

February 2023

# Tax Exemptions & Tax Incidence

A Report to the Governor and the 88th Legislature



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TEXAS COMPTROLLER OF PUBLIC ACCOUNTS





February 3, 2023

The Honorable Greg Abbott, Governor  
The Honorable Dan Patrick, Lieutenant Governor  
The Honorable Dade Phelan, Speaker of the House  
Members of the 88th 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 to payers of Texas' sales, motor vehicle sales, franchise, oil production and natural gas production taxes, as well as property taxes levied by Texas school districts. The estimates in this report are based on revenue projections derived from the *2022-23 Certification Revenue Estimate (Revised July 2022)*.

For fiscal 2023, aggregate exemptions for the revenue sources included in this report will total an estimated \$78.03 billion. Of this amount, the exemptions related to state taxes will account for \$60.57 billion; school property tax exemptions will account for the remaining \$17.46 billion.

I would note, however, that a significant share of total exemptions — \$20.58 billion of the estimated fiscal 2023 amounts — is accounted for by exemptions to the sales tax for items that are taxable under other law. Included among the items taxed under other law are insurance premiums, motor vehicle sales and motor fuels; their consequent exemptions from the sales tax are estimated to be worth \$9.55 billion, \$5.64 billion and \$4.36 billion, respectively.

Other exemptions from the sales tax include \$9.28 billion in raw materials used in manufacturing, \$3.93 billion in food for home consumption (i.e., groceries) and \$1.05 billion worth of over-the-counter drugs and prescription medicine and devices.

This report also presents the results of the analysis prepared in accordance with 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 for informational purposes only. This report makes no recommendations for retaining, eliminating or amending any provisions of the law.

Sincerely,

A handwritten signature in black ink that reads "Glenn Hegar".

Glenn Hegar





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# Overview

In state fiscal year 2023 — from Sept. 1, 2022, to Aug. 31, 2023 — exemptions<sup>1</sup> from the sales, franchise, motor vehicle sales, oil production and natural gas production taxes will amount to an estimated \$60.57 billion.

Sales tax exemptions will total \$55.46 billion, franchise tax exemptions will total \$3.48 billion, motor vehicle sales tax exemptions will total \$207 million, oil production tax exemptions will total \$57 million and natural gas production tax exemptions will total \$1.37 billion. Exemptions or special appraisals for local school district property taxes will amount to an estimated \$17.46 billion in tax year 2023.

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

In fiscal 2022, combined state revenues — accruing to all funds excluding trust — from the sales, franchise, motor vehicle sales, oil production and natural gas production taxes totaled \$65.36 billion, accounting for 85 percent of the state's total tax revenue. School property taxes generated an estimated \$38.95 billion in tax year 2021, which was 53 percent of the total property taxes levied in 2021.

## 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 any legislation.

Each estimate is based on the best information available from public and private sources, including Comptroller's office tax records. No recommendations related to the estimated exemptions have been formulated.

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

There are numerous exemptions, especially from sales tax and school property tax, the value of which are not estimated. Meaningful and reliable estimates are often unfeasible due to the nature and limitations of available data.

In 2021, the reported gross sales of businesses required to file sales tax reports was approximately \$3.4 trillion, while their reported amount subject to sales tax was \$624 billion — approximately 18 percent of reported sales were subject to sales tax. **Table 2** of this report enumerates specific sections of the Tax Code, many with distinct subsections that provide for exemptions from sales tax. Additionally, there are items not taxed — exclusions — that do not require explicit exemption, because transactions in the items are simply beyond the scope of the tax. Transactions in real property, intangible personal property and most services are not taxed, but do not require explicit exemption, because they are outside the scope of a tax that is imposed on tangible personal property and only specifically enumerated services.

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<sup>1</sup> The term "exemptions" as used in this overview includes exemptions, exclusions, discounts, deductions, special accounting methods, credits, refunds and special appraisals.

It would be exceptionally burdensome on taxpayers to require detailed reporting of transactions corresponding to each of the exemption sections and subsections and to a schedule of excluded transactions. No such detailed reporting is imposed by statute or administrative rule. Consequently, tax reports do not contain data sufficient to estimate the value of all exemptions and exclusions.

Estimation requires identification of pertinent, useful data available from external sources. Estimates depend on data obtained from sources such as the U.S. Census Bureau, the U.S. Energy Information Administration, the U.S. Department of Agriculture, the Federal Highway Administration, the Texas Health and Human Services Commission, trade associations, academic papers and often proprietary industry analyses by private consulting firms. When exemptions identified in tables have not been estimated, it is because requisite data do not exist or have not been identified and acquired from an external source.

In the case of property tax, estimates of the value of exemptions or other provisions that limit property tax liabilities are based on information provided by county appraisal districts and on school district property tax rates. No estimate is made if the necessary information regarding property value subject to an exemption or limitation is not included in the reports filed by appraisal districts with the Comptroller's Property Tax Assistance Division — whether because the property in question is never appraised (e.g., churches, cemeteries, military bases) or because the information is not required for compliance with the laws governing appraisal districts and their constituent taxing authorities. ✦



# Limited Sales and Use Tax

The sales and use tax is the largest source of tax revenue for Texas state government, bringing in 56 cents of every state tax dollar in fiscal 2022. The sales tax is a levy 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 amusement, telephone services and the repair of tangible personal property.

While sales and use tax collections totaled \$42.85 billion in fiscal 2022, the tax is limited in scope when compared with the total number and kind of transactions in the economy because of various exemptions and exclusions. For simplicity, this tax is referred to as the “sales tax” throughout the remainder of this discussion.

## Classifying Sales Tax Exemptions

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

*Exemptions* protect items that would be taxable except for specific provisions in the law. For example, because 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, as well as sales of most services. Currently, only certain specified services are subject to the sales tax.

*Discounts* are handling fees that Texas law allows tax permit holders to retain in exchange for collecting sales taxes and sending them to the state on time. The “timely filer” discount is 0.5 percent of the amount of sales tax collected. An additional 1.25 percent “pre-payment” 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 sales tax; purchasers with sales tax permits, however, are responsible for remitting the tax.

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

## Sales Tax: Exemptions

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

**Table 2** summarizes the estimated value of these exemptions for fiscal 2023 and the following five fiscal years. Exemptions for which the value cannot be estimated due to insufficient data are marked “cbe.”

**Table 1**

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

Fiscal 2023 to 2028 – In millions of dollars

Item	2023	2024	2025	2026	2027	2028
Exemptions	\$42,221.1	\$43,722.8	\$45,376.4	\$47,196.2	\$49,020.5	\$50,979.2
Exclusions	12,882.1	13,503.5	14,070.6	14,704.3	15,414.1	16,164.6
Discounts	354.7	380.9	396.6	415.2	435.2	454.8
<b>Total</b>	<b>\$55,457.9</b>	<b>\$57,607.3</b>	<b>\$59,843.6</b>	<b>\$62,315.7</b>	<b>\$64,869.9</b>	<b>\$67,598.6</b>

*Note: Totals may not sum due to rounding.*

Table 2

Value of Sales Tax Exemptions

Fiscal 2023 to 2028 – In millions of dollars

Tax Code Section	Exemption	2023	2024	2025	2026	2027	2028
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	*	*	*	*	*	*
151.3051	Sales through certain vending machines	*	*	*	*	*	*
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	5,643.6	5,755.6	5,869.8	5,986.2	6,105.0	6,226.1
	Motor fuels	4,359.2	4,431.6	4,572.4	4,690.2	4,819.4	4,930.5
	Mixed beverages	497.9	536.5	563.2	592.5	623.8	656.9
	Cement	*	*	*	*	*	*
	Aviation fuel	236.7	256.0	274.0	299.2	318.2	355.2
	Oil well servicing	292.6	360.5	368.1	372.3	374.6	376.9
	Insurance premiums	9,546.5	10,053.3	10,354.5	10,773.7	11,122.3	11,478.2
	Total for items taxed by other law	20,576.6	21,393.5	22,002.0	22,714.3	23,363.4	24,023.8
151.309	Governmental entities	419.9	434.4	454.6	472.8	490.8	510.7
151.310	Religious, educational and public service organizations						
	Sales to nonprofits	52.0	54.6	57.3	60.3	63.5	67.0
	One-day sales	12.0	12.6	13.2	13.9	14.6	15.4
151.3101	Amusement services	cbe	cbe	cbe	cbe	cbe	cbe
151.3102	Sale by nonprofit organization at county fair	*	*	*	*	*	*
151.3105	Bingo equipment purchased by certain organizations	0.4	0.4	0.4	0.4	0.4	0.5
151.311	Taxable items incorporated into or used for improvement of realty of an exempt entity	36.4	37.6	39.4	41.0	42.5	44.3
151.3111	Services on certain exempted personal property	cbe	cbe	cbe	cbe	cbe	cbe
151.312	Periodicals and writings of religious and nonprofit organizations	4.0	4.0	4.0	4.0	4.0	4.0
151.313	Health care supplies						
	Prescription medicine and devices	724.9	749.3	774.6	800.7	827.7	855.5
	Over-the-counter drugs	320.8	331.7	343.0	354.7	366.7	379.0
151.3131	Firearm safety equipment	0.9	0.9	1.0	1.0	1.1	1.1
151.314	Food and food products						
	Food for home consumption	3,925.6	4,041.7	4,171.0	4,313.7	4,460.5	4,611.2
	School lunches and certain food sales	65.8	68.5	71.2	74.1	77.1	80.2
151.3141	Food stamp purchases	31.0	31.4	31.9	32.5	33.0	33.6
151.315	Water	442.8	455.0	467.3	480.4	494.2	508.8
151.316	Agricultural items						
	Agricultural feed, seed, chemicals and supplies	414.2	414.6	415.1	417.1	419.6	422.2
	Livestock for food	23.2	23.2	23.4	23.8	24.4	25.0
	Agricultural machinery and equipment	117.1	119.5	121.8	124.3	126.8	129.3
	Horses, mules and work animals	24.9	25.0	25.1	25.6	26.2	26.9
	Commercial fishing ice	0.4	0.4	0.4	0.4	0.4	0.5
151.3162	Timber items	32.9	33.6	34.3	35.0	35.7	36.4
151.317	Gas and electricity						
	Manufacturing	1,177.7	1,057.4	1,097.9	1,145.9	1,187.1	1,251.2
	Residential	1,161.9	1,152.0	1,168.1	1,185.1	1,200.8	1,219.4
	Agricultural	37.4	36.9	38.1	39.4	40.7	42.2
	Mining	80.5	79.6	82.2	85.0	87.7	90.9
	Timber	3.9	3.9	4.0	4.1	4.2	4.3
151.3171	Sulphur	*	*	*	*	*	*
151.318	Property used in manufacturing						
	Materials used in manufacturing	9,277.4	9,773.4	10,416.9	11,098.3	11,808.7	12,592.9
	Manufacturing machinery and equipment	1,142.5	1,208.6	1,273.1	1,339.7	1,408.8	1,482.2
	Packaging and wrapping supplies	286.9	302.3	322.2	343.2	365.2	389.5
151.3182	Certain property used in research and development activities	258.8	273.0	288.0	303.8	320.5	338.2
151.3185	Property used in media production, recording and broadcasting	130.1	136.4	142.4	149.0	156.4	164.1

Table 2 (continued)

Value of Sales Tax Exemptions

Fiscal 2023 to 2028 – In millions of dollars

Tax Code Section	Exemption	2023	2024	2025	2026	2027	2028
151.3186	Property used in cable television, internet access, or telecommunications services	\$50.0	\$50.0	\$50.0	\$50.0	\$50.0	\$50.0
151.319	Newspapers and property used in newspaper publication						
	Newspapers	37.6	37.9	38.2	38.5	38.8	39.1
	Newspaper inserts	4.2	4.0	3.8	3.6	3.4	3.3
151.320	Magazines	14.9	14.7	14.6	14.4	14.3	14.2
151.321	University and college student organizations	*	*	*	*	*	*
151.322	Containers	318.9	334.0	350.0	367.3	386.0	406.3
151.323	Certain telecommunications services	cbe	cbe	cbe	cbe	cbe	cbe
151.324	Equipment used elsewhere for mineral exploration or production	155.6	152.0	142.5	143.9	145.7	145.6
151.326	Clothing and footwear for a limited period	88.5	93.2	97.9	102.9	108.3	114.2
151.327	School supplies and school backpacks before start of school	16.7	17.6	18.5	19.4	20.5	21.5
151.328	Aircraft						
	Certain aircraft	cbe	cbe	cbe	cbe	cbe	cbe
	Repair equipment and services for certain aircraft	75.5	79.0	82.9	87.1	91.5	95.9
151.329	Certain ships and ship equipment	89.8	94.0	98.6	103.7	108.9	114.1
151.3291	Boats and boat motors	115.1	119.1	123.1	127.3	131.7	136.2
151.330	Interstate shipments, common carriers, and services across state lines	cbe	cbe	cbe	cbe	cbe	cbe
151.331	Rolling stock; train fuel and supplies						
	Railroad fuel and supplies	62.3	62.8	65.1	66.6	68.5	70.6
	Rolling stock and locomotives	25.5	26.1	26.7	27.3	28.0	28.7
151.332	Certain sales by senior citizen organizations	*	*	*	*	*	*
151.333	Energy-efficient products for a limited period	4.9	5.1	5.2	5.4	5.5	5.7
151.3335	Water-efficient products	6.2	6.4	6.6	6.8	7.0	7.3
151.334	Certain property used in sequestration of carbon dioxide	*	*	*	*	*	*
151.336	Certain coins and precious metals	cbe	cbe	cbe	cbe	cbe	cbe
151.337	Sales by or to Indian tribes	cbe	cbe	cbe	cbe	cbe	cbe
151.338	Environment and conservation services	cbe	cbe	cbe	cbe	cbe	cbe
151.340	Official state coin	*	*	*	*	*	*
151.341	Items sold to or used by development corporations	*	*	*	*	*	*
151.3415	Items sold to or used to construct, maintain, expand, improve, equip, or renovate media production facilities at media production locations	*	*	*	*	*	*
151.342	Agribusiness items	0.5	0.5	0.5	0.5	0.5	0.5
151.343	Animals sold by nonprofit animal shelters or nonprofit animal welfare organizations	*	*	*	*	*	*
151.346	Intercorporate services	cbe	cbe	cbe	cbe	cbe	cbe
151.347	Certain lawn and yard services	*	*	*	*	*	*
151.348	Cooperative research and development ventures	cbe	cbe	cbe	cbe	cbe	cbe
151.350	Labor to restore certain property	cbe	cbe	cbe	cbe	cbe	cbe
151.3501	Labor to restore, repair or remodel historic sites	*	*	*	*	*	*
151.351	Information services and data processing services	157.4	163.0	176.9	190.0	202.6	218.2
151.353	Court reporting services	*	*	*	*	*	*
151.354	Services by employees of property management companies	*	*	*	*	*	*
151.355	Water-related exemptions	13.5	14.0	14.5	15.2	15.8	16.6
151.356	Offshore spill response containment property	*	*	*	*	*	*
151.3565	Emergency preparation supplies for limited period	1.5	1.6	1.6	1.6	1.7	1.7
151.359	Property used in certain data centers; temporary exemption	157.5	148.8	130.0	93.8	90.0	90.0
151.3595	Property used in certain large data center projects; temporary exemption	**	**	**	**	**	**
151.429	Enterprise projects (refunds)	40.6	42.2	43.9	45.6	47.4	49.3
151.4291	Defense readjustment projects (refunds)	cbe	cbe	cbe	cbe	cbe	cbe
151.4292	Pilot program for certain persons who employ apprentices	1.5	1.5	1.5	1.5	1.5	0.0
151.431	Job retention in enterprise zones (refunds)	*	*	*	*	*	*
<b>Total</b>		<b>\$42,221.1</b>	<b>\$43,722.8</b>	<b>\$45,376.4</b>	<b>\$47,196.2</b>	<b>\$49,020.5</b>	<b>\$50,979.2</b>

\* Amount is negligible.

\*\* Included in the estimate of property used in certain data centers under Sec. 151.359

cbe: Cannot be estimated.

Note: Totals may not sum due to rounding.

Tax Code Sec. 151.302.

### **Sales for Resale**

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

Sec. 151.3021.

### **Packaging Supplies and Wrapping**

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

Sec. 151.303.

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

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

Sec. 151.304.

### **Occasional Sales**

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

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. 151.3051.

### **Sales Through Certain Vending Machines**

This provision exempts sales through vending machines owned by a nonprofit organization and maintained by individuals with special needs as part of a program operated by a nonprofit. This exemption was added in 2015.

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 U.S. or Texas constitutions or by federal 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, fuels covered by motor fuels taxes, cement taxed under the cement production tax, motor vehicles covered by the motor vehicle sales tax, alcoholic beverages taxed under the mixed beverage taxes, 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 crude oil from the sales tax under this section because these items would qualify for exemption as materials used in manufacturing, as would most of cement.

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

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

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

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

Sec. 151.309.

**Governmental Entities**

This section exempts items sold, leased, or rented to, or stored, used, or consumed by governmental entities, including the U.S., an agency or instrumentality of the U.S., the state of Texas 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, or stored, used, or consumed by religious, educational or charitable organizations; organizations exempted from federal income taxes under Secs. 501(c)(3), (4), (8), (10) or (19) of the Internal Revenue Code (IRC); 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 Secs. 501(c)(3), (4), (8), (10) or (19) organizations to hold two one-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 Texas or the U.S.; educational, religious or charitable organizations; law enforcement associations; and other nonprofit organizations, or if the services are provided in a place designated as a historic landmark. For example, this section exempts sales of tickets to high school and college football games. This exemption was added in 1984 when amusement services became taxable.

Sec. 151.3102.

**Sale by Nonprofit Organization at County Fair**

This section exempts sales made at a county fair to an attendee of the county fair by an organization that is exempt from the payment of federal income taxes under Sec. 501(a) of the IRC of 1986 by being listed as an exempt organization under Sec. 501(c)(3). The county fair must be operated by a county fair association on property owned by the county in order to qualify for the exemption.

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 Sec. 501(a) of the IRC of 1986 (as amended) by being listed as an exempt organization under Secs. 501(c)(3), (4), (8), (10) or (19) of the IRC of 1986. This section was added in 2003.

Sec. 151.311.

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

This provision exempts certain items used in performing a contract to improve real property for a governmental entity or an organization exempt under Sec. 151.310. For example, a contractor building a new public school can purchase the building materials tax free. The contractor can also purchase tax free certain consumable supplies and certain taxable services performed at the job site, such as surveying or landscaping services. This provision was added in 1969 and has been amended several times since then.

Sec. 151.3111.

**Services on Certain Exempted Personal Property**

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

Sec. 151.312.

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

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

Sec. 151.313.

**Health Care Supplies**

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

Sec. 151.3131.

**Firearm Safety Equipment**

This section exempts items defined as "firearm safety equipment" such as a gun lock box, a gun safe, a barrel lock, a trigger lock, a firearm safety training manual or electronic publication, or another item designed to ensure the

safe handling or storage of a firearm from the sales and use tax. This provision was added in 2021.

Sec. 151.314.

### **Food and Food Products**

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

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

Sec. 151.3141.

### **Food Stamp Purchases**

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

Sec. 151.315.

### **Water**

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

Sec. 151.316.

### **Agricultural Items**

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

Sec. 151.3162.

### **Timber Items**

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

Sec. 151.317.

### **Gas and Electricity**

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

Sec. 151.3171.

### **Sulphur**

This section exempts the sale of sulphur. The provision was added in 2015 when Tax Code Chapter 203, Sulphur Production Tax, was repealed.

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

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

The section specifically excludes from exemption 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 section also excludes from exemption items relating to sales or distribution activities, storage and maintenance, research and development and transportation.

Sec. 151.3182.

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

This section exempts depreciable tangible personal property when directly used in "qualified research" as defined by IRC Sec. 41, so long as the taxpayer claiming this exemption does not also take the franchise tax credit for taxable entities engaged in qualified research. This exemption was added in 2013.

Sec. 151.3185.

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

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

Sec. 151.3186.

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

This section allows providers of cable television, internet access or telecommunications services a refund of sales and use taxes they pay on most items they use to provide their services. The maximum amount that can be refunded in the aggregate under this section is \$50 million per year. This exemption was added in 2013.

Sec. 151.319.

**Newspapers and Property Used in Newspaper Publication**

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

Sec. 151.320.

**Magazines**

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

Sec. 151.321.

**University and College Student Organizations**

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

Sec. 151.322.

**Containers**

This provision exempts sales of certain containers, including a container sold with its contents if the sales price of the contents is not taxed; a non-returnable 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 TV stations licensed by the FCC.

Sec. 151.324.

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

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

Sec. 151.325.

**Basic Fee for Internet Access Service**

This section, added in 1999, exempts the first \$25 of a monthly charge for internet access. The exemption applies without regard to whether the access service is bundled with another service or to the billing period used by the internet access service provider. Amounts paid for access service in excess of \$25 (on a monthly basis) are subject to taxation. This exemption is of no consequence as of June 30, 2020, as federal law prohibits state sales taxation of internet access service.

Sec. 151.326.

**Clothing and Footwear for a Limited Period**

This section exempts items of clothing and footwear. The exemption is limited to items costing less than \$100. The items are exempt from tax only during a three-day period consisting of a Friday, Saturday and Sunday of each August in advance of the start of school. The exemption does not apply to special or protective clothing or footwear, nor does it apply to accessories such as jewelry, handbags or luggage. The rental of clothing is not exempt. This section was added in 1999.

Sec. 151.327.

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

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

Sec. 151.328.

### **Aircraft**

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

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

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

Sec. 151.329.

### **Certain Ships and Ship Equipment**

This section exempts sales of 1) component parts of a vessel of eight or more tons displacement and used in a commercial enterprise or used commercially for pleasure fishing by individuals as paying passengers on the vessel; 2) a commercial vessel of eight or more tons displacement sold by the vessel's builder; 3) materials and labor used in repairing or converting a commercial vessel of eight or more tons displacement; 4) materials and supplies for a vessel operating exclusively in foreign or interstate coastal commerce used in the maintenance and operation of the vessel or that 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 Texas by the seller or delivered by the seller to a carrier or a forwarding agent for shipment outside the state.

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

Services performed for use outside the state are exempt.

The section also exempts tangible personal property sold to a common carrier if the carrier ships the property outside this state using its own facilities and uses the property in its

business as a common carrier outside this state. Repair or replacement parts acquired outside this state for a self-propelled vehicle used as a licensed and certificated common carrier are also exempt.

Sec. 151.331.

### **Rolling Stock; Train Fuel and Supplies**

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

Sec. 151.332.

### **Certain Sales by Senior Citizen Organizations**

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

Sec. 151.333.

### **Energy-Efficient Products**

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. 151.3335.

### **Water-Efficient Products**

This section provides for an exemption of certain water-conserving products used on residential property when purchased during a three-day period beginning on the Saturday preceding the last Monday in May. Eligible items include a soaker or drip irrigation system, rain collection system, mulch and certified WaterSense products. This exemption was added in 2015.

Sec. 151.334.

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

This section exempts components of tangible personal property used in connection with an advanced clean energy project that are installed to capture, transport, inject or prepare for transportation or injection of carbon dioxide from an anthropogenic emission source if the carbon dioxide is sequestered in Texas as part of an enhanced oil recovery project under conditions that create a reasonable expectation that at least 99 percent of the carbon dioxide will remain sequestered from the atmosphere for at least 1,000 years. This exemption was added in 2009.



Sec. 151.336.

**Certain Coins and Precious Metals**

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

Sec. 151.337.

**Sales by or to Indian Tribes**

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

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

Sec. 151.338.

**Environment and Conservation Services**

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

Sec. 151.340.

**Official State Coin**

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

Sec. 151.341.

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

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

Sec. 151.3415.

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

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

exclusively as a media production facility. This exemption was added in 2009.

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 or Nonprofit Animal Welfare Organizations**

The sale, including an adoption fee, of an animal by a nonprofit animal shelter or nonprofit animal welfare organization is exempt. This section was added in 1999 and expanded in 2021.

Sec. 151.344.

**Post Exchanges on State Military Property**

Taxable items sold, leased or rented to or stored, used or consumed by post exchanges on state military property are exempt from sales and use tax. In addition, taxable items sold, leased or rented by these exchanges are exempt.

Sec. 151.346.

**Intercorporate Services**

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

Sec. 151.347.

**Certain Lawn and Yard Services**

This section exempts lawn mowing and other yard maintenance services performed by individuals who are younger than 18 years of age, or who are 65 years of age or older, and whose total receipts in the most recent four calendar quarters do not exceed \$5,000. Additionally, there are no taxes due on services performed by self-employed individuals whose total receipts in the most recent four calendar quarters do not exceed \$5,000. The exemption was added in 1987 and amended in 1989 and 1995.

Sec. 151.348.

**Cooperative Research and Development Ventures**

This provision exempts qualifying items sold in connection with a joint research and development venture as defined by 15 U.S.C. Sec. 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 Jan. 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 and 1999.

Sec. 151.3501.

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

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

Sec. 151.351.

### **Information Services and Data Processing Services**

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

Sec. 151.353.

### **Court Reporting Services**

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

Sec. 151.354.

### **Services by Employees of Property Management Companies**

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

Sec. 151.355.

### **Water-Related Exemptions**

This section exempts equipment, services and supplies used for rainwater harvesting, desalination of surface water or groundwater; brush control to enhance water availability precipitation enhancement; the construction or operation of certain water supply or wastewater systems; and for certain items used to process, reuse and recycle wastewater that will be used in fracturing work at an oil or natural gas well.

The exemption does not apply to consumer appliances or fixtures (e.g., washing machines, dishwashers, toilets) that are designed to limit water usage. This section was added in 2001 and amended in 2003 and 2007.

Sec. 151.356.

### **Offshore Spill Response Containment Property**

This section exempts certain tangible personal property and services related to an offshore spill response containment property as defined by Sec. 11.271. This exemption was added in 2013.

Sec. 151.3565.

### **Emergency Preparation Supplies for a Limited Period**

This section provides for an exemption of certain items including portable generators priced less than \$3,000; certain storm protection devices and rescue ladders priced less than \$300; and numerous other items priced less than \$75 including portable light sources, batteries, fire extinguishers, waterproof sheeting and hatchets, among others, during a three-day period beginning on the Saturday preceding the last Monday in April and ending on the last Monday in April. This exemption was added in 2015.

Sec. 151.359.

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

This section exempts certain items necessary to the operation of qualifying data centers. A qualifying data center is one that a taxpayer builds or occupies after Sept. 1, 2013, that is at least 100,000 square feet; that creates at least 20 qualifying jobs; for which the minimum investment over a five-year period is \$200 million; and that is not subject to an agreement to limit the appraised value of the property under Tax Code Chapter 313. This exemption was added in 2013.

Sec. 151.3595.

### **Property Used in Certain Large Data Center Projects; Temporary Exemption**

This section exempts certain items necessary to the operation of qualifying large data centers. A qualifying data center is one that a taxpayer builds or occupies after May 1, 2015, that is at least 250,000 square feet; that entails at least 20 megawatts transmission capacity; that creates at least 40 qualifying jobs; for which the minimum investment is \$500 million over a five-year period; and that is not subject to an agreement to limit the appraised value of the property under Tax Code Chapter 313. This exemption was added in 2015.

Sec. 151.429.

### **Enterprise Projects (Refunds)**

This section makes enterprise projects eligible for a refund of sales taxes paid on all taxable items for use at a

qualified business site related to the project. The refund amounts are subject to annual limits and vary as a function of the amount of capital investment and the number of jobs created or retained. Otherwise eligible refund amounts above the annual limits may be carried forward to subsequent years.

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

Sec. 151.4291.

**Defense Readjustment Projects (Refunds)**

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

Sec. 151.4292.

**Pilot Program for Certain Persons Who Employ Apprentices (Refunds)**

This section allows a person who is certified by the Texas Workforce Commission to provide a qualified apprenticeship to claim a refund of up to \$2,500 for sales and use taxes paid by the person in a calendar year, provided they employ at least one apprentice and certain conditions are met. An eligible person could employ up to six apprentices under certain circumstances. This provision was implemented in 2021 and is set to expire Dec. 31, 2026.

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 taxes 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. 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.

**Sales Tax: Exclusions**

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

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

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

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

Many services remain excluded from the tax, some of which are profiled in Table 3. The value of the exclusions shown in **Table 3** is expected to be \$12.9 billion in fiscal 2023 approximately 30.2 percent of total expected sales tax collections.

Of the services excluded by the Tax Code, the largest group is professional services. These include medical, dental and other health care; legal services; accounting and audit services; engineering and architectural services; real estate brokerages; financial securities brokerages; and veterinary services.

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 2023, the value of this discount will be an estimated \$192 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 \$163 million in fiscal 2023. ⚡

## Limited Sales And Use Tax

**Table 3**

### Value of Selected Service Exclusions from the Sales Tax

Fiscal 2023 to 2028 – In millions of dollars

#### Construction Labor

Service Exclusion	2023	2024	2025	2026	2027	2028
New residential construction	\$216.1	\$225.9	\$234.1	\$243.7	\$254.6	\$266.2
New nonresidential construction	653.3	683.0	707.9	737.0	769.8	805.0
Residential repair and remodeling	159.5	161.7	164.3	167.8	179.2	183.5

#### Personal Services

Service Exclusion	2023	2024	2025	2026	2027	2028
Hair, nail and skin care services	\$112.1	\$18.0	\$124.0	\$130.3	\$137.2	\$144.6
Death care services	87.9	92.5	97.2	102.2	107.6	113.3
Child day care	223.5	235.4	247.3	260.0	273.7	288.3
Coin-operated amusement and personal services	50.2	52.4	55.1	58.2	61.3	64.4
Miscellaneous personal services	83.9	88.3	92.8	97.6	102.7	108.2

#### Business and Professional Services

Service Exclusion	2023	2024	2025	2026	2027	2028
Physician services	\$1,647.8	\$1,735.4	\$1,823.0	\$1,916.4	\$2,017.6	\$2,125.5
Dental services	679.4	715.5	751.6	790.1	831.8	876.3
Other health care	1,105.8	1,164.6	1,223.4	1,286.0	1,354.0	1,426.4
Legal services	697.9	729.7	756.3	787.3	822.3	859.9
Accounting and audit services	460.5	481.4	499.0	519.4	542.6	567.4
Architectural and engineering services	604.9	632.5	655.6	682.4	712.8	745.4
Specialized design services	23.7	25.0	26.2	27.6	29.0	30.6
Management consulting and public relations	600.6	628.0	650.9	677.5	707.7	740.1
Computer systems design and custom programming	1,081.9	1,131.2	1,172.4	1,220.5	1,274.8	1,333.1
Research and development services	356.0	372.3	385.8	401.6	419.5	438.7
Marketing research and public opinion polling	43.0	45.0	46.6	48.5	50.7	53.0
Testing labs	159.9	167.2	173.3	180.4	188.5	197.1
Outdoor display advertising	33.1	34.6	35.8	37.3	39.0	40.7
Employment agency services	110.9	116.0	120.2	125.2	130.7	136.7
Temporary labor supply	688.5	719.8	746.1	776.7	811.3	848.3
Financial securities brokerage	316.2	330.6	342.7	356.7	372.6	389.6
Other financial services	434.2	454.0	470.5	489.8	511.6	535.0
Real estate brokerage and agency	488.9	511.2	529.8	551.5	576.1	602.4
Freight hauling (intrastate)	405.7	424.2	439.7	457.7	478.1	499.9
Other transportation (except scheduled passenger)	91.1	95.2	98.7	102.7	107.3	112.2
Veterinary services	161.8	170.4	179.0	188.2	198.1	208.7

#### Other Services

Service Exclusion	2023	2024	2025	2026	2027	2028
Automotive maintenance and repair	\$868.8	\$914.9	\$961.1	\$1,010.4	\$1,063.7	\$1,120.6
Car washes	63.4	66.8	70.2	73.8	77.7	81.8
Private vocational education	93.2	98.1	103.1	108.4	114.1	120.2
Other educational services	78.6	82.8	86.9	91.4	96.2	101.4

Total	2023	2024	2025	2026	2027	2028
<b>Value of Selected Service Exclusions</b>	<b>\$12,882.1</b>	<b>\$13,503.5</b>	<b>\$14,070.6</b>	<b>\$14,704.3</b>	<b>\$15,414.1</b>	<b>\$16,164.6</b>

Note: Totals may not sum due to rounding.

**Table 4**

**Sales Tax Discounts**

Fiscal 2023 to 2028 – In millions of dollars

Discount	2023	2024	2025	2026	2027	2028
Timely Filer Discount	\$191.6	\$205.8	\$214.3	\$224.3	\$235.2	\$245.7
Prepayment Discount	163.0	175.1	182.3	190.9	200.1	209.1
<b>Total</b>	<b>\$354.7</b>	<b>\$380.9</b>	<b>\$396.6</b>	<b>\$415.2</b>	<b>\$435.2</b>	<b>\$454.8</b>

*Note: Totals may not sum due to 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 Third Called Session of the 79th Legislature, a commission appointed by Governor Perry proposed a major rewrite of the franchise tax to provide some of the revenue needed for reducing the maintenance and operation component of local school district property tax rates. These changes included broadening the tax base to include the many firms that had reorganized as partnerships to avoid paying the old franchise tax and basing the tax on a business's taxable margin rather than capital or earned surplus. In May 2006, the 79th Legislature, Third Called Session, adopted this major restructuring of the tax in House Bill (HB) 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.

## How the Franchise Tax is Computed

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

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

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

Businesses apportion margin to Texas according to the share of their total business done in the state, as measured by their gross receipts. Firms primarily engaged in wholesale or retail trade (including food service) use the 0.375 percent rate, while other firms must use the 0.75 percent rate.

An additional method for calculating tax may be used by businesses with total revenue of \$20 million or less, known as the E-Z calculation. A taxable entity electing the E-Z method may apply only the applicable exclusions from the tax provided by Sec. 171.1011. Under this method, a business determines total revenue and the apportionment factor, and then multiplies apportioned revenue by a rate of 0.331 percent to determine the tax due.

Tax payments and tax reports are due annually to the Comptroller's office on May 15 and cover the taxable entity's previous fiscal year. A report extension to Aug. 15 and Nov. 15 can be requested.

## Origin of Franchise Tax Exemptions

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

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

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

**Nonprofit vs. Exempted**

A nonprofit entity is not automatically 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:

- 1) statutory exemptions,
- 2) deductions and exclusions,
- 3) special accounting methods, and
- 4) credits and refunds.

**Statutory Exemptions**

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

To become exempt, a nonprofit organization or company is generally required to prove itself eligible for the exemption (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**).

**Table 5**

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

Fiscal 2023 to 2028 – In millions of dollars

Item	2023	2024	2025	2026	2027	2028
Exemptions: For Profit Entities	\$450.2	\$473.6	\$489.6	\$514.1	\$537.3	\$554.8
Exemptions: Nonprofit Entities	463.9	486.4	505.8	538.7	573.7	592.4
Deductions	747.9	794.8	841.9	904.5	976.5	1,052.1
Special Accounting Methods	1,345.5	1,392.1	1,426.9	1,496.4	1,569.4	1,645.8
Credits and Refunds	474.5	493.0	508.0	535.1	564.1	437.7
<b>Total</b>	<b>\$3,481.9</b>	<b>\$3,639.8</b>	<b>\$3,772.2</b>	<b>\$3,988.8</b>	<b>\$4,221.0</b>	<b>\$4,282.7</b>

*Note: Totals may not sum due to rounding.*



Table 6

## Value of Franchise Tax Exemptions

Fiscal 2023 to 2028 – In millions of dollars

Tax Code Section	Exemption	2023	2024	2025	2026	2027	2028
171.051(d)	Exemptions granted before Sept. 1, 1975	Included with IRS 501(c)(3)					
171.052 and 171.0525	Certain corporations and certain insurance companies	\$275.8	\$290.5	\$299.2	\$311.3	\$321.4	\$331.8
171.053	Railway terminal corporation	*	*	*	*	*	*
171.055	Open-end investment company	171.9	180.5	187.8	200.0	213.0	219.9
171.056	Corporation with business interest in solar energy devices	2.4	2.5	2.6	2.8	3.0	3.1
171.057	Nonprofit corporation organized to promote a county, city or another area of state	Included with IRS 501(c)(6)					
171.058	Nonprofit corporation organized for religious purposes	Included with IRS 501(c)(3)					
171.059	Nonprofit corporation organized to provide burial places	1.8	1.9	1.9	2.1	2.2	2.3
171.060	Nonprofit corporation organized for agricultural purposes	Included with IRS 501(c)(5)					
171.061	Nonprofit corporation organized for educational purposes	Included with IRS 501(c)(3)					
171.062	Nonprofit corporation organized for public charity	Included with IRS 501(c)(3)					
171.063	Nonprofit corporation exempt from federal income tax						
	IRS Sec. 501(c)(2)	0.3	0.3	0.4	0.4	0.4	0.4
	IRS Sec. 501(c)(3)	389.1	408.5	424.9	452.5	481.9	497.6
	IRS Sec. 501(c)(4)	18.6	19.6	20.3	21.7	23.1	23.8
	IRS Sec. 501(c)(5)	3.4	3.6	3.7	4.0	4.2	4.4
	IRS Sec. 501(c)(6)	12.8	13.4	14.0	14.9	15.8	16.4
	IRS Sec. 501(c)(7)	6.6	6.9	7.2	7.7	8.2	8.5
	IRS Sec. 501(c)(8)	1.3	1.4	1.4	1.5	1.6	1.7
	IRS Sec. 501(c)(10)	0.1	0.1	0.1	0.1	0.1	0.1
	IRS Sec. 501(c)(16)	*	*	*	*	*	*
	IRS Sec. 501(c)(19)	0.3	0.3	0.4	0.4	0.4	0.4
	IRS Sec. 501(c)(25)	0.0	0.0	0.0	0.0	0.0	0.0
171.064	Nonprofit corporation organized for conservation purposes	Included with IRS 501(c)(3)					
171.065	Nonprofit corporation organized to provide water supply or sewer services	1.9	2.0	2.0	2.2	2.3	2.4
171.066	Nonprofit corporation involved with city natural gas facility	0.0	0.0	0.0	0.0	0.0	0.0
171.067	Nonprofit corporation organized to provide convalescent homes for elderly	0.1	0.1	0.1	0.1	0.1	0.2
171.068	Nonprofit corporation organized to provide 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 association	*	*	*	*	*	*
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	*	*	*	*	*	*
171.077	Credit union	2.0	2.1	2.2	2.3	2.5	2.5
171.079	Electric cooperative corporation	20.6	21.6	22.5	23.9	25.5	26.3
171.080	Telephone cooperative corporation	4.5	4.0	4.2	4.5	4.8	4.9
171.081	Corporation exempt by another law	*	*	*	*	*	*
171.082	Certain homeowners' associations	0.4	0.5	0.5	0.5	0.5	0.6
171.083	Emergency medical service corporation	Included with IRS 501(c)(3)					
171.084	Certain trade show participants	*	*	*	*	*	*
171.085	Sludge recycling operation	*	*	*	*	*	*
171.086	Political subdivisions	*	*	*	*	*	*
171.087	Nonprofit corporation organized for student loan funds or student scholarship purposes	Included with IRS 501(c)(3)					
<b>Total</b>		<b>\$914.1</b>	<b>\$959.9</b>	<b>\$995.4</b>	<b>\$1,052.8</b>	<b>\$1,111.1</b>	<b>\$1,147.2</b>

\* Amount is negligible.

Note: Totals may not sum due to rounding.

**Special Accounting Rules**

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

**Credits and Refunds**

A credit allows a taxable entity a subtraction directly from tax owed. For this reason, a tax credit provides greater

financial relief to taxable entities 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, taxable entities receive a reduction in their tax liability. With refunds, taxable entities receive a payment from the state.

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

**Table 7**

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

Fiscal 2023 to 2028 – In millions of dollars

**Deductions and Exclusions**

Tax Code Section	Item	2023	2024	2025	2026	2027	2028
171.002(d)	Small business exception	\$281.8	\$297.0	\$313.5	\$331.5	\$351.3	\$366.3
171.006	Adjustment of eligibility for no tax due and compensation deduction	54.0	67.3	84.0	104.9	131.1	163.9
171.101(a)(1)(B)(i)	Optional subtraction of \$1 million from total revenue for determination of taxable margin	51.8	50.3	48.8	47.3	45.9	44.5
171.101(e) and (f)	Deduction of additional aerospace cost by certain taxable entities in the aerospace industry	17.0	21.3	22.2	23.6	25.1	26.8
171.107	Deduction of cost of solar energy device from margin apportioned to this state	*	*	*	*	*	*
171.108	Deduction of cost of clean coal project from margin apportioned to this state	0.0	0.0	0.0	0.0	0.0	0.0
171.109	Deduction of relocation costs by certain taxable entities from margin apportioned to this state	0.1	0.1	0.1	0.1	0.1	0.1
171.1011(e)	Exclusion from total revenue for interest in a passive entity	*	*	*	*	*	*
171.1011(f)	Exclusion from total revenue for flow-through funds mandated by law or fiduciary duty	*	*	*	*	*	*
171.1011(g)	Exclusion from total revenue for flow-through funds mandated by contract or subcontract	196.1	205.9	214.2	228.1	242.9	258.7
171.1011(g-1)	Exclusion from total revenue for lending institutions	*	*	*	*	*	*
171.1011(g-2)	Exclusion from total revenue for tax basis of securities	17.5	17.8	18.7	19.5	20.7	22.1
171.1011(g-3)	Exclusion from total revenue for entities providing legal services	*	*	*	*	*	*
171.1011(g-4)	Exclusion from total revenue of certain flow-through funds and reimbursements for pharmacy cooperatives and pharmacy network providers	0.6	0.6	0.7	0.7	0.8	0.8
171.1011(g-5)	Exclusion from total revenue of payments made to artists by a qualified live event promotion company	1.0	1.1	1.1	1.2	1.3	1.4
171.1011(g-6)	Exclusion from total revenue or certain payments made by qualified destination management companies	*	*	*	*	*	*
171.1011(g-7)	Exclusion from total revenue of certain payments made by qualified courier and logistics companies	0.3	0.3	0.4	0.4	0.4	0.4
171.1011(g-8)	Exclusion from total revenue of certain payments made by aggregate transporters	1.2	1.3	1.3	1.4	1.5	1.6
171.1011(g-10)	Exclusion from total revenue of certain payments made by barite transporters	*	*	*	*	*	*

Table 7 (continued)

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

Fiscal 2023 to 2028 – In millions of dollars

Tax Code Section	Item	2023	2024	2025	2026	2027	2028
171.1011(g-11)	Exclusion from total revenue of certain payments made by an entity performing landman services	\$1.0	\$1.0	\$1.1	\$1.2	\$1.2	\$1.3
171.1011(g-12)	Exclusion from total revenue of certain payments made to public performance right holders and copyright owners	*	*	*	*	*	*
171.1011(k)	Exclusion from total revenue of certain payments received by a professional employer organization	*	*	*	*	*	*
171.1011(m)	Exclusion from total revenue of dividends and interest received from federal obligations	\$10.7	\$11.2	\$11.7	\$12.4	\$13.2	\$14.1
171.1011(m-1)	Exclusion from total revenue of certain reimbursements received by management companies	*	*	*	*	*	*
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	99.8	103.8	108.0	115.0	122.5	130.4
171.1011(q)	Exclusion from total revenue for revenue derived from the operation of a facility located on property owned or leased by federal government	*	*	*	*	*	*
171.1011(r)	Exclusion from total revenue for revenue received from oil and gas produced from certain wells	*	*	*	*	*	*
171.1011(u)	Exclusion from total revenue for the cost of a vaccine	3.5	3.7	3.9	4.1	4.4	4.7
171.1011(v)	Exclusion from total revenue of certain costs incurred by certain taxable entities engaged in the transportation of goods by waterways	2.4	2.5	2.6	2.8	3.0	3.2
171.1011(w-1)	Exclusion from total revenue of certain costs incurred by taxable entities that provide agricultural aircraft operation services	0.1	0.1	0.1	0.1	0.1	0.1
171.1011(x)	Exclusion from total revenue of certain flow-through revenue received by taxable entities registered as a motor carrier	*	*	*	*	*	*
171.1012(k-1)	Cost of goods sold subtraction for certain rental companies	*	*	*	*	*	*
171.1012(k-2)	Cost of goods sold subtraction for certain pipeline entities	5.4	5.7	5.9	6.3	6.7	7.1
171.1012(o)	Additional cost of goods sold subtraction for film or television production or broadcasting companies	*	*	*	*	*	*
171.1012(t)	Additional cost of goods sold subtraction for movie theaters	3.3	3.5	3.6	3.8	4.1	4.4
171.1013(b-1)	Additional subtraction of newly provided health benefit costs	0.1	0.1	0.1	0.1	0.1	0.1
<b>Total</b>	<b>Deductions and Exclusions</b>	<b>\$747.9</b>	<b>\$794.8</b>	<b>\$841.9</b>	<b>\$904.5</b>	<b>\$976.5</b>	<b>\$1,052.1</b>

### Special Accounting Methods

Tax Code Section	Item	2023	2024	2025	2026	2027	2028
171.001(d)	Five-year exemption for veteran-owned businesses	\$2.1	\$2.2	\$2.2	\$2.4	\$2.5	\$2.7
171.0001(12)(B),(D),(E) and (F)	Definition of retail includes certain rental activities	8.3	8.7	9.0	9.6	10.2	10.9
171.0001(12)(C)	Definition of retail includes automotive repair services	8.9	9.3	9.7	10.3	11.0	11.7
171.002(b)	Reduced tax rate for eligible retail/wholesale entities†	834.4	858.1	873.8	910.6	948.5	987.6
171.1016	E-Z computation and rate	38.7	37.9	37.2	36.5	35.8	35.1
171.106(b) and (c)	Apportionment for certain investment management companies	7.1	7.4	7.7	8.2	8.7	9.3
171.106(d)	Apportionment of proceeds from interest earned on federal funds	*	*	*	*	*	*
171.106(e)	Apportionment of receipts from a defense readjustment project	*	*	*	*	*	*
171.106(f) and (f-1)	Apportionment of proceeds from the sale of certain loans and securities	396.0	415.8	432.5	460.6	490.5	522.4
171.106(g)	Apportionment for internet hosting	3.2	3.4	3.5	3.8	4.0	4.3
171.106(h)	Apportionment for broadcasters	*	*	*	*	*	*
Rule 3.591(e)(33)	Apportionment for transportation services	15.7	16.5	17.1	18.2	19.4	20.7
Rule 3.591(e)(30)	Apportionment for telephone services	31.2	32.8	34.1	36.3	38.6	41.2
<b>Total</b>	<b>Special Accounting Methods</b>	<b>\$1,345.5</b>	<b>\$1,392.1</b>	<b>\$1,426.9</b>	<b>\$1,496.4</b>	<b>\$1,569.4</b>	<b>\$1,645.8</b>

Table 7 (continued)

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

Fiscal 2023 to 2028 – In millions of dollars

**Credits and Refunds**

Tax Code Section	Item	2023	2024	2025	2026	2027	2028
171.111	Temporary credit on taxable margin	\$132.5	\$134.9	\$136.1	\$140.6	\$145.3	\$0.0
171.602	Tax credit for a clean energy project	0.0	0.0	0.0	0.0	0.0	0.0
Subchapter M	Tax credit for certain research and development activities	307.5	322.9	335.8	357.6	380.9	405.6
Subchapter O carryforward <sup>1</sup>	Tax credit for certain research and development activities carryforward	5.5	5.6	5.9	6.1	6.5	0.0
Subchapter S	Tax credit for certified rehabilitation of certified historic structures	29.0	29.6	30.2	30.8	31.4	32.0
171.501	Refund for job creation in enterprise zone	*	*	*	*	*	*
<b>Total</b>	<b>Credits and Refunds</b>	<b>\$474.5</b>	<b>\$493.0</b>	<b>\$508.0</b>	<b>\$535.1</b>	<b>\$564.1</b>	<b>\$437.7</b>

\* Amount is negligible.

† Amount is reduced by amounts listed for other definitions of retail.

Note: Totals may not sum due to rounding.

<sup>1</sup> Subchapter O was repealed Jan. 1, 2008 and applied to reports originally due prior to that date; however, taxable entities that established a research and development credit prior to its repeal are allowed to carryforward the unused credit until the earlier of when those credits would have expired under the terms of Subchapter O or Dec. 31, 2027.

**Franchise Tax: Exemptions**

Tax Code Sec. 171.051(d).

**Franchise Tax Exemptions Granted Before Sept. 1, 1975**

Corporations that received exemptions before Sept. 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.

Secs. 171.052 and 171.0525.

**Certain Corporations and Certain 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. A non-admitted insurance organization that is subject to an occupation tax or any other tax that is imposed for the privilege of doing business in another state or a foreign jurisdiction, including a tax on gross premium receipts, is exempt from the franchise tax. Farm mutuals, local mutual aid associations and burial associations also are not subject to the franchise tax. An entity is subject to the franchise tax for a tax year in any portion of which the entity is in violation of an order issued by the Texas Department of Insurance under Section 2254.003(b), Insurance Code, that is final after appeal or that is no longer subject to appeal.

Sec. 171.053.

**Railway Terminal Corporation**

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

Sec. 171.055.

**Open-End Investment Company**

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

Sec. 171.056.

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

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

Sec. 171.057.

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

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

Sec. 171.058.

**Nonprofit Corporation Organized for Religious Purposes**

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

Sec. 171.059.

**Nonprofit Corporation Organized to Provide Burial Places**

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

Sec. 171.060.

**Nonprofit Corporation Organized for Agricultural Purposes**

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

Sec. 171.061.

**Nonprofit Corporation Organized for Educational Purposes**

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

Sec. 171.062.

**Nonprofit Corporation Organized for Public Charity**

A nonprofit corporation organized for purely public charity that devotes all or substantially all 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 IRC Sections 501(c)(2), (3), (4), (5), (6), (7), (8), (10), (16), (19) and (25) is exempt from the franchise tax.

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

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

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

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

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

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

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 Chapter 67, Water Code, 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, whether or not the corporation is organized for purely public charity.

Sec. 171.068.

### **Nonprofit Corporation Organized to Provide Cooperative Housing**

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

Sec. 171.069.

### **Agricultural Marketing Association**

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

Sec. 171.070.

### **Lodges**

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

Sec. 171.071.

### **Farmers' Cooperative Society**

A farmers' cooperative society incorporated under Chapter 51, Agricultural Code, or a cooperative whose single member is a farmers' cooperative described in IRC Section 521(b)(1) that has at least 500 farmer-fruit grower members, is exempt. A farmers' cooperative may provide its members with an economical and effective means of purchasing farming supplies and materials such as tractor fuel and fertilizer.

Sec. 171.072.

### **Housing Finance Corporation**

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

Sec. 171.073.

### **Hospital Laundry Cooperative Association**

A hospital laundry cooperative association incorporated under Subchapter A, Chapter 301, Health and Safety Code, is exempt. The eligible institutions include: a municipality; a political subdivision of the state; a state-supported, health-related institution, including the Texas A&M University System, the University of Texas System and Texas Woman's University; a nonprofit health-related institution; and a cooperative association created under Subchapter B, Chapter 301, Health and Safety Code, a unit of which is located in a county with a population of more than 3.3 million.

Sec. 171.074.

### **Development Corporation**

A nonprofit corporation organized under the Development Corporation Act (Subtitle C1, Title 12, Local Government Code) is exempt. The purpose of a development corporation is to provide communities in Texas with a means for financing private industrial and manufacturing enterprises that will benefit the economic development of the community.

Sec. 171.075.

### **Cooperative Association**

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

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

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

Sec. 171.076.

### **Cooperative Credit Association**

A cooperative credit association incorporated under Chapter 55, Agriculture Code; an organization organized under 12 U.S.C. Section 2071; or an agricultural credit association regulated by the Farm Credit Administration is exempt. A cooperative credit association's purpose is to provide a financing source for its members. A cooperative credit association may be formed only by persons who are Texas residents and who 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.

Sec. 171.080.

**Telephone Cooperative Corporation**

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

Sec. 171.081.

**Corporation Exempt by Another Law**

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

Sec. 171.082.

**Certain Homeowners' Associations**

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

Sec. 171.083.

**Emergency Medical Service Corporation**

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

Sec. 171.084.

**Certain Trade Show Participants**

This provision exempts a foreign corporation from the franchise tax for certain solicitation of orders for personal

property by its representatives, as would typically be found in a trade show. The solicitation must be limited to five periods during a specified time span, and a solicitation period may not exceed 120 consecutive hours.

Sec. 171.085.

**Sludge Recycling Operation**

A corporation engaged solely in the business of recycling sludge, as defined by Section 361.003, Solid Waste Disposal Act (Chapter 361, Health and Safety Code), is exempt.

Sec. 171.086.

**Political Subdivisions**

Political subdivision corporations formed under Section 304.001, Local Government Code, are exempted from the franchise tax.

Sec. 171.087.

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

A nonprofit corporation organized solely to provide a student loan fund or student scholarships is exempt.

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

For many of the allowable deductions, exclusions or special accounting methods, taxable entities are not required to alert the Comptroller when employing the deduction or accounting method. For this reason, the number of taxable entities taking advantage of some of these forms of tax relief are 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 entering data on the franchise tax report in a way that identifies each taxable entity using that deduction or method. Tax credits and discounts can also be identified on a taxable entity-specific basis.

**Franchise Tax: Deductions and Exclusions**

Sec. 171.002(d).

**Small Business Exception**

Firms with a tax liability of less than \$1,000 are not required to remit the tax. Firms with total revenue from their entire business of not more than \$1 million, adjusted per Sec. 171.006, are not required to remit the tax. However, the firms must file information reports.

Sec. 171.006.

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

The threshold on total revenue for the small business exception (Sec. 171.002(d)) is adjusted at the beginning of each even-numbered year by a percentage equal to the

percentage increase or decrease in the Consumer Price Index for All Urban Consumers (CPIU) during the preceding state fiscal biennium rounded to the nearest \$10,000. A similar adjustment is made to the maximum allowable subtraction for a single employee's compensation found in Sec. 171.1013(c). The first adjustment became effective on Jan. 1, 2010; additional adjustments became effective Jan. 1, 2012; Jan. 1, 2014; Jan. 1, 2016; Jan. 1, 2018; Jan. 1, 2020; and Jan. 1, 2022.

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

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

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

Sec. 171.101 (e) and (f).

### **Deduction of Additional Aerospace Cost by Certain Taxable Entities in the Aerospace Industry**

A taxable entity within the aerospace industry may elect to subtract certain aerospace costs incurred in relation to contracts with the federal government, and not already subtracted under an election to subtract cost of goods sold or compensation, from its total revenue to determine taxable margin. The taxable entity may add 20 percent of the additional aerospace costs starting on reports due on or after Jan. 1, 2020; 40 percent of the additional aerospace costs starting on reports due on or after Jan. 1, 2021; 60 percent of the additional aerospace costs starting on reports due on or after Jan. 1, 2022; 80 percent of the additional aerospace costs starting on reports due on or after Jan. 1, 2023; and 100 percent of the additional aerospace costs starting on reports due on or after Jan. 1, 2024.

Sec. 171.107.

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

A taxable entity may deduct 10 percent of the amortized cost of solar energy equipment installed from the taxable margin base. A taxable entity must provide the Comptroller with an amortization schedule showing the period in which a deduction is to be made.

Sec. 171.108.

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

A taxable entity may deduct 10 percent of the amortized cost of equipment used in a clean coal project from the taxable margin base. A taxable entity must provide the Comptroller with an amortization schedule showing the period in which a deduction is to be made.

Sec. 171.109.

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

A taxable entity that relocates its main office or principal of business to this state from another state and that did not do business in this state prior to the relocation and is not a member of an affiliated group engaged in a unitary business where another member of the group is doing business in this state on the date the taxable entity relocates, may take a one-time deduction from margin apportioned to this state for relocation expenses. This deduction is only allowed on a taxable entity's initial franchise report.

Sec. 171.1011(e).

### **Exclusion from Total Revenue for Interest in a Passive Entity**

A taxable entity that owns an interest in a passive entity may exclude from total revenue the taxable entity's share of the net income of the passive entity, but only to the extent the net income of the passive entity was generated by the margin of any other taxable entity.

Sec. 171.1011(f).

### **Exclusion from Total Revenue for Flow-through Funds Mandated by Law or Fiduciary Duty**

A taxable entity may exclude from total revenue flow-through funds mandated by law or fiduciary duty to be distributed to other entities, including taxes collected from a third party by the taxable entity and remitted by the taxable entity to a taxing authority.

Sec. 171.1011(g).

### **Exclusion from Total Revenue for Flow-through Funds Mandated by Contract or Subcontract**

A taxable entity may exclude from total revenue flow-through funds mandated by contract or subcontract to be distributed to other entities: (1) sales commissions to nonemployees, including split-fee real estate commissions; (2) the tax basis as determined under the IRC of securities underwritten; and (3) subcontracting payments made under a contract or subcontract entered into by the taxable entity to provide services, labor or materials in connection with the actual or proposed design, construction, remodeling, remediation or repair of improvements on real property or the location of the boundaries of real property.

Sec. 171.1011(g-1).

### **Exclusion from Total Revenue for Lending Institutions**

A taxable entity that is a lending institution may exclude from total revenue proceeds from the principal repayment of loans.



Sec. 171.1011(g-2).

**Exclusion from Total Revenue for Tax Basis of Securities**

A taxable entity may exclude from total revenue the tax basis as determined under the IRC of securities and loans sold.

Sec. 171.1011(g-3).

**Exclusion from Total Revenue for Entities Providing Legal Services**

Taxable entities that provide legal services may exclude flow-through funds that are mandated by law, contract or fiduciary duty to be distributed to the claimant by the claimant's attorney or to other entities on behalf of a claimant by the claimant's attorney: damages due the claimant; funds subject to a lien or other contractual obligation arising out of the representation, other than fees owed to the attorney; funds subject to a subrogation interest of other third-party contractual claim; and fees paid an attorney in the matter who is not a member, partner, shareholder or employee of the taxable entity. These taxable entities may exclude reimbursement of the taxable entity's expenses incurred in prosecuting a claimant's matter that are specific to the matter and that are not general operating expenses. These entities may exclude \$500 per pro bono services case handled by the attorney, but only if the attorney maintains records of the pro bono services for auditing purposes in accordance with the manner in which those services are reported to the State Bar of Texas.

Sec. 171.1011(g-4).

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

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

Sec. 171.1011(g-5).

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

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

Sec. 171.1011(g-6).

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

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

Sec. 171.1011(g-7).

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

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

Sec. 171.1011(g-8).

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

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

Sec. 171.1011(g-10).

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

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

Sec. 171.1011(g-11).

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

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

Sec. 171.1011(g-12).

**Exclusion from Total Revenue of Certain Payments Made to Public Performance Rights Holders and Copyright Owners**

A taxable entity that is a performing rights society that licenses the public performance of nondramatic musical works on behalf of a copyright owner may exclude from total revenue payments made to the public performance rights holder and the copyright owner for whom the taxable entity licenses the public performance.

Sec. 171.1011(k).

**Exclusion from Total Revenue of Certain Payments Received by a Professional Employer Organization**

A taxable entity that is a professional employer organization may exclude from total revenue payments received from a client for wages, payroll taxes on those wages, employee benefits and workers' compensation benefits for the covered employees of the client.

Sec. 171.1011(m).

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

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

Sec. 171.1011(m-1).

**Exclusion from Total Revenue of Certain Reimbursements Received by Management Companies**

A taxable entity that is a management company may exclude from total revenue reimbursements of specified costs incurred in its conduct of the active trade or business of a managed entity, including wages and cash compensation.

Sec. 171.1011(n) and (o).

**Exclusion from Total Revenue by Health Care Providers of Payments Received from Certain Health Care Program Payers and for Costs of Uncompensated Care**

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

Sec. 171.1011(q).

**Exclusion from Total Revenue for Revenue Derived from the Operation of a Facility Located on Property Owned or Leased by Federal Government**

A taxable entity may exclude from total revenue all revenue received that is directly derived from the operation of a facility that is located on property owned or leased by the federal government and managed or operated primarily to house members of the armed forces of the United States.

Sec. 171.1011(r).

**Exclusion from Total Revenue for Revenue Received from Oil or Gas Produced from Certain Wells**

A taxable entity may exclude from total revenue received from oil or gas produced, during the dates certified by the Comptroller as low-producing wells, from an oil well designated by the Railroad Commission of Texas or similar authority of another state whose production averages less than 10 barrels a day over a 90-day period and a gas well designated by the Railroad Commission of Texas or similar authority of another state whose production averages less than 250 Mcf a day over a 90-day period.

Sec. 171.1011(u).

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

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

Sec. 171.1011(v).

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

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

Sec. 171.1011(w-1).

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

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

Sec. 171.1011(x).

**Exclusion from Total Revenue of Certain Flow-Through Revenue Received by Taxable Entities Registered as a Motor Carrier**

A taxable entity registered as a motor carrier under Chapter 643, Transportation Code, may exclude from its total revenue flow-through revenue derived from taxes and fees.

Sec. 171.1012(k).

**Cost of Goods Sold Subtraction for Lending Institutions**

For a taxable entity that is a lending institution that offers loans to the public and elects to subtract cost of goods sold, the entity, other than an entity primarily engaged in selling used merchandise, may subtract as a cost of goods sold an amount equal to interest expense. An entity engaged in lending to unrelated parties solely for agricultural production is considered to offer loans to the public.

Sec. 171.1012(k-1).

**Cost of Goods Sold Subtraction for Certain Rental Companies**

A taxable entity that is a motor vehicle rental or leasing company that remits a tax on gross receipts imposed under Section 152.026, a heavy construction equipment rental or leasing company, or a railcar rolling stock rental or leasing company may subtract as a cost of goods sold the costs otherwise allowed by this section in relation to tangible

personal property that the entity rents or leases in the ordinary course of business of the entity.

Sec. 171.1012(k-2).

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

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

Sec. 171.1012(o).

**Additional Cost of Goods Sold Subtraction for Film or Television Production or Broadcasting Companies**

If a taxable entity whose principal business activity is film or television production or broadcasting or the distribution of tangible personal property described by Section 171.1012(a)(3)(A)(ii), or any combination of these activities, elects to subtract cost of goods sold, the cost of goods sold for the taxable entity shall be the costs described in this section in relation to the property and include depreciation, amortization and other expenses directly related to the acquisition, production or use of the property, including expenses for the right to broadcast or use the property.

Sec. 171.1012(t).

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

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

Sec. 171.1013(b-1).

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

This provision applies to a small employer 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. 171.001(d).

**Exemption for a Qualified Veteran-Owned Business**

A taxable entity that is a qualified veteran-owned business as defined under Section 171.0005 that began doing

business in Texas on or after Jan. 1, 2016 and before Jan. 1, 2020, owes no franchise tax on business conducted before the fifth anniversary of the date the entity began doing business. This provision expired on Jan. 1, 2020.

In the 87th Legislature, Regular Session, Senate Bill (SB) 938 reinstated the new veteran-owned business provision effective Jan. 1, 2022. Under the reinstated provision, a qualifying new veteran-owned business must be formed on or after Jan. 1, 2022, and before Jan. 1, 2026. A new veteran-owned business formed between Jan. 1, 2020, and Dec. 31, 2021 (the period during which the previous provision was expired), does not qualify.

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

**Definition of Retail Includes Certain Rental Activities**

Taxable entities that are primarily engaged in renting of apparel; rental-purchase agreement activities; renting or leasing of tools, party and event supplies and furniture; or renting or leasing of heavy construction equipment are defined to be engaged in retail trade.

Sec. 171.0001(12)(C).

**Definition of Retail Includes Automotive Repair Services**

Taxable entities that are primarily engaged in providing automotive repair services are defined to be engaged in retail trade.

Sec. 171.002(b).

**Reduced Tax Rate for Certain Retail and Wholesale Entities**

A taxable entity primarily engaged in the retail or wholesale trades as defined by Secs. 171.0001(12), (18) and 171.002(c) is subject to a reduced tax rate of 0.0375.

Sec. 171.1016.

**E-Z Computation and Rate**

A taxable entity with not more than \$20 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 0.0331. A taxable entity electing the E-Z method may apply applicable deductions from the tax provided by Sec. 171.1011. A taxable entity electing the E-Z method may not take other credits, deductions or adjustments.

Sec. 171.106(b) and (c).

**Apportionment for Certain Investment Management Companies**

Most firms that provide services (as opposed to tangible goods) are required to source their receipts to the location where the service was performed. Sec. 171.106(b) sources receipts from regulated investment company services to the domicile of the owners of the investment funds. Sec.

171.106(c) sources receipts from employee retirement plan managers to the state of the plan's beneficiaries.

Sec. 171.106(d).

### **Apportionment of Proceeds from Interest Earned on Federal Funds**

A banking corporation shall exclude from the numerator of the bank's apportionment factor interest earned on federal funds and interest earned on securities sold under an agreement to repurchase that are held in this state in a correspondent bank that is domiciled in this state.

Sec. 171.106(e).

### **Apportionment of Receipts from a Defense Readjustment Project**

Receipts from services that a defense readjustment project performs in a defense economic readjustment zone are not receipts from business done in this state.

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

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

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

Sec. 171.106(g).

### **Apportionment for Internet Hosting**

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

Sec. 171.106(h).

### **Apportionment for Broadcasters**

For most services, receipts are sourced to the location where the services are performed. A taxable entity that is a broadcaster shall include in the numerator of the broadcaster's apportionment factor receipts arising from broadcasting or otherwise distributing film programming by any means only if the legal domicile of the broadcaster's customer is in this state.

Rule 3.591(e)(33).

### **Apportionment for Transportation Services**

Gross receipts from the transportation of goods or passengers are sourced to Texas by including gross receipts from the transportation of goods or passengers that both originates and terminates in Texas or the multiplication of

total transportation receipts by the ratio of total compensated mileage in the transportation of goods and passengers in Texas to total compensated mileage.

Rule 3.591(e)(30).

### **Apportionment for Telephone Services**

Gross receipts from telephone calls that both originate and terminate in Texas are sourced to Texas. Gross receipts from telephone calls that originate in Texas but terminate outside of Texas or that originate outside of Texas but terminate in Texas are not sourced to Texas.

## Franchise Tax: Credits

Sec. 171.111.

### **Temporary Credit on Taxable Margin**

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

Sec. 171.602.

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

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

Secs. 171.651-171.665.

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

A taxable entity may earn a franchise tax credit for qualified research expenses incurred in this state that exceed the amount of such expenses incurred during a base period. The credit is equal to 5 percent of the increased expenses or 6.25 percent of the increased expenses if the taxable entity contracts with an institution of higher education for the performance of qualified research. The maximum amount of credit taken on a report may not exceed 50 percent of the amount of franchise tax due for the report.

Sec. 171.663 requires the Comptroller to provide certain information regarding the credits for Research and Development Activities. For activity shown on 2021 franchise tax reports, 2,519 taxable entities applied credits, the amount of credits applied was \$258 million and the amount of unused credit carried forward was \$1.27 million.

Sec. 171.725.

**Subchapter O. Tax Credit for Certain Research and Development Activities Carryforward**

A taxable entity may carryforward the unused credit that was eligible under Subchapter O prior to Jan. 1, 2008. A taxable entity may carryforward the unused credit until the earlier of 20 consecutive reports or Dec. 31, 2027. The maximum amount of credit taken on a report may not exceed 50 percent of the amount of franchise tax due for the report.

Secs. 171.901-171.909.

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

An entity may earn a franchise tax credit for expenses incurred for the rehabilitation of a certified historic structure in which the entity has an ownership interest in the year during which the structure is placed in service after the rehabilitation and the certified cost and expenses incurred exceed \$5,000. To establish a credit, the entity must obtain a certificate of eligibility from the Texas Historical Commission. The amount of credit is limited to 25 percent of the total eligible cost and expenses incurred. The amount of credit claimed on a report may not exceed the amount of franchise tax due on that report. An entity may carry unused credits forward for not more than five years. An entity that has established a credit may assign or sell the credit to another entity. Expenditures by an entity described by Subsection (b) to rehabilitate a structure that is leased to a tax-exempt entity in a disqualified lease, as those terms are defined by IRC Section 168(h), are not eligible costs and expenses.

**Franchise Tax: Refunds**

Sec. 171.501.

**Refund for Job Creation in Enterprise Zone**

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



# Motor Vehicle Sales and Use Tax

The motor vehicle sales tax is a transaction tax paid on each purchase of a qualifying motor vehicle. There is also a use tax component for a vehicle purchased out of state and then brought into Texas. Motor vehicle sales tax collections in fiscal 2022 totaled \$6 billion.

## Motor Vehicle Sales and Use Tax: Exemptions

Motor vehicle sales tax exemptions are based on either the status of the purchaser or the intended use of the motor vehicle. **Table 8** summarizes the estimated values of these exemptions for fiscal years 2023 through 2028.

### Sec. 152.081.

#### Driver Training Motor Vehicles

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

### Sec. 152.082.

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

Motor vehicles purchased or used by public agencies, including commercial transportation companies who contract with schools to provide transportation services,

are exempt. These vehicles must be operated with exempt license plates.

### Sec. 152.086.

#### Motor Vehicles Driven by Handicapped Persons

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

### Sec. 152.087.

#### Fire Trucks and Emergency Medical Services Vehicles

The tax does not apply to the purchase, rental or use of a fire truck, emergency medical services vehicle or other motor vehicle used exclusively for firefighting purposes or for emergency medical services. The vehicle must be purchased by a volunteer fire department; a nonprofit emergency medical service provider that receives a federal tax exemption under Sec. 501(c)(3), IRC; or by certain

**Table 8**

## Value of Motor Vehicle Sales Tax Exemptions

Fiscal 2023 to 2028 – In millions of dollars

Tax Code Section	Exemption	2023	2024	2025	2026	2027	2028
152.081	Driver training motor vehicles	*	*	*	*	*	*
152.082	Sale to or use by a public agency	\$44.8	\$45.1	\$45.3	\$45.5	\$45.7	\$46.0
152.086	Driven by handicapped persons	4.7	4.7	4.8	4.9	5.0	5.1
152.087	Fire trucks and ambulances	1.8	1.8	1.9	2.0	2.0	2.0
152.088	Used for religious purposes	1.3	1.3	1.3	1.4	1.4	1.4
152.089	Exempt vehicles	112.1	123.3	129.5	136.0	142.7	149.9
152.090	Certain hydrogen-powered motor vehicles	cbe	cbe	cbe	cbe	cbe	cbe
152.091	Farm or timber use	39.7	39.9	40.1	40.3	40.5	40.7
152.092	Vehicles transported out of state	cbe	cbe	cbe	cbe	cbe	cbe
152.093	Certain licensed child-care facilities	3.0	3.1	3.2	3.4	3.5	3.6
<b>Total</b>		<b>\$207.4</b>	<b>\$219.3</b>	<b>\$226.2</b>	<b>\$233.4</b>	<b>\$240.9</b>	<b>\$248.8</b>

\* Amount is negligible.

cbe: Cannot be estimated.

Note: Totals may not sum due to rounding.

emergency medical service providers to which Sec. 502.456, Transportation Code, applies.

Sec. 152.088.

### **Motor Vehicles Used for Religious Purposes**

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

Sec. 152.089.

### **Exempt Vehicles**

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

An "interstate motor vehicle" means a motor vehicle operated in this state and another state or country, and for which registration fees could be apportioned if the motor vehicle were registered in a state or province of a country that is a member of the International Registration Plan (IRP). 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 fewer than 181 days or a vehicle that has Texas license plates and does not operate under the IRP.

Sec. 152.090.

### **Certain Hydrogen-Powered Motor Vehicles**

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

Sec. 152.091.

### **Farm or Timber Use**

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

Sec. 152.092.

### **Motor Vehicles Transported Out of State**

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

Sec. 152.093.

### **Motor Vehicles Sold to Certain Licensed Child Care Facilities**

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



# Oil Production Tax

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

The tax rate is the greater of 4.6 percent of the oil’s taxable market value or 4.6 cents for each barrel of oil produced in the state. In determining the taxable market value, the gross market value of the produced oil at the wellhead is reduced by the non-taxable value of royalties paid to governmental entities and the transportation costs to move the oil from well to market. Total oil production tax collections in fiscal 2022 were \$6.36 billion – a new record reflecting an 84.4 percent increase from fiscal 2021 collections of \$3.45 billion and a 63.7 percent increase from the prior record of \$3.89 billion set in 2019.

## Oil Production Tax: Exemptions

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

Sec. 202.054.

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

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

Sec. 202.0545.

### Enhanced Recovery Projects Using Anthropogenic Carbon Dioxide

The tax incentive was created by the 80th Legislature (2007) to provide additional tax relief for oil produced from EOR projects using anthropogenic carbon dioxide for 30 years.

Sec. 202.056.

### Oil and Gas Wells Previously Inactive

The inactive well exemption was amended by the 86th Legislature (2019) to provide a five-year severance tax exemption for certain wells that were previously inactive for two years as certified by the Railroad Commission of Texas.

**Table 9**

## Value of Oil Production Tax Exemptions

Fiscal 2023 to 2028 – In millions of dollars

Tax Code Section	Exemption	2023	2024	2025	2026	2027	2028
202.054	Qualification of oil from new or expanded enhanced recovery project for special tax rate	\$49.3	\$45.0	\$40.7	\$36.5	\$32.4	\$28.7
202.0545	Enhanced recovery projects using anthropogenic carbon dioxide	0.5	0.5	0.4	0.4	0.3	0.3
202.056	Oil and gas from wells previously inactive	6.8	4.7	3.9	3.5	3.1	2.7
202.058	Qualifying low-producing oil leases	*	*	*	*	*	*
202.060	Oil and gas from reactivated orphaned wells	*	*	*	*	*	*
202.063	Oil incidentally produced in association with the production of geothermal energy	*	*	*	*	*	*
<b>Total</b>	<b>Value of Crude Oil Production Tax Exemptions</b>	<b>\$56.6</b>	<b>\$50.2</b>	<b>\$45.1</b>	<b>\$40.4</b>	<b>\$35.8</b>	<b>\$31.7</b>

\* Amount is either zero or negligible.

Note: Totals may not sum due to rounding.

Sec. 202.058.

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

This tax incentive program was created by the 79th Legislature (2005) to provide tax credits to qualifying low-producing oil leases based on the preceding three-month average production and the average taxable oil price adjusted to 2005 dollars. The tax credits were made permanent by the 80th Legislature (2007). The tax incentive has three levels of tax credits with price triggers: for oil prices averaging \$22 or less during the previous three months, the tax credit is 100 percent; for oil prices averaging between \$22 and \$25, the tax credit is 50 percent; and for oil prices averaging between \$25 and \$30, the tax credit is 25 percent. The oil price triggers are not expected to occur over the projected timeline.

Sec. 202.060.

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

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

Sec. 202.063.

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

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

# Natural Gas Production 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 with the remainder deposited to the General Revenue Fund.

The tax rate of 7.5 percent of natural gas' taxable 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. Total natural gas production tax collections in fiscal 2022 were \$4.47 billion – a new record representing a 185 percent increase from fiscal 2021 collections of \$1.57 billion and a 66.5 percent increase from the prior record of \$2.68 billion set in 2008.

## Natural Gas Production Tax: Exemptions

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

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 SB 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 HB 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 Sept. 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.

Secs. 201.058(a) and 202.056.

### Oil or Gas from Wells Previously Inactive

Casinghead gas produced from a two-year inactive well that qualifies under Sec. 202.056 is exempt from the natural gas production tax.

**Table 10**

## Value of Natural Gas Production Tax Exemptions

Fiscal 2023 to 2028 – In millions of dollars

Tax Code Section	Exemption	2023	2024	2025	2026	2027	2028
201.057(c)	High-cost natural gas	\$1,370.5	\$982.9	\$974.1	\$1,000.9	\$985.5	\$1,008.0
201.058(a) (202.056)	Wells previously inactive	**	**	**	**	**	**
201.058(a) (202.060)	Orphan well program	*	*	*	*	*	*
201.058(b)	Flared/released gas	*	*	*	*	*	*
201.059	Low-producing gas wells	*	*	*	*	*	*
201.060	Gas incidentally produced in association with the production of geothermal energy	*	*	*	*	*	*
<b>Total</b>	<b>Value of Natural Gas Production Tax Exemptions</b>	<b>\$1,370.5</b>	<b>\$982.9</b>	<b>\$974.1</b>	<b>\$1,000.9</b>	<b>\$985.5</b>	<b>\$1,008.0</b>

\* Amount is either zero or negligible.

\*\* Amount included under Section 202.056 of Table 9 under the oil production tax.

Note: Totals may not sum due to rounding.

Secs. 201.058(a) and 202.060.

### **Orphan Well Program**

Casinghead gas produced from an orphaned well that qualifies under Sec. 202.060 is exempt from the natural gas production tax.

Sec. 201.058(b).

### **Flared/Released Gas**

SB 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 HB 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. Prices for qualified low-producing gas wells reached their triggering levels for the first time during fiscal 2009 and again in subsequent years. Starting in fiscal 2023, triggering prices are not expected to be reached over the projected timeline.

Sec. 201.060.

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

Pursuant to HB 4433, 81st Legislature, Regular Session (2009), an exemption was granted for gas incidentally produced in association with the production of geothermal energy. The exemption has not been claimed and is not expected to occur over the projected timeline. ✪

# School Property Tax

The Texas Constitution authorizes local governments to levy property taxes. Property taxes are levied by counties, cities, school districts and special purpose districts such as junior colleges, hospitals and flood control districts.

In tax year 2021, school property tax collections totaled \$38.95 billion, which was 53 percent of the total property taxes levied in 2021.

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 spent to support public education.

There are two types of school property tax levies: one to cover maintenance and operating costs (M&O) and another to pay interest and sinking fund (I&S) debt service for financing building programs. In tax year 2021, the statewide weighted average M&O tax rate was \$0.9540 per \$100 valuation, the I&S tax rate was \$0.280 per \$100 valuation and the combined statewide weighted average school tax rate was \$1.234 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 Tax Code Sec. 11.02, most intangible personal property is not taxable. To receive property tax exemptions or special appraisals, in most cases a property owner must file an application with the appraisal district of the county in which the property is located.

The total estimated cost of local school district property tax exemptions or special appraisals is \$17.5 billion in tax year 2023. This amount is projected to increase to \$21.3 billion by 2028. Estimates for 2023 through 2028, reflecting anticipated school property tax rates and exempt value growth, are itemized in **Table 11**. The exemptions and special appraisals are explained below.

**Table 11**

## Cost of School Property Tax Exemptions or Special Appraisals

Tax Year 2023 to 2028 – In millions of dollars

Tax Code Section	Exemption	2023	2024	2025	2026	2027	2028
11.02	Intangible personal property	cbe	cbe	cbe	cbe	cbe	cbe
11.11	Public property (state and local)	cbe	cbe	cbe	cbe	cbe	cbe
11.111	Public property for housing indigent persons <sup>1</sup>	\$5.8	\$5.8	\$5.9	\$6.0	\$6.0	\$6.1
11.12	Federal exemptions	cbe	cbe	cbe	cbe	cbe	cbe
Residence Homesteads:							
11.13(b)	Mandated \$40,000 exemption	2,625.9	2,701.7	2,704.1	2,730.5	2,734.2	2,738.3
11.13(c)	Mandated \$10,000 exemption: age 65 and older or disabled	252.5	265.7	272.0	280.4	286.1	291.3
11.13(d)	Optional exemption: age 65 and older or disabled <sup>2</sup>	133.6	144.9	147.4	151.3	154.0	156.8
11.13(n)	Optional exemption of up to 20 percent <sup>3</sup>	791.0	867.5	909.4	961.8	1,008.8	1,058.2
11.131(b), (c)	100 percent disabled or unemployable veterans and surviving spouse	458.5	514.2	538.5	552.8	556.9	559.2
11.132	Donated residence homestead of partially disabled veteran	*	*	*	*	*	*
11.133	Residence homestead of surviving spouse of member of the armed services killed in the line of duty	0.7	0.7	0.7	0.7	0.8	0.8
11.134	Residential homestead of surviving spouse of first responder killed in the line of duty	0.6	0.7	0.7	0.7	0.7	0.7
11.14	Personal property not used for producing income	cbe	cbe	cbe	cbe	cbe	cbe
11.141	Precious metal in Texas depository	cbe	cbe	cbe	cbe	cbe	cbe
11.145	Income-producing personal property valued under \$2,500	0.7	0.7	0.7	0.7	0.7	0.7
11.146	Mineral interest valued under \$500	2.8	2.6	2.6	2.7	2.7	2.7
11.15	Family supplies for home or farm use	cbe	cbe	cbe	cbe	cbe	cbe
11.16	Farm products	216.1	220.3	222.8	227.3	230.1	232.9
11.161	Implements of husbandry	283.7	284.2	286.0	291.2	294.3	297.6

(continued)

Table 11 (continued)

**Cost of School Property Tax Exemptions or Special Appraisals**

Tax Year 2023 to 2028 – In millions of dollars

Tax Code Section	Exemption	2023	2024	2025	2026	2027	2028
11.17	Cemeteries	cbe	cbe	cbe	cbe	cbe	cbe
11.18, 11.1801	Charitable organizations	cbe	cbe	cbe	cbe	cbe	cbe
11.181	Improving property for housing with volunteer labor	0.8	0.8	0.8	0.7	0.7	0.7
11.182	Community housing development organizations improving property for housing	20.5	20.8	20.9	21.3	21.4	21.5
11.1825	Constructing or rehabilitating housing not previously exempt	0.5	0.5	0.5	0.5	0.5	0.5
11.1827	Community land trust	*	*	*	*	*	*
11.183	Assisting ambulatory health care centers	0.6	0.7	0.6	0.7	0.7	0.6
11.184	Performing charitable functions	11.1	11.3	11.4	11.6	11.6	11.7
11.185	Developing model colonia subdivisions	0.1	0.1	0.1	0.1	0.1	0.1
11.19	Youth spiritual, mental and physical development organizations	13.9	14.3	14.5	15.0	15.2	15.5
11.20	Religious organizations	cbe	cbe	cbe	cbe	cbe	cbe
11.21	Nonprofit schools	135.7	139.7	142.3	146.4	149.3	151.7
11.211	Real property leased to certain schools	cbe	cbe	cbe	cbe	cbe	cbe
11.22	Disabled veterans	28.0	29.4	30.0	30.8	31.5	32.1
11.23	Miscellaneous exemptions	26.0	27.2	28.2	29.5	30.7	31.8
11.231	Providing economic development services to local community	6.3	6.4	6.4	6.4	6.4	6.4
11.24	Historic or archeological sites <sup>2</sup>	3.9	3.9	3.8	3.8	3.7	3.6
11.25	Marine cargo containers	*	*	*	*	*	*
11.251, 11.437	Freeport property and cotton stored in warehouses	499.7	516.8	520.0	527.9	531.4	535.1
11.252	Motor vehicles leased for use other than production of income	53.8	55.1	56.0	57.6	58.8	60.0
11.253	Tangible personal property in transit (goods-in-transit)	0.1	0.1	0.1	0.1	0.1	0.1
11.254	Motor vehicles for income production and personal use	0.6	0.6	0.6	0.6	0.6	0.6
11.26	School tax ceiling: age 65 and older or disabled	1,699.2	1,828.0	1,911.2	2,015.1	2,100.8	2,178.4
11.27	Solar and wind energy devices	4.9	6.7	9.1	12.2	16.1	20.9
11.271	Offshore drilling equipment not in use	3.2	3.2	3.2	3.3	3.3	3.3
11.29	Intracoastal waterway dredge disposal site	0.1	0.1	0.1	0.1	0.1	0.1
11.30	Nonprofit water supply or wastewater service corporation	9.3	9.5	9.7	10.0	10.2	10.4
11.31	Pollution control property	159.3	165.8	167.9	171.5	173.8	176.1
11.311	Landfill-generated gas conversion facilities	0.2	0.2	0.2	0.2	0.2	0.2
11.315	Energy storage system in nonattainment area	0.1	0.1	0.1	0.1	0.1	0.1
11.32	Certain water conservation initiatives	cbe	cbe	cbe	cbe	cbe	cbe
11.33	Raw cocoa and green coffee held in Harris County	2.0	2.0	2.1	2.1	2.2	2.2
11.34	Limitation on certain properties in certain municipalities <sup>1</sup>	0.5	0.5	0.5	0.5	0.5	0.5
11.35	Temporary Exemption for Disaster Area	cbe	cbe	cbe	cbe	cbe	cbe
21.02, 21.04	Railroad rolling stock	25.1	25.9	26.6	27.5	28.2	28.9
23.23	Limitation on appraised value of residence homestead (10% cap)	637.3	279.9	490.6	625.4	663.1	703.3
23.41, 23.52, 23.73, 23.9803	Special appraisal for agriculture and timber land	4,191.1	4,384.8	4,550.1	4,763.6	4,945.6	5,135.3
23.48, 23.60	Agricultural and open-space land reappraisal for temporary tick quarantine	cbe	cbe	cbe	cbe	cbe	cbe
26.11, 26.111, 26.113	Prorations and Other Partial Exemptions	9.6	10.3	10.7	10.8	10.8	10.7
33.06, 33.065	Deferred Taxes	48.7	51.0	52.0	53.5	54.6	55.4
Ch. 311	Tax Increment Financing Act	199.6	203.9	206.7	211.4	214.3	217.4
Ch. 313	Texas Economic Development Act <sup>4</sup>	1,008.2	1,089.3	1,210.8	1,247.1	1,303.2	1,414.0
	<b>Exemptions that can be separately estimated</b>	<b>13,571.7</b>	<b>13,898.0</b>	<b>14,578.8</b>	<b>15,213.7</b>	<b>15,665.0</b>	<b>16,174.6</b>
	Exemptions that cannot be separately estimated	3,883.4	4,344.0	4,329.8	4,459.1	4,839.0	5,090.4
<b>Total</b>	<b>School Property Tax Exemptions or Special Appraisals</b>	<b>\$17,455.0</b>	<b>\$18,242.1</b>	<b>\$18,908.5</b>	<b>\$19,772.8</b>	<b>\$20,504.0</b>	<b>\$21,265.1</b>

<sup>1</sup> "Tax Year" is equivalent to calendar year.

cbe: Cannot be estimated because of unavailable appraisal data.

Note: Totals may not sum due to rounding.

\* Negligible values

<sup>2</sup> These exemptions require local approval and have a state impact when categorized as totally exempt property. The total local values of these exemptions are reflected in the table.

<sup>3</sup> These exemptions are optional, require local approval and only partially impact state costs through tax ceiling calculations. The total local values of these exemptions are reflected in the table.

<sup>4</sup> This exemption is optional and requires local approval, and a portion carries state costs through tax ceiling calculations and operation of school funding formulas. The total local values of these exemptions are reflected in the table.

<sup>5</sup> Data used to generate the forecast numbers are based on existing data and will be different from what will be published later based on additional reported data. These estimates were made considering active applications likely to result in an agreement as of the program expiration date of Dec. 31, 2022. These estimates are subject to change as the final agreements and value- and timing-related amendments to those agreements are received.

Sec. 11.02.

**Intangible Personal Property**

Most intangible personal property is not taxable; this includes stocks, bonds, notes or accounts receivable, franchises, licenses or permits, demand or time deposits, certificates of deposit, share accounts, share certificate accounts, share deposit accounts, insurance policies, annuities, pensions, causes of action, contracts and goodwill.

Sec. 11.11.

**Public Property**

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

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

Property dedicated or held for the support, maintenance or benefit of a public institution of higher education is exempt or partially exempt under certain circumstances.

- ***Alumni Association Property 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.

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

An improvement leased and used by the Texas Department of Criminal Justice (TDCJ) that is located on land owned by TDCJ may be exempt. The improvement must be subject to a lease-purchase agreement that provides that legal title to the improvement passes to TDCJ at the end of the lease period.

- ***Personal Property Subject to Certain Lease-Purchase Agreements***

If a lease-purchase agreement entitles the state or a political subdivision of the state to compel delivery of the legal title of tangible personal property at the end of the lease, the property is exempt.

- ***Certain Property of a Nonprofit Corporation***

A nonprofit corporation engaged primarily in providing chilled water and steam to an eligible institution is entitled to an exemption of certain property.

- ***Texas Department of Transportation Property Leased to a Private Entity***

Rail or highway property owned by the Texas Department of Transportation and licensed or leased to a private entity under the Transportation Code and not used for a commercial purpose is exempt.

Sec. 11.111.

**Public Property Used to Provide Transitional Housing for Indigent Persons<sup>2</sup>**

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

Sec. 11.12.

**Federal Exemptions**

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

Secs. 11.13 and 11.135.

**Residence Homestead**

Residence homesteads receive exemptions that apply to a portion of the appraised value of the home. If a residential property owner has an exemption under Sec. 11.13, and the residence is rendered uninhabitable or unusable by casualty, wind or water damage, the owner may continue to receive the exemption for up to two years, or five years if in a governor-declared disaster area and rendered uninhabitable or unusable by the disaster, while constructing a replacement residence. If the owner sells the property before completing the replacement residence, additional taxes and interest may be imposed.

Residence homestead exemptions are separated into those that are mandated by the state and those that are optional, subject to adoption by local taxing units.

- ***State Mandated, Sec. 11.13(b) and (c)***

- 1) A school district must grant an exemption of \$40,000 from the appraised value of all qualified residence homesteads in the district.
- 2) A school district also must grant an additional exemption of \$10,000 from the appraised value of a residence homestead for adults who are disabled or 65 years of age or older.

**Optional, Sec. 11.13(d)<sup>3</sup> and (n)<sup>4</sup>**

- 1) The governing body of a local taxing unit, or a majority of the qualified voters of a school district at a properly called election by petition, may grant

<sup>2</sup> This exemption requires local approval and has a state impact when categorized as totally exempt property.

<sup>3</sup> This exemption is optional, requires local approval and only partially impacts state costs through tax ceiling calculations.

<sup>4</sup> This exemption is optional and requires local approval, and a portion carries state costs through tax ceiling calculations and operation of school funding formulas.

an additional exemption of at least \$3,000 of the appraised value of a residence homestead for adults who are disabled or 65 years of age or older. There is no maximum amount for this exemption.

- 2) The governing body of a local taxing unit may grant an additional exemption of up to 20 percent of the appraised value of a residence homestead. The exemption must be at least \$5,000 when applied to a residence homestead.

Sec. 11.131.

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

Veterans awarded 100 percent disability compensation from the U.S. Department of Veterans Affairs and having either a 100 percent disability rating or individual unemployability, as determined by the U.S. Department of Veterans Affairs, are entitled to a total homestead exemption. The disabled veteran's surviving spouse may also qualify for the exemption.

Sec. 11.132.

### **Donated Residence Homestead of Partially Disabled Veteran**

A disabled veteran is entitled to a percentage exemption equal to the veteran's disability rating, if less than 100 percent, on the veteran's homestead if the home was donated by a charitable organization to the veteran at no or some cost to the veteran that is not more than 50 percent of the good faith estimate of the market value of the residence homestead. The disabled veteran's surviving spouse may also qualify for the exemption.

Sec. 11.133.

### **Residence Homestead of Surviving Spouse of Member of the Armed Services Killed in the Line of Duty**

The surviving spouse of a member of the armed services killed or fatally injured in the line of duty is entitled to exemption of the total appraised value of his or her residence, so long as the surviving spouse has not remarried.

Sec. 11.134.

### **Residence Homestead of Surviving Spouse of First Responder Killed in Line of Duty**

An eligible surviving spouse of a first responder killed in the line of duty is entitled to exemption of the total appraised value of his or her residence, so long as the surviving spouse has not remarried. The exemption applies regardless of the date of the first responder's death if the surviving spouse otherwise meets the qualifications.

Sec. 11.14.

### **Tangible Personal Property Not Producing Income**

Tangible personal property not used to produce income is exempt unless the taxing entity elects to tax the property.

Manufactured homes as defined and certain other residential structures are not included in this exemption.

Sec. 11.141.

### **Precious Metal in Texas Depository**

Precious metal held in a Texas precious metal depository location is exempt, regardless of whether the precious metal is held or used by the person for the production of income.

Sec. 11.145.

### **Income-Producing Tangible Personal Property Having Value of Less Than \$2,500**

A person is entitled to an exemption on tangible personal property that is held or used to produce income and valued at less than \$2,500. The exemption applies to each separate taxing unit in which a person uses the property to produce income. All property in each taxing unit is aggregated to determine taxable value.

Sec. 11.146.

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

A person is entitled to an exemption on 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 in each taxing unit are aggregated to determine taxable value.

Sec. 11.15.

### **Family Supplies**

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

Sec. 11.16.

### **Farm Products**

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

Sec. 11.161.

### **Implements of Husbandry**

All machinery and equipment used to produce farm or ranch products or timber, regardless of their primary design, are considered to be implements of husbandry, including nursery stock weather protection units, and are exempt from property taxation.

Sec. 11.17.

### **Cemeteries**

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

Secs. 11.18-11.185.

### **Charitable Organizations**

Property owned by qualified charitable organizations may be exempt by statute. The following types of charitable



organizations receive specific authorization in the Property Tax Code and are exempt from property taxes if they meet certain qualifications:

- Charitable organizations performing enumerated functions (Secs. 11.18, 11.1801);
- Charitable organizations improving property for low-income housing with volunteer labor (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 construction completed on or after Jan. 1, 2004 (Sec. 11.1825);
- Community land trusts if the exemption is adopted by the governing body of the taxing unit on or after Jan. 1, 2012 (Sec. 11.1827);<sup>5</sup>
- Associations providing assistance to ambulatory health care centers (Sec. 11.183);
- Organizations engaged primarily in performing charitable functions (Sec. 11.184); and
- Organizations developing model colonia subdivisions (Sec. 11.185).

**Sec. 11.19.**  
**Youth Spiritual, Mental and Physical Development Associations**

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

**Sec. 11.20.**  
**Religious Organizations**

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

**Sec. 11.21.**  
**Schools**

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

**Sec. 11.211.**  
**Real Property Leased to Certain Schools**

Real property leased to an independent school district, community college district or open-enrollment charter school may be exempt from taxation. A constitutional amendment authorizing this exemption was not proposed or put before the voters.

<sup>5</sup> This exemption is optional, requires local approval and only impacts the local taxing units that adopt them.

**Sec. 11.22.**  
**Disabled Veterans**

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

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

**Sec. 11.23.**  
**Miscellaneous Exemptions**

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

- ***Veterans Organizations***

A nonprofit organization composed primarily of members or former members of the U.S. armed forces or its allies and chartered or incorporated by Congress may apply for exemption from taxation.

- ***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.

- ***Nature Conservancy of Texas***

The Nature Conservancy of Texas was entitled to an exemption from taxation of the tangible property it owns if the property is not held for gain. Although this exemption is still in the Tax Code, an Attorney General opinion has called the constitutionality of this exemption into question.

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

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

- ***Private Enterprise Demonstration Associations***

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

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

Bison, buffalo and cattalo are exempt if the animals are not held for profit and are used in experimental breeding to produce an improved strain or kept in parks to preserve the species.

- ***Theater Schools***

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

- **County Fair Associations**

A qualified 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.

- **Community Service Clubs**

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

- **Medical Center Development**

Real and personal property used in developing or operating a medical center area may be exempt from property taxation. The property must be owned by a qualified nonprofit corporation. Additional requirements apply.

- **Scientific Research Corporations**

Property owned and used by a qualified nonprofit scientific research corporation for scientific research and educational activities for the benefit of one or more colleges or universities is exempt.

- **National Hispanic Institute**

Property owned by the National Hispanic Institute is exempt as long as the organization is exempt from federal income taxation as a nonprofit organization.

Sec. 11.231.

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

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

Sec. 11.24.

### **Historic Sites<sup>6</sup>**

Property that has been legally designated an archaeological or historic site may be exempted by the governing body of a taxing unit.

Sec. 11.25.

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

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

Secs. 11.251 and 11.437.

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

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

Sec. 11.252.

### **Motor Vehicles Leased for Use Other than Production of Income**

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

Sec. 11.253.

### **Tangible Personal Property in Transit (Goods-in-transit)**

Tangible personal property may be exempt from taxation if it is acquired in, or imported into, this state to be forwarded to another location in this state or outside of this state within 175 days and is stored under a contract for bailment by a public warehouse operator. A taxing unit in a declared disaster area may extend the number of days from 175 to 270 by official action. After holding a public hearing, a taxing entity may elect to tax goods-in-transit.

Sec. 11.254.

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

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

Sec. 11.26.

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

The school tax limitation (tax ceiling or tax freeze) is provided to homeowners receiving the mandatory disabled or 65 years of age or older \$10,000 homestead exemption for school taxes. 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. If 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 the individual qualified.

<sup>6</sup> This exemption is optional, requires local approval and only partially impacts state costs through tax ceiling calculations.

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

Sec. 11.27.

**Solar and Wind-Powered Energy Devices**

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

Sec. 11.271.

**Offshore Drilling Equipment Not in Use**

Certain equipment used in offshore drilling for oil or natural gas, or that is part of offshore spill response containment systems, may be exempt if stored in counties bordering the Gulf of Mexico or other bodies of water immediately adjacent to the Gulf of Mexico.

Sec. 11.29.

**Intracoastal Waterway Dredge Disposal Site**

Land dedicated by a recorded donated easement as a disposal site for depositing and discharging materials dredged from the main channel of the Gulf Intracoastal Waterway by or under the direction of the state or federal government is exempt. An exemption terminates when the land ceases to be used as an active dredge material disposal site and is no longer dedicated for that purpose. Although this exemption is still in the Tax Code, an Attorney General opinion has called the constitutionality of this exemption into question insofar as it would apply to property required to be taxed by Texas Constitution, Article 8, Sec. 1(b), which requires all property held by private persons or corporations to be taxed unless there is constitutional authorization.

Sec. 11.30.

**Nonprofit Water Supply or Wastewater Service Corporation**

Property owned by a qualified corporation that provides in its bylaws that on dissolution the corporation's assets transfer to an entity that provides a water supply or wastewater service and is exempt from property taxation may be exempt. To be considered exempt, the property must be reasonably necessary for and used to acquire, treat, store, transport, sell or distribute water or to provide wastewater service.

Sec. 11.31.

**Pollution Control Property**

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

Sec. 11.311.

**Landfill-Generated Gas Conversion Facilities<sup>7</sup>**

A person is entitled to an exemption on certain property located on or near a landfill and used to collect, compress and transport, process and deliver gas generated by the landfill.

Sec. 11.315.<sup>8</sup>

**Energy Storage System in Nonattainment Area**

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

Sec. 11.32.

**Certain Water Conservation Initiatives<sup>9</sup>**

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

Sec. 11.33.

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

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

Sec. 11.34.

**Limitation of Taxes on Real Property in Designated Areas of Certain Municipalities<sup>10</sup>**

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

Sec. 11.35.

**Temporary Exemption for Disaster Area**

A qualified property that is at least 15 percent physically damaged by a disaster in a governor-declared disaster area is eligible for a temporary exemption of a portion of the appraised value of the property.

<sup>7</sup> This exemption is state mandated; however, it has no cost to the state through the operation of the school funding formulas because this exemption is not deducted in the Comptroller's Property Value Study (Govt. Code Section 403.302(d)(9)).

<sup>8</sup> This exemption is optional, requires local approval and only impacts the local taxing units that adopt it.

<sup>9</sup> This exemption is optional, requires local approval and only impacts the local taxing units that adopt it.

<sup>10</sup> This exemption requires local approval and has a state impact when categorized as totally exempt property.

Secs. 21.02 and 21.04.

### **Railroad Rolling Stock Taxable Only by Counties**

Railroad rolling stock is not taxable by school districts, as Tax Code Sec. 21.04 specifies that each county in which a railroad operates may tax a portion of the total market value of railroad rolling stock, eliminating taxation by school districts by negative implication. The general personal property situs statute, Tax Code Sec. 21.01, specifically provides the conditions under which any taxing unit may tax tangible personal property but makes clear that Tax Code Sec. 21.04 provides an exception to the general statute.

Sec. 23.23.

### **Limitation on Appraised Value of Residence Homestead**

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

Secs. 23.41, 23.52, 23.73 and 23.9803.

### **Special Appraisal for Agricultural and Timberland**

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

Secs. 23.48 and 23.60.

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

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

Secs. 26.11, 26.111 and 26.113.

### **Prorations and Other Partial Exemptions**

Properties may qualify for certain exemptions for only part of the year, including when the government or a charitable or nonprofit organization acquires property after Jan. 1. Usually these total exemptions are effective immediately on qualification, and the taxes are prorated to account for the applicable part of the year that the exemption is effective. This does not include residence homesteads with prorated taxes. Prorations for residence homesteads are reported under the applicable homestead exemption.

Secs. 33.06 and 33.065.

### **Deferred Taxes**

For residence homestead taxes, the person who owns and occupies a residence homestead may defer the collection of taxes, abate a suit to collect a delinquent tax or, in certain cases, abate a sale to foreclose a tax lien if the individual:

1. is 65 years or older;
2. is disabled;
3. is qualified for certain disabled veteran exemptions; or
4. receives an appraised value that exceeds 105 percent of the preceding year's appraised value and the market value of any new improvements.

Ch. 311.

### **Tax Increment Financing Act**

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

Ch. 313.

### **Texas Economic Development Act**

Property used in connection with manufacturing; research and development; a clean coal project as defined by Sec. 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; nuclear electric power generation; certain computer centers; or a Texas priority project may be eligible for value limitation agreements. These agreements are entered into by school districts and property owners, under which the property owner will make a certain level of investment and create jobs. The agreements limit the taxable value of qualifying investments for school district property tax maintenance and operations purposes. Property taxes levied for the repayment of debt are not affected. The program expired Dec. 31, 2022; however, projects approved before the expiration will continue until the end of their value limitation agreement. ⚡

# 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. Public finance experts have long recognized that the person from whom a given tax is collected is not necessarily the one who ultimately pays the tax.

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

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

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

Competing policy goals also make it difficult to study tax incidence. 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 fuel taxes, which are earmarked for highway construction and maintenance and other public transportation.

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

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

In addition, and equally complicated, is the problem of determining the proper “shifting” assumptions — what portion of the tax is shifted to consumers, what portion is shifted to labor, what portion is shifted to capital and what portion is exported out of state.

The shifting effects will depend on many things, including how producers and consumers respond to price changes and whether a particular market is competitive or monopolistic. In general, most tax burdens are believed to be borne

jointly by producers and consumers — raising the price paid by consumers and reducing the revenue received by producers, with the share of the burden depending upon the level of competition and the price elasticity of demand for the item being taxed. The more inelastic the demand, the greater the burden shifted to the consumer (consider the tax on cigarettes). The more elastic the demand, the greater the burden borne by the producer (consider a tax on milk in glass milk bottles but not on milk in paper cartons, each a close substitute for the other in the eyes of most consumers).

Similarly, when producers enjoy a near monopoly over the good being taxed (consider a tax on local natural gas utility service), there's a greater ability to shift the tax forward onto consumers by raising prices. However, when the individual producer has no ability to set prices (consider the world oil market), the ability to shift the tax burden is reduced.

Finally, determining who bears the tax burden varies depending upon whether the analysis focuses on the short term or the long term. For example, increasing 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 policymakers, it's important to recognize that the results depend not upon hard science but upon subjective assumptions — and that the only thing that can be said with certainty is that no one really knows how taxes (particularly those levied on property and business) are shifted. ✪

# Texas Tax Incidence

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

This incidence analysis includes certain assumptions about measuring income and how tax burdens shift. As discussed previously in the section concerning the nature of tax incidence, the outcome of any incidence study depends significantly 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. **Exhibit A** shows the various types of income included within this report’s definition of household income.

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 shows 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.” In fiscal 2025, it is forecast that there will be approximately 11,203,000 households in Texas. Each quintile includes approximately 2,240,600 households, representing one-fifth of the households in the state, ordered by total income. Thus, Quintile 1 represents the 2,240,600 households with incomes less than \$35,940; Quintile 2 represents the households with incomes from \$35,940 to \$61,895; and so forth,

## Exhibit A

### Components of Household Income

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

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

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

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

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

up to Quintile 5, which represents the 2,240,600 households in Texas with incomes of \$166,508 or higher.

Each of the eight total tax summary tables has five displays. The two displays at the top of each table relate to initial distribution and show, first, how the initial burden is distributed among various industry sectors and consumers, and second, how the initial burden is distributed by type of business organization. The two displays in the middle relate to final incidence and show, first, how final incidence is either exported or distributed by family income quintile, and second, how the final incidence is either exported or distributed between renters and homeowners.

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

would indicate an extremely regressive tax (i.e., with the entire incidence borne entirely by the lowest quintile).

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

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



**Table 1**

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

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Tax - By Industry

Industry	Amount	Percent
Agriculture	\$440.4	0.9%
Mining	2,972.9	6.1%
Utilities & Transportation	2,909.0	6.0%
Construction	3,070.0	6.3%
Manufacturing	1,941.0	4.0%
Retail & Wholesale Trade	2,587.1	5.3%
Information	1,176.4	2.4%
Finance, Insurance & Real Estate	1,058.4	2.2%
Other Services	4,077.2	8.4%
Government	0.0	0.0%
Individual Consumers	28,156.7	58.2%
<b>Total</b>	<b>\$48,389.0</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Initial Distribution of Tax - By Industry Type

Industry Type	Amount	Percent
Corporations	\$14,372.2	29.7%
Partnerships	3,807.8	7.9%
Sole Proprietorships	2,052.2	0.0%
Subtotal	20,232.3	41.8%
Individual Consumers	28,156.7	58.2%
<b>Total</b>	<b>\$48,389.0</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Tax - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as Percent of Total Income
Quintile 1	less than 35,940	\$3,572.4	7.4%	8.1%
Quintile 2	35,940 - 61,895	5,246.7	10.8%	5.1%
Quintile 3	61,895 - 100,062	6,838.3	14.1%	3.9%
Quintile 4	100,062 - 166,508	8,704.0	18.0%	3.0%
Quintile 5	166,508 and higher	14,089.5	29.1%	1.9%
Residents		38,451.0	79.5%	
Exported		9,938.0	20.5%	
<b>Total</b>		<b>\$48,389.0</b>	<b>100.0%</b>	

Estimated Equity of Tax

Suits Index	-0.272
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*Note: Totals may not add due to rounding.*

Final Incidence of Tax - By Homeowners/Renters

Category	Amount	Percent of Total Tax Paid
Homeowner	\$24,635.8	50.9%
Renter	13,815.2	28.6%
Subtotal	38,451.0	79.5%
Exported	9,938.0	20.5%
<b>Total</b>	<b>\$48,389.0</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

**Table 2: Incidence Analysis**

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

Tax Code Section 151.308

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exemption - By Industry		
Industry	Amount	Percent
Agriculture	\$354.4	1.6%
Mining	520.2	2.4%
Utilities & Transportation	4,160.5	18.9%
Construction	2,950.2	13.4%
Manufacturing	1,659.3	7.5%
Retail & Wholesale Trade	381.9	1.7%
Information	186.6	0.8%
Finance, Insurance & Real Estate	251.5	1.1%
Other Services	136.0	0.6%
Government	0.0	0.0%
Individual Consumers	11,401.4	51.8%
<b>Total</b>	<b>\$22,002.0</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$1,607.9	7.3%	3.7%
Quintile 2	35,940 - 61,895	2,305.4	10.5%	2.2%
Quintile 3	61,895 - 100,062	3,333.1	15.1%	1.9%
Quintile 4	100,062 - 166,508	4,462.5	20.3%	1.5%
Quintile 5	166,508 and higher	5,779.1	26.3%	0.8%
Residents		17,488.0	79.5%	
Exported		4,514.0	20.5%	
<b>Total</b>		<b>\$22,002.0</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 3: Incidence Analysis**

**Limited Sales and Use Tax Exemption for Health Care Supplies**

Tax Code Section 151.313

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exemption - By Industry		
Industry	Amount	Percent
Agriculture	\$10.2	0.9%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	8.3	0.7%
Retail & Wholesale Trade	8.1	0.7%
Information	2.5	0.2%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	122.0	10.9%
Government	0.0	0.0%
Individual Consumers	966.6	86.5%
<b>Total</b>	<b>\$1,117.6</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$199.1	17.8%	0.5%
Quintile 2	35,940 - 61,895	226.5	20.3%	0.2%
Quintile 3	61,895 - 100,062	225.2	20.2%	0.1%
Quintile 4	100,062 - 166,508	212.9	19.1%	0.1%
Quintile 5	166,508 and higher	232.9	20.8%	0.0%
Residents		1,096.6	98.1%	
Exported		21.0	1.9%	
<b>Total</b>		<b>\$1,117.6</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 4: Incidence Analysis**

**Limited Sales and Use Tax Exemption for Food for Home Consumption**

Tax Code Section 151.314

Fiscal 2025 (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%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	4,242.2	100.0%
<b>Total</b>	<b>\$4,242.2</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$645.9	15.2%	1.5%
Quintile 2	35,940 - 61,895	756.9	17.8%	0.7%
Quintile 3	61,895 - 100,062	819.3	19.3%	0.5%
Quintile 4	100,062 - 166,508	896.1	21.1%	0.3%
Quintile 5	166,508 and higher	1,057.1	24.9%	0.1%
Residents		4,175.3	98.4%	
Exported		66.9	1.6%	
<b>Total</b>		<b>\$4,242.2</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 5: Incidence Analysis**

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

Tax Code Section 151.316

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exemption - By Industry		
Industry	Amount	Percent
Agriculture	\$585.8	100.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$585.8</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$26.1	4.5%	0.1%
Quintile 2	35,940 - 61,895	49.9	8.5%	0.0%
Quintile 3	61,895 - 100,062	57.5	9.8%	0.0%
Quintile 4	100,062 - 166,508	74.7	12.8%	0.0%
Quintile 5	166,508 and higher	108.5	18.5%	0.0%
Residents		316.7	54.1%	
Exported		269.1	45.9%	
<b>Total</b>		<b>\$585.8</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 6: Incidence Analysis**

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

Tax Code Section 151.317

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exemption - By Industry		
Industry	Amount	Percent
Agriculture	\$46.5	1.9%
Mining	106.4	4.5%
Utilities & Transportation	63.1	2.6%
Construction	23.9	1.0%
Manufacturing	878.2	36.7%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	1,272.3	53.2%
<b>Total</b>	<b>\$2,390.3</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$242.8	10.2%	0.6%
Quintile 2	35,940 - 61,895	290.9	12.2%	0.3%
Quintile 3	61,895 - 100,062	347.7	14.5%	0.2%
Quintile 4	100,062 - 166,508	385.2	16.1%	0.1%
Quintile 5	166,508 and higher	516.7	21.6%	0.1%
Residents		1,783.2	74.6%	
Exported		607.1	25.4%	
<b>Total</b>		<b>\$2,390.3</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 7: Incidence Analysis**

**Limited Sales and Use Tax Exemption for Manufacturing**

Tax Code Section 151.318

Fiscal 2025 (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	455.6	3.8%
Construction	0.0	0.0%
Manufacturing	11,396.6	94.9%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	159.9	1.3%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$12,012.1</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$496.0	4.1%	1.1%
Quintile 2	35,940 - 61,895	724.2	6.0%	0.7%
Quintile 3	61,895 - 100,062	880.2	7.3%	0.5%
Quintile 4	100,062 - 166,508	1,250.9	10.4%	0.4%
Quintile 5	166,508 and higher	1,924.3	16.0%	0.3%
Residents		5,275.5	43.9%	
Exported		6,736.7	56.1%	
<b>Total</b>		<b>\$12,012.1</b>	<b>100.0%</b>	

*Note: Totals may not sum add to rounding.*

**Table 8: Incidence Analysis**

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

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exclusion - By Industry		
Industry	Amount	Percent
Agriculture	\$1.6	0.2%
Mining	56.8	8.0%
Utilities & Transportation	112.0	15.8%
Construction	18.2	2.6%
Manufacturing	93.4	13.2%
Retail & Wholesale Trade	185.6	26.2%
Information	22.1	3.1%
Finance, Insurance & Real Estate	27.7	3.9%
Other Services	190.7	26.9%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$707.9</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exclusion - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion as Percent of Total Income
Quintile 1	less than 35,940	\$50.4	7.1%	0.1%
Quintile 2	35,940 - 61,895	60.7	8.6%	0.1%
Quintile 3	61,895 - 100,062	88.2	12.5%	0.1%
Quintile 4	100,062 - 166,508	135.5	19.1%	0.0%
Quintile 5	166,508 and higher	213.2	30.1%	0.0%
Residents		548.1	77.4%	
Exported		159.9	22.6%	
<b>Total</b>		<b>\$707.9</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 9: Incidence Analysis**

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

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exclusion - By Industry		
Industry	Amount	Percent
Agriculture	\$9.9	1.3%
Mining	15.8	2.1%
Utilities & Transportation	45.5	6.1%
Construction	49.9	6.7%
Manufacturing	15.8	2.1%
Retail & Wholesale Trade	98.5	13.2%
Information	7.6	1.0%
Finance, Insurance & Real Estate	38.6	5.2%
Other Services	464.6	62.3%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$746.1</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exclusion - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion as Percent of Total Income
Quintile 1	less than 35,940	\$57.8	7.8%	0.1%
Quintile 2	35,940 - 61,895	65.2	8.7%	0.1%
Quintile 3	61,895 - 100,062	105.3	14.1%	0.1%
Quintile 4	100,062 - 166,508	135.2	18.1%	0.0%
Quintile 5	166,508 and higher	205.4	27.5%	0.0%
Residents		568.9	76.2%	
Exported		177.2	23.8%	
<b>Total</b>		<b>\$746.1</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 10: Incidence Analysis**

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

Fiscal 2025 (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%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	3,797.9	100.0%
<b>Total</b>	<b>\$3,797.9</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exclusion - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion as Percent of Total Income
Quintile 1	less than 35,940	\$361.6	9.5%	0.8%
Quintile 2	35,940 - 61,895	618.1	16.3%	0.6%
Quintile 3	61,895 - 100,062	755.2	19.9%	0.4%
Quintile 4	100,062 - 166,508	905.6	23.8%	0.3%
Quintile 5	166,508 and higher	1,072.1	28.2%	0.1%
Residents		3,712.6	97.8%	
Exported		85.3	2.2%	
<b>Total</b>		<b>\$3,797.9</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 11: Incidence Analysis**

**Limited Sales and Use Tax Exclusion for Legal Services**

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exclusion - By Industry		
Industry	Amount	Percent
Agriculture	\$0.9	0.1%
Mining	39.0	5.2%
Utilities & Transportation	46.7	6.2%
Construction	14.8	2.0%
Manufacturing	62.6	8.3%
Retail & Wholesale Trade	32.7	4.3%
Information	6.8	0.9%
Finance, Insurance & Real Estate	78.9	10.4%
Other Services	193.7	25.6%
Government	0.0	0.0%
Individual Consumers	280.0	37.0%
<b>Total</b>	<b>\$756.3</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exclusion - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion as Percent of Total Income
Quintile 1	less than 35,940	\$37.1	4.9%	0.1%
Quintile 2	35,940 - 61,895	80.4	10.6%	0.1%
Quintile 3	61,895 - 100,062	93.2	12.3%	0.1%
Quintile 4	100,062 - 166,508	132.0	17.5%	0.0%
Quintile 5	166,508 and higher	202.9	26.8%	0.0%
Residents		545.5	72.1%	
Exported		210.7	27.9%	
<b>Total</b>		<b>\$756.3</b>	<b>100.0%</b>	

*Note: Totals may not sum add to rounding.*

Table 12: Incidence Analysis

**Limited Sales and Use Tax Exclusion for Architecture and Engineering Services**

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exclusion - By Industry		
Industry	Amount	Percent
Agriculture	\$2.2	0.3%
Mining	27.3	4.2%
Utilities & Transportation	45.6	7.0%
Construction	282.5	43.1%
Manufacturing	79.7	12.2%
Retail & Wholesale Trade	9.4	1.4%
Information	38.1	5.8%
Finance, Insurance & Real Estate	51.2	7.8%
Other Services	101.0	15.4%
Government	0.0	0.0%
Individual Consumers	18.5	2.8%
<b>Total</b>	<b>\$655.6</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exclusion - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion as Percent of Total Income
Quintile 1	less than 35,940	\$20.7	3.2%	0.0%
Quintile 2	35,940 - 61,895	49.5	7.5%	0.0%
Quintile 3	61,895 - 100,062	84.0	12.8%	0.0%
Quintile 4	100,062 - 166,508	99.4	15.2%	0.0%
Quintile 5	166,508 and higher	132.6	20.2%	0.0%
Residents		386.2	58.9%	
Exported		269.4	41.1%	
<b>Total</b>		<b>\$655.6</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

Table 13: Incidence Analysis

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

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exclusion - By Industry		
Industry	Amount	Percent
Agriculture	\$7.7	1.5%
Mining	26.0	5.2%
Utilities & Transportation	36.6	7.3%
Construction	21.2	4.3%
Manufacturing	37.3	7.5%
Retail & Wholesale Trade	47.9	9.6%
Information	22.8	4.6%
Finance, Insurance & Real Estate	80.4	16.1%
Other Services	156.4	31.4%
Government	0.0	0.0%
Individual Consumers	62.5	12.5%
<b>Total</b>	<b>\$499.0</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exclusion - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion as Percent of Total Income
Quintile 1	less than 35,940	\$25.8	5.2%	0.1%
Quintile 2	35,940 - 61,895	35.1	7.0%	0.0%
Quintile 3	61,895 - 100,062	60.7	12.2%	0.0%
Quintile 4	100,062 - 166,508	75.8	15.2%	0.0%
Quintile 5	166,508 and higher	113.1	22.7%	0.0%
Residents		310.5	62.2%	
Exported		188.5	37.8%	
<b>Total</b>		<b>\$499.0</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

Table 14: Incidence Analysis

**Limited Sales and Use Tax Exclusion for Management Consulting and Public Relations**

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exclusion - By Industry

Industry	Amount	Percent
Agriculture	\$3.5	0.5%
Mining	8.1	1.2%
Utilities & Transportation	2.0	0.3%
Construction	1.0	0.1%
Manufacturing	57.3	8.8%
Retail & Wholesale Trade	4.0	0.6%
Information	100.6	15.5%
Finance, Insurance & Real Estate	2.6	0.4%
Other Services	461.7	70.9%
Government	0.0	0.0%
Individual Consumers	10.2	1.6%
<b>Total</b>	<b>\$650.9</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exclusion - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion as Percent of Total Income
Quintile 1	less than 35,940	\$33.3	5.1%	0.1%
Quintile 2	35,940 - 61,895	60.6	9.3%	0.1%
Quintile 3	61,895 - 100,062	100.3	15.4%	0.1%
Quintile 4	100,062 - 166,508	121.1	18.6%	0.0%
Quintile 5	166,508 and higher	158.7	24.4%	0.0%
Residents		474.1	72.8%	
Exported		176.8	27.2%	
<b>Total</b>		<b>\$650.9</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

Table 15: Incidence Analysis

**Limited Sales and Use Tax Exclusion for Computer Systems Design and Custom Programming**

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exclusion - By Industry

Industry	Amount	Percent
Agriculture	\$5.1	0.4%
Mining	2.8	0.2%
Utilities & Transportation	3.3	0.3%
Construction	2.2	0.2%
Manufacturing	18.9	1.6%
Retail & Wholesale Trade	35.6	3.0%
Information	83.8	7.2%
Finance, Insurance & Real Estate	22.3	1.9%
Other Services	881.9	75.2%
Government	0.0	0.0%
Individual Consumers	116.6	9.9%
<b>Total</b>	<b>\$1,172.4</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exclusion - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion as Percent of Total Income
Quintile 1	less than 35,940	\$76.3	6.5%	0.2%
Quintile 2	35,940 - 61,895	109.7	9.4%	0.1%
Quintile 3	61,895 - 100,062	149.0	12.7%	0.1%
Quintile 4	100,062 - 166,508	190.5	16.3%	0.1%
Quintile 5	166,508 and higher	244.2	20.8%	0.0%
Residents		769.8	65.7%	
Exported		402.6	34.3%	
<b>Total</b>		<b>\$1,172.4</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*



**Table 16: Incidence Analysis**

**Limited Sales and Use Tax Exclusion for Automotive Maintenance and Repair**

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exclusion - By Industry

Industry	Amount	Percent
Agriculture	\$7.1	0.7%
Mining	16.3	1.7%
Utilities & Transportation	44.9	4.7%
Construction	17.1	1.8%
Manufacturing	49.6	5.2%
Retail & Wholesale Trade	27.8	2.9%
Information	10.8	1.1%
Finance, Insurance & Real Estate	3.7	0.4%
Other Services	49.5	5.2%
Government	0.0	0.0%
Individual Consumers	734.3	76.4%
<b>Total</b>	<b>\$961.1</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exclusion - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion as Percent of Total Income
Quintile 1	less than 35,940	\$119.6	12.4%	0.3%
Quintile 2	35,940 - 61,895	131.3	13.7%	0.1%
Quintile 3	61,895 - 100,062	162.3	16.9%	0.1%
Quintile 4	100,062 - 166,508	205.0	21.3%	0.1%
Quintile 5	166,508 and higher	229.7	23.9%	0.0%
Residents		847.9	88.2%	
Exported		113.3	11.8%	
<b>Total</b>		<b>\$961.1</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 17: Incidence Analysis**

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

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exclusion - By Industry

Industry	Amount	Percent
Agriculture	\$7.5	1.4%
Mining	0.5	0.1%
Utilities & Transportation	15.0	2.8%
Construction	6.6	1.2%
Manufacturing	7.6	1.4%
Retail & Wholesale Trade	48.5	9.2%
Information	7.7	1.5%
Finance, Insurance & Real Estate	63.0	11.9%
Other Services	180.8	34.1%
Government	0.0	0.0%
Individual Consumers	192.5	36.3%
<b>Total</b>	<b>\$529.8</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exclusion - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion as Percent of Total Income
Quintile 1	less than 35,940	\$52.8	10.0%	0.1%
Quintile 2	35,940 - 61,895	69.9	13.2%	0.1%
Quintile 3	61,895 - 100,062	76.4	14.4%	0.0%
Quintile 4	100,062 - 166,508	89.1	16.8%	0.0%
Quintile 5	166,508 and higher	110.3	20.8%	0.0%
Residents		398.5	75.2%	
Exported		131.3	24.8%	
<b>Total</b>		<b>\$529.8</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

Table 18

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

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Tax - By Industry

Industry	Amount	Percent
Agriculture	\$92.8	1.5%
Mining	309.5	5.1%
Utilities & Transportation	355.0	5.9%
Construction	326.1	5.4%
Manufacturing	855.3	14.2%
Retail & Wholesale Trade	1,069.9	17.8%
Information	250.8	4.2%
Finance, Insurance & Real Estate	656.9	10.9%
Other Services	2,104.7	35.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$6,021.0</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Initial Distribution of Tax - By Industry Type

	Amount	Percent
Corporations	\$5,066.9	84.2%
Partnerships	954.1	15.8%
Sole Proprietorships	0.0	0.0%
Subtotal	6,021.0	100.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$6,021.0</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Tax - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as Percent of Total Income
Quintile 1	less than 35,940	\$182.0	3.0%	0.4%
Quintile 2	35,940 - 61,895	433.2	7.2%	0.4%
Quintile 3	61,895 - 100,062	687.8	11.4%	0.4%
Quintile 4	100,062 - 166,508	823.3	13.7%	0.3%
Quintile 5	166,508 and higher	1,653.1	27.5%	0.2%
Residents		3,779.5	62.8%	
Exported		2,241.5	37.2%	
<b>Total</b>		<b>\$6,021.0</b>	<b>100.0%</b>	

Estimated Equity of Tax

Suits Index	-0.079
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*Note: Totals may not add due to rounding.*

Final Incidence of Tax - By Homeowners/Renters

	Amount	Percent of Total Tax Paid
Homeowner	\$2,793.3	46.4%
Renter	986.2	16.4%
Subtotal	3,779.5	62.8%
Exported	2,241.5	37.2%
<b>Total</b>	<b>\$6,021.0</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

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

Tax Code Section 171.052

Fiscal 2025 (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%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	299.2	100.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$299.2</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$12.5	4.2%	0.0%
Quintile 2	35,940 - 61,895	15.7	5.3%	0.0%
Quintile 3	61,895 - 100,062	31.2	10.4%	0.0%
Quintile 4	100,062 - 166,508	40.2	13.4%	0.0%
Quintile 5	166,508 and higher	77.1	25.8%	0.0%
Residents		176.7	59.1%	
Exported		122.5	40.9%	
<b>Total</b>		<b>\$299.2</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 20: Incidence Analysis****Franchise Tax Exemption for Open-End Investment Companies**

Tax Code Section 171.055

Fiscal 2025 (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%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	187.8	100.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$187.8</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$9.9	5.3%	0.0%
Quintile 2	35,940 - 61,895	11.3	6.0%	0.0%
Quintile 3	61,895 - 100,062	18.9	10.0%	0.0%
Quintile 4	100,062 - 166,508	27.7	14.7%	0.0%
Quintile 5	166,508 and higher	46.8	24.9%	0.0%
Residents		114.5	61.0%	
Exported		73.3	39.0%	
<b>Total</b>		<b>\$187.8</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 21: Incidence Analysis**

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

Tax Code Section 171.063

Fiscal 2025 (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%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	424.9	100.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$424.9</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$18.3	4.3%	0.0%
Quintile 2	35,940 - 61,895	38.9	9.1%	0.0%
Quintile 3	61,895 - 100,062	39.7	9.3%	0.0%
Quintile 4	100,062 - 166,508	82.3	19.4%	0.0%
Quintile 5	166,508 and higher	129.7	30.5%	0.0%
Residents		308.9	72.7%	
Exported		116.0	27.3%	
<b>Total</b>		<b>\$424.9</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 22: Incidence Analysis**

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

Tax Code Section 171.111

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exemption - By Industry

Industry	Amount	Percent
Agriculture	\$0.8	0.6%
Mining	19.4	14.2%
Utilities & Transportation	9.9	7.3%
Construction	3.4	2.5%
Manufacturing	44.2	32.5%
Retail & Wholesale Trade	15.4	11.3%
Information	7.2	5.3%
Finance, Insurance & Real Estate	9.4	6.9%
Other Services	26.4	19.4%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$136.1</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$10.0	7.3%	0.0%
Quintile 2	35,940 - 61,895	14.0	10.3%	0.0%
Quintile 3	61,895 - 100,062	16.5	12.1%	0.0%
Quintile 4	100,062 - 166,508	23.3	17.1%	0.0%
Quintile 5	166,508 and higher	33.9	24.9%	0.0%
Residents		97.7	71.8%	
Exported		38.4	28.2%	
<b>Total</b>		<b>\$136.1</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 23: Incidence Analysis**

**Franchise Tax Small Business Exemption**

Tax Code Section 171.002(d)

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exemption - By Industry		
Industry	Amount	Percent
Agriculture	\$4.2	1.3%
Mining	6.0	1.9%
Utilities & Transportation	15.2	4.8%
Construction	26.4	8.4%
Manufacturing	7.7	2.5%
Retail & Wholesale Trade	34.3	10.9%
Information	3.5	1.1%
Finance, Insurance & Real Estate	73.1	23.3%
Other Services	143.1	45.7%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$313.5</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$19.9	6.3%	0.0%
Quintile 2	35,940 - 61,895	28.7	9.1%	0.0%
Quintile 3	61,895 - 100,062	37.7	12.0%	0.0%
Quintile 4	100,062 - 166,508	60.9	19.4%	0.0%
Quintile 5	166,508 and higher	97.0	31.0%	0.0%
Residents		244.2	77.9%	
Exported		69.3	22.1%	
<b>Total</b>		<b>\$313.5</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 24: Incidence Analysis**

**Franchise Tax Health Care Provider Exclusions**

Tax Code Sections 171.1011(n) and (o)

Fiscal 2025 (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%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	108.0	100.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$108.0</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exclusion - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exclusion Total	Exclusion as Percent of Total Income
Quintile 1	less than 35,940	\$6.3	5.9%	0.0%
Quintile 2	35,940 - 61,895	6.9	6.3%	0.0%
Quintile 3	61,895 - 100,062	13.6	12.6%	0.0%
Quintile 4	100,062 - 166,508	17.6	16.3%	0.0%
Quintile 5	166,508 and higher	30.4	28.1%	0.0%
Residents		74.8	69.2%	
Exported		33.2	30.8%	
<b>Total</b>		<b>\$108.0</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 25: Incidence Analysis**

**Franchise Tax Credit for Certain Research and Development Activities**

Tax Code Sections 171.651-171.665

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Credit - By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	52.9	15.8%
Utilities & Transportation	1.5	0.4%
Construction	3.2	0.9%
Manufacturing	171.1	51.0%
Retail & Wholesale Trade	15.9	4.7%
Information	11.7	3.5%
Finance, Insurance & Real Estate	11.5	3.4%
Other Services	68.0	20.3%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$335.8</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Credit - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Credit Total	Credit as Percent of Total Income
Quintile 1	less than 35,940	\$13.5	4.0%	0.0%
Quintile 2	35,940 - 61,895	24.4	7.3%	0.0%
Quintile 3	61,895 - 100,062	40.4	12.0%	0.0%
Quintile 4	100,062 - 166,508	63.5	18.9%	0.0%
Quintile 5	166,508 and higher	83.7	24.9%	0.0%
Residents		225.5	67.1%	
Exported		110.3	32.9%	
<b>Total</b>		<b>\$335.8</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 26: Incidence Analysis**

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

Tax Code Section 171.106(f),(f-1)

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Apportionment - 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%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	432.5	100.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$432.5</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Apportionment - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Apportionment Total	Apportionment as Percent of Total Income
Quintile 1	less than 35,940	\$21.7	5.0%	0.0%
Quintile 2	35,940 - 61,895	34.3	7.9%	0.0%
Quintile 3	61,895 - 100,062	48.6	11.2%	0.0%
Quintile 4	100,062 - 166,508	70.4	16.3%	0.0%
Quintile 5	166,508 and higher	96.8	22.4%	0.0%
Residents		271.8	62.8%	
Exported		160.7	37.2%	
<b>Total</b>		<b>\$432.5</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

Table 27: Incidence Analysis

### Franchise Tax Optional Subtraction of \$1 Million from Total Revenue for Determination of Taxable Margin

Tax Code Section 171.101(a)(1)(B)(i)

Fiscal 2025 (dollar amounts in millions)

## Initial Distribution of Optional Subtraction - By Industry

Industry	Amount	Percent
Agriculture	\$0.6	1.2%
Mining	1.2	2.4%
Utilities & Transportation	1.5	3.2%
Construction	2.4	4.8%
Manufacturing	1.2	2.5%
Retail & Wholesale Trade	2.8	5.7%
Information	0.7	1.4%
Finance, Insurance & Real Estate	14.7	30.1%
Other Services	23.7	48.5%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$48.8</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

## Final Incidence of Optional Subtraction - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Subtraction Total	Subtraction as Percent of Total Income
Quintile 1	less than 35,940	\$1.9	3.9%	0.0%
Quintile 2	35,940 - 61,895	4.3	8.8%	0.0%
Quintile 3	61,895 - 100,062	5.9	12.1%	0.0%
Quintile 4	100,062 - 166,508	8.5	17.4%	0.0%
Quintile 5	166,508 and higher	16.1	32.9%	0.0%
Residents		36.7	75.2%	
Exported		12.1	24.8%	
<b>Total</b>		<b>\$48.8</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

Table 28

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

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Tax - By Industry

Industry	Amount	Percent
Agriculture	\$171.1	2.8%
Mining	232.6	3.8%
Utilities & Transportation	387.6	6.4%
Construction	512.6	8.4%
Manufacturing	155.0	2.5%
Retail & Wholesale Trade	289.4	4.8%
Information	68.9	1.1%
Finance, Insurance & Real Estate	106.2	1.7%
Other Services	677.6	11.1%
Government	0.0	0.0%
Individual Consumers	3,487.2	57.3%
<b>Total</b>	<b>\$6,088.3</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Initial Distribution of Tax - By Industry Type

	Amount	Percent
Corporations	\$1,811.6	29.8%
Partnerships	349.2	5.7%
Sole Proprietorships	440.3	7.2%
Subtotal	2,601.1	42.7%
Individual Consumers	3,487.2	57.3%
<b>Total</b>	<b>\$6,088.3</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Tax - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as Percent of Total Income
Quintile 1	less than 35,940	\$482.7	7.9%	1.1%
Quintile 2	35,940 - 61,895	599.5	9.8%	0.6%
Quintile 3	61,895 - 100,062	930.0	15.3%	0.5%
Quintile 4	100,062 - 166,508	1,425.9	23.4%	0.5%
Quintile 5	166,508 and higher	2,156.3	35.4%	0.3%
Residents		5,594.6	91.9%	
Exported		493.8	8.1%	
<b>Total</b>		<b>\$6,088.3</b>	<b>100.0%</b>	

Estimated Equity of Tax

Suits Index	-0.232
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*Note: Totals may not add due to rounding.*

Final Incidence of Tax - By Homeowners/Renters

	Amount	Percent of Total Tax Paid
Homeowner	\$3,515.9	57.7%
Renter	2,078.6	34.1%
Subtotal	5,594.6	91.9%
Exported	493.8	8.1%
<b>Total</b>	<b>\$6,088.3</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*



**Table 29: Incidence Analysis**

**Motor Vehicle Sales and Use Tax Vehicles Taxes by Other Laws**

Tax Code Section 152.089

Fiscal 2025 (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	129.5	100.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$129.5</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$6.0	4.6%	0.0%
Quintile 2	35,940 - 61,895	10.0	7.8%	0.0%
Quintile 3	61,895 - 100,062	15.9	12.3%	0.0%
Quintile 4	100,062 - 166,508	24.8	19.1%	0.0%
Quintile 5	166,508 and higher	31.4	24.2%	0.0%
Residents		88.1	68.1%	
Exported		41.4	31.9%	
<b>Total</b>		<b>\$129.5</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

Table 30

**Initial Distribution and Final Incidence of Total Oil Production Tax Revenue**

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Tax - By Industry

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	7,277.5	100.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$7,277.5</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Initial Distribution of Tax - By Industry Type

Industry Type	Amount	Percent
Corporations	\$4,907.7	67.4%
Partnerships	1,625.1	22.3%
Sole Proprietorships	744.7	10.2%
Subtotal	7,277.5	100.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$7,277.5</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Tax - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as Percent of Total Income
Quintile 1	less than 35,940	\$132.5	1.8%	0.3%
Quintile 2	35,940 - 61,895	252.8	3.5%	0.2%
Quintile 3	61,895 - 100,062	356.0	4.9%	0.2%
Quintile 4	100,062 - 166,508	682.4	9.4%	0.2%
Quintile 5	166,508 and higher	1,247.0	17.1%	0.2%
Residents		2,670.6	36.7%	
Exported		4,606.9	63.3%	
<b>Total</b>		<b>\$7,277.5</b>	<b>100.0%</b>	

Estimated Equity of Tax

Suits Index	-0.062
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*Note: Totals may not add due to rounding.*

Final Incidence of Tax - By Homeowners/Renters

Category	Amount	Percent of Total Tax Paid
Homeowner	\$1,754.1	24.1%
Renter	916.5	12.6%
Subtotal	2,670.6	36.7%
Exported	4,606.9	63.3%
<b>Total</b>	<b>\$7,277.5</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Table 31

**Initial Distribution and Final Incidence of Total Natural Gas Production Tax Revenue**

Fiscal 2025 (dollar amounts in millions)

## Initial Distribution of Tax - By Industry

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	3,844.7	100.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$3,844.7</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

## Initial Distribution of Tax - By Industry Type

	Amount	Percent
Corporations	\$2,409.7	62.7%
Partnerships	853.1	22.2%
Sole Proprietorships	581.9	15.1%
Subtotal	3,844.7	100.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$3,844.7</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

## Final Incidence of Tax - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as Percent of Total Income
Quintile 1	less than 35,940	\$99.4	2.6%	0.2%
Quintile 2	35,940 - 61,895	199.1	5.2%	0.2%
Quintile 3	61,895 - 100,062	208.4	5.4%	0.1%
Quintile 4	100,062 - 166,508	269.6	7.0%	0.1%
Quintile 5	166,508 and higher	544.2	14.2%	0.1%
Residents		1,320.7	34.4%	
Exported		2,524.0	65.6%	
<b>Total</b>		<b>\$3,844.7</b>	<b>100.0%</b>	

## Estimated Equity of Tax

Suits Index	-0.068
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*Note: Totals may not add due to rounding.*

## Final Incidence of Tax - By Homeowners/Renters

	Amount	Percent of Total Tax Paid
Homeowner	\$540.5	14.1%
Renter	780.1	20.3%
Subtotal	1,320.7	34.4%
Exported	2,524.0	65.6%
<b>Total</b>	<b>\$3,844.7</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

**Table 32: Incidence Analysis**

**High Cost Natural Gas Exemption**

Tax Code 201.057(c)

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exemption - By Industry

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	974.1	0.0%
Utilities & Transportation	0.0	100.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$974.1</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$12.0	1.2%	0.0%
Quintile 2	35,940 - 61,895	40.1	4.1%	0.0%
Quintile 3	61,895 - 100,062	76.6	7.9%	0.0%
Quintile 4	100,062 - 166,508	125.8	12.9%	0.0%
Quintile 5	166,508 and higher	270.6	27.8%	0.0%
Residents		525.1	53.9%	
Exported		449.0	46.1%	
<b>Total</b>		<b>\$974.1</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

Table 33

**Initial Distribution and Final Incidence of Total School Property Tax Revenue**

Fiscal 2025 (dollar amounts in millions)

## Initial Distribution of Tax - By Industry

Industry	Amount	Percent
Agriculture	\$1,021.0	2.1%
Mining	3,833.1	7.9%
Utilities & Transportation	3,291.6	6.8%
Construction	1,311.4	2.7%
Manufacturing	3,935.4	8.1%
Retail & Wholesale Trade	1,365.1	2.8%
Information	1,532.5	3.2%
Finance, Insurance & Real Estate	7,165.7	14.8%
Other Services	1,653.2	3.4%
Government	0.0	0.0%
Individual Consumers	23,221.7	48.0%
<b>Total</b>	<b>\$48,330.7</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

## Initial Distribution of Tax - By Industry Type

	Amount	Percent
Corporations	\$18,978.2	39.3%
Partnerships	3,989.2	8.3%
Sole Proprietorships	2,141.7	4.4%
Subtotal	25,109.0	52.0%
Individual Consumers	23,221.7	48.0%
<b>Total</b>	<b>\$48,330.7</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

## Final Incidence of Tax - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as Percent of Total Income
Quintile 1	less than 35,940	\$3,003.4	6.2%	6.8%
Quintile 2	35,940 - 61,895	4,180.3	8.6%	4.0%
Quintile 3	61,895 - 100,062	5,372.1	11.1%	3.1%
Quintile 4	100,062 - 166,508	7,873.1	16.3%	2.7%
Quintile 5	166,508 and higher	16,155.5	33.4%	2.1%
Residents		36,584.5	75.7%	
Exported		11,746.2	24.3%	
<b>Total</b>		<b>\$48,330.7</b>	<b>100.0%</b>	

## Estimated Equity of Tax

Suits Index	-0.099
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*Note: Totals may not add due to rounding.*

## Final Incidence of Tax - By Homeowners/Renters

	Amount	Percent of Total Tax Paid
Homeowner	\$23,946.3	49.5%
Renter	12,638.2	26.1%
Subtotal	36,584.5	75.7%
Exported	11,746.2	24.3%
<b>Total</b>	<b>\$48,330.7</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

**Table 34: Incidence Analysis**

**School Property Tax State-Mandated Homestead Exemption of \$40,000**

Tax Code Section 11.13(b)

Fiscal 2025 (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%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	2,704.1	100.0%
<b>Total</b>	<b>\$2,704.1</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$355.1	13.1%	0.8%
Quintile 2	35,940 - 61,895	409.6	15.1%	0.4%
Quintile 3	61,895 - 100,062	455.0	16.8%	0.3%
Quintile 4	100,062 - 166,508	514.3	19.0%	0.2%
Quintile 5	166,508 and higher	618.3	22.9%	0.1%
Residents		2,352.3	87.0%	
Exported		351.8	13.0%	
<b>Total</b>		<b>\$2,704.1</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 35: Incidence Analysis**

**School Property Tax Optional Exemption of up to 20 percent**

Tax Code Section 11.13(n)

Fiscal 2025 (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%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	909.4	100.0%
<b>Total</b>	<b>\$909.4</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$35.6	3.9%	0.1%
Quintile 2	35,940 - 61,895	64.0	7.0%	0.1%
Quintile 3	61,895 - 100,062	92.1	10.1%	0.1%
Quintile 4	100,062 - 166,508	172.2	18.9%	0.1%
Quintile 5	166,508 and higher	362.1	39.8%	0.0%
Residents		726.0	79.8%	
Exported		183.4	20.2%	
<b>Total</b>		<b>\$909.4</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

Table 36: Incidence Analysis

**School Property Tax Freeport Property Exemption**

Tax Code Sections 11.251 and 11.437

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Exemption - By Industry		
Industry	Amount	Percent
Agriculture	\$23.5	4.5%
Mining	6.6	1.3%
Utilities & Transportation	97.2	18.7%
Construction	10.6	2.0%
Manufacturing	246.5	47.4%
Retail & Wholesale Trade	49.0	9.4%
Information	1.3	0.2%
Finance, Insurance & Real Estate	48.8	9.4%
Other Services	36.6	7.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$520.0</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Exemption - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Exemption Total	Exemption as Percent of Total Income
Quintile 1	less than 35,940	\$21.4	4.1%	0.0%
Quintile 2	35,940 - 61,895	40.8	7.8%	0.0%
Quintile 3	61,895 - 100,062	58.0	11.1%	0.0%
Quintile 4	100,062 - 166,508	75.2	14.5%	0.0%
Quintile 5	166,508 and higher	162.0	31.2%	0.0%
Residents		357.4	68.7%	
Exported		162.7	31.3%	
<b>Total</b>		<b>\$520.0</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

Table 37: Incidence Analysis

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

Tax Code Section 11.26

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Ceiling - 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%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	1,911.2	100.0%
<b>Total</b>	<b>\$1,911.2</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Ceiling - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Ceiling Total	Ceiling as Percent of Total Income
Quintile 1	less than 35,940	\$265.3	13.9%	0.6%
Quintile 2	35,940 - 61,895	301.6	15.8%	0.3%
Quintile 3	61,895 - 100,062	330.8	17.3%	0.2%
Quintile 4	100,062 - 166,508	347.2	18.2%	0.1%
Quintile 5	166,508 and higher	370.1	19.4%	0.0%
Residents		1,615.0	84.5%	
Exported		296.1	15.5%	
<b>Total</b>		<b>\$1,911.2</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 38: Incidence Analysis**

**School Property Tax Texas Economic Development Act**

Tax Code Chapter 313

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Value Limitation - By Industry		
Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	668.3	55.2%
Construction	0.0	0.0%
Manufacturing	529.9	43.8%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	12.6	1.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$1,210.8</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Value Limitation - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Value Limitation Total	Value Limitation as Percent of Total Income
Quintile 1	less than 35,940	\$44.6	3.7%	0.1%
Quintile 2	35,940 - 61,895	48.6	4.0%	0.0%
Quintile 3	61,895 - 100,062	78.4	6.5%	0.0%
Quintile 4	100,062 - 166,508	109.2	9.0%	0.0%
Quintile 5	166,508 and higher	299.2	24.7%	0.0%
Residents		579.9	47.9%	
Exported		630.9	52.1%	
<b>Total</b>		<b>\$1,210.8</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

**Table 39: Incidence Analysis**

**School Property Tax Special Appraisal for Agricultural and Timber Land**

Tax Code Sections 23.41, 23.52, 23.73, 23.9803

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Appraisal - By Industry		
Industry	Amount	Percent
Agriculture	\$4,550.1	100.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$4,550.1</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Appraisal - By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Appraisal Total	Appraisal as Percent of Total Income
Quintile 1	less than 35,940	\$280.4	6.2%	0.6%
Quintile 2	35,940 - 61,895	374.0	8.2%	0.4%
Quintile 3	61,895 - 100,062	478.6	10.5%	0.3%
Quintile 4	100,062 - 166,508	724.1	15.9%	0.3%
Quintile 5	166,508 and higher	1,302.5	28.6%	0.2%
Residents		3,159.6	69.4%	
Exported		1,390.6	30.6%	
<b>Total</b>		<b>\$4,550.1</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*



Table 40: Incidence Analysis

**School Property Tax 10 percent Residential Appraisal Cap**

Tax Code Section 23.23

Fiscal 2025 (dollar amounts in millions)

## Initial Distribution of Appraisal Cap - 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%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	0.0	0.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	490.6	100.0%
<b>Total</b>	<b>\$490.6</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

## Final Incidence of Appraisal Cap - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Appraisal Cap Total	Appraisal Cap as Percent of Total Income
Quintile 1	less than 35,940	\$25.8	5.3%	0.1%
Quintile 2	35,940 - 61,895	35.1	7.1%	0.0%
Quintile 3	61,895 - 100,062	53.5	10.9%	0.0%
Quintile 4	100,062 - 166,508	79.2	16.1%	0.0%
Quintile 5	166,508 and higher	196.9	40.1%	0.0%
Residents		390.4	79.6%	
Exported		100.2	20.4%	
<b>Total</b>		<b>\$490.6</b>	<b>100.0%</b>	

*Note: Totals may not add due to rounding.*

Table 41

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

Fiscal 2025 (dollar amounts in millions)

Initial Distribution of Tax - By Industry

Industry	Amount	Percent
Agriculture	\$33.6	1.2%
Mining	35.5	1.3%
Utilities & Transportation	169.0	6.2%
Construction	126.2	4.6%
Manufacturing	141.3	5.2%
Retail & Wholesale Trade	58.1	2.1%
Information	7.7	0.3%
Finance, Insurance & Real Estate	13.2	0.5%
Other Services	29.8	1.1%
Government	0.0	0.0%
Individual Consumers	2,105.8	77.4%
<b>Total</b>	<b>\$2,720.2</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Initial Distribution of Tax - By Industry Type

	Amount	Percent
Corporations	\$387.7	14.3%
Partnerships	171.9	6.3%
Sole Proprietorships	54.8	2.0%
Subtotal	614.4	22.6%
Individual Consumers	2,105.8	77.4%
<b>Total</b>	<b>\$2,720.2</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Final Incidence of Tax - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as Percent of Total Income
Quintile 1	less than 35,940	\$268.4	9.9%	0.6%
Quintile 2	35,940 - 61,895	337.8	12.4%	0.3%
Quintile 3	61,895 - 100,062	507.3	18.6%	0.3%
Quintile 4	100,062 - 166,508	626.1	23.0%	0.2%
Quintile 5	166,508 and higher	693.1	25.5%	0.1%
Residents		2,432.8	89.4%	
Exported		287.4	10.6%	
<b>Total</b>		<b>\$2,720.2</b>	<b>100.0%</b>	

Estimated Equity of Tax

Suits Index	-0.244
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*Note: Totals may not add due to rounding.*

Final Incidence of Tax - By Homeowners/Renters

	Amount	Percent of Total Tax Paid
Homeowner	\$1,492.7	54.9%
Renter	940.1	34.6%
Subtotal	2,432.8	89.4%
Exported	287.4	10.6%
<b>Total</b>	<b>\$2,720.2</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

Table 42

**Initial Distribution and Final Incidence of Total Insurance Premium Tax Revenue**

Fiscal 2025 (dollar amounts in millions)

## Initial Distribution of Tax - By Industry

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0%
Utilities & Transportation	0.0	0.0%
Construction	0.0	0.0%
Manufacturing	0.0	0.0%
Retail & Wholesale Trade	0.0	0.0%
Information	0.0	0.0%
Finance, Insurance & Real Estate	3,440.5	100.0%
Other Services	0.0	0.0%
Government	0.0	0.0%
Individual Consumers	0.0	0.0%
<b>Total</b>	<b>\$3,440.5</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

## Initial Distribution of Tax - By Industry Type

Industry Type	Amount	Percent
Corporations	\$2,839.6	82.5%
Partnerships	479.5	13.9%
Sole Proprietorships	121.3	3.5%
Subtotal	3,440.5	100.0%
Individual Consumers	0.0	
<b>Total</b>	<b>\$3,440.5</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*

## Final Incidence of Tax - By Household Income Quintile

Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as Percent of Total Income
Quintile 1	less than 35,940	\$376.1	10.9%	0.9%
Quintile 2	35,940 - 61,895	382.6	11.1%	0.4%
Quintile 3	61,895 - 100,062	652.8	19.0%	0.4%
Quintile 4	100,062 - 166,508	787.0	22.9%	0.3%
Quintile 5	166,508 and higher	923.2	26.8%	0.1%
Residents		3,121.8	90.7%	
Exported		318.7	9.3%	
<b>Total</b>		<b>\$3,440.5</b>	<b>100.0%</b>	

## Estimated Equity of Tax

Suits Index	-0.294
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*Note: Totals may not add due to rounding.*

## Final Incidence of Tax - By Homeowners/Renters

	Amount	Percent of Total Tax Paid
Homeowner	\$1,891.7	55.0%
Renter	1,230.1	35.8%
Subtotal	3,121.8	90.7%
Exported	318.7	9.3%
<b>Total</b>	<b>\$3,440.5</b>	<b>100.0%</b>

*Note: Totals may not add due to rounding.*





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