STATE TAXES
TEXAS FRANCHISE TAX SHOULD NOT BE REPEALED

The Texas Franchise (Margin) Tax has been levied on private enterprise since 1907 for the privilege of doing business in the state. The tax was last rewritten in 2006 and is now widely known as the “margin” tax, so named because it targets a business’s gross margin: total revenue, less the taxpayers’ choice of (a) cost of goods sold, (b) employee compensation, or (c) 30 percent of total revenue. The tax rate for most businesses is one percent, with wholesalers and retailers paying one-half percent. The margin is apportioned to Texas based on sales into the state, so that investments made, and jobs created, in Texas do not increase the tax due to any company.

TAM believes the Texas Franchise Tax is a fair system that provides necessary revenue while allowing all businesses to share in the cost of running our state.

The current tax was enacted after the Supreme Court struck down the state’s system of financing public schools as unconstitutional. In addition, many companies over the years had ceased to pay the franchise tax by using legal loopholes in the law. State leaders, therefore, sought a loophole-resistant tax base and a revenue source that more accurately reflects the modern Texas business economy. In that, they succeeded.

Prior to 2006, the tax applied only to corporations and limited liability companies (LLCs). Today, all liability-limited businesses, including LPs and professional associations, are treated the same as corporations and LLCs.

HB 500 (2013 TX Legislature) provided a new minimum deduction of $1 million for small businesses. Thousands of small business owners are now truly exempt from the tax. Prior to 2006, these firms paid 6% of the total franchise tax; today, they pay zero. HB 500 also temporarily reduces the tax rates by 2.5% in 2014, and then by another 2.5% in 2015, and provides many other tax reforms aimed at reducing the tax burden on businesses.

The current franchise tax was specifically designed to be a “low rate – broad base” tax. TAM believes the Texas Franchise Tax is a fair system that provides necessary revenue while allowing all businesses *to share* in the cost of running our state. The franchise tax yields approximately $5 billion a year in revenue for funding the state’s vast infrastructure needs and critical programs, including paying for the property tax rate reductions purchased by the state in 2006 and 2007.

The franchise tax is Texas’ broadest-based tax, broader even than the sales tax, and is imposed at the lowest rate of any major revenue source. Its structure ensures that its impact on economic decisions is minimal. With so many major budget needs still unfulfilled today, and with better options for tax relief available, **TAM believes that the Texas Franchise Tax should not be repealed.**