Welcome to the Comptroller's online tax calculator.
Governor Rick Perry signed into law HB3, which revises the existing franchise tax by changing the tax base, lowering the rate, and extending coverage to active businesses receiving state law liability protection.

This calculator is a tool to estimate your potential franchise tax liability under HB3. Your actual tax liability may differ from this estimate because of special provisions provided in HB3.

If you have specific questions about HB3, you can contact us at margin.tax@cpa.state.tx.us.

CLICK HERE TO CONTINUE

1c. COGS MARGIN - Line 1a minus line 1b. .... ______

TAX HELP

2a. TOTAL REVENUE .... ______

2b. WAGES AND CASH COMPENSATION - W2 Medicare wages and tips plus stock awards and stock options deducted for federal income tax *(may not exceed $300,000 for any single employee)*. .... ______

2c. EMPLOYEE BENEFITS - Employer's Cost of retirement contributions, employee health insurance and worker's compensation. .... ______

2d. COMP MARGIN - Line 2a minus (lines 2b and 2c). .... ______

TAX HELP

3a. TOTAL REVENUE .... ______

3b. % MARGIN - Equals 70% of line 3a. .... ______

4. **MARGIN** - Enter the least of lines 1c, 2d or 3b. .... ______

STEP 2. APPORTIONMENT

TAX HELP

5. TEXAS GROSS RECEIPTS .... ______

TAX HELP

6. EVERYWHERE GROSS RECEIPTS .... ______

7. **APPORTIONMENT FACTOR** - Line 5 divided by line 6. .... ______

STEP 3. TAXABLE MARGIN

8. **TAXABLE MARGIN** - Line 4 multiplied by line 7. .... ______

STEP 4. TAX DUE

9. TAX - Multiply line 8 by ☐ 0.5% for wholesalers and retailers or ☐ 1% for other taxable entities. .... ______

10. CREDITS .... ______

11. **TAX DUE** - Line 9 minus line 10. *(If less than $1,000, you owe no tax. Cannot be less than zero.)* .... ______

Overview – House Bill (HB) 3 was passed during the 79th 3rd Called Session of the Texas Legislature. This bill amends Texas Tax Code Chapter 171 to revise the existing franchise tax by changing the tax base, lowering the rate, and extending coverage to all active businesses receiving state law liability protection. Changes made by HB3 are effective for franchise tax reports originally due on or after January 1, 2008.

Entities Subject to Tax – The tax applies to partnerships (general, limited and limited liability), corporations, limited liability companies, business trusts, professional associations, business associations, joint ventures and other legal entities with statutory liability protection. Sole proprietorships, general partnerships directly owned entirely by natural persons, entities exempt under Subchapter B of Chapter 171, passive entities, grantor trusts, estates of natural persons, escrows, passive investment partnerships, certain family limited partnerships, REMICs, and certain REITs are not subject to the tax. Additionally, entities with revenues of $300,000 or less or who calculate their tax due to be less than $1,000 will owe no tax. However, all taxable entities, including those who will owe no tax, must file a return. Texas Tax Code 171.0002.

<<

Lines 1a, 2a, and 3a. Total Revenue – Total revenue is determined based on federal income tax reporting. Total revenue for a taxable entity filing as a corporation for federal tax purposes includes amounts entered on line 1c of its federal tax return (Form 1120) plus the amounts entered on lines 4 through 10, Form 1120. A taxable entity filing as a partnership for federal tax purposes includes in total revenue the amounts entered on line 1c, Form 1065, the amounts entered on lines 4 through 7, Form 1065, and the amounts entered on lines 2 through 11, Form 1065, Schedule K. From these amounts a taxable entity may subtract, to the extent included in revenue, bad debt expense, foreign royalties and dividends under Section 78 and Section 951-964, Schedule C dividends and income from a related entity. Specific exclusions from revenue include flow-through funds mandated by law, fiduciary duty or contract, such as sales tax, sales commissions to nonemployees, the tax basis of securities underwritten and a general contractors flow through payments to construction subcontractors. A lending institution may exclude the principal repayment of loans. An entity that provides legal services may exclude the following flow-through funds: damages due the claimant; funds subject to a lien or other contractual obligation arising out of the representation, other than fees owed to the attorney; fees paid to another attorney; reimbursement of case expenses and actual out-of-pocket expenses, not to exceed $500 per case, for providing pro bono legal services. Dividends and interest from federal obligations are excluded. A staff leasing services company shall exclude payments received from a client company for wages, payroll taxes and employee benefits for the assigned employees. A health care provider may exclude 100% of revenues from Medicaid, Medicare, CHIP, workers' compensation claims and TRICARE, and actual costs for uncompensated care (healthcare institutions may only exclude 50%). For purposes of this calculator, total revenue cannot be less than zero. Texas Tax Code 171.1011.

<<

Line 1b. Cost of goods sold – "Goods" are defined as real or tangible personal property sold in the ordinary course of business and includes a computer program. Taxable entities that provide only services are not eligible for a cost of goods sold deduction. A taxable entity renting motor vehicles, heavy construction equipment or railcar rolling stock may use cost of goods sold for costs related to the property rented. Cost of goods sold includes all direct costs of acquiring or producing the goods such as labor; materials; handling costs including processing, assembling, and inbound transportation; and storage costs. Cost of goods sold also includes cost related to production related equipment and facilities such as depreciation, rental and repair and maintenance. Research, insurance, utilities, quality control and licensing costs directly related to the production of goods are also included. A taxable entity may deduct up to 4% of overhead costs allocable to the production of goods. Lending institutions that make loans to the public may deduct interest as a cost of goods sold. Cost of goods sold does not include renting or leasing costs that are not production related; selling costs; distribution costs including outbound transportation costs; advertising cost; interest; income or franchise taxes; and officer compensation. Payments for undocumented workers are not deductible. Any amounts excluded from line 1a may not be included in the determination of cost of good sold. Texas Tax Code 171.1012.

Line 2b. Wages and Cash Compensation - Wages and cash compensation include amounts reported for Medicare wages and tips on Form W2; net distributive income from partnerships, limited liability companies and S corporations to natural persons; and stock awards and stock options deducted for federal income tax purposes. Includes wages and cash compensation paid to officers, directors, owners, partners and employees. The deduction for wages and cash compensation is limited to $300,000 per person. A taxable entity that is a staff leasing services company should include only payment for the entity's own employees that are not assigned employees. A client company that contracts with a staff leasing services company may include wages for assigned employees but may not include an administrative fee or payroll taxes. Payments for undocumented workers are not deductible. Any amounts excluded from line 1a may not be included in the determination of compensation. Texas Tax Code 171.1013.

<<

Line 2c. Employee Benefits - Benefits provided to officers, directors, owners, partners and employees, including workers' compensation, health care and retirement benefits to the extent deductible for federal income tax purposes. Texas Tax Code 171.1013.

Line 5. Texas Gross Receipts - Gross receipts in Texas include sales of real property located in Texas, sales of tangible personal property when the property is delivered or shipped to a purchaser within Texas, services performed within Texas, rentals of property situated in Texas, royalties from use of patents or copyrights within Texas, revenues from the use of trademarks, franchises or licenses within Texas and all other business revenue within Texas including dividends and interest from Texas payors. Any amounts excluded from line 1a may not be included in the determination of Texas Gross Receipts. Texas Tax Code 171.103.

<<

Line 6. Everywhere Gross Receipts - Gross receipts everywhere includes all sales of real property, all sales of tangible personal property, all services, all rentals, all royalties from use of patents, copyrights, trademarks, franchises or licenses and all other business revenue including dividends and interest. Any amounts excluded from line 1a may not be included in the determination of Everywhere Gross Receipts. Texas Tax Code 171.105.

Line 9. Tax Due - The tax rate is 0.5 percent for entity's primarily engaged in retail and wholesale trades as well as those businesses under Major Group 58 (eating and drinking establishments). The rate is 1 percent for all other taxable entities. Texas Tax Code 171.002.

Line 10. Credits - A taxable entity that previously qualified for a research and development credit, capital investment credit, or job creation credit may claim unused carryovers and installments to offset the tax on margin. Each credit is limited to 50% of the tax due before using the credit. No additional credits for research and development, capital investment, or job creation may be created. In addition, a corporation may take a credit based on business losses accrued under Tax Code Section 171.110(e) that were not expired or exhausted on a report due prior to January 1, 2008. The credit is 10 percent of the business losses multiplied by the appropriate margins tax rate and expires September 1, 2016. Texas Tax Code 171.111.

Combined Reporting

Taxable entities that are part of an affiliated group engaged in a unitary business shall file a combined group report in lieu of individual reports, without regard to the $300,000 limitation on revenue. All members of a combined group must use the same method to compute margin (i.e. cost of goods sold, compensation or 70%).

<<

An affiliated group is a group of one or more entities in which a controlling interest (80%) is owned by a common owner or owners, either corporate or noncorporate, or by one or more of the member entities. A unitary business is defined as a single economic enterprise that is made up of separate parts of a single entity or of a commonly controlled group of entities that are sufficiently interdependent, integrated, and interrelated through their activities so as to provide a synergy and mutual benefit that produces a sharing or exchange of value among them and a significant flow of value to the separate parts.

Margin for the combined group is calculated by adding the total revenue for each entity, subtracting the cost of goods sold/compensation for each entity and then subtracting items of revenue and cost of goods sold/compensation from one member of a combined group to another member of the combined group.

For apportionment purposes, Texas Gross Receipts of a combined group should include only receipts for entities within the group that have nexus in Texas. Receipts from transactions between members that are excluded from revenue may not be included in Texas Gross Receipts except for receipts from the sale of tangible personal property between members where one member party to the transaction does not have nexus in Texas.

Everywhere Gross Receipts for a combined group should include receipts for all entities within the group, regardless of whether the entities have nexus in Texas. Receipts from transactions between members that are excluded from revenue may not be included in Everywhere Gross Receipts. Texas Tax Code 171.1014.

<<