	359.9	14.4	0.3
4	\$75,402 to \$117,899	520.1	20.9	0.3
5	\$117,899 and over	851.0	34.2	0.2
Residents		\$ 2,080.2	83.5%	
Exported		\$ 411.1	16.5%	
TOTAL		\$2,491.3	100.0%	

Estimated Equity of Tax

Suits Index	-0.14
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Totals may not add due to rounding.

Final Incidence of Tax by Homeowners/Renters

	Amount	Percent
Homeowners	\$ 1,437.5	57.7%
Renters	642.8	25.8
SUBTOTAL	\$ 2,080.2	83.5
Exported	\$ 411.1	16.5
TOTAL	\$2,491.3	100.0%

Table 28: Incidence Analysis**Motor Vehicle Sales and Use Tax: Exemption for Sales to a Public Agency**

Tax Code 152.082

Fiscal 2011 (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	38.9	100.0
Individual Consumers	0.0	0.0
TOTAL	\$38.9	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 1.9	5.0%	0.0%
2	\$27,088 to \$49,112	3.3	8.5	0.0
3	\$49,112 to \$75,402	5.6	14.4	0.0
4	\$75,402 to \$117,899	8.1	20.9	0.0
5	\$117,899 and over	13.5	34.7	0.0
Residents		\$ 32.5	83.5%	
Exported		\$ 6.4	16.5%	
TOTAL		\$38.9	100.0%	

Table 29: Incidence Analysis**Motor Vehicle Sales and Use Tax: Vehicles Taxed by Other Law**

Tax Code 152.089

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exemption by Industry

Industry	Amount	Percent
Agriculture	\$ 5.3	6.0%
Mining	3.4	3.8
Utilities & Transportation	8.1	9.1
Construction	12.6	14.3
Manufacturing	4.9	5.5
Trade (Wholesale and Retail)	9.6	10.8
Information	2.7	3.0
Finance, Insurance, and Real Estate	4.2	4.7
Other Services	37.9	42.8
Government	0.0	0.0
Individual Consumers	0.0	0.0
TOTAL	\$88.6	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 4.8	5.4%	0.0%
2	\$27,088 to \$49,112	6.8	7.7	0.0
3	\$49,112 to \$75,402	11.1	12.5	0.0
4	\$75,402 to \$117,899	16.2	18.3	0.0
5	\$117,899 and over	26.2	29.6	0.0
Residents		\$ 65.1	73.5%	
Exported		\$ 23.5	26.5%	
TOTAL		\$88.6	100.0%	

Table 30: Incidence Analysis**Initial Distribution and Final Incidence of Total Natural Gas Tax Revenue**

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Tax by Industry

Industry	Amount	Percent
Agriculture	\$ 0.0	0.0%
Mining	1,758.0	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
TOTAL	\$1,758.0	100.0%

Totals may not add due to rounding.

Initial Distribution of Tax by Industry Type

	Amount	Percent
Corporations	\$ 965.1	54.9%
Partnerships	409.6	23.3
Sole Proprietors	383.2	21.8
SUBTOTAL	\$ 1,758.0	100.0%
Individual Consumers	0.0	0.0%
TOTAL	\$1,758.0	100.0%

Final Incidence of Tax by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 25.3	1.4%	0.1%
2	\$27,088 to \$49,112	78.6	4.5	0.1
3	\$49,112 to \$75,402	140.4	8.0	0.1
4	\$75,402 to \$117,899	220.0	12.5	0.1
5	\$117,899 and over	471.7	26.8	0.1
Residents		\$ 936.0	53.2%	
Exported		\$ 822.0	46.8%	
TOTAL		\$1,758.0	100.0%	

Estimated Equity of Tax

Suits Index	0.005
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Totals may not add due to rounding.

Final Incidence of Tax by Homeowners/Renters

	Amount	Percent
Homeowners	\$ 682.3	38.8%
Renters	253.7	14.4
SUBTOTAL	\$ 936.0	53.2%
Exported	\$ 822.0	46.8%
TOTAL	\$1,758.0	100.0%

Table 31: Incidence Analysis**Natural Gas Tax: Exemption for Certain High-cost Gas**

Tax Code 201.057(c)

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exemption by Industry

Industry	Amount	Percent
Agriculture	\$ 0.0	0.0%
Mining	962.5	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
TOTAL	\$962.5	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 13.8	1.4%	0.1%
2	\$27,088 to \$49,112	43.0	4.5	0.1
3	\$49,112 to \$75,402	76.8	8.0	0.1
4	\$75,402 to \$117,899	120.3	12.5	0.1
5	\$117,899 and over	258.1	26.8	0.1
Residents		\$ 512.1	53.2%	
Exported		\$ 450.5	46.8%	
TOTAL		\$962.5	100.0%	

Table 32: Incidence Analysis**Natural Gas Tax: Exemption for Gas from Wells Previously Inactive**

Tax Code 201.058 and 202.056

Fiscal 2011 (dollar amounts in millions)

Initial Distribution of Exemption by Industry

Industry	Amount	Percent
Agriculture	\$ 0.0	0.0%
Mining	69.2	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	100.0
TOTAL	\$69.2	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 1.0	1.4%	0.0%
2	\$27,088 to \$49,112	3.1	4.5	0.0
3	\$49,112 to \$75,402	5.5	8.0	0.0
4	\$75,402 to \$117,899	8.7	12.5	0.0
5	\$117,899 and over	18.6	26.8	0.0
Residents		\$ 36.8	53.2%	
Exported		\$ 32.4	46.8%	
TOTAL		\$69.2	100.0%	

Table 33: Incidence Analysis**Initial Distribution and Final Incidence of Total School Property Tax Revenue**

Tax Year 2011 (dollar amounts in millions)

Initial Distribution of Tax by Industry

Industry	Amount	Percent
Agriculture	\$ 310.7	1.3%
Mining	1,244.2	5.0
Utilities & Transportation	1,951.8	7.9
Construction	126.1	0.5
Manufacturing	1,904.5	7.7
Trade (Wholesale and Retail)	1,109.4	4.5
Information	854.1	3.4
Finance, Insurance and Real Estate	3,885.1	15.7
Other Services	1,158.5	4.7
Government	0.0	0.0
Individual Consumers	12,263.9	49.4
TOTAL	\$24,808.4	100.0%

Totals may not add due to rounding.

Initial Distribution of Tax by Industry Type

	Amount	Percent
Corporations	\$ 10,032.7	40.4%
Partnerships	1,781.1	7.2
Sole Proprietors	730.7	2.9
SUBTOTAL	\$ 12,544.5	50.6%
Individual Consumers	\$ 12,263.9	49.4%
TOTAL	\$24,808.4	100.0%

Final Incidence of Tax by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 1,332.6	5.4%	4.8%
2	\$27,088 to \$49,112	1,943.0	7.8	2.8
3	\$49,112 to \$75,402	2,750.7	11.1	2.4
4	\$75,402 to \$117,899	4,205.9	17.0	2.4
5	\$117,899 and over	9,187.8	37.0	2.3
Residents		\$ 19,425.0	78.3%	
Exported		\$ 5,383.4	21.7%	
TOTAL		\$24,808.4	100.0%	

Estimated Equity of Tax

Suits Index	-0.06
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Totals may not add due to rounding.

Final Incidence of Tax by Homeowners/Renters

	Amount	Percent
Homeowners	\$ 14,840.7	59.8%
Renters	4,584.3	18.5
SUBTOTAL	\$ 19,425.0	78.3%
Exported	\$ 5,383.4	21.7%
TOTAL	\$24,808.4	100.0%

Table 34: Incidence Analysis**School Property Tax: General Homestead Exemption of \$15,000**

Tax Code 11.13 (b)

Tax Year 2011 (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	1,006.3	100.0
TOTAL	\$1,006.3	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 83.0	8.3%	0.3%
2	\$27,088 to \$49,112	112.1	11.1	0.2
3	\$49,112 to \$75,402	139.9	13.9	0.1
4	\$75,402 to \$117,899	199.6	19.8	0.1
5	\$117,899 and over	279.5	27.8	0.1
Residents		\$ 814.1	80.9%	
Exported		\$ 192.2	19.1%	
TOTAL		\$1,006.3	100.0%	

Table 35: Incidence Analysis**School Property Tax: Optional Percentage Homestead Exemption**

Tax Code 11.13 (n)

Tax Year 2011 (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	478.3	100.0
TOTAL	\$478.3	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 28.9	6.0%	0.1%
2	\$27,088 to \$49,112	36.1	7.5	0.1
3	\$49,112 to \$75,402	47.0	9.8	0.0
4	\$75,402 to \$117,899	71.5	15.0	0.0
5	\$117,899 and over	208.7	43.6	0.1
Residents		\$ 392.2	82.0%	
Exported		\$ 86.1	18.0%	
TOTAL		\$478.3	100.0%	

Table 36: Incidence Analysis**School Property Tax: Freeport Property**

Tax Code 11.251

Tax Year 2011 (dollar amounts in millions)

Initial Distribution of Exemption by Industry

Industry	Amount	Percent
Agriculture	\$ 13.3	3.8%
Mining	1.0	0.3
Utilities & Transportation	60.2	17.2
Construction	5.8	1.6
Manufacturing	155.0	44.3
Trade (Wholesale and Retail)	35.8	10.2
Information	0.0	0.0
Finance, Insurance, and Real Estate	47.0	13.4
Other Services	32.1	9.2
Government	0.0	0.0
Individual Consumers	0.0	0.0
TOTAL	\$350.3	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 16.2	4.6%	0.1%
2	\$27,088 to \$49,112	26.4	7.5	0.0
3	\$49,112 to \$75,402	38.5	11.0	0.0
4	\$75,402 to \$117,899	57.6	16.4	0.0
5	\$117,899 and over	108.4	31.0	0.0
Residents		\$247.2	70.6%	
Exported		\$103.1	29.4%	
TOTAL		\$350.3	100.0%	

Table 37: Incidence Analysis**School Property Tax: School Tax Ceiling for Age 65 and Older, or Disabled**

Tax Code 11.26

Tax Year 2011 (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	654.2	100.0
TOTAL	\$654.2	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 122.5	18.7%	0.4%
2	\$27,088 to \$49,112	132.6	20.3	0.2
3	\$49,112 to \$75,402	112.5	17.2	0.1
4	\$75,402 to \$117,899	100.3	15.3	0.1
5	\$117,899 and over	94.1	14.4	0.0
Residents		\$562.0	85.9%	
Exported		\$92.2	14.1%	
TOTAL		\$654.2	100.0%	

Table 38: Incidence Analysis**School Property Tax: Limitation on Appraised Value of Homestead**

Tax Code 23.23

Tax Year 2011 (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	307.8	100.0
TOTAL	\$307.8	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 20.3	6.6%	0.1%
2	\$27,088 to \$49,112	28.0	9.1	0.0
3	\$49,112 to \$75,402	38.1	12.4	0.0
4	\$75,402 to \$117,899	57.2	18.6	0.0
5	\$117,899 and over	105.4	34.3	0.0
Residents		\$ 249.0	80.9%	
Exported		\$ 58.8	19.1%	
TOTAL		\$307.8	100.0%	

Table 39: 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 2011 (dollar amounts in millions)

Initial Distribution of Exemption by Industry

Industry	Amount	Percent
Agriculture	\$ 2,397.4	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
TOTAL	\$2,397.4	100.0%

Totals may not add due to rounding.

Final Incidence of Exemption by Household Income Quintile

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$27,088	\$ 111.1	4.6%	0.4%
2	\$27,088 to \$49,112	181.0	7.5	0.3
3	\$49,112 to \$75,402	264.1	11.0	0.2
4	\$75,402 to \$117,899	394.4	16.5	0.2
5	\$117,899 and over	742.0	31.0	0.2
Residents		\$ 1,692.6	70.6%	
Exported		\$704.8	29.4%	
TOTAL		\$2,397.4	100.0%	

