

Franchise Tax

- It is a tax on the total revenues of a company .
- Total revenues is defined for a corporation as sum of lines 1C and lines 4-10 from Form 1120 US Corporate Income Tax
- The tax rate is 1%, however there is a standard deduction of 30% of the total revenue so worst case is actually 0.7%
- Only revenues generated by sales in Texas are subject to the tax (sales outside the State of Texas are not included)
- If total revenues from Texas sales are less than \$1 million there is no tax
- Sole proprietorship are not subject to the tax
- Partnerships where all partner (regardless of number) are living persons (not LLP, etc.) are not subject to the tax . Example a law firm where there are 300 partners and 1,000 employees and they are all living persons. They are not subject to the tax.
- If total revenues are less than \$10 million in Texas they can file on the E-Z Form and pay a 0.5% rate (or 1/2 of 1%).
- There are three methods of reducing the total revenue line for the calculation .
 1. Total Revenue X 70 percent
 2. Total Revenue minus Cost of Goods Sold (most manufacturers)
 3. Total Revenue minus Compensation
- Allowable cost associated with the Cost of Goods Sold
 1. Labor
 2. Materials
 3. Handling Costs
 4. Storage and warehousing costs
 5. Depreciation
 6. Renting or leasing equipment and facilities
 7. Repairing and maintaining equipment and facilities
 8. Research, engineering and design costs
 9. Taxes paid in acquiring materials for production
 10. Electricity
 11. And many others

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