



# A Message From The Comptroller

February 28, 2007

The Honorable Rick Perry, Governor  
The Honorable David Dewhurst, Lieutenant Governor  
The Honorable Thomas R. Craddick, Speaker of the House  
Members of the 80th Legislature

Ladies and Gentlemen:

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

For 2007, aggregate exemptions for the above revenue sources will total an estimated \$35.6 billion. Of this amount, the exemptions related to state taxes will account for \$31.4 billion, and school property tax exemptions will account for the remaining \$4.2 billion.

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

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

Sincerely,

Susan Combs

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

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# Overview

In state fiscal year 2007—extending from September 1, 2006 to August 31, 2007—exemptions\* from the sales, franchise, gasoline, motor vehicle sales and natural gas taxes will amount to \$31.4 billion.

Sales tax exemptions will total \$28.9 billion, and franchise tax exemptions will total \$1.5 billion. Gasoline tax exemptions will amount to \$124 million, motor vehicle sales tax exemptions will total \$175 million, and natural gas tax exemptions will total \$635 million.

Exemptions from local school district property taxes will amount to an additional \$4.2 billion in calendar year 2007.

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

In fiscal 2006, the combined state revenues—accruing to all funds—from the sales tax, franchise tax, gasoline tax, motor vehicle sales tax, and natural gas tax totaled more than \$26.3 billion and accounted for over 78 percent of the state's total tax revenue. School property taxes generated an additional \$20.2 billion for calendar 2005, the latest year for which complete data are available.

## About the estimates

Texas law requires the Comptroller to provide these estimates to the Governor and Legislature prior to each regular legislative session. The exemption estimates are unadjusted amounts, meaning that elimination or repeal of a specific exemption would not necessarily produce the dollar amounts cited in this report. Actual receipts would depend on enforcement, taxpayer compliance, effective dates of legislation repealing the exemption, taxpayer discounts, and the exact wording of the legislation.

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

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

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



# Limited Sales and Use Tax

The sales and use tax is the largest source of tax revenue for Texas state government, bringing in about 54 cents of every state tax dollar in fiscal 2006. The sales tax is a tax on transactions. In general, it is imposed on final sales, rentals, and leases of tangible personal property—physical goods—and on sales of certain services, such as the repair of tangible personal property, amusements, and telephone services.

While sales and use tax collections totaled \$18.3 billion in fiscal 2006, the tax is limited in scope when compared with the total number and kind of transactions in the economy, because of various exemptions and exclusions. For simplicity, this tax is referred to as the “sales tax” throughout the remainder of this discussion.

## Classifying sales tax exemptions

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

An *exemption* protects items that would be taxable except for specific provisions in the law. For example, since the Texas sales tax law

taxes all sales of tangible personal property, groceries would be taxable if they were not specifically exempted.

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

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

Exemptions are provided for certain basic necessities, such as groceries, residential gas and electric utilities, and prescription and over-the-counter drugs. Other sales are exempted when made to certain groups. For example, governmental bodies and religious and non-profit 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

TABLE 1

**Value of Sales Tax Exemptions, Exclusions, and Discounts**  
Fiscal 2007 to 2012 – In millions of dollars

Item	2007	2008	2009	2010	2011	2012
Exemptions	\$23,601.1	\$24,325.9	\$25,065.6	\$26,074.3	\$27,270.7	\$28,512.4
Exclusions	5,163.9	5,380.3	5,617.5	5,887.9	6,169.1	6,490.4
Discounts	167.9	176.3	185.1	194.4	204.1	214.3
<b>Total</b>	<b>\$28,932.9</b>	<b>\$29,882.5</b>	<b>\$30,868.3</b>	<b>\$32,156.5</b>	<b>\$33,643.9</b>	<b>\$35,217.0</b>

Note: Columns may not sum because of rounding.

## Limited Sales and Use Tax Exemptions

**TABLE 2**

### Value of Sales Tax Exemptions Fiscal 2007 to 2012 – In millions of dollars

Tax Code Section	Exemption	2007	2008	2009	2010	2011	2012
151.302	Sales for resale	cbe	cbe	cbe	cbe	cbe	cbe
151.3021	Packaging supplies and wrapping (dry cleaning)	*	*	*	*	*	*
151.303	Previously taxed items	cbe	cbe	cbe	cbe	cbe	cbe
151.304	Occasional sales	cbe	cbe	cbe	cbe	cbe	cbe
151.305	Coin-operated machine sales	*	*	*	*	*	*
151.306	Transfers of common interests in property	cbe	cbe	cbe	cbe	cbe	cbe
151.307	Exemptions required by prevailing law	cbe	cbe	cbe	cbe	cbe	cbe
151.3071	Installation of certain equipment for export	*	*	*	*	*	*
151.308	Items taxed by other law						
	Crude oil	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
	Motor vehicles	2,587.6	2,713.9	2,822.8	2,852.8	3,053.1	3,175.3
	Motor fuels	1,888.9	1,883.0	1,901.3	2,149.2	2,315.6	2,527.5
	Mixed drinks	213.2	224.8	236.8	248.8	261.2	273.3
	Cement	0.0	0.0	0.0	0.0	0.0	0.0
	Sulphur	0.0	0.0	0.0	0.0	0.0	0.0
	Aviation fuel	416.2	417.7	432.5	502.8	556.6	627.5
	Oil well servicing	90.8	85.3	79.8	77.6	76.2	74.8
	Insurance premiums	3,357.7	3,466.8	3,570.8	3,677.9	3,792.8	3,911.4
	Total for items taxed by other law	8,554.3	8,791.6	9,043.9	9,509.2	10,055.5	10,589.8
151.309	Sales to governmental entities	254.4	270.7	286.4	302.2	316.4	332.4
151.310	Religious educational/public service organizations						
	Sales to non-profits	23.0	24.4	25.8	27.4	29.1	30.9
	One day sales	5.3	5.6	6.0	6.3	6.7	7.1
151.3101	Amusement services	cbe	cbe	cbe	cbe	cbe	cbe
151.3105	Bingo equipment purchased by certain organizations	0.2	0.2	0.2	0.2	0.2	0.2
151.311	Property used for the improvement of exempt realty	20.5	21.8	23.1	24.3	25.5	26.7
151.3111	Certain personal property	cbe	cbe	cbe	cbe	cbe	cbe
151.312	Nonprofit or religious periodicals and writings	10.6	11.3	11.9	12.7	13.4	14.3
151.313	Health care supplies						
	Prescription medicine and devices	374.4	388.6	402.9	417.4	432.8	448.8
	Over-the-counter drugs	185.7	192.7	199.8	207.0	214.6	222.6
151.314	Food						
	Food for home consumption	1,281.9	1,337.3	1,399.7	1,462.6	1,511.7	1,577.3
	School lunches and certain food sales	42.1	43.7	45.3	46.9	48.7	50.5
151.3141	Food stamp purchases	13.3	13.8	14.3	14.8	15.4	15.9
151.315	Water	238.2	244.4	250.8	257.5	264.3	271.5
151.316	Agricultural items						
	Agricultural feed, seed, chemicals, and supplies	252.7	255.1	257.0	258.6	260.3	262.1
	Livestock for food	12.1	12.2	12.3	12.4	12.4	12.5
	Agricultural machinery and equipment	64.2	64.8	65.3	65.7	66.1	66.6
	Horses, mules, and work animals	5.1	5.1	5.1	5.1	5.1	5.2
	Commercial fishing ice	0.1	0.1	0.1	0.1	0.1	0.1
151.3162	Timber operations (equipment)	14.5	19.3	20.2	21.3	22.3	23.4
151.317	Gas and electricity						
	Manufacturing	740.5	722.8	726.6	742.7	755.2	769.7
	Residential	757.9	782.0	801.8	825.9	910.3	1,001.9
	Agricultural	18.3	18.0	18.0	18.3	18.6	18.8
	Mining	68.5	67.6	68.3	69.8	71.5	72.8
	Timber	**	**	**	**	**	**
151.318	Manufacturing						
	Materials used in manufacturing	\$9,290.0	\$9,612.5	\$9,913.4	\$10,242.1	\$10,629.0	\$11,039.5



TABLE 2  
(cont.)

### Value of Sales Tax Exemptions Fiscal 2007 to 2012 – In millions of dollars

Tax Code Section	Exemption	2007	2008	2009	2010	2011	2012
	Manufacturing machinery and equipment	541.1	559.8	577.4	596.5	619.0	642.9
	Packaging and wrapping supplies	287.7	297.7	307.1	317.2	329.2	341.9
151.3185	Film equipment	***	***	***	***	***	***
151.319	Newspapers						
	Newspapers	22.4	22.6	22.8	23.0	23.2	23.4
	Newspaper inserts	15.5	16.3	17.1	18.0	18.9	19.8
151.320	Magazine subscriptions	9.8	9.9	10.0	10.1	10.2	10.3
151.321	University student organizations	*	*	*	*	*	*
151.322	Containers	100.6	104.1	107.3	110.9	115.1	119.5
151.323	Certain telecommunications services	cbe	cbe	cbe	cbe	cbe	cbe
151.324	Certain drilling equipment	64.9	64.4	65.3	66.7	68.4	69.7
151.325	Internet access service (partial)	69.3	72.7	76.3	80.0	83.9	88.0
151.326	Clothing and footwear holiday	40.2	41.8	43.3	44.9	46.5	48.2
151.328	Aircraft						
	Certain aircraft	*	*	*	*	*	*
	Repair equipment for certain aircraft	14.9	15.6	16.4	17.2	18.1	19.0
151.329	Certain ships	28.3	29.8	31.2	32.5	33.9	35.3
151.3291	Boats and boat motors	46.7	47.7	48.6	49.6	50.6	51.6
151.330	Interstate shipments	cbe	cbe	cbe	cbe	cbe	cbe
151.331	Rolling stock						
	Railroad fuel and supplies	40.1	40.9	42.2	49.1	54.3	61.2
	Rolling stock and locomotives	2.6	2.7	2.9	3.0	3.2	3.4
151.332	Certain sales by senior citizen organizations	*	*	*	*	*	*
151.335	Coin-operated services	50.5	53.6	56.7	60.1	63.8	67.9
151.336	Certain coins and metals	*	*	*	*	*	*
151.337	Sales by or to Indian tribes	cbe	cbe	cbe	cbe	cbe	cbe
151.338	Environment and conservation services	cbe	cbe	cbe	cbe	cbe	cbe
151.340	Official state coin	*	*	*	*	*	*
151.341	Development corporations	*	*	*	*	*	*
151.342	Agribusiness (agricultural containers)	0.4	0.4	0.4	0.4	0.4	0.4
151.343	Animal shelters	*	*	*	*	*	*
151.346	Intercompany sales of services	cbe	cbe	cbe	cbe	cbe	cbe
151.347	Certain lawn and yard services	*	*	*	*	*	*
151.348	Cooperative research ventures	cbe	cbe	cbe	cbe	cbe	cbe
151.349	Texas National Laboratory	0.0	0.0	0.0	0.0	0.0	0.0
151.350	Labor to restore certain property	cbe	cbe	cbe	cbe	cbe	cbe
151.3501	Labor to restore historic sites	*	*	*	*	*	*
151.351	Data processing and info. services (partial)	27.6	29.2	30.7	32.4	34.1	36.0
151.353	Court reporting	*	*	*	*	*	*
151.354	Property management	*	*	*	*	*	*
151.355	Water-related exemptions	5.2	5.4	5.5	5.6	5.8	5.9
151.429	Equipment used in enterprise projects	5.7	6.0	6.3	6.6	6.9	7.3
151.4291	Defense readjustment	0	0	0	0	0	0
151.431	Job retention	*	*	*	*	*	*
151.432	Ticket resellers	*	*	*	*	*	*
<b>Total</b>		<b>\$23,601.1</b>	<b>\$24,325.9</b>	<b>\$25,065.6</b>	<b>\$26,074.3</b>	<b>\$27,270.7</b>	<b>\$28,512.4</b>

\*Amount is negligible.

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

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

cbe: cannot be estimated.

Note: Columns may not sum because of rounding.

TABLE 3

**Value of Selected Service Exclusions from the Sales Tax**  
Fiscal 2007 to 2012 – In millions of dollars

Service Exclusion	2007	2008	2009	2010	2011	2012
<b>Construction labor</b>						
New residential construction	\$482.2	\$455.1	\$443.1	\$435.9	\$424.4	\$426.2
New nonresidential construction	240.0	236.4	237.8	239.4	237.2	241.7
Residential repair and remodeling	118.6	120.9	123.4	126.2	128.4	130.9
<b>Personal services</b>						
Barber and beauty	68.8	73.0	77.3	82.0	87.0	92.5
Funeral	56.3	57.5	58.6	59.8	61.0	62.2
Child day care	177.2	183.9	190.6	197.5	204.8	212.4
Miscellaneous personal services	11.8	12.5	13.2	14.0	14.9	15.8
<b>Business &amp; professional services</b>						
Physician services	768.5	803.8	839.0	877.1	917.7	961.1
Dental services	298.9	317.1	335.7	356.0	378.0	401.8
Other health care	391.7	415.7	440.0	466.6	495.4	526.7
Legal services	398.6	422.9	447.7	474.8	504.1	535.9
Accounting and audit services	180.8	191.8	203.0	215.3	228.6	243.1
Architectural and engineering services	336.7	357.3	378.2	401.1	425.8	452.7
Management consulting and public relations	145.6	154.5	163.6	173.5	184.2	195.8
Contract computer programming	123.1	130.6	138.2	146.6	155.7	165.5
Research and development laboratory services	106.8	113.3	119.9	127.2	135.0	143.5
Economic and sociological research	20.9	22.2	23.5	24.9	26.4	28.1
Testing labs	48.3	51.2	54.2	57.5	61.0	64.9
Billboard advertising	23.0	25.1	27.2	29.4	31.8	34.4
Employment agency services	31.2	33.1	35.0	37.1	39.4	41.9
Temporary labor supply	47.7	50.6	53.6	56.8	60.3	64.1
Financial services brokerage	187.8	198.8	209.1	222.4	236.3	249.7
Other financial	62.9	66.6	70.0	74.5	79.1	83.6
Real estate brokerage and agency	223.9	236.9	249.2	265.0	281.6	297.6
Freight hauling	195.2	207.1	219.2	232.5	246.9	262.4
Other transportations (except scheduled passenger)	20.8	22.0	23.3	24.7	26.3	27.9
Veterinary service	44.0	45.8	47.6	49.5	51.5	53.5
<b>Other services</b>						
Automotive maintenance and repair	231.9	246.1	260.5	276.3	293.3	311.8
Car washes	27.5	29.1	30.8	32.7	34.7	36.9
Travel arrangements	13.0	13.8	14.6	15.5	16.5	17.5
Private vocational education	42.0	44.6	47.2	50.1	53.2	56.5
Other educational services	30.4	32.2	34.1	36.2	38.4	40.8
Interior design	8.1	8.6	9.1	9.6	10.2	10.9
<b>Total</b>	<b>\$5,163.9</b>	<b>\$5,380.3</b>	<b>\$5,617.5</b>	<b>\$5,887.9</b>	<b>\$6,169.1</b>	<b>\$6,490.4</b>

Note: Columns may not sum because of rounding.

two sales of taxable items per year) do not collect the tax; however, purchasers with permits are responsible for remitting the tax.

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

## **Sales tax exemptions**

Specific sections of the Texas Tax Code exempt particular items from the sales tax. The following discussion outlines these exemptions and includes references to the appropriate section of the Tax Code covering those items. Table 2 summarizes the estimated values of these exemptions for fiscal 2007 and the following five fiscal years. The values of exemptions that cannot be estimated because of insufficient data are marked “cbe.”

### **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 from the sales tax. For example, when a wholesaler sells books to a book store, tax is not due on the sale because the retailer will resell the books. The Tax Code has exempted such sales since the sales tax was imposed in 1961. One reason for the sale for resale exemption is to keep the sales tax from pyramiding or cascading on every transaction.

### **Sec. 151.3021. Packaging supplies and wrapping**

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

### **Sec. 151.303. Previously taxed items: use tax exemption or credit**

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

### **Sec. 151.304. Occasional sales**

An occasional sale of a taxable item is exempted from the sales tax. “Occasional sales” include events such as the sale of the entire operating assets of a business or of an identifiable segment of a business, or one or two sales of taxable items during a 12-month period by a person who is not in the business of selling taxable items. The sales tax law has exempted such sales since the tax was imposed in 1961.

### **Sec. 151.305. Coin-operated machine sales**

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

### **Sec. 151.306. Transfers of common interests in property**

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

### **Sec. 151.307. Exemptions required by prevailing law**

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

### **Sec. 151.3071. Installation of certain equipment for export**

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

### **Sec. 151.308. Items taxed by other law**

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

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

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

If motor fuels were taxed under the sales tax, the resulting revenue would be dedicated according to the Texas Constitution.

Motor vehicles are currently taxed under a separate sales tax at the same rate as the state sales tax.

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

### **Sec. 151.309. Governmental entities**

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

### **Sec. 151.310. Religious, educational, and public service organizations**

This section exempts items sold, leased, or rented to religious, educational, or charitable organizations; organizations exempted from federal income taxes under Section 501(c)(3), (4), (8), (10), or (19) of the Internal Revenue Code; nonprofit youth athletic organizations; volunteer fire departments; chambers of commerce;

and convention and tourist promotional agencies. The section references certain guidelines that nonprofit hospitals, exempted under this section, must meet in providing charity care and community benefits. The sales tax law has contained several of these exemptions since 1961; others were added or expanded since then.

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

### **Sec. 151.3101. Amusement services exemptions**

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

### **Sec. 151.3105. Bingo equipment purchased by certain organizations**

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

### **Sec. 151.311. Taxable items incorporated into or used for improvement of realty of an exempt entity**

This provision exempts certain items used in performing a contract to improve real property for a governmental entity or an organization exempt under Sec. 151.310. For example, a contractor building a new public school can

purchase the building materials tax-free. The contractor can also purchase tax-free certain consumable supplies and certain taxable services performed at the job site, such as surveying or landscaping services. This provision was added in 1969 and has been amended several times since then.

#### **Sec. 151.3111. Services on certain exempted personal property**

This section exempts a service performed on tangible personal property that is also exempt from tax. For example, repair services performed on agricultural equipment (like tractors and combines) are exempted from tax by this section. This exemption was added in 1984, when certain services became taxable.

#### **Sec. 151.312. Periodicals and writings of religious, philanthropic, charitable, historical, scientific, and similar organizations**

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

#### **Sec. 151.313. Health care supplies**

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

#### **Sec. 151.314. Food and food products**

This section exempts food products for human consumption, like cereals, milk, meat, poultry, fish, eggs, vegetables, fruit, spices, salt, sugar, coffee, and tea. It does not exempt meals sold in restaurants, vitamins, over-the-counter medicines, 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 was added in 1987.

#### **Sec. 151.315. Water**

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

#### **Sec. 151.316. Agricultural items**

This section exempts certain agricultural items, including horses, mules, and work animals; animals that ordinarily constitute food (e.g. cattle, poultry, etc.); feed for farm and ranch animals and for animals held for sale; certain seeds and annual plants; chemicals used on a farm or ranch in production; and machinery and equipment used on a farm or ranch to build roads or water facilities. The section also exempts items used to produce agricultural products for sale, or to process, pack, or market agricultural products; underground irrigation equipment; and ice used by commercial fishing boats. Several of these items have been exempt since 1961.

#### **Sec. 151.3162. Timber operations**

This provision, added in 1999, exempts seedlings, certain chemicals, and machinery and equipment used in the production of timber. The exemption is being phased-in over a period of years. The phase-in will be staged: 33 percent, then 50 percent, then 75 percent exempt. Items become completely exempt on January 1, 2008. The section became effective October 1, 2001 (the prior timber section, 151.3161 was repealed on that date).

#### **Sec. 151.317. Gas and electricity**

This section exempts certain sales of gas and electricity, including gas and electricity used in



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

Effective October 1, 2001, gas and electricity used in timber operations became exempt from taxation.

#### **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 that is necessary or essential to the manufacturing operation if it causes a physical or chemical change in the product being manufactured. The section exempts services performed directly on the manufactured product; certain chemicals used during the manufacturing operation; wrapping and packaging materials; and certain equipment used to reduce water use and to reuse and recycle wastewater streams in the manufacturing process.

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

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

#### **Sec. 151.3185. Film production**

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

#### **Sec. 151.319. Newspapers and property used in newspaper publication**

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

#### **Sec. 151.320. Magazines**

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

#### **Sec. 151.321. University and college student organizations**

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

#### **Sec. 151.322. Containers**

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

#### **Sec. 151.323. Certain telecommunications services**

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

#### **Sec. 151.324. Equipment used elsewhere for mineral exploration or production**

This section exempts tangible personal property (e.g., drill pipe, casing, or tubing) used for the exploration for or production of oil, gas,

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

#### **Sec. 151.325. Basic fee for Internet access**

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

#### **Sec. 151.326. Clothing and footwear for a limited period**

This section exempts items of clothing and footwear from the sales tax. The exemption is limited to items costing \$100 or less. The items are exempt from tax only during a three-day period consisting of the first Friday, Saturday, and Sunday of each August. The exemption does not apply to special or protective clothing or footwear; nor does it apply to accessories such as jewelry, handbags, or luggage. The rental of clothing is not exempt. Local taxing authorities may opt to not offer this exemption as it applies to their sales taxes. This section was added in 1999.

#### **Sec. 151.328. Aircraft**

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

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

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

#### **Sec. 151.329. Certain ships and ship equipment**

This section exempts sales of (1) component parts of a vessel that is 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 that is 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 that are used in the maintenance and operation of the vessel or become component parts of the vessel, and (5) certain materials and supplies purchased by a provider of stevedoring services for a qualifying vessel.

#### **Sec. 151.3291. Boats and boat motors**

This provision exempts the sale, but not the lease or rental, of a boat or motor that is 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 that is shipped outside this state by the seller or that is 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 that is stored in Texas temporarily and used solely outside this state or that is physically attached to other tangible personal property that is 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 that is 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. 151.335. Coin-operated services**

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

**Sec. 151.336. Certain coins and precious metals**

The sale of gold, silver, or numismatic coins or of platinum, gold, or silver bullion is exempt if the total sales price of all of the items sold equals \$1,000 or more. This section was added in 1989.

**Sec. 151.337. Sales by or to Indian tribes**

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

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

**Sec. 151.338. Environment and conservation services**

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

**Sec. 151.340. Official state coin**

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

**Sec. 151.341. Items sold to or used by development corporations**

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

**Sec. 151.342. Agribusiness items**

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

**Sec. 151.343. Animals sold by nonprofit animal shelters**

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

**Sec. 151.346. Intercorporate services**

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



**Sec. 151.347. Certain lawn and yard services**

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

**Sec. 151.348. Cooperative research and development ventures**

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

**Sec. 151.349. Corporations formed by the Texas National Research Laboratory Commission**

This section exempts taxable items sold to or by a corporation established by the Texas National Research Laboratory Commission under Section 465.008(g), Government Code. It was added in 1991 to provide the exemption for the superconducting supercollider project.

**Sec. 151.350. Labor to restore certain property**

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

**Sec. 151.3501. Labor to restore, repair, or remodel historic sites**

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

**Sec. 151.351. Information services and data processing services**

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

**Sec. 151.353. Court reporting services**

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

**Sec. 151.354. Services by employees of property management companies**

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

**Sec. 151.355. Water-related 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, and for the construction or operation of certain water supply or wastewater systems. The exemption does not apply to consumer appliances or fixtures (e.g., washing machines, dishwashers, toilets, etc.) that are designed to limit water usage. This section was added in 2001.

### Sec. 151.429. Tax refunds for enterprise projects

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

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

### Sec. 151.4291. Tax refunds for defense readjustment projects

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

### Sec. 151.431. Sales and use tax refund for job retention

A qualified business operating in an enterprise zone is entitled to a one-time refund of sales tax paid on purchases of machinery or equipment used in an enterprise zone if the

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

### Sec. 151.432. Certain tickets to amusement services

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

### Sales tax exclusions

At its inception in 1961, the sales tax was not imposed on the 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

TABLE 4

**Sales Tax Discounts**  
Fiscal 2007 to 2012 – In millions of dollars

Discount	2007	2008	2009	2010	2011	2012
Timely Filer Discount	\$89.6	\$94.1	\$98.8	\$103.8	\$109.0	\$114.4
Prepayment Discount	78.3	82.2	86.3	90.6	95.1	99.9
<b>Total</b>	<b>\$167.9</b>	<b>\$176.3</b>	<b>\$185.1</b>	<b>\$194.4</b>	<b>\$204.1</b>	<b>\$214.3</b>

Note: Columns may not sum because of rounding.

property, data processing, landscaping and lawn maintenance, janitorial and extermination services, security services, garbage removal, credit reporting and debt collection, information services, certain surveying services, and insurance services.

Many services remain excluded from the tax, some of which are profiled in Table 3. The value of the exclusions in Table 3 is expected to exceed \$5.2 billion in fiscal 2007, an amount equal to more than one-quarter of total expected sales tax collections.

Of the services not covered by the Tax Code, the largest group is professional services. These include medical, dental, and other health care; legal services; accounting and audit services, engineering and architectural services; real estate brokerage; financial securities brokerage; and veterinary services. (Note: Individuals practicing these professions are subject to a \$200 fee, in addition to other license fees.)

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

### **Sales tax discounts**

Texas' sales tax law allows two kinds of discounts. (See 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 2007, the value of this discount will be an estimated \$89.6 million

As an incentive for early payment, taxpayers who prepay their taxes based on a reasonable estimate of their tax liability are allowed to retain an additional 1.25 percent. The value of this prepayment discount will be about \$78.3 million in fiscal 2007. ★



# Franchise Tax\*

**T**he franchise tax serves as Texas' primary business tax. The tax is levied on corporations (including S corporations) and limited liability companies doing business in Texas. Non-corporate business entities such as partnerships, associations, and proprietorships are excluded from the 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 wealth (i.e., as a percentage of corporate assets), the tax changed little but for the tax rate until the 1980s. Legal challenges to the method of tax computation in the 1980s caused tax revenues to drop sharply.

In answer to the ensuing revenue shortfalls and to long-standing equity concerns, the Legislature in 1991 reformulated the tax. The franchise tax since 1992 has been computed on a dual tax base of capital (net worth) and earned surplus (modified net income).

The franchise tax is considered a privilege tax, meaning that corporations pay the tax in exchange for specific privileges granted by the State of Texas. These privileges include access to the state's legal system, the right to accumulate property separate and apart from any individual's property, and a limitation of personal financial liability for officers of the corporation.

In 2005, the last complete year of reporting, about 630,000 firms were subject to the tax. Of this total, 155,000 firms reported a tax liability, and the remaining 475,000 firms owed no tax. During the last complete year—fiscal 2006—franchise tax collections totaled \$2.6 billion.

## How the franchise tax is computed

Corporations make two sets of tax calculations: one for their "net worth" (or taxable capital) tax base, and another for their "earned

surplus" tax base. The results are then used to determine final tax liability. Firms with a tax liability of less than \$100 and firms with total gross receipts of less than \$150,000 are not required to remit the tax, although they must file information reports.

The "net worth" tax base is computed by summing the corporation's stated capital and surplus. Stated capital is the par value of the firm's outstanding shares of stock. Surplus is the remainder of the firm's net worth. Net worth is defined as the firm's total assets minus debts. For franchise tax purposes, debts are time-certain, amount-certain, and legally enforceable.

Firms apportion their total net worth tax base to Texas according to the share of their total business done in the state, measured in terms of their gross receipts. A tax rate of 0.25 percent is applied to the apportioned tax base to determine the tax on taxable capital.

The "earned surplus" tax base is calculated by summing the firm's federal taxable income and the firm's compensation paid to officers and directors. Deductions are allowed for certain foreign income and dividends received. All S corporations and C corporations with 35 or fewer shareholders are permitted to exclude officer and director compensation from their tax base.

Firms also apportion their earned surplus tax base to Texas according to the share of their business done in the state, measured in terms of their gross receipts. A Texas business loss carryover may be used to reduce apportioned earned surplus. The tax rate on earned surplus is 4.5 percent.

If the tax on earned surplus exceeds the tax on net worth, the corporation will pay both the capital tax and a surtax on earned surplus. The surtax is equal to the firm's earned surplus tax liability minus its net worth tax liability. In

\* This chapter describes the franchise tax as it existed on January 1, 2007. Significant changes to the tax are scheduled to occur on January 1, 2008.

practice, the firm simply pays the higher of the tax on net worth or the tax on earned surplus.

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

### Origin of franchise exemptions

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

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

A third group of organizations are franchise tax-exempt because of 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 Section 171.063(a)(1)) or under a state exemption for religious organizations (Tax Code Section 171.058). A summary of the values of the various exemptions is in Table 5.

### Nonprofit versus exempted

A nonprofit corporation is not by that reason alone exempt from the franchise tax. For many of the exemp-

tions, nonprofit status is only one of several requirements for exemption. Common requirements are that the organization be engaged in serving a particular type of client, be engaged in a particular line of work, or be organized for, and involved in, a specified type of pursuit.

### Classifying franchise tax exemptions

Four broad categories of franchise tax relief exist:

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

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

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

TABLE 5

### Value of Franchise Tax Exemptions, Deductions, Special Accounting Methods, and Credits and Refunds Fiscal 2007 (In millions of dollars)

Item	2007
Exemptions: For-Profit Corps	\$ 503.3
Exemptions: Non-Profit Corps	362.9
Deductions	505.2
Special Accounting Methods	37.9
Credits and Refunds	106.7
<b>Total</b>	<b>\$1,516.0</b>

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



exempt under Tax Code Section 171.084 merit their exempt status without registration (See Table 6).

*Deductions and exclusions.* A tax deduction or exclusion grants a taxable firm a subtraction from its tax base or from its apportionment computation. Generally, all other franchise tax regulations must be followed. A deduction can lower a firm's overall tax bill, but usually not by the full amount of the deduction.

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

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

Some deductions or exclusions may be granted to prevent the taxation of items exempt from taxation under federal law, such as interest income on U.S. Government obligations. Other deductions or exclusions grant tax relief to small firms, such as the provision that allows small corporations to exclude executive compensation from their earned surplus tax base (See Table 7).

*Special accounting rules.* A special accounting rule allows a qualifying firm to use an accounting or computation method not available to all other franchise taxpayers. The special accounting rule may be designed to relieve small firms of certain accounting burdens. Also, in the same manner as a deduction or exclusion, a special accounting rule may be used to encourage certain activities. For example, regulated investment management service companies benefit from a special apportion-

ment rule because the Legislature sought to encourage these firms to locate in Texas.

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

Tax credits come in two types, distinguished by their frequency. One-time credits are available for a single tax period (or until they are used up). In contrast, continuing credits are available for use year after year. Each type can be used for a variety of public policy purposes—e.g., to influence taxpayer behavior, to grant tax relief, or to smooth the flow of state and local tax receipts.

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

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

## Franchise tax exemptions

### **Tax Code Sec. 171.051(d). Franchise tax exemptions granted before September 1, 1975**

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

### **Sec. 171.052 and 171.0525. Insurance companies**

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

The exemption includes insurance companies or agents defined under Sections 2501.03 and 2501.05 of the Insurance Code.

TABLE 6

### Value of Franchise Tax Exemptions

Fiscal 2007 – In millions of dollars

Tax Code Section	Exemption	2007
171.051	Exemptions granted before fiscal 1976	Included with IRS 501(c)(3)
171.052	Insurance companies	\$177.0
171.053	Railway terminal companies	*
171.055	Mutual funds	325.9
171.056	Solar energy companies	0.4
171.057	Promote local area	Included with IRS 501(c)(6)
171.058	Religious organizations	Included with IRS 501(c)(3)
171.059	Burial organizations	0.0
171.060	Agriculture fairs	Included with IRS 501(c)(5)
171.061	Educational organizations	Included with IRS 501(c)(3)
171.062	Public charities	Included with IRS 501(c)(3)
171.063	Nonprofit corporation exempt from federal taxes	
	IRS Sec 501(c)(2)	0.0
	IRS Sec 501(c)(3)	305.8
	IRS Sec 501(c)(4)	5.7
	IRS Sec 501(c)(5)	8.2
	IRS Sec 501(c)(6)	6.8
	IRS Sec 501(c)(7)	2.5
	IRS Sec 501(c)(8)	2.2
	IRS Sec 501(c)(10)	0.0
	IRS Sec 501(c)(16)	*
	IRS Sec 501(c)(19)	0.0
	IRS Sec 501(c)(25)	-
171.064	Nature conservation	Included with IRS 501(c)(3)
171.065	Water supply and sewer services	3.1
171.066	Natural gas facility	0.0
171.067	Convalescent homes	0.0
171.068	Cooperative housing	*
171.069	Ch 52 agriculture marketing	Included with IRS 501(c)(5)
171.070	Lodges	Included with IRS 501(c)(8)
171.071	Ch 51 agriculture cooperatives	Included with IRS 501(c)(5)
171.072	Housing finance	Included with IRS 501(c)(3)
171.073	Hospital laundry	*
171.074	Development corporation	Included with IRS 501(c)(6)
171.075	Health cooperatives	Included with IRS 501(c)(3)
171.076	Ch 55 agriculture credit	0.0
171.077	State credit unions ##	8.0
171.079	Electric cooperatives	17.9
171.080	Telephone cooperatives	1.0
171.081	Exempt by other law	*
171.082	Homeowners' associations	1.7
171.083	Emergency medical service corporations	Included with IRS 501(c)(3)
171.084	Trade show	*
171.085	Sludge recycling	*
171.086	Texas National Research Laboratory	0.0
171.087	Scholarship organization	Included with IRS 501(c)(3)
<b>Total</b>		<b>\$866.2</b>

# Qualifies for IRS 501(c)(13)

## Qualifies for IRS 501(c)(14)

\* Amount is negligible.

Note: Column may not sum because of rounding.



TABLE 7

**Value of Franchise Tax Deductions, Special Accounting Methods, and Credits and Refunds**  
**Fiscal 2007 – In millions of dollars**

<b>Tax Code Section</b>	<b>Item</b>	<b>2007</b>
<b>Deductions:</b>		
171.002(d)	Small business exception	64.8
171.104	Food and medicine receipts	5.8
171.107	Solar energy device purchases	*
171.108	Clean coal projects	*
171.110(a)(4)	Business loss carryover	240.1
171.110(b)	Small corporation exclusion from officer compensation add-back	140.0
Rule 3.555(k)	Interest income from U.S. obligations	54.5
<b>Total deductions</b>		<b>505.2</b>
<b>Special Accounting Methods:</b>		
171.106(c) and (d)	Investment management firm apportionment	4.4
171.109(c) and 171.113	GAAP accounting exemption	8.1
Rules 3.549(e)(45) and 3.557(e)(41)	Transportation firm apportionment	13.4
Rules 3.549(e)(43) and 3.557(e)(39)	Telephone firm apportionment	12.0
<b>Total special accounting methods</b>		<b>37.9</b>
<b>Credits and Refunds:</b>		
171.111	Temporary (FAS 96) credit	0.9
171.651-171.657	Credit for wages paid to inmates of the Texas Department of Criminal Justice	*
171.681-171.687	Credit for wages paid to persons committed to the Texas Youth Commission	*
171.701-171.707	Child care credit	0.8
171.721-171.730	Research and development credit	40.2
171.751-171.761	Job creation credit	5.0
171.801-171.811	Investment credit	55.3
171.831-171.837	Before- and after-school care contributions	*
171.851-171.856	Credit for wages of certain persons	*
171.891-171.894	Title insurance holding company credit	2.1
171.501	Refund for job creation in enterprise zones	*
111.302	Refund for ad valorem tax subject to abatement	2.4
<b>Total credits and refunds</b>		<b>\$106.7</b>

\* Amount is negligible.

Note: Column may not sum because of rounding.

**Sec. 171.053. Railway terminal corporation**

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

**Sec. 171.055. Open-end investment company**

An open-end investment company as defined by the Federal Investment Company Act of

1940, and that is registered under the Texas Securities Act, is exempt.

An open-end investment company is one that offers for sale, or has outstanding, any redeemable security of which it is the issuer. A mutual fund is an example of an open-end investment company.

**Sec. 171.056. Corporation with business interest in solar energy devices**

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

**Sec. 171.057. Nonprofit corporation organized to promote a county, city, or another area of state**

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

**Sec. 171.058. Nonprofit corporation organized for religious worship**

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

**Sec. 171.059. Nonprofit corporation organized to provide burial places**

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

**Sec. 171.060. Nonprofit corporation organized for agricultural purposes**

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

**Sec. 171.061. Nonprofit corporation organized for educational purposes**

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

**Sec. 171.062. Nonprofit corporation organized for public charity**

A nonprofit corporation organized for purely public charity that devotes all or substantially all of its efforts to the alleviation of poverty, disease, pain, and suffering by providing food, clothing, drugs, treatment, shelter, or psychological counseling directly to indigent or similarly deserving members of society and

deriving its funds primarily from sources other than fees or charges for its services is exempt.

**Sec. 171.063. Nonprofit corporation exempt from federal income tax**

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

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

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

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

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

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

Section 501(c)(8) exempts fraternal beneficiary societies and associations. These organizations include lodges providing payments of life, sickness, accident, or other benefits to

members. Examples are the Independent Order of Odd Fellows and the Elks Lodge.

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

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

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

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

#### **Sec. 171.064. Nonprofit corporation organized for conservation purposes**

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

#### **Sec. 171.065. Nonprofit corporation organized to provide water supply or sewer services**

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

#### **Sec. 171.066. Nonprofit corporation involved with city natural gas facility**

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

#### **Sec. 171.067. Nonprofit corporation organized to provide convalescent homes for elderly**

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

#### **Sec. 171.068. Nonprofit corporation organized to provide cooperative housing**

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

#### **Sec. 171.069. Marketing associations**

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

#### **Sec. 171.070. Lodges**

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

#### **Sec. 171.071. Farmers' cooperative society**

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

#### **Sec. 171.072. Housing finance corporation**

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

#### **Sec. 171.073. Hospital laundry cooperative association**

A hospital laundry cooperative association incorporated under Subchapter A, Chapter

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

#### **Sec. 171.074. Development corporation**

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

#### **Sec. 171.075. Cooperative association**

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

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

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

#### **Sec. 171.076. Cooperative credit association**

A cooperative credit association incorporated under Chapter 55, Agriculture Code, is

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

#### **Sec. 171.077. Credit union**

A credit union incorporated under the Texas Credit Union Act (Subtitle D, Title 3, Finance Code) is exempt.

State-chartered credit unions exempt under this section are not required to register with the Comptroller.

#### **Sec. 171.079. Electric cooperative corporation**

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

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

#### **Sec. 171.080. Telephone cooperative corporation**

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

#### **Sec. 171.081. Corporation exempt by another law**

This section provides that a corporation that is exempt from the franchise tax under another statute, federal or state, is not affected by a lack of a specific exemption provision in Chapter 171 of the Tax Code.

An example is a health facilities development corporation created under Chapter 221 of the Health and Safety Code. Section 221.033, Health and Safety Code, exempts such a corporation from all state taxes. Accordingly, even though there is no provision in Chapter 171 of the Tax Code exempting the corporation, it is exempt from franchise tax.

**Sec. 171.082. Certain homeowners' associations**

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

**Sec. 171.083. Emergency medical service corporation**

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

**Sec. 171.084. Certain trade show participants**

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

**Sec. 171.085. Recycling operation**

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

**Sec. 171.086. Corporations formed by the Texas National Research Laboratory Commission**

A corporation formed by the Texas National Research Laboratory under Section 465.008(g) of the Government Code is exempt. The project is currently inactive.

**Sec. 171.087. Nonprofit corporation organized for student loan fund or student scholarship purposes**

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

**Deductions, special accounting methods, and credits and refunds**

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

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

**Franchise tax deductions**

**Sec. 171.002(d). Small business exception**

Firms with a tax liability of less than \$100 and firms with total gross receipts of less than \$150,000 are not required to remit the tax, although they must file information reports.

**Sec. 171.104. Deduction for food and medicine receipts**

For purposes of apportioning taxable capital, multistate firms may subtract from their Texas receipts any receipts for shipments from outside Texas into the state of food and health-care supplies that are exempt from the sales tax. The deduction may not be used for apportioning earned surplus.

**Sec. 171.107. Deduction of cost of solar energy device from taxable capital apportioned to this state**

Taxpayers may deduct the cost of solar energy equipment installed from either the taxable capital base (fully deductible) or the earned surplus base (a 10 percent deduction).



**Sec. 171.108. Deduction of cost of clean coal project from taxable capital or taxable earned surplus apportioned to this state**

Taxpayers may deduct the amortized cost of equipment used in a clean coal project from either the taxable capital base (fully deductible) or the earned surplus base (a 10 percent deduction).

**Sec. 171.110(a)(4). Deduction of business loss carryover**

Taxpayers may deduct from their earned surplus tax base any accumulated earned surplus business losses. A business loss is any negative amount of earned surplus after apportionment and allocation. Business losses may be carried over to any of the next five taxable years.

**Sec. 171.110(b). Small corporation exclusion from officer compensation add-back**

In computing their earned surplus tax, corporations are required to add any officer and director compensation paid which was deducted on their federal tax return.

The compensation add-back is waived for S corporations and for other firms with 35 or fewer shareholders. Qualifying firms may exclude officer compensation from their earned surplus tax base.

**Rule 3.555(k). Deduction of interest income from U.S. obligations**

Taxpayers may deduct the interest income from debt instruments or certain other obligations of the U.S. government and certain specified federal agencies.

**Franchise tax special accounting methods**

**Sec. 171.106(c) and (d). Special apportionment method for certain investment management companies**

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

of the investment funds. Section 171.106(d) sources receipts from employee retirement plan managers to the state of the plan's beneficiaries.

**Sec. 171.109(c), and Sec. 171.113. Use of the federal income tax (FIT) accounting method**

Most corporations are required to follow generally accepted accounting principles (GAAP) in computing the tax on taxable capital. This requirement is waived in two franchise tax sections.

Section 171.109(c) allows corporations with less than \$1 million in taxable capital to use federal income tax (FIT) accounting rules. Section 171.113 permits firms organized as either S corporations or close corporations to use FIT accounting methods also. Use of FIT accounting rules generally results in the reduction of tax liability.

**Rule 3.549(e)(45). Transportation company apportionment for taxable capital; Rule 3.557(e)(41). Transportation company apportionment for earned surplus**

Transportation companies are permitted to exclude from their Texas receipts the Texas portion of interstate transportation services in computing both the capital tax and the earned surplus tax.

**Rule 3.549(e)(43). Telephone company apportionment for taxable capital; Rule 3.557(e)(39). Telephone company apportionment for earned surplus**

Telephone companies are permitted to exclude from their Texas receipts the Texas portion of interstate calls in computing both the capital tax and the earned surplus tax.

**Franchise tax credits**

**Sec. 171.111. Temporary (FAS 96) credit on net taxable earned surplus**

The temporary credit allows corporations to deduct, over a 20-year period, the amount of the timing differences on their books at the end of their 1991 accounting year. Timing differences are created by the differences between accounting requirements of federal income tax

and financial reporting. Taxpayers electing the FAS 96 credit are required to pay an additional 0.2 percent tax on their taxable capital.

**Sec. 171.651-171.657. Subchapter L:  
Credit for wages paid to Texas  
Department of Criminal Justice  
work program participants**

Companies that employ in a work program inmates or former inmates of the Texas Department of Criminal Justice are allowed a credit. The credit is equal to 10 percent of the portion of wages that the Department apportioned to the state as reimbursement for the cost of the inmate's confinement.

**Sec. 171.681-171.687. Subchapter M:  
Credit for wages paid to children committed to the Texas Youth Commission**

Companies that employ in a work program children committed to, or formerly committed to, the Texas Youth Commission are allowed a credit. The credit is equal to 10 percent of the wages paid to the child.

**Sec. 171.701-171.707. Subchapter N:  
Credit for child care centers or services**

Taxpayers that construct or operate a child care center, or that purchase child care services for pre-school children of the firm's employees, are allowed a credit. The credit is equal to 50 percent of the eligible costs, or \$50,000, whichever is lower.

The child care credit is limited to 90 percent of the firm's tax liability; and the care must be provided to children no more than five years of age.

**Sec. 171.721-171.730. Subchapter O:  
Credit for research and development**

The research credit is available to firms that perform qualified research in Texas. The credit is equal to 5.0 percent of the firm's annual increase in qualified research activities. The definition of qualified research, as well as the credit computation methods, closely follow those used for the federal research credit.

Taxpayers may receive a research credit bonus when the research is performed in an area of the state designated as a Strategic

Investment Area (SIA). Research performed in a SIA is multiplied by 2.0.

The Strategic Investment Area is a group of counties in the state that have an unemployment rate higher than the state average and per-capita income lower than the state average. SIA counties are designated annually by the Comptroller's Office. See the appendix for more information on SIA counties for calendar 2007.

The research credit is limited to 50 percent of the firm's tax liability. Unused credits may be carried over for up to 20 years.

**Sec. 171.751-171.761. Subchapter P:  
Credit for job creation**

The job creation credit is available to firms that (a) are located in the Strategic Investment Area, (b) are engaged in a qualified business activity, and (c) create at least 10 jobs during the year.

Qualified business activities include the following industries: manufacturing (SIC 2011-3999), warehousing (SIC 4221-4226), wholesale distribution (SIC 5012-5199), computer services (SIC 7371-7379), and research laboratories (SIC 8731).

The job credit is equal to 5 percent of the annual wages paid to new hires. The credit may be taken for up to five years.

The job credit is limited to 50 percent of the firm's tax liability in the year the credits are claimed. Unclaimed credits may be carried over for up to five years.

**Sec. 171.801-171.811. Subchapter Q:  
Credit for capital investment**

The investment credit is available to firms that (a) are located in the Strategic Investment Area, (b) are engaged in a qualified business activity, and (c) make a capital investment of at least \$500,000 during the year.

Qualified business activities include the following industries: manufacturing (SIC 2011-3999), warehousing (SIC 4221-4226), wholesale distribution (SIC 5012-5199), computer services (SIC 7371-7379), and research laboratories (SIC 8731).

The investment credit is equal to 7.5 percent of the investment made during the year. Investment in depreciable tangible assets, other

than buildings and structures, qualifies for the credit. The credit must be taken in five equal annual installments.

The investment credit is limited to 50 percent of the firm's tax liability in the year the credits are claimed. Unclaimed credits may be carried over for up to five years.

### **Sec. 171.831-171.837. Subchapter R: Credit for contributions to before- and after-school care programs**

Taxpayers that make contributions to a before- or after-school care program operated by an accredited facility may receive a tax credit equal to 30 percent of the eligible contributions. The credit is limited to 50 percent of the firm's tax liability, and the care must be provided to children from five to thirteen years of age.

### **Sec. 171.851-171.856. Subchapter T: Credit for wages paid to persons with certain disabilities**

A corporation that hires an employee, who at the time of being hired is eligible for supplemental security income benefits on the basis of disability or blindness or who is the recipient of social security disability insurance benefits, may qualify for a tax credit.

The credit is equal to 10 percent of the wages paid by the corporation to each qualified employee. The credit is limited to wages paid during the first two years of the qualified employee's employment. The amount of credit claimed on any report may not exceed 50 percent of a firm's tax liability.

### **Sec. 171.891-171.894. Subchapter U: Credit for certain premium taxes**

Title insurance holding companies are authorized a credit against their franchise tax in the amount of premium taxes paid by their title insurance subsidiaries. The credit is prorated based on the ownership percentage of the holding company in the title insurer. For example, if the holding company owned a 75 percent interest in the title insurer, the holding company's franchise tax credit would be limited to 75 percent of the insurance premium tax paid by the title insurer.

## **Franchise Tax Refunds**

### **Sec. 171.501. Refund for job creation in an enterprise zone**

Taxpayers located in an enterprise zone that create at least ten new jobs can qualify for a franchise tax refund. Qualifying firms must be certified by the Texas Economic Development Bank.

The refund is 25 percent of the firm's tax liability, up to a \$5,000 maximum per firm.

### **Sec. 111.302. Refund for economic development, reinvestment zone/abatement agreement**

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



# Gasoline Tax

The gasoline tax is a consumption tax on gasoline. In general, the tax is charged on each gallon of gasoline sold in Texas used to propel vehicles on Texas' public roads.

Total gasoline tax collected in fiscal 2006 was \$2.3 billion.

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

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

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

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

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

## **Tax Code Sec. 162.104. Exemptions; Sec. 162.125. Refund or credit**

Gasoline sold to the federal government or to a Texas public school district for its exclusive use is exempt from taxation. Similarly, gasoline sold to a commercial transportation company and used exclusively to provide transportation services for a public school dis-

trict is not subject to this tax. If the tax is paid, a person may claim a refund.

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

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

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

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

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

Refunds are made for taxes paid on gasoline used in motorboats, tractors or similar agricultural equipment, or gasoline used other than in a vehicle operated on public roads.

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

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

### Sec. 162.113 and 162.116. Credits and allowances

Section 162.113 allocates to a licensed distributor or licensed importer who makes timely payments of the tax, to the supplier or permissive supplier, the amount of 1.75 percent of the total taxes to be paid, to cover administrative expenses. Section 162.116 allocates a collection allowance to a supplier or permissive supplier who timely pays the tax to the state, equal to 0.25 percent of the tax payable.

### Sec. 162.113 and 162.126. Credit or refund for bad debts

Section 162.113 allows a licensed supplier or licensed permissive supplier, who cannot secure the payment of taxes due, to take a

credit against a subsequent payment of taxes to the state. Section 162.126 allows a licensed distributor to file a refund claim with the Comptroller's Office for tax paid on gasoline sales that are written off as a bad debt. A refund may not be claimed for gasoline sales that were delivered into the fuel supply tank of a motor vehicle or motorboat and for which payment was made through the use and acceptance of a credit card.

### Utilities Code Sec. 161.062 and 162.062. Exemption from excise taxes

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

TABLE 8

## Value of Gasoline Tax Exemptions, Refunds, Credits, and Discounts Fiscal 2007 to 2012 – In millions of dollars

Code and Section	Item	2007	2008	2009	2010	2011	2012
<i>Tax Code</i>							
162.104, 162.116, and 162.125	Exemptions and refunds						
	Federal government	\$10.3	\$10.5	\$10.6	\$10.8	\$10.9	\$11.1
	Public schools; transportation services for public schools	3.7	3.8	3.8	3.9	4.0	4.0
	Sales between license holder	cbe	cbe	cbe	cbe	cbe	cbe
	Sales for export	cbe	cbe	cbe	cbe	cbe	cbe
	Aviation use	4.6	4.6	4.7	4.8	4.8	4.9
	Gasoline in tanks of vehicles entering Texas (except interstate truckers)	cbe	cbe	cbe	cbe	cbe	cbe
	Fire, theft or accident losses	0.4	0.4	0.4	0.4	0.4	0.4
	Marine use	10.1	10.3	10.4	10.5	10.7	10.8
	Agricultural use	11.3	11.5	11.7	11.9	12.1	12.3
	Construction use	10.0	10.2	10.3	10.5	10.6	10.8
	Industrial and commercial use	26.4	26.8	27.2	27.6	28.0	28.5
	Transit company use	*	*	*	*	*	*
162.113 and 162.126	Refunds and credits for bad debts	0.8	0.8	0.8	0.8	0.8	0.8
162.113 and 162.116	Discounts for tax collection	46.1	46.9	47.6	48.3	49.1	49.8
<i>Utilities Code</i>							
161.062 and 162.062	Exemptions for electric and telephone cooperative use	0.4	0.4	0.4	0.4	0.4	0.4
<b>Total</b>		<b>\$124.1</b>	<b>\$126.2</b>	<b>\$127.9</b>	<b>\$129.9</b>	<b>\$131.8</b>	<b>\$133.8</b>

cbe: cannot be estimated

\* Amount is negligible.

Note: Columns may not sum because of rounding.

# Motor Vehicle Sales and Use Tax

**M**otor vehicle sales tax is a transaction tax paid on each purchase of a qualifying motor vehicle. Motor vehicle sales tax collections in fiscal 2006 totaled approximately \$2.8 billion.

## Motor vehicle sales and use tax exemptions

Motor vehicle sales tax exemptions are based on either the status of the purchaser or the intended use of the motor vehicle.

Table 9 summarizes the estimated values of these exemptions for fiscal 2007 through 2012. The exemptions are as follows:

### Tax Code Sec. 152.081. Driver training motor vehicles

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

### Sec. 152.082. Sale of motor vehicle to or use of motor vehicle by public agency

Motor vehicles purchased by public agencies are exempt. Public agencies include, but are not limited to, city and county governments and other political subdivisions. Generally, these motor vehicles must bear a license plate with the word "exempt" on its face.

### Sec. 152.083. Lease of motor vehicle to public agency

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

### Sec. 152.086. Motor vehicles driven by handicapped persons

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

### Sec. 152.087. Fire trucks and emergency medical services vehicles

Motor vehicle sales tax does not apply to the purchase or use of a fire truck, emergency medical services vehicle, or other motor vehicle used exclusively for fire-fighting purposes or for emergency medical services. To qualify for the exemption, the motor vehicle must be purchased by a volunteer fire department, a nonprofit emergency medical service provider that receives a federal income tax exemption as an organization described by Section 501(c)(3), Internal Revenue Code, or certain emergency medical service providers.

### Sec. 152.088. Motor vehicles used for religious purposes

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

### Sec. 152.089. Vehicles taxed by other law

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

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

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

**Sec. 152.091. 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. To qualify, the purchaser must sign an exemption certificate provided by the Comptroller's Office that authorizes the Comptroller's Office to provide a copy of the certificate to the state of intended use and registration.

**Sec. 152.093. 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. ☼

TABLE 9

**Value of Motor Vehicle Sales Tax Exemptions**  
Fiscal 2007 to 2012 – In millions of dollars

Tax Code Section	Exemption	2007	2008	2009	2010	2011	2012
152.081	Driver training motor vehicles	*	*	*	*	*	*
152.082	Sales to or use by a public agency	\$ 45.1	\$ 46.9	\$ 48.7	\$ 50.7	\$ 52.7	\$ 54.8
152.083	Lease to a public agency	**	**	**	**	**	**
152.086	Driven by handicapped persons	7.7	8.0	8.3	8.7	9.0	9.4
152.087	Fire trucks and ambulances	3.2	3.4	3.6	3.8	3.9	4.1
152.088	Used for religious purposes	1.6	1.6	1.7	1.7	1.7	1.8
152.089	Vehicles taxed by other law	89.7	94.2	98.9	103.9	109.1	114.5
152.091	Farm or timber use	25.7	26.2	26.7	27.3	27.8	28.4
152.092	Transported out of state	cbe	cbe	cbe	cbe	cbe	cbe
152.093	Certain licensed child-care facilities	2.2	2.2	2.1	2.1	2.1	2.1
<b>Total</b>		<b>\$175.2</b>	<b>\$182.5</b>	<b>\$190.1</b>	<b>\$198.0</b>	<b>\$206.4</b>	<b>\$215.1</b>

cbe: cannot be estimated.

\*Amount is negligible.

\*\*Cannot be separated from estimate of sales to public agency. Included in the estimate for Sec. 152.082.

Note: Columns may not sum because of rounding.

# Natural Gas Tax

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

A tax rate of 7.5 percent of market value is imposed on the amount of gas produced and saved within the state. In determining the taxable value of natural gas, marketing costs incurred by the producer to move the gas from the well to the market may be subtracted from gross receipts. Marketing costs totaled 4.5 percent (or \$1.2 billion) of reported gross value in fiscal 2006. Total natural gas tax collections in fiscal 2006 were \$2.3 billion.

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

## Classifying natural gas tax exemptions

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

### **Tax Code Sec. 201.057(c). Exemption or tax reduction for high-cost gas**

The high-cost gas program was extended and modified during the 74th Legislature, Regular Session, by H.B. 398 (1995). During the 78th Legislature, Regular Session, H.B. 2424 (2001) made the high-cost gas exemption permanent.

The current program provides a tax exemption or tax reduction for each qualified gas well. The exemption is based on the ratio of drilling and completion costs for each well to two times the median drilling and completion cost for all wells making an application with the Comptroller's Office in the prior fiscal year. The time period for drilling or completing a qualified well began September 1, 1996. The tax exemption/reduction for each well is effective for 120 consecutive calendar months from the date of first production or until the cumulative value of the tax reduction equals 50 percent of the drilling and completion costs incurred, whichever occurs first.

### **Sec. 201.058(a) and 202.056. Oil or gas from wells previously inactive**

The two-year inactive well program was created by the 75th Legislature (1997). The program provides a 10 year exemption for oil and gas production from a wellbore that has not produced oil or gas in the two years preceding the date of application for exemption. The time period for application for certification began September 1, 1997 and ends February 28, 2010.

### **Sec. 201.058(a) and 202.060. Orphan well program**

HB 2161 also granted an exemption for gas and casinghead gas produced from a certified "orphan well." An orphan well is defined in Section 89.047(a)(3) of the Natural Resources Code as one that has a Texas Railroad Commission permit, has not reported production for the preceding 12 months, and whose current operator's commission-approved organization report has lapsed. When a certified orphan well is put back into production by a certified orphan well operator, the well will be eligible for a 100 percent exemption from the natural gas tax and the Oilfield Cleanup fee for as long the certified operator operates the well.

This incentive took effect January 1, 2006. (At this time no applications have been filed for orphan wells.)

## Sec. 201.058(b). Flared/released gas

S.B. 1440, 75th Legislature (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. Low-producing gas wells with conditional price trigger

Pursuant to H.B. 2161, 79th Legislature, Regular Session (2005), qualified gas wells that produce less than 90 Mcf per day during a three-month period would be 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 (thousand cubic feet), a 50 percent credit applies. A 100 percent credit would apply if the price is not more than \$2.50/Mcf. Because the price triggers have not been met, this exemption has not been used. This exemption expires September 1, 2007. ⚡

TABLE 10

## Value of Natural Gas Tax Exemptions Fiscal 2007 to 2012 – In millions of dollars

Tax Code Section	Exemption	2007	2008	2009	2010	2011	2012
201.057(c)	Exemption/reduction for high-cost gas	\$ 812.0	\$ 874.0	\$ 866.0	\$ 856.0	\$ 848.0	\$ 839.0
201.058(a) and 202.056	Oil or gas from wells previously inactive	43.0	45.0	43.0	41.0	38.0	37.0
201.058(a) and 202.060	Orphan well program	cbe	cbe	cbe	cbe	cbe	cbe
201.058(b)	Flared/released gas	*	*	*	*	*	*
201.059	Low producing gas wells with conditional price trigger	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>		<b>\$855.0</b>	<b>\$919.0</b>	<b>\$909.0</b>	<b>\$897.0</b>	<b>\$886.0</b>	<b>\$876.0</b>

cbe: cannot be estimated.  
\*Amount is negligible.



# School Property Tax

**T**he Texas Constitution authorizes local governments to levy property taxes. Property taxes are levied by counties, cities, school districts, and special districts such as junior colleges, hospitals, and flood control districts. School property taxes represented 60 percent of the total property taxes levied in 2005.

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

There are two types of school property tax levies: one to cover maintenance and operating costs (M&O), and the other to pay interest and sinking fund (I&S) debt service for financing building programs. In 2005, the statewide weighted average M&O tax rate was \$1.475 per \$100 valuation, and the I&S tax rate was \$0.201 per \$100 valuation, for a combined statewide weighted average school tax rate of \$1.677 per \$100 valuation.

All real and tangible personal property, unless required or permitted to be exempt by the Constitution, must be taxed in proportion to its value. To receive most property tax exemptions or special appraisals, a person must file an application with the county appraisal district that serves the taxing units in which the property is located. If the property is in an area served by more than one appraisal district, a person must file the application in all affected appraisal districts, except for the residence homestead exemption application. The appraisal districts will apply the exemption, when granted, in each of the taxing units in which the particular exemption is allowed and the property is located.

For residence homestead exemptions, the homeowner may apply in one of the county appraisal districts in which the property is located.

The estimated cost of the exemptions or special appraisals provided in Table 11 reflects anticipated school property tax rates. The exemptions or special appraisals are as follows:

## **Tax Code Sec. 11.11. Public property**

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

Several other specific types of public property also are exempt from property taxes.

### ***Institution of higher education public property held in trust***

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

### ***Alumni association property built on state-owned land***

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

### ***Leased prison property to the state***

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

### ***Lease-purchase agreements of public property***

If a lease-purchase agreement provides that the state or a political subdivision of the state

TABLE 11

**Cost of School Property Tax Exemptions or Special Appraisals**  
Tax Year 2007 to 2012 – In millions of dollars

Tax Code Section	Exemption	2007	2008	2009	2010	2011	2012
* 11.11	Public property (state and local)	cbe	cbe	cbe	cbe	cbe	cbe
11.111	Public property for indigent housing	cbe	cbe	cbe	cbe	cbe	cbe
* 11.12	Federal exemptions	cbe	cbe	cbe	cbe	cbe	cbe
	Residence homesteads:						
11.13(b)	State mandated \$15,000	\$899.1	\$942.6	\$980.3	\$1,019.5	\$1,060.1	\$1,102.3
11.13(c)	State mandated 65 and older or disabled \$10,000	167.0	178.8	189.8	201.5	213.9	227.1
11.13(d)	Optional 65 and older or disabled	78.9	82.4	85.4	88.5	91.7	95.1
11.13(n)	Optional percentage	351.9	374.9	396.1	418.6	442.2	467.2
* 11.14	Personal property not for producing income	cbe	cbe	cbe	cbe	cbe	cbe
* 11.145	Income-producing personal property	cbe	cbe	cbe	cbe	cbe	cbe
* 11.146	Mineral interest valued less than \$500	cbe	cbe	cbe	cbe	cbe	cbe
* 11.15	Family supplies	cbe	cbe	cbe	cbe	cbe	cbe
* 11.16	Farm products	cbe	cbe	cbe	cbe	cbe	cbe
* 11.161	Implements of husbandry	cbe	cbe	cbe	cbe	cbe	cbe
11.17	Cemeteries	cbe	cbe	cbe	cbe	cbe	cbe
	Charitable organizations:						
11.181	Improving property for housing	cbe	cbe	cbe	cbe	cbe	cbe
11.182	Community housing development organizations improving property for housing	cbe	cbe	cbe	cbe	cbe	cbe
11.1825	Constructing or rehabilitating housing not previously exempt	cbe	cbe	cbe	cbe	cbe	cbe
11.183	Assisting to ambulatory health care centers	cbe	cbe	cbe	cbe	cbe	cbe
11.184	Performing charitable functions	cbe	cbe	cbe	cbe	cbe	cbe
11.185	Developing model colonia subdivisions	cbe	cbe	cbe	cbe	cbe	cbe
11.19	Youth spiritual/mental/physical development organizations	cbe	cbe	cbe	cbe	cbe	cbe
11.20	Religious organizations	cbe	cbe	cbe	cbe	cbe	cbe
11.21	Private schools	cbe	cbe	cbe	cbe	cbe	cbe
11.22	Disabled veterans	20.3	21.9	23.4	25.0	26.8	28.6
11.23	Miscellaneous exemptions	cbe	cbe	cbe	cbe	cbe	cbe
11.24	Historic or archeological sites	6.6	6.7	6.8	6.9	7.0	7.0
* 11.25	Marine cargo containers	cbe	cbe	cbe	cbe	cbe	cbe
11.251	Freight property	254.3	298.1	346.7	403.1	468.7	545.0
11.252	Motor vehicles leased for personal use	32.0	32.9	31.1	30.2	30.4	32.3
11.26	School tax ceiling for 65 and older or disabled	481.5	525.5	568.9	615.8	666.6	721.5
11.27	Solar and wind energy devices	3.3	3.5	3.7	3.9	4.2	4.4
11.271	Offshore drilling equipment not in use	cbe	cbe	cbe	cbe	cbe	cbe
11.28	Tax abatement	0.1	-	-	-	-	-
11.29	Intracoastal waterway dredge disposal site	cbe	cbe	cbe	cbe	cbe	cbe
11.30	Nonprofit water supply/wastewater service corporation	cbe	cbe	cbe	cbe	cbe	cbe
11.31	Pollution control property	92.0	103.2	114.8	127.7	142.0	157.9
11.32	Certain water conservation initiatives	cbe	cbe	cbe	cbe	cbe	cbe
11.33	Raw cocoa and green coffee held in Harris county	cbe	cbe	cbe	cbe	cbe	cbe
23.23	Limitation on appraised value of homestead (10% cap)	134.2	144.0	153.2	163.0	173.5	184.5
23.41-23.9803	Special appraisal for agriculture and timber	1,572.3	1,722.9	1,872.9	2,035.7	2,212.6	2,404.8
Ch. 311	Tax increment financing	110.3	118.0	125.3	133.1	141.3	150.0
Ch. 313	Texas Economic Development Act	37.0	74.2	102.3	143.1	154.5	151.1
<b>Total</b>		<b>\$4,241.0</b>	<b>\$4,629.7</b>	<b>\$5,000.7</b>	<b>\$5,415.7</b>	<b>\$5,835.6</b>	<b>\$6,278.9</b>

Note: Columns may not sum because of rounding.

cbe: Cannot be estimated because of unavailable appraisal data.

Tax year is equivalent to calendar year.

\*Per Section 11.43, Tax Code, these exemptions do not require an application filed with the county appraisal district.



is entitled to the tangible personal property at the end of the lease, the property is exempt.

**Sec. 11.111. Public property used to provide transitional housing for indigent persons**

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

**Sec. 11.12. Federal exemptions**

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

**Sec. 11.13. Residence homestead**

Texas homeowners may be eligible for various types and amounts of exemptions from school property taxes for residence homesteads. The exemptions apply to a portion of the appraised value of the home.

These exemptions are separated into those that are mandated by the state and those that are optional, subject to approval by school districts.

**State-Mandated**

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

**Optional**

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

**Sec. 11.14. Personal property not used to produce income**

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

**Sec. 11.145. Personal property—income producing—valued at less than \$500**

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

**Sec. 11.146. Mineral interest property valued at less than \$500**

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

**Sec. 11.15. Family supplies**

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

**Sec. 11.16. Farm products**

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

**Sec. 11.161. Implements of husbandry**

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

**Sec. 11.17. Cemeteries**

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

**Sec. 11.181-11.185. Charitable organizations**

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

- Charitable organizations improving property for low-income housing (Sec. 11.181);
- Community housing development organizations improving property for low-income and moderate-income housing prior to 2004 (Sec. 11.182);
- Organizations constructing or rehabilitating low-income housing not previously exempt including new constructions beginning January 1, 2004 (Sec. 11.1825);
- Associations providing assistance to ambulatory health care centers (Sec. 11.183);
- Organizations performing charitable functions (Sec. 11.184); and
- Organizations developing model colonia subdivisions (Sec. 11.185).

**Sec. 11.19. Youth spiritual, mental, and physical development organizations**

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

**Sec. 11.20. Religious organizations**

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

**Sec. 11.21. Private schools**

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

**Sec. 11.22. Disabled veterans**

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

However, most disabled veterans do designate the homestead property for this exemption.

**Sec. 11.23. Miscellaneous exemptions**

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

***Veterans' organizations***

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

***Nature Conservancy of Texas***

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

***County Fair Associations***

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

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

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

***Congress of Parents and Teachers***

The Texas Congress of Parents and Teachers state headquarters' buildings are exempt from state and county taxes. The Property Tax Code provides that the organization's land that is reasonably necessary for use of, access to, and ornamentation of the buildings is also exempt.

***Private enterprise demonstration associations***

Tangible real and personal property that is owned and used exclusively by a qualified private enterprise demonstration organization

and that is reasonably necessary for the organization's operations qualifies for a total exemption. Property qualifies if the organization:

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

***Bison, buffalo, and cattalo***

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

***Theater schools***

Property owned by a qualified school devoted to teaching dramatic arts and used in the school's operation is exempt from taxation. A theater school's property qualifies if the school meets certain qualifications.

The school must be a non-profit corporation organized under the Texas Non-Profit Corporation Act.

***Community service clubs***

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

***Medical center development***

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

***Scientific research corporations***

Property owned and used by a qualified scientific research organization for scientific research and educational activities for the benefit of one or more colleges or universities is exempt. An organization qualifies if it is a

non-profit corporation organized under the Texas Non-Profit Corporation Act.

**Sec. 11.24. Historic or archeological sites**

The archeological or historic site exemption is a local-option exemption. The governing body of a taxing unit may choose to grant an archeological or historic site exemption. A property may receive an exemption from some of the taxing units that tax it and not from other units.

**Sec. 11.25. Marine cargo containers**

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

**Sec. 11.251 (and Sec. 11.437). Freeport property and cotton stored in a warehouse**

The "freeport exemption" provides an exemption for goods transported out of Texas within 175 days of acquisition in the state. Certain types of local taxing units may continue to tax the property if the unit's governing bodies took action to do so before April 1990.

This exemption also applies to all cotton stored in the warehouse for transportation outside of this state, regardless of the 175 days requirement.

**Sec. 11.252. Motor vehicles leased for personal use**

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

**Sec. 11.26. School tax ceiling**

The school tax ceiling, or "tax freeze" as it is often called, is provided for those homeowners who receive the mandatory "disabled or 65 years of age or older" \$10,000 homestead exemption granted by a school district. The tax ceiling is not an exemption, but it is triggered by an exemption.

The tax ceiling provides that school taxes on a residence homestead will not increase above the amount of tax imposed in the first year the individual qualified for the "disabled or 65

years of age or older” exemption on that homestead. As long as the homeowner who qualified for the exemption remains in that home and does not change the homestead, the school taxes on the homestead will not increase above the amount levied in the first year qualified.

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

**Sec. 11.27. Solar and wind energy devices**

Solar or wind-powered energy devices are subject to exemption. The amount of a property’s appraised value attributable to the installation or construction of solar or wind-powered energy devices may be exempt. The devices must be used for on-site production and distribution of energy.

**Sec. 11.271. Offshore drilling equipment not in use**

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

**Sec. 11.28. Abatement**

Under Chapter 312, Property Redevelopment and Tax Abatement Act, a tax abatement agreement exempts all or part of the increase in value of a qualified taxpayer’s real property and/or tangible personal property for a period not to exceed 10 years. Value lost to tax abatements entered into after May 31, 1993 is not deductible from a school district’s total taxable value. Furthermore, Section 312.002(f) prohibits school districts from entering into tax abatement agreements on or after September 1, 2001. The exemption figures in Table 11 are for tax abatement agreements executed on or before May 31, 1993 and expected to expire by 2008.

**Sec. 11.29. Intracoastal waterway dredge disposal site**

A person is entitled to an exemption for land dedicated by a recorded donated easement as a disposal site for depositing and discharging materials dredged from the main channel of the Gulf Intra-coastal Waterway or under the direction of the state or federal government.

An exemption terminates when the land ceases to be used as an active dredge material disposal site and is no longer dedicated for that purpose.

**Sec. 11.30. Nonprofit water supply or wastewater service corporation**

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

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

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

**Sec. 11.31. Pollution control property**

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

**Sec. 11.32. Certain water conservation initiatives**

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

**Sec. 11.33. Raw cocoa and green coffee held in Harris county**

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

**Sec. 23.23. Limitation on appraised value of residence homestead (10% cap)**

The appraised value of a residence homestead for a tax year is limited to the lesser of the market value of the property or the last appraised value plus 10 percent for each succeeding year plus the market value of all new improvements.

**Sec. 23.41, 23.52, 23.73, and 23.9803. Special appraisal for agricultural land and timberland**

Certain land devoted to farm, ranch, or wildlife management purposes and timberland is

appraised not at market value but at productivity value—a value based solely on the land's capacity to produce agricultural products.

#### **Ch. 311. Tax Increment Financing Act**

A tax increment financing (TIF) zone is a designated area that a city or county uses to publicly finance improvements and infrastructure to promote and attract new developments within that area. The tax increments generated by the increase of the property value inside the TIF zone are used to finance development costs. Section 403.302, Government Code prohibits the deduction, from the school's taxable value, of a school district's captured appraised value subject to TIF agreements entered into

after August 31, 1999. The TIF exemption figures in Table 11 are for zones in which school districts participated before September 1, 1999.

#### **Ch. 313. Texas Economic Development Act**

Corporations and limited liability companies making a certain level of investment and creating jobs in specified numbers are entitled to a limitation on the taxable value of qualifying investments for property tax purposes.

The tax limitation only applies to property used in connection with manufacturing; research and development; a clean coal project as defined by Section 5.001, Water Code; a gasification project for a coal and biomass mixture; or renewable energy electric generation. ☼





# The Nature of Tax Incidence

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

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

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

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

Incidence analysis attempts to identify who bears the ultimate burden of a given tax. The analysis can be conducted on two levels: first, measurement of the initial direct “impact” of

the tax in terms of the shares borne by consumers and/or different business sectors; and second, measurement of the ultimate “incidence,” frequently represented by translating the initial impacts in terms of their effects on different household income groups.

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

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

A tax is considered “regressive” when the tax burden as a share of income increases as income decreases; “proportional,” when the share of tax burden relative to income remains constant for all income groups; and “progressive,” when the share of tax burden relative to income grows larger as income increases. As such, taxes on alcohol and tobacco are considered regressive (because consumption levels remain relatively flat as income rises); a “flat” single-rate income tax (without any deductions or exemptions) is considered proportional; and the federal tax on luxury automobiles is considered progressive. Note that under either a proportional tax or a progressive tax, the abil-

ity to pay principle may be satisfied, because people with higher incomes pay more under either tax.

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

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

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

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

Finally, the answer to who bears the tax burden can vary depending upon whether the analysis focuses on the short term or the long term. For example, imposition of an increase in the fee for a liquor license or an annual occupation tax would not be expected to be shifted forward in higher prices in the short term because the fee would be considered part of the firm’s fixed costs, whereas prices are determined by marginal costs (the cost of producing one incremental unit of the item sold). In this instance, the fee would be borne entirely by the producer.

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

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

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

# Texas Tax Incidence

The taxes discussed in this section include the sales and use tax, the franchise tax, the gasoline tax, the motor vehicle sales and use tax, the natural gas tax, and the school property tax. (These are the same taxes discussed in the preceding sections.)

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

For the purposes of this study, the relative demographic cohort is the household rather than the individual, and the relative time peri-

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

## EXHIBIT A

### Components of Household Income

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

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

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

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

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

For each of the taxes covered in this section, the incidence analysis begins with a summary table that lays out the initial distribution and the final incidence of that tax. Where applicable, each summary table is followed by a series of tables that show the incidence effects of each statutory exemption or exclusion that reduces revenues from the tax by more than 1 percent.

The tables in this section describe final incidence by household income groups referred to as “quintiles.” Each quintile includes approximately 1,748,660 households, representing one-fifth of the households in the state, ordered by total income. Thus, Quintile 1 represents the 1,748,660 households with incomes less than \$24,899; Quintile 2 represents the 1,748,660 households with incomes from \$24,899 up to \$45,271; and so forth, up to Quintile 5, which represents the 1,748,660 households in Texas with incomes of \$109,182 or more.

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

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

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

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

TABLE 1

Incidence Analysis of  
Total Limited Sales and Use Tax RevenueFISCAL 2009  
(dollar amounts  
in millions)INITIAL DISTRIBUTION OF TAX  
BY INDUSTRY

Industry	Amount	Percent
Agriculture	\$56.3	0.3%
Mining	647.6	3.1
Utilities & Transportation	1,402.0	6.6
Construction	131.0	0.6
Manufacturing	905.0	4.3
Trade (Wholesale and Retail)	1,053.9	5.0
Information	982.6	4.7
Finance, Insurance, and Real Estate	841.0	4.0
Other Services	3,449.2	16.3
Government	0.0	0.0
Personal Consumption	<u>11,649.0</u>	<u>55.2</u>
TOTAL	<u>\$21,117.7</u>	<u>100.0%</u>

*Totals may not add due to rounding.*FINAL INCIDENCE OF TAX  
BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$24,899	\$1,412.7	6.7%	5.9%
2	\$24,899 to \$45,271	2,082.1	9.9	3.5
3	\$45,271 to \$69,614	2,877.9	13.6	2.8
4	\$69,614 to \$109,182	3,949.3	18.7	2.6
5	\$109,182 and over	<u>6,308.7</u>	<u>29.9</u>	1.8
Residents		\$16,630.7	78.8%	
Exported		<u>\$4,487.0</u>	<u>21.2%</u>	
TOTAL		<u>\$21,117.7</u>	<u>100.0%</u>	

## ESTIMATED EQUITY OF TAX

Suits Index -0.18

*Totals may not add due to rounding.*INITIAL DISTRIBUTION OF TAX  
BY INDUSTRY TYPE

	Amount	Percent
Corporations	\$5,997.4	28.4%
Partnerships	3,047.3	14.4
Sole Proprietors	<u>422.4</u>	<u>2.0</u>
Subtotal	\$9,467.1	44.8%
Individual Consumers	<u>\$11,649.0</u>	<u>55.2%</u>
TOTAL	<u>\$21,117.7</u>	<u>100.0%</u>

FINAL INCIDENCE OF TAX  
BY HOMEOWNERS/RENTERS

	Amount	Percent
Homeowners	\$11,479.6	54.4%
Renters	<u>5,151.1</u>	<u>24.4</u>
Subtotal	\$16,630.7	78.8%
Exported	<u>\$4,487.0</u>	<u>21.2%</u>
TOTAL	<u>\$21,117.7</u>	<u>100.0%</u>

TABLE 2

**Incidence Analysis  
Limited Sales and Use Tax  
Exemption for Items Taxed by Other Law  
(Tax Code 151.308)**

**FISCAL 2009  
(dollar amounts  
in millions)**

**INITIAL DISTRIBUTION OF EXEMPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$27.1	0.3%
Mining	316.5	3.5
Utilities & Transportation	217.1	2.4
Construction	180.9	2.0
Manufacturing	388.9	4.3
Trade (Wholesale and Retail)	452.2	5.0
Information	135.7	1.5
Finance, Insurance, and Real Estate	515.5	5.7
Other Services	1,220.9	13.5
Government	0.0	0.0
Personal Consumption	5,589.1	61.8
<b>TOTAL</b>	<b><u>\$9,043.9</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*

**FINAL INCIDENCE OF EXEMPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$452.1	5.0%	1.9%
2	\$24,899 to \$45,271	703.7	7.8	1.2
3	\$45,271 to \$69,614	995.1	11.0	1.0
4	\$69,614 to \$109,182	1,265.1	14.0	0.8
5	\$109,182 and over	<u>1,845.4</u>	<u>20.4</u>	0.5
Residents		\$5,261.4	58.2%	
Exported		<u>\$3,782.5</u>	<u>41.8%</u>	
<b>TOTAL</b>		<b><u>\$9,043.9</u></b>	<b><u>100.0%</u></b>	

TABLE 3

**Incidence Analysis  
Limited Sales and Use Tax  
Exemption for Sales to Governmental Entities  
(Tax Code 151.309)**

**FISCAL 2009  
(dollar amounts  
in millions)**

**INITIAL DISTRIBUTION OF EXEMPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	0.0	0.0
Government	286.4	100.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b><u>\$286.4</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*

**FINAL INCIDENCE OF EXEMPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$18.0	6.3%	0.1%
2	\$24,899 to \$45,271	26.5	9.3	0.0
3	\$45,271 to \$69,614	35.8	12.5	0.0
4	\$69,614 to \$109,182	49.9	17.4	0.0
5	\$109,182 and over	<u>88.3</u>	<u>30.8</u>	0.0
Residents		\$218.5	76.3%	
Exported		<u>\$67.9</u>	<u>23.7%</u>	
<b>TOTAL</b>		<b><u>\$286.4</u></b>	<b><u>100.0%</u></b>	



TABLE 4

**Incidence Analysis  
Limited Sales and Use Tax  
Exemption for Health Care Supplies  
(Tax Code 151.313)**
**FISCAL 2009  
(dollar amounts  
in millions)**
**INITIAL DISTRIBUTION OF EXEMPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	64.5	10.7
Government	0.0	0.0
Personal Consumption	538.1	89.3
<b>TOTAL</b>	<b><u>\$602.7</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*
**FINAL INCIDENCE OF EXEMPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$78.4	13.0%	0.3%
2	\$24,899 to \$45,271	124.4	20.6	0.2
3	\$45,271 to \$69,614	116.1	19.3	0.1
4	\$69,614 to \$109,182	110.2	18.3	0.1
5	\$109,182 and over	<u>127.6</u>	<u>21.2</u>	0.0
Residents		\$556.7	92.4%	
Exported		<u>\$46.0</u>	<u>7.6%</u>	
<b>TOTAL</b>		<b><u>\$602.7</u></b>	<b><u>100.0%</u></b>	

TABLE 5

**Incidence Analysis  
Limited Sales and Use Tax  
Exemption for Food for Home Consumption  
(Tax Code 151.314)**
**FISCAL 2009  
(dollar amounts  
in millions)**
**INITIAL DISTRIBUTION OF EXEMPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	1,399.7	100.0
<b>TOTAL</b>	<b><u>\$1,399.7</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*
**FINAL INCIDENCE OF EXEMPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$140.6	10.0%	0.6%
2	\$24,899 to \$45,271	190.9	13.6	0.3
3	\$45,271 to \$69,614	234.4	16.7	0.2
4	\$69,614 to \$109,182	283.7	20.3	0.2
5	\$109,182 and over	<u>380.4</u>	<u>27.2</u>	0.1
Residents		\$1,229.9	87.9%	
Exported		<u>\$169.8</u>	<u>12.1%</u>	
<b>TOTAL</b>		<b><u>\$1,399.7</u></b>	<b><u>100.0%</u></b>	

TABLE 6

**Incidence Analysis  
Limited Sales and Use Tax  
Exemption for Water  
(Tax Code 151.315)**
**FISCAL 2009  
(dollar amounts  
in millions)**
**INITIAL DISTRIBUTION OF EXEMPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.8	0.3%
Mining	1.5	0.6
Utilities & Transportation	1.8	0.7
Construction	2.0	0.8
Manufacturing	8.8	3.5
Trade (Wholesale and Retail)	3.8	1.5
Information	0.3	0.1
Finance, Insurance, and Real Estate	10.8	4.3
Other Services	7.5	3.0
Government	0.0	0
Personal Consumption	<u>213.7</u>	<u>85.2</u>
<b>TOTAL</b>	<b><u>\$250.8</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*
**FINAL INCIDENCE OF EXEMPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$25.6	10.2%	0.1%
2	\$24,899 to \$45,271	34.8	13.9	0.1
3	\$45,271 to \$69,614	42.5	16.9	0.0
4	\$69,614 to \$109,182	52.5	20.9	0.0
5	\$109,182 and over	<u>72.2</u>	<u>28.8</u>	0.0
Residents		\$227.7	90.8%	
Exported		<u>\$23.1</u>	<u>9.2%</u>	
<b>TOTAL</b>		<b><u>\$250.8</u></b>	<b><u>100.0%</u></b>	

TABLE 7

**Incidence Analysis  
Limited Sales and Use Tax  
Exemption for Agricultural Items  
(Tax Code 151.316)**
**FISCAL 2009  
(dollar amounts  
in millions)**
**INITIAL DISTRIBUTION OF EXEMPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$339.8	100.0%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b><u>\$339.8</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*
**FINAL INCIDENCE OF EXEMPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$18.6	5.5%	0.1%
2	\$24,899 to \$45,271	26.5	7.8	0.0
3	\$45,271 to \$69,614	33.8	9.9	0.0
4	\$69,614 to \$109,182	42.5	12.5	0.0
5	\$109,182 and over	<u>60.0</u>	<u>17.7</u>	0.0
Residents		\$181.4	53.4%	
Exported		<u>\$158.3</u>	<u>46.6%</u>	
<b>TOTAL</b>		<b><u>\$339.8</u></b>	<b><u>100.0%</u></b>	

TABLE 8

### Incidence Analysis Limited Sales and Use Tax Exemption for Gas and Electricity (Tax Code 151.317)

FISCAL 2009  
(dollar amounts  
in millions)

#### INITIAL DISTRIBUTION OF EXEMPTION BY INDUSTRY

Industry	Amount	Percent
Agriculture	\$17.8	1.1%
Mining	67.8	4.2
Utilities & Transportation	59.7	3.7
Construction	21.0	1.3
Manufacturing	624.9	38.7
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	823.5	51.0
<b>TOTAL</b>	<b><u>\$1,614.8</u></b>	<b><u>100.0%</u></b>

Totals may not add due to rounding.

#### FINAL INCIDENCE OF EXEMPTION BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$147.2	9.1%	0.6%
2	\$24,899 to \$45,271	199.0	12.3	0.3
3	\$45,271 to \$69,614	233.5	14.5	0.2
4	\$69,614 to \$109,182	276.8	17.1	0.2
5	\$109,182 and over	<u>354.5</u>	<u>22.0</u>	0.1
Residents		\$1,211.1	75.0%	
Exported		<u>\$403.6</u>	<u>25.0%</u>	
<b>TOTAL</b>		<b><u>\$1,614.8</u></b>	<b><u>100.0%</u></b>	

TABLE 9

### Incidence Analysis Limited Sales and Use Tax Exemption for Manufacturing (Tax Code 151.318)

FISCAL 2009  
(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	280.7	2.6
Construction	0.0	0.0
Manufacturing	10,268.8	95.1
Trade (Wholesale and Retail)	0.0	0.0
Information	10.8	0.1
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	237.6	2.2
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b><u>\$10,797.8</u></b>	<b><u>100.0%</u></b>

Totals may not add due to rounding.

#### FINAL INCIDENCE OF EXEMPTION BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$296.2	2.7%	1.2%
2	\$24,899 to \$45,271	458.0	4.2	0.8
3	\$45,271 to \$69,614	643.2	6.0	0.6
4	\$69,614 to \$109,182	908.6	8.4	0.6
5	\$109,182 and over	<u>1,598.2</u>	<u>14.8</u>	0.5
Residents		\$3,904.3	36.2%	
Exported		<u>\$6,893.6</u>	<u>63.8%</u>	
<b>TOTAL</b>		<b><u>\$10,797.8</u></b>	<b><u>100.0%</u></b>	

TABLE 10

### Incidence Analysis Limited Sales and Use Tax Exclusion for New Nonresidential Construction Labor

FISCAL 2009  
(dollar amounts  
in millions)

#### INITIAL DISTRIBUTION OF EXCLUSION BY INDUSTRY

Industry	Amount	Percent
Agriculture	\$0.5	0.2%
Mining	17.6	7.4
Utilities & Transportation	25.9	10.9
Construction	5.9	2.5
Manufacturing	36.9	15.5
Trade (Wholesale and Retail)	65.9	27.7
Information	11.9	5.0
Finance, Insurance, and Real Estate	8.8	3.7
Other Services	64.4	27.1
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b>\$237.8</b>	<b>100.0%</b>

Totals may not add due to rounding.

#### FINAL INCIDENCE OF EXCLUSION BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Exclusion	Exclusion as a Percent of Total Income
1	less than \$24,899	\$12.7	5.3%	0.1%
2	\$24,899 to \$45,271	19.4	8.2	0.0
3	\$45,271 to \$69,614	27.5	11.6	0.0
4	\$69,614 to \$109,182	40.6	17.1	0.0
5	\$109,182 and over	75.9	31.9	0.0
Residents		\$176.1	74.1%	
Exported		\$61.7	25.9%	
<b>TOTAL</b>		<b>\$237.8</b>	<b>100.0%</b>	

TABLE 11

### Incidence Analysis Limited Sales and Use Tax Exclusion for Residential Construction Labor

FISCAL 2009  
(dollar amounts  
in millions)

#### INITIAL DISTRIBUTION OF EXCLUSION BY INDUSTRY

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	52.7	9.3
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	513.8	90.7
<b>TOTAL</b>	<b>\$566.5</b>	<b>100.0%</b>

Totals may not add due to rounding.

#### FINAL INCIDENCE OF EXCLUSION BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Exclusion	Exclusion as a Percent of Total Income
1	less than \$24,899	\$29.7	5.2%	0.1%
2	\$24,899 to \$45,271	36.0	6.3	0.1
3	\$45,271 to \$69,614	58.6	10.3	0.1
4	\$69,614 to \$109,182	89.7	15.8	0.1
5	\$109,182 and over	205.6	36.3	0.1
Residents		\$419.5	74.1%	
Exported		\$147.0	25.9%	
<b>TOTAL</b>		<b>\$566.5</b>	<b>100.0%</b>	

TABLE 12

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

**FISCAL 2009**  
(dollar amounts  
in millions)

**INITIAL DISTRIBUTION OF EXCLUSION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	1,614.6	100.0
<b>TOTAL</b>	<b><u>\$1,614.6</u></b>	<b><u>100.0%</u></b>

Totals may not add due to rounding.

**FINAL INCIDENCE OF EXCLUSION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exclusion	Exclusion as a Percent of Total Income
1	less than \$24,899	\$150.0	9.3%	0.6%
2	\$24,899 to \$45,271	282.1	17.5	0.5
3	\$45,271 to \$69,614	387.3	24.0	0.4
4	\$69,614 to \$109,182	358.4	22.2	0.2
5	\$109,182 and over	<u>433.1</u>	<u>26.8</u>	0.1
Residents		\$1,611.0	99.8%	
Exported		<u>\$3.7</u>	<u>0.2%</u>	
<b>TOTAL</b>		<b><u>\$1,614.6</u></b>	<b><u>100.0%</u></b>	

TABLE 13

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

**FISCAL 2009**  
(dollar amounts  
in millions)

**INITIAL DISTRIBUTION OF EXCLUSION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.6	0.1%
Mining	11.7	2.6
Utilities & Transportation	26.9	6.0
Construction	7.4	1.7
Manufacturing	38.9	8.7
Trade (Wholesale and Retail)	16.2	3.6
Information	6.7	1.5
Finance, Insurance, and Real Estate	46.8	10.4
Other Services	116.2	26.0
Government	0.0	0.0
Personal Consumption	<u>176.4</u>	<u>39.4</u>
<b>TOTAL</b>	<b><u>\$447.7</u></b>	<b><u>100.0%</u></b>

Totals may not add due to rounding.

**FINAL INCIDENCE OF EXCLUSION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exclusion	Exclusion as a Percent of Total Income
1	less than \$24,899	\$22.4	5.0%	0.1%
2	\$24,899 to \$45,271	47.6	10.6	0.1
3	\$45,271 to \$69,614	60.1	13.4	0.1
4	\$69,614 to \$109,182	72.0	16.1	0.0
5	\$109,182 and over	<u>126.1</u>	<u>28.2</u>	0.0
Residents		\$328.3	73.3%	
Exported		<u>\$119.4</u>	<u>26.7%</u>	
<b>TOTAL</b>		<b><u>\$447.7</u></b>	<b><u>100.0%</u></b>	

TABLE 14

### Incidence Analysis Limited Sales and Use Tax Exclusion for Architectural and Engineering Services

FISCAL 2009  
(dollar amounts  
in millions)

#### INITIAL DISTRIBUTION OF EXCLUSION BY INDUSTRY

Industry	Amount	Percent
Agriculture	\$1.8	0.5%
Mining	13.3	3.5
Utilities & Transportation	28.2	7.5
Construction	154.2	40.8
Manufacturing	55.6	14.7
Trade (Wholesale and Retail)	5.0	1.3
Information	35.7	9.4
Finance, Insurance, and Real Estate	29.3	7.7
Other Services	54.9	14.5
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b><u>\$378.2</u></b>	<b><u>100.0%</u></b>

Totals may not add due to rounding.

#### FINAL INCIDENCE OF EXCLUSION BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Exclusion	Exclusion as a Percent of Total Income
1	less than \$24,899	\$17.3	4.6%	0.1%
2	\$24,899 to \$45,271	26.1	6.9	0.0
3	\$45,271 to \$69,614	35.7	9.4	0.0
4	\$69,614 to \$109,182	49.5	13.1	0.0
5	\$109,182 and over	<u>85.6</u>	<u>22.6</u>	0.0
Residents		\$214.1	56.6%	
Exported		<u>\$164.1</u>	<u>43.4%</u>	
<b>TOTAL</b>		<b><u>\$378.2</u></b>	<b><u>100.0%</u></b>	

TABLE 15

### Incidence Analysis Limited Sales and Use Tax Exclusion for Real Estate Brokerage and Agency

FISCAL 2009  
(dollar amounts  
in millions)

#### INITIAL DISTRIBUTION OF EXCLUSION BY INDUSTRY

Industry	Amount	Percent
Agriculture	\$3.2	1.3%
Mining	0.7	0.3
Utilities & Transportation	6.2	2.5
Construction	2.5	1.0
Manufacturing	4.5	1.8
Trade (Wholesale and Retail)	29.2	11.7
Information	3.2	1.3
Finance, Insurance, and Real Estate	36.1	14.5
Other Services	62.8	25.2
Government	0.0	0.0
Personal Consumption	<u>100.7</u>	<u>40.4</u>
<b>TOTAL</b>	<b><u>\$249.2</u></b>	<b><u>100.0%</u></b>

Totals may not add due to rounding.

#### FINAL INCIDENCE OF EXCLUSION BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Exclusion	Exclusion as a Percent of Total Income
1	less than \$24,899	\$25.3	10.1%	0.1%
2	\$24,899 to \$45,271	33.1	13.3	0.1
3	\$45,271 to \$69,614	39.8	16.0	0.0
4	\$69,614 to \$109,182	40.3	16.2	0.0
5	\$109,182 and over	<u>51.5</u>	<u>20.7</u>	0.0
Residents		\$190.0	76.2%	
Exported		<u>\$59.2</u>	<u>23.8%</u>	
<b>TOTAL</b>		<b><u>\$249.2</u></b>	<b><u>100.0%</u></b>	



TABLE 16

### Incidence Analysis Limited Sales and Use Tax Exclusion for Freight Hauling

FISCAL 2009  
(dollar amounts  
in millions)

#### INITIAL DISTRIBUTION OF EXCLUSION BY INDUSTRY

Industry	Amount	Percent
Agriculture	\$4.2	1.9%
Mining	2.2	1.0
Utilities & Transportation	36.8	16.8
Construction	13.2	6.0
Manufacturing	84.8	38.7
Trade (Wholesale and Retail)	5.3	2.4
Information	2.0	0.9
Finance, Insurance, and Real Estate	4.2	1.9
Other Services	12.1	5.5
Government	0.0	0.0
Personal Consumption	<u>54.6</u>	<u>24.9</u>
<b>TOTAL</b>	<b><u>\$219.2</u></b>	<b><u>100.0%</u></b>

Totals may not add due to rounding.

#### FINAL INCIDENCE OF EXCLUSION BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Exclusion	Exclusion as a Percent of Total Income
1	less than \$24,899	\$12.7	5.8%	0.1%
2	\$24,899 to \$45,271	18.2	8.3	0.0
3	\$45,271 to \$69,614	28.3	12.9	0.0
4	\$69,614 to \$109,182	24.4	11.1	0.0
5	\$109,182 and over	<u>51.5</u>	<u>23.5</u>	0.0
Residents		\$135.1	61.6%	
Exported		<u>\$84.1</u>	<u>38.4%</u>	
<b>TOTAL</b>		<b><u>\$219.2</u></b>	<b><u>100.0%</u></b>	

TABLE 17

### Incidence Analysis Limited Sales and Use Tax Exclusion for Automotive Maintenance and Repair

FISCAL 2009  
(dollar amounts  
in millions)

#### INITIAL DISTRIBUTION OF EXCLUSION BY INDUSTRY

Industry	Amount	Percent
Agriculture	\$1.0	0.4%
Mining	0.3	0.1
Utilities & Transportation	8.3	3.2
Construction	3.9	1.5
Manufacturing	36.7	14.1
Trade (Wholesale and Retail)	4.9	1.9
Information	1.3	0.5
Finance, Insurance, and Real Estate	2.3	0.9
Other Services	10.7	4.1
Government	0.0	0.0
Personal Consumption	<u>190.9</u>	<u>73.3</u>
<b>TOTAL</b>	<b><u>\$260.5</u></b>	<b><u>100.0%</u></b>

Totals may not add due to rounding.

#### FINAL INCIDENCE OF EXCLUSION BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Exclusion	Exclusion as a Percent of Total Income
1	less than \$24,899	\$21.5	8.2%	0.1%
2	\$24,899 to \$45,271	30.9	11.9	0.1
3	\$45,271 to \$69,614	41.8	16.0	0.0
4	\$69,614 to \$109,182	56.8	21.8	0.0
5	\$109,182 and over	<u>82.8</u>	<u>31.8</u>	0.0
Residents		\$233.8	89.7%	
Exported		<u>\$26.7</u>	<u>10.3%</u>	
<b>TOTAL</b>		<b><u>\$260.5</u></b>	<b><u>100.0%</u></b>	

TABLE 18

Incidence Analysis of  
Total Franchise Tax RevenueFISCAL 2007  
(dollar amounts  
in millions)INITIAL DISTRIBUTION OF TAX  
BY INDUSTRY

Industry	Amount	Percent
Agriculture	\$25.4	0.9%
Mining	423.0	15.0
Utilities & Transportation	321.5	11.4
Construction	118.4	4.2
Manufacturing	538.6	19.1
Trade (Wholesale and Retail)	518.9	18.4
Information	163.6	5.8
Finance, Insurance, and Real Estate	329.9	11.7
Other Services	380.7	13.5
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b><u>\$2,819.9</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*FINAL INCIDENCE OF TAX  
BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$24,899	\$133.5	4.7%	0.6%
2	\$24,899 to \$45,271	206.6	7.3	0.3
3	\$45,271 to \$69,614	297.0	10.5	0.3
4	\$69,614 to \$109,182	437.4	15.5	0.3
5	\$109,182 and over	<u>810.6</u>	<u>28.7</u>	0.2
Residents		\$1,885.0	66.8%	
Exported		<u>\$934.9</u>	<u>33.2%</u>	
<b>TOTAL</b>		<b><u>\$2,819.9</u></b>	<b><u>100.0%</u></b>	

## ESTIMATED EQUITY OF TAX

Suits Index -0.11

*Totals may not add due to rounding.*INITIAL DISTRIBUTION OF TAX  
BY INDUSTRY TYPE

	Amount	Percent
Corporations	\$2,819.9	100.0%
Partnerships	0.0	0.0
Sole Proprietors	<u>0.0</u>	<u>0.0</u>
Subtotal	\$2,819.9	100.0%
Individual Consumers	<u>\$0.0</u>	<u>0.0%</u>
<b>TOTAL</b>	<b><u>\$2,819.9</u></b>	<b><u>100.0%</u></b>

FINAL INCIDENCE OF TAX  
BY HOMEOWNERS/RENTERS

	Amount	Percent
Homeowners	\$1,323.4	46.9%
Renters	<u>561.6</u>	<u>19.9</u>
Subtotal	\$1,885.0	66.8%
Exported	<u>\$934.9</u>	<u>33.2%</u>
<b>TOTAL</b>	<b><u>\$2,819.9</u></b>	<b><u>100.0%</u></b>

*This franchise tax table describes the franchise tax as it existed on January 1, 2007. Significant changes to the tax are scheduled to occur on January 1, 2008.*

TABLE 19

### Incidence Analysis Franchise Tax Exemption for Insurance Companies (Tax Code 171.052)

**FISCAL 2007**  
(dollar amounts  
in millions)

#### INITIAL DISTRIBUTION OF EXEMPTION BY INDUSTRY

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	177.0	100.0
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b>\$177.0</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

#### FINAL INCIDENCE OF EXEMPTION BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$7.7	4.4%	0.0%
2	\$24,899 to \$45,271	11.4	6.4	0.0
3	\$45,271 to \$69,614	16.0	9.0	0.0
4	\$69,614 to \$109,182	23.6	13.3	0.0
5	\$109,182 and over	45.2	25.5	0.0
Residents		\$103.9	58.7%	
Exported		\$73.1	41.3%	
<b>TOTAL</b>		<b>\$177.0</b>	<b>100.0%</b>	

*This franchise tax table describes the franchise tax as it existed on January 1, 2007. Significant changes to the tax are scheduled to occur on January 1, 2008.*

TABLE 20

### Incidence Analysis Franchise Tax Exemption for Mutual Funds (Tax Code 171.055)

**FISCAL 2007**  
(dollar amounts  
in millions)

#### INITIAL DISTRIBUTION OF EXEMPTION BY INDUSTRY

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	325.9	100.0
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b>\$325.9</b>	<b>100.0%</b>

*Totals may not add due to rounding.*

#### FINAL INCIDENCE OF EXEMPTION BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$14.2	4.4%	0.1%
2	\$24,899 to \$45,271	21.0	6.4	0.0
3	\$45,271 to \$69,614	29.5	9.1	0.0
4	\$69,614 to \$109,182	43.4	13.3	0.0
5	\$109,182 and over	83.3	25.6	0.0
Residents		\$191.4	58.7%	
Exported		\$134.5	41.3%	
<b>TOTAL</b>		<b>\$325.9</b>	<b>100.0%</b>	

*This franchise tax table describes the franchise tax as it existed on January 1, 2007. Significant changes to the tax are scheduled to occur on January 1, 2008.*

TABLE 21

**Incidence Analysis  
Franchise Tax  
Exemption for IRS Sec. 501(c)(3)  
(Tax Code 171.063)**
**FISCAL 2007  
(dollar amounts  
in millions)**
**INITIAL DISTRIBUTION OF EXEMPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	305.8	100.0
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b><u>\$305.8</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*
**FINAL INCIDENCE OF EXEMPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$17.3	5.7%	0.1%
2	\$24,899 to \$45,271	25.5	8.3	0.0
3	\$45,271 to \$69,614	35.7	11.7	0.0
4	\$69,614 to \$109,182	52.3	17.1	0.0
5	\$109,182 and over	<u>95.4</u>	<u>31.2</u>	0.0
Residents		\$226.2	74.0%	
Exported		<u>\$79.6</u>	<u>26.0%</u>	
<b>TOTAL</b>		<b><u>\$305.8</u></b>	<b><u>100.0%</u></b>	

*This franchise tax table describes the franchise tax as it existed on January 1, 2007. Significant changes to the tax are scheduled to occur on January 1, 2008.*

TABLE 22

**Incidence Analysis  
Franchise Tax  
Deduction of Business Loss Carryover  
(Tax Code 171.110(a)(4))**
**FISCAL 2007  
(dollar amounts  
in millions)**
**INITIAL DISTRIBUTION OF DEDUCTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$3.3	1.4%
Mining	38.4	16.0
Utilities & Transportation	13.4	5.6
Construction	9.3	3.9
Manufacturing	51.8	21.6
Trade (Wholesale and Retail)	38.1	15.9
Information	15.9	6.6
Finance, Insurance, and Real Estate	28.0	11.7
Other Services	41.9	17.4
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b><u>\$240.1</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*
**FINAL INCIDENCE OF DEDUCTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Deduction	Deduction as a Percent of Total Income
1	less than \$24,899	\$11.1	4.6%	0.0%
2	\$24,899 to \$45,271	17.3	7.2	0.0
3	\$45,271 to \$69,614	25.1	10.5	0.0
4	\$69,614 to \$109,182	37.0	15.4	0.0
5	\$109,182 and over	<u>68.6</u>	<u>28.6</u>	0.0
Residents		\$159.1	66.3%	
Exported		<u>\$81.0</u>	<u>33.7%</u>	
<b>TOTAL</b>		<b><u>\$240.1</u></b>	<b><u>100.0%</u></b>	

*This franchise tax table describes the franchise tax as it existed on January 1, 2007. Significant changes to the tax are scheduled to occur on January 1, 2008.*

TABLE 23

**Incidence Analysis  
Franchise Tax**
**Small Corporation Exclusion from Officer Compensation Add-Back  
(Tax Code 171.110(b))**
**FISCAL 2007**  
 (dollar amounts  
in millions)

**INITIAL DISTRIBUTION OF EXCLUSION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$1.7	1.2%
Mining	6.4	4.5
Utilities & Transportation	11.1	7.9
Construction	14.7	10.5
Manufacturing	14.9	10.7
Trade (Wholesale and Retail)	33.4	23.9
Information	9.7	6.9
Finance, Insurance, and Real Estate	10.6	7.6
Other Services	37.6	26.8
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b>\$140.0</b>	<b>100.0%</b>

*Totals may not add due to rounding.*
**FINAL INCIDENCE OF EXCLUSION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exclusion	Exclusion as a Percent of Total Income
1	less than \$24,899	\$8.0	5.7%	0.0%
2	\$24,899 to \$45,271	11.6	8.3	0.0
3	\$45,271 to \$69,614	16.2	11.6	0.0
4	\$69,614 to \$109,182	23.7	16.9	0.0
5	\$109,182 and over	<u>43.5</u>	<u>31.1</u>	0.0
Residents		\$103.0	73.6%	
Exported		<u>\$37.0</u>	<u>26.4%</u>	
<b>TOTAL</b>		<b>\$140.0</b>	<b>100.0%</b>	

*This franchise tax table describes the franchise tax as it existed on January 1, 2007. Significant changes to the tax are scheduled to occur on January 1, 2008.*

TABLE 24

**Incidence Analysis  
Franchise Tax**
**Deduction of Interest Income from U.S. Obligations  
(Rule 3.555(k))**
**FISCAL 2007**  
 (dollar amounts  
in millions)

**INITIAL DISTRIBUTION OF DEDUCTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0
Utilities & Transportation	0.1	0.2
Construction	0.1	0.1
Manufacturing	0.7	1.3
Trade (Wholesale and Retail)	0.1	0.2
Information	0.1	0.2
Finance, Insurance, and Real Estate	31.4	57.7
Other Services	22.0	40.3
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b>\$54.5</b>	<b>100.0%</b>

*Totals may not add due to rounding.*
**FINAL INCIDENCE OF DEDUCTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Deduction	Deduction as a Percent of Total Income
1	less than \$24,899	\$2.7	5.0%	0.0%
2	\$24,899 to \$45,271	3.9	7.2	0.0
3	\$45,271 to \$69,614	5.5	10.1	0.0
4	\$69,614 to \$109,182	8.1	14.9	0.0
5	\$109,182 and over	<u>15.2</u>	<u>27.9</u>	0.0
Residents		\$35.4	65.0%	
Exported		<u>\$19.1</u>	<u>35.0%</u>	
<b>TOTAL</b>		<b>\$54.5</b>	<b>100.0%</b>	

*This franchise tax table describes the franchise tax as it existed on January 1, 2007. Significant changes to the tax are scheduled to occur on January 1, 2008.*

TABLE 25

**Incidence Analysis  
Franchise Tax  
Small Business Exception**  
(Tax Code 171.002(d))

**FISCAL 2007**  
(dollar amounts  
in millions)

**INITIAL DISTRIBUTION OF EXCEPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$3.2	4.9%
Mining	2.7	4.2
Utilities & Transportation	1.9	2.9
Construction	3.2	5.0
Manufacturing	4.1	6.3
Trade (Wholesale and Retail)	8.6	13.3
Information	2.6	4.0
Finance, Insurance, and Real Estate	19.8	30.5
Other Services	18.8	29.0
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b>\$64.8</b>	<b>100.0%</b>

*Totals may not add due to rounding.*
**FINAL INCIDENCE OF EXCEPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exception	Exception as a Percent of Total Income
1	less than \$24,899	\$3.3	5.1%	0.0%
2	\$24,899 to \$45,271	4.9	7.6	0.0
3	\$45,271 to \$69,614	7.0	10.8	0.0
4	\$69,614 to \$109,182	10.2	15.7	0.0
5	\$109,182 and over	19.0	29.3	0.0
Residents		\$44.4	68.5%	
Exported		\$20.4	31.5%	
<b>TOTAL</b>		<b>\$64.8</b>	<b>100.0%</b>	

*This franchise tax table describes the franchise tax as it existed on January 1, 2007. Significant changes to the tax are scheduled to occur on January 1, 2008.*

TABLE 26

**Incidence Analysis  
Franchise Tax  
Research and Development Credit**  
(Tax Code 171.721-730)

**FISCAL 2007**  
(dollar amounts  
in millions)

**INITIAL DISTRIBUTION OF CREDIT  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	1.2	3.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	24.9	61.9
Trade (Wholesale and Retail)	5.5	13.8
Information	6.6	16.3
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	2.0	5.0
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b>\$40.2</b>	<b>100.0%</b>

*Totals may not add due to rounding.*
**FINAL INCIDENCE OF CREDIT  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Credit	Credit as a Percent of Total Income
1	less than \$24,899	\$1.8	4.5%	0.0%
2	\$24,899 to \$45,271	3.0	7.5	0.0
3	\$45,271 to \$69,614	4.5	11.2	0.0
4	\$69,614 to \$109,182	6.7	16.7	0.0
5	\$109,182 and over	12.1	30.1	0.0
Residents		\$28.1	69.9%	
Exported		\$12.1	30.1%	
<b>TOTAL</b>		<b>\$40.2</b>	<b>100.0%</b>	

*This franchise tax table describes the franchise tax as it existed on January 1, 2007. Significant changes to the tax are scheduled to occur on January 1, 2008.*



TABLE 27

**Incidence Analysis  
Franchise Tax  
Investment Credit  
(Tax Code 171.801-811)**
**FISCAL 2007  
(dollar amounts  
in millions)**
**INITIAL DISTRIBUTION OF CREDIT  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	1.0	1.8
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	49.2	89.0
Trade (Wholesale and Retail)	4.3	7.8
Information	0.8	1.4
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b><u>\$55.3</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*

**FINAL INCIDENCE OF CREDIT  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Credit	Credit as a Percent of Total Income
1	less than \$24,899	\$2.2	4.0%	0.0%
2	\$24,899 to \$45,271	3.9	7.1	0.0
3	\$45,271 to \$69,614	6.0	10.8	0.0
4	\$69,614 to \$109,182	8.9	16.1	0.0
5	\$109,182 and over	<u>16.2</u>	<u>29.3</u>	0.0
Residents		\$37.2	67.3%	
Exported		<u>\$18.1</u>	<u>32.7%</u>	
<b>TOTAL</b>		<b><u>\$55.3</u></b>	<b><u>100.0%</u></b>	

*This franchise tax table describes the franchise tax as it existed on January 1, 2007. Significant changes to the tax are scheduled to occur on January 1, 2008.*

TABLE 28

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

FISCAL 2009  
(dollar amounts  
in millions)INITIAL DISTRIBUTION OF TAX  
BY INDUSTRY

Industry	Amount	Percent
Agriculture	\$17.4	0.7%
Mining	9.3	0.4
Utilities & Transportation	120.0	5.2
Construction	79.7	3.4
Manufacturing	162.7	7.0
Trade (Wholesale and Retail)	4.4	0.2
Information	0.1	0.0
Finance, Insurance, and Real Estate	0.3	0.0
Other Services	7.1	0.3
Government	0.0	0.0
Personal Consumption	<u>1,922.5</u>	<u>82.7</u>
<b>TOTAL</b>	<b><u>\$2,323.7</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*FINAL INCIDENCE OF TAX  
BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$24,899	\$191.9	8.3%	0.8%
2	\$24,899 to \$45,271	292.6	12.6	0.5
3	\$45,271 to \$69,614	409.5	17.6	0.4
4	\$69,614 to \$109,182	514.8	22.2	0.3
5	\$109,182 and over	<u>666.9</u>	<u>28.7</u>	0.2
Residents		\$2,075.6	89.3%	
Exported		<u>\$248.1</u>	<u>10.7%</u>	
<b>TOTAL</b>		<b><u>\$2,323.7</u></b>	<b><u>100.0%</u></b>	

## ESTIMATED EQUITY OF TAX

Suits Index -0.25

*Totals may not add due to rounding.*INITIAL DISTRIBUTION OF TAX  
BY INDUSTRY TYPE

	Amount	Percent
Corporations	\$323.0	13.9%
Partnerships	946.5	2.0
Sole Proprietors	<u>32.5</u>	<u>1.4</u>
Subtotal	401.2	17.3%
Individual Consumers	<u>\$1,922.5</u>	<u>82.7%</u>
<b>TOTAL</b>	<b><u>\$2,323.7</u></b>	<b><u>100.0%</u></b>

FINAL INCIDENCE OF TAX  
BY HOMEOWNERS/RENTERS

	Amount	Percent
Homeowners	\$1,332.0	57.3%
Renters	<u>743.6</u>	<u>32.0</u>
Subtotal	\$2,075.6	89.3%
Exported	<u>\$248.1</u>	<u>10.7%</u>
<b>TOTAL</b>	<b><u>\$2,323.7</u></b>	<b><u>100.0%</u></b>

TABLE 29

**Incidence Analysis  
Gasoline Tax  
Distributor/Supplier Discount for Tax Collection**  
(Tax Code 162.113 and 162.116)

**FISCAL 2009**  
(dollar amounts  
in millions)

**INITIAL DISTRIBUTION OF DISCOUNT  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	47.6	100.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	<u>0.0</u>	<u>0.0</u>
<b>TOTAL</b>	<u>\$47.6</u>	<u>100.0%</u>

*Totals may not add due to rounding.*

**FINAL INCIDENCE OF DISCOUNT  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Discount	Discount as a Percent of Total Income
1	less than \$24,899	\$3.1	6.5%	0.0%
2	\$24,899 to \$45,271	4.2	8.8	0.0
3	\$45,271 to \$69,614	5.6	11.8	0.0
4	\$69,614 to \$109,182	8.1	17.0	0.0
5	\$109,182 and over	<u>14.9</u>	<u>31.3</u>	0.0
Residents		\$35.9	75.4%	
Exported		<u>\$11.7</u>	<u>24.6%</u>	
<b>TOTAL</b>		<u>\$47.6</u>	<u>100.0%</u>	

TABLE 30

Initial Distribution and Final Incidence of  
Total Motor Vehicle Sales and Use Tax RevenueFISCAL 2009  
(dollar amounts  
in millions)INITIAL DISTRIBUTION OF TAX  
BY INDUSTRY

Industry	Amount	Percent
Agriculture	\$47.2	1.5%
Mining	36.1	1.1
Utilities and Transportation	178.5	5.7
Construction	187.9	6.0
Manufacturing	67.9	2.2
Trade (Wholesale and Retail)	130.3	4.1
Information	38.5	1.2
Finance, Insurance and Real Estate	69.0	2.2
Other services	473.9	15.1
Government	0.0	0.0
Personal Consumption	<u>1,916.4</u>	<u>60.9</u>
TOTAL	<u>\$3,146.8</u>	<u>100.0%</u>

*Totals may not add due to rounding.*FINAL INCIDENCE OF TAX  
BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$24,899	\$175.3	5.6%	0.7%
2	\$24,899 to \$45,271	271.5	8.6	0.5
3	\$45,271 to \$69,614	465.3	14.8	0.5
4	\$69,614 to \$109,182	666.8	21.2	0.4
5	\$109,182 and over	<u>1,081.2</u>	<u>34.4</u>	0.3
Residents		\$2,660.0	84.5%	
Exported		<u>\$486.7</u>	<u>15.5%</u>	
TOTAL		<u>\$3,146.8</u>	<u>100.0%</u>	

## ESTIMATED EQUITY OF TAX

Suits Index -0.14

*Totals may not add due to rounding.*INITIAL DISTRIBUTION OF TAX  
BY INDUSTRY TYPE

	Amount	Percent
Corporations	\$1,051.0	33.4%
Partnerships	122.7	3.9
Sole Proprietors	<u>56.6</u>	<u>1.8</u>
Subtotal	\$1,230.4	39.1%
Individual Consumers	<u>\$1,916.4</u>	<u>60.9%</u>
TOTAL	<u>\$3,146.8</u>	<u>100.0%</u>

FINAL INCIDENCE OF TAX  
BY HOMEOWNERS/RENTERS

	Amount	Percent
Homeowners	\$1,825.1	58.0%
Renters	<u>833.9</u>	<u>26.5</u>
Subtotal	\$2,660.0	84.5%
Exported	<u>\$486.7</u>	<u>15.5%</u>
TOTAL	<u>\$3,146.8</u>	<u>100.0%</u>

TABLE 31

**Incidence Analysis  
Motor Vehicle Sales and Use Tax  
Exemption for Sales to a Public Agency**  
(Tax Code 152.082)

**FISCAL 2009**  
(dollar amounts  
in millions)

**INITIAL DISTRIBUTION OF EXEMPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0
Utilities and Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance and Real Estate	0.0	0.0
Other services	0.0	0.0
Government	48.7	100.0
Personal Consumption	<u>0.0</u>	<u>0.0</u>
<b>TOTAL</b>	<b><u>\$48.7</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*

**FINAL INCIDENCE OF EXEMPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$3.1	6.3%	0.0%
2	\$24,899 to \$45,271	4.5	9.3	0.0
3	\$45,271 to \$69,614	6.1	12.5	0.0
4	\$69,614 to \$109,182	8.5	17.4	0.0
5	\$109,182 and over	<u>15.0</u>	<u>30.8</u>	0.0
Residents		\$37.2	76.3%	
Exported		<u>\$11.5</u>	<u>23.7%</u>	
<b>TOTAL</b>		<b><u>\$48.7</u></b>	<b><u>100.0%</u></b>	

TABLE 32

**Incidence Analysis  
Motor Vehicle Sales and Use Tax  
Exemption for Vehicles Taxed by Other Law**  
(Tax Code 152.089)

**FISCAL 2009**  
(dollar amounts  
in millions)

**INITIAL DISTRIBUTION OF EXEMPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$5.8	5.8%
Mining	3.5	3.5
Utilities and Transportation	9.2	9.3
Construction	18.4	18.6
Manufacturing	3.5	3.5
Trade (Wholesale and Retail)	10.4	10.5
Information	3.5	3.5
Finance, Insurance and Real Estate	4.6	4.7
Other services	40.3	40.7
Government	0.0	0.0
Personal Consumption	<u>0.0</u>	<u>0.0</u>
<b>TOTAL</b>	<b><u>\$98.9</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*

**FINAL INCIDENCE OF EXEMPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$3.5	3.5%	0.0%
2	\$24,899 to \$45,271	5.8	5.8	0.0
3	\$45,271 to \$69,614	9.2	9.3	0.0
4	\$69,614 to \$109,182	15.0	15.1	0.0
5	\$109,182 and over	<u>27.6</u>	<u>27.9</u>	0.0
Residents		\$61.0	61.6%	
Exported		<u>\$38.0</u>	<u>38.4%</u>	
<b>TOTAL</b>		<b><u>\$98.9</u></b>	<b><u>100.0%</u></b>	

TABLE 33

Initial Distribution and Final Incidence of  
Total Natural Gas TaxFISCAL 2009  
(dollar amounts  
in millions)INITIAL DISTRIBUTION OF TAX  
BY INDUSTRY

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	1,726.1	100.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b><u>\$1,726.1</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*FINAL INCIDENCE OF TAX  
BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$24,899	\$24.2	1.4%	0.1%
2	\$24,899 to \$45,271	75.9	4.4	0.1
3	\$45,271 to \$69,614	136.4	7.9	0.1
4	\$69,614 to \$109,182	210.6	12.2	0.1
5	\$109,182 and over	<u>452.2</u>	<u>26.2</u>	0.1
Residents		\$899.2	52.1%	
Exported		<u>\$826.9</u>	<u>47.9%</u>	
<b>TOTAL</b>		<b><u>\$1,726.1</u></b>	<b><u>100.0%</u></b>	

## ESTIMATED EQUITY OF TAX

Suits Index 0.001

*Totals may not add due to rounding.*INITIAL DISTRIBUTION OF TAX  
BY INDUSTRY TYPE

	Amount	Percent
Corporations	\$947.7	54.9%
Partnerships	402.8	23.3
Sole Proprietors	<u>375.6</u>	<u>21.8</u>
Subtotal	\$1,726.1	100.0%
Individual Consumers	<u>0.0</u>	<u>0.0%</u>
<b>TOTAL</b>	<b><u>\$1,726.1</u></b>	<b><u>100.0%</u></b>

FINAL INCIDENCE OF TAX  
BY HOMEOWNERS/RENTERS

	Amount	Percent
Homeowners	\$655.9	38.0%
Renters	<u>243.4</u>	<u>14.1</u>
Subtotal	\$899.2	52.1%
Exported	<u>\$826.9</u>	<u>47.9%</u>
<b>TOTAL</b>	<b><u>\$1,726.1</u></b>	<b><u>100.0%</u></b>

TABLE 34

**Incidence Analysis  
Natural Gas Tax  
Exemption/Reduction for High-Cost Gas  
(Tax Code 201.057(c))**

**FISCAL 2009**  
(dollar amounts  
in millions)

**INITIAL DISTRIBUTION OF EXEMPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	866.0	100.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b>\$866.0</b>	<b>100.0%</b>

Totals may not add due to rounding.

**FINAL INCIDENCE OF EXEMPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$8.6	1.0%	0.0%
2	\$24,899 to \$45,271	27.0	3.1	0.0
3	\$45,271 to \$69,614	50.2	5.8	0.0
4	\$69,614 to \$109,182	77.4	8.9	0.1
5	\$109,182 and over	159.1	18.4	0.0
Residents		\$322.3	37.2%	
Exported		\$543.7	62.8%	
<b>TOTAL</b>		<b>\$866.0</b>	<b>100.0%</b>	

TABLE 35

**Incidence Analysis  
Natural Gas Tax  
Exemption for Oil or Gas from Wells Previously Inactive  
(Tax Code 201.058(a) and 202.056)**

**FISCAL 2009**  
(dollar amounts  
in millions)

**INITIAL DISTRIBUTION OF EXEMPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	43.0	100.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	0.0	0.0
<b>TOTAL</b>	<b>\$43.0</b>	<b>100.0%</b>

Totals may not add due to rounding.

**FINAL INCIDENCE OF EXEMPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$0.4	1.0%	0.0%
2	\$24,899 to \$45,271	1.3	3.1	0.0
3	\$45,271 to \$69,614	2.5	5.9	0.0
4	\$69,614 to \$109,182	3.9	9.0	0.0
5	\$109,182 and over	7.9	18.3	0.0
Residents		\$16.0	37.2%	
Exported		\$27.0	62.8%	
<b>TOTAL</b>		<b>\$43.0</b>	<b>100.0%</b>	



TABLE 36

Initial Distribution and Final Incidence of  
Total School Property Tax RevenueTAX YEAR 2009  
(dollar amounts  
in millions)INITIAL DISTRIBUTION OF TAX  
BY INDUSTRY

Industry	Amount	Percent
Agriculture	\$243.2	1.2%
Mining	1,079.9	5.4
Utilities & Transportation	1,538.2	7.7
Construction	99.9	0.5
Manufacturing	1,578.1	7.9
Trade (Wholesale and Retail)	898.9	4.5
Information	699.2	3.5
Finance, Insurance, and Real Estate	3,136.3	15.7
Other Services	958.9	4.8
Government	0.0	0.0
Personal Consumption	<u>9,748.4</u>	<u>48.8</u>
TOTAL	<u>\$19,976.3</u>	<u>100.0%</u>

Totals may not add due to rounding.

FINAL INCIDENCE OF TAX  
BY HOUSEHOLD INCOME QUINTILE

Quintile	Household Income	Amount	Percent of Tax Paid	Tax as a Percent of Total Income
1	less than \$24,899	\$1,136.6	5.7%	4.7%
2	\$24,899 to \$45,271	1,631.4	8.2	2.7
3	\$45,271 to \$69,614	2,291.2	11.5	2.3
4	\$69,614 to \$109,182	3,501.1	17.5	2.3
5	\$109,182 and over	<u>7,071.6</u>	<u>35.4</u>	2.0
Residents		\$15,631.9	78.3%	
Exported		<u>\$4,344.4</u>	<u>21.7%</u>	
TOTAL		<u>\$19,976.3</u>	<u>100.0%</u>	

## ESTIMATED EQUITY OF TAX

Suits Index -0.06

Totals may not add due to rounding.

INITIAL DISTRIBUTION OF TAX  
BY BUSINESS TYPE

	Amount	Percent
Corporations	\$8,569.8	42.9%
Partnerships	1,098.7	5.5
Sole Proprietors	<u>559.3</u>	<u>2.8</u>
Subtotal	\$10,227.8	51.2%
Individual Consumers	<u>\$9,748.4</u>	<u>48.8%</u>
TOTAL	<u>\$19,976.3</u>	<u>100.0%</u>

FINAL INCIDENCE OF TAX  
BY HOMEOWNERS/RENTERS

	Amount	Percent
Homeowners	\$11,945.8	59.8%
Renters	<u>3,695.6</u>	<u>18.5</u>
Subtotal	\$15,631.9	78.3%
Exported	<u>\$4,344.4</u>	<u>21.7%</u>
TOTAL	<u>\$19,976.3</u>	<u>100.0%</u>

TABLE 37

**Incidence Analysis  
School Property Tax  
Residence Homesteads: State Mandated \$15,000 Exemption  
(Tax Code 11.13(b))**

**TAX YEAR 2009**  
(dollar amounts  
in millions)

**INITIAL DISTRIBUTION OF EXEMPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	<u>980.3</u>	<u>100.0</u>
<b>TOTAL</b>	<b><u>\$980.3</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*

**FINAL INCIDENCE OF EXEMPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$85.9	8.8%	0.4%
2	\$24,899 to \$45,271	109.7	11.2	0.2
3	\$45,271 to \$69,614	135.1	13.8	0.1
4	\$69,614 to \$109,182	200.2	20.4	0.1
5	\$109,182 and over	<u>262.6</u>	<u>26.8</u>	0.1
Residents		\$793.5	80.9%	
Exported		<u>186.8</u>	<u>19.1%</u>	
<b>TOTAL</b>		<b><u>\$980.3</u></b>	<b><u>100.0%</u></b>	

TABLE 38

**Incidence Analysis  
School Property Tax  
Residence Homesteads: Optional Percentage Exemption  
(Tax Code 11.13(n))**

**TAX YEAR 2009**  
(dollar amounts  
in millions)

**INITIAL DISTRIBUTION OF EXEMPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	<u>396.1</u>	<u>100.0</u>
<b>TOTAL</b>	<b><u>\$396.1</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*

**FINAL INCIDENCE OF EXEMPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$18.6	4.7%	0.1%
2	\$24,899 to \$45,271	22.9	5.8	0.0
3	\$45,271 to \$69,614	33.8	8.5	0.0
4	\$69,614 to \$109,182	61.5	15.5	0.0
5	\$109,182 and over	<u>188.0</u>	<u>47.5</u>	0.1
Residents		\$324.8	82.0%	
Exported		<u>\$71.3</u>	<u>18.0%</u>	
<b>TOTAL</b>		<b><u>\$396.1</u></b>	<b><u>100.0%</u></b>	

TABLE 39

**Incidence Analysis  
School Property Tax  
Freeport Property Exemption  
(Tax Code 11.251)**
**TAX YEAR 2009  
(dollar amounts  
in millions)**
**INITIAL DISTRIBUTION OF EXEMPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$12.8	3.7%
Mining	1.0	0.3
Utilities & Transportation	60.0	17.3
Construction	5.5	1.6
Manufacturing	153.2	44.2
Trade (Wholesale and Retail)	35.4	10.2
Information	0.0	0.0
Finance, Insurance, and Real Estate	46.8	13.5
Other Services	31.9	9.2
Government	0.0	0.0
Personal Consumption	<u>0.0</u>	<u>0.0</u>
<b>TOTAL</b>	<b><u>\$346.7</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*
**FINAL INCIDENCE OF EXEMPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$16.1	4.6%	0.1%
2	\$24,899 to \$45,271	26.1	7.5	0.0
3	\$45,271 to \$69,614	38.5	11.1	0.0
4	\$69,614 to \$109,182	57.1	16.5	0.0
5	\$109,182 and over	<u>107.0</u>	<u>30.9</u>	0.0
Residents		\$244.8	70.6%	
Exported		<u>\$101.9</u>	<u>29.4%</u>	
<b>TOTAL</b>		<b><u>\$346.7</u></b>	<b><u>100.0%</u></b>	

TABLE 40

**Incidence Analysis  
School Property Tax  
School Tax Ceiling for Disabled or Age 65 and Older  
(Tax Code 11.26)**
**TAX YEAR 2009  
(dollar amounts  
in millions)**
**INITIAL DISTRIBUTION OF EXEMPTION  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$0.0	0.0%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	<u>568.9</u>	<u>100.0</u>
<b>TOTAL</b>	<b><u>\$568.9</u></b>	<b><u>100.0%</u></b>

*Totals may not add due to rounding.*
**FINAL INCIDENCE OF EXEMPTION  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Exemption	Exemption as a Percent of Total Income
1	less than \$24,899	\$80.3	14.1%	0.3%
2	\$24,899 to \$45,271	84.7	14.9	0.1
3	\$45,271 to \$69,614	82.4	14.5	0.1
4	\$69,614 to \$109,182	90.1	15.8	0.1
5	\$109,182 and over	<u>135.5</u>	<u>23.8</u>	0.0
Residents		\$473.0	83.1%	
Exported		<u>\$96.1</u>	<u>16.9%</u>	
<b>TOTAL</b>		<b><u>\$568.9</u></b>	<b><u>100.0%</u></b>	

TABLE 41

**Incidence Analysis  
School Property Tax  
Special Appraisal for Agriculture and Timber**  
(Tax Codes 23.41, 23.52, 23.73 and 23.9803)

**TAX YEAR 2009**  
(dollar amounts  
in millions)

**INITIAL DISTRIBUTION OF SPECIAL APPRAISAL  
BY INDUSTRY**

Industry	Amount	Percent
Agriculture	\$1,872.9	100.0%
Mining	0.0	0.0
Utilities & Transportation	0.0	0.0
Construction	0.0	0.0
Manufacturing	0.0	0.0
Trade (Wholesale and Retail)	0.0	0.0
Information	0.0	0.0
Finance, Insurance, and Real Estate	0.0	0.0
Other Services	0.0	0.0
Government	0.0	0.0
Personal Consumption	<u>0.0</u>	<u>0.0</u>
<b>TOTAL</b>	<u><b>\$1,872.9</b></u>	<u><b>100.0%</b></u>

*Totals may not add due to rounding.*

**FINAL INCIDENCE OF SPECIAL APPRAISAL  
BY HOUSEHOLD INCOME QUINTILE**

Quintile	Household Income	Amount	Percent of Appraisal	Appraisal as a Percent of Total Income
1	less than \$24,899	\$86.7	4.6%	0.4%
2	\$24,899 to \$45,271	141.3	7.5	0.2
3	\$45,271 to \$69,614	207.6	11.1	0.2
4	\$69,614 to \$109,182	308.3	16.5	0.2
5	\$109,182 and over	<u>578.0</u>	<u>30.9</u>	0.2
Residents		\$1,321.9	70.6%	
Exported		<u>\$551.0</u>	<u>29.4%</u>	
<b>TOTAL</b>		<u><b>\$1,872.9</b></u>	<u><b>100.0%</b></u>	