

A Special

FINANCIAL REPORT



Sales and Franchise Tax Exemptions

A report to the Governor and Texas Legislature

January 1991

John Sharp, Texas Comptroller of Public Accounts



JOHN SHARP
Comptroller

COMPTROLLER OF PUBLIC ACCOUNTS
STATE OF TEXAS
AUSTIN, 78774

January 8, 1991

The Honorable William P. Clements
Members of the 71st Legislature

Ladies and Gentlemen:

In fiscal 1991 sales and franchise tax exemptions will total an estimated \$12 billion. Of this total, sales tax exemptions will account for \$11.8 billion, and franchise tax exemptions will account for \$200 million.

As required by Sec. 403.014 Texas Government Code, this report estimates the value of each exemption, exclusion, special rate, deduction and discount available under Texas' sales and franchise tax laws.

There are no recommendations for retaining, eliminating or amending any provisions of these laws in this report.

Respectfully,

JOHN SHARP
Comptroller of Public Accounts

cc: Governor-Elect Ann W. Richards



Sales and Franchise Tax Exemptions

A report to the Governor and Texas Legislature

In fiscal 1991—the year between September 1, 1990, and August 31, 1991—sales and franchise tax breaks will save taxpayers (and cost the state) a total of \$12 billion.

Sales tax exemptions will total \$11.8 billion. Franchise tax exemptions will total \$200 million.

These amounts include exemptions, exclusions, special rates, deductions and discounts written into the state's sales and franchise tax laws.

Sales tax exclusions for services alone will be worth an estimated \$1.7 billion in 1991.

Franchise tax exemptions go to both profit-making and nonprofit businesses. In 1991 these will total \$101 million and \$98.3 million, respectively.

At \$7.6 billion, the sales tax was the state's biggest single revenue

source in the 1990 fiscal year. Franchise tax ranked fifth, with net receipts of \$539 million from corporations doing business in Texas. Together, sales and franchise taxes accounted for 60 percent of the state's tax revenue.

About the estimates

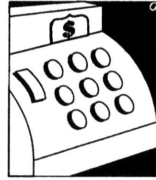
Exemption estimates are unadjusted amounts, meaning that elimination of a specific exemption would not necessarily produce the exact dollar amounts cited in this report. Actual receipts would depend on enforcement, taxpayer compliance, the timing of the change and taxpayer discounts.

Each estimate is based on the best information available from public and private sources, including the Comptroller's tax records.

Tax exemptions written into Texas' sales and franchise tax laws will save taxpayers and cost the state \$12 billion in fiscal 1991.



Sales Tax



The limited sales and use tax

The sales tax is the largest source of revenue for Texas state government. It will bring in about 56 cents of every state tax dollar. The sales tax importance will continue to grow as the tax keeps pace with the economy.

The sales tax is a tax on transactions. In general, the tax is imposed on final sales, rentals and leases of tangible personal property—physical goods—and on sales of a short list of services, such as repair of tangible personal property, amusement services and telephone services.

While total sales tax collections topped \$7.6 billion in fiscal 1990, the tax is limited in scope compared with the total number and kind of transactions in the economy. The tax is limited by a host of exemptions and exclusions provided by law.

Classifying sales tax exemptions

Sales tax exemptions can be divided into three general categories: exemptions, exclusions and discounts.

An **exemption** protects items that would be taxable except for specific provisions in the law. For example, since the general legal definition 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 general legal definition of a taxable

sale, or because taxing them would result in multiple taxation of the same items. Exclusions include the sales of intangibles, such as stocks and bonds, sales and rentals of real property, sales for resale and sales of materials incorporated into manufactured products.

Also excluded from the tax base are most services. Currently, only a handful of specified services are listed as taxable items. Also, items taxed under other laws are typically excluded from the general sales tax.

Discounts are handling fees that Texas law lets tax-permit holders keep in exchange for collecting the sales tax and sending it to the state on time. The standard discount is 0.5 percent of the sales tax collected. An additional 1.25 percent discount is available to those who pay their estimated tax collections in advance.

Exemptions have been established for some basic necessities, such as groceries, residential gas and electric utilities and prescription medicines. Some sales are exempted when made to certain groups. For example, governmental bodies and religious and nonprofit educational groups buy items for their own use tax-free.

Other exemptions apply because the tax would be impractical to collect. For example, those who make only occasional sales (three or fewer sales of taxable items per year) do not collect the tax.

Most other exemptions and exclusions prevent multiple taxation of the same items or lower business costs (see below).

Business exemptions

Some business exemptions are general and benefit most kinds of business, such as the exemptions for commercial packaging and

Estimated cost of sales and franchise tax exemptions, exclusions and discounts, fiscal 1991

Amounts in millions

Sales Tax	Amount
Exemptions	\$2,614.7
Services exclusions	1,707.8
Other exclusions	7,411.3
Discounts	54.7
Total, sales tax	11,788.5
Franchise Tax	
Profit-making corporations	
Exemptions	72.7
Special rates	26.4
Deductions	1.9
Nonprofit corporations	
Exemptions	98.3
Total, franchise tax	199.3
TOTAL	\$11,987.8

Totals may not add due to rounding.

SOURCE: John Sharp, Comptroller of Public Accounts.



wrapping materials and containers (worth \$88 million in 1991). Others offer specific industries.

Agriculture receives exemptions for machinery and equipment, livestock, feed, seed, fertilizer, pesticides, gas and electricity. These agricultural exemptions will be worth a total \$274.4 million in fiscal 1991.

Oil and gas exploration and production businesses receive exemptions for gas and electric power (\$1.8 million) and drilling equipment used offshore (\$28 million).

Contractors who work on projects for state and local government or certain other exempt organizations may purchase their equipment and materials tax-free (\$136.2 million).

The vending machine industry receives an exemption for receipts from coin-operated amusement machines worth \$22.1 million. Although not completely exempted, the sale of edible items, excluding soft drinks and candy, sold through vending machines receive what amounts to a partial exemption (\$4.5 million in 1991). Vendors of edible items calculate the sales tax due based on 50 percent of the gross receipts from the sale of these items. (Coin-operated amusement machine owners pay a tax—worth approximately \$3.9 million in fiscal 1991—based upon the number of machines operated.)

Many items used by transportation businesses also are exempt. Airlines purchase aircraft (\$140,000), aviation fuel (\$49.5 million) and repair equipment (\$8.5 million) tax-free. Certain commercial ships, parts and repair remain untaxed (\$18.2 million). And railroads pay no sales tax on the purchase of locomotives and rail cars (\$1.1 million), or on fuel, parts and supplies (\$7.8 million). Most sales of aircraft and railroad rolling stock are for use in interstate commerce and would escape sales tax even if the exemptions were repealed. Sales of gas and electric power used in manufacturing are exempt (\$457.1 million).

The sales tax on manufacturing machinery and equipment is currently being phased out. Under the phaseout schedule, manufacturers purchasing machinery and equipment in calendar year 1990 can apply in calendar year 1991 directly to the Comptroller's office for a 25 percent refund of sales tax paid on 1990 purchases. State tax refunds payable on 1990 purchases are expected to total an estimated \$147 million by the end of fiscal year 1991. However, the law imposes a

Major sales tax exemptions and exclusions, fiscal 1990

	Number of states exempting ¹	Exempt in Texas?
Consumer goods		
Groceries	24	yes
Prescription drugs	43	yes
Motor fuels	38	yes ²
Alcoholic beverages	7	no ²
Services		
Residential gas and electricity	24	yes
Water		
Industrial	25	yes
Residential	28	yes
Telecommunication services	8	no
Laundry and dry cleaning	26	no ³
Barber and beauty services	41	yes
Amusement services	14	no
Management consulting and public relations	39	yes
Legal services	42	yes
Accounting and audit services	41	yes
Architectural services	40	yes
Engineering	41	yes
Financial securities brokerage	44	yes
Real estate brokerage and agency	42	yes
Automotive maintenance and repair	24	yes
Agricultural goods		
Feed, seed, fertilizer, etc.	42	yes
Agricultural machinery	31	yes
Business goods		
Sales for resale	43	yes
Production machinery	25	no ⁴
Materials used in processing	45	yes

¹ Forty-five states imposed a general sales tax

² Motor fuels are taxed under the motor fuels tax. Texas exempts mixed drinks which are taxed under the mixed beverage tax.

³ Coin-operated laundry services remain exempt.

⁴ Sales tax on production machinery and equipment is currently being phased out.

SOURCES: *State Tax Guide-All States and State Tax Review* (Commerce Clearing House, various issues). Federation of Tax Administrators, 1990 Survey of the States, *Sales Taxation of Services*, July, 1990. Phone survey, Revenue Estimating Division.



Sales Tax

\$57 million cap on refunds during fiscal year 1991. The remaining amount of refunds will be paid in fiscal year 1992 (September 1, 1991

through August 31, 1992). Manufacturers making eligible purchases in calendar year 1991 can apply in calendar year 1992 directly to the Comptroller's office for a 25-percent refund of sales tax paid on 1991 purchases.

Eligible purchases in 1992 will be subject to a 25-percent reduction in sales tax. Sales tax reductions of 50 and 75 percent will follow in 1993 and 1994. Eligible purchases made on or after January 1, 1995, will be entirely exempt from sales tax. The new exemption for manufacturing machinery will cost the state an estimated \$836 million annually once fully in place. Supporters of this new exemption say it will help attract new manufacturing businesses and jobs to the state.

Services exclusions

For most of its history, the sales tax was not imposed on sales of services. But in recent years, more services have become subject to sales tax.

In 1984, sales tax was imposed on laundry and dry cleaning, amusement admissions, cable television service, auto parking, most non-automotive repair services and some other personal services such as massage parlors.

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

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

This year, sales tax collections will be about 12 percent higher due to the cumulative gains from services taxation since 1984.

Even so, most services remain

Estimated cost of sales tax exemptions and exclusions, fiscal 1991¹

Millions of dollars

Item	Amount
Food for home consumption	\$ 694.3
Manufacturing gas and electricity	457.1
Residential gas and electricity	385.2
Property used for improvement of exempt realty	136.2
Agricultural feed, seed, chemicals and supplies	133.6
Sales to governmental entities	129.1
Prescription medicines and devices	115.9
Livestock for food	85.0
Water	62.6
Manufacturing machinery and equipment	57.0 ²
Packaging supplies and wrapping	53.3
Aviation fuel	49.5
Agricultural machinery and equipment	38.9
School lunches and food sales by school-affiliated groups	37.4
Containers	34.7
Certain drilling equipment	28.0
Coin-operated amusement machines	22.1 ³
Certain ships and equipment	18.2
Agricultural gas and electricity	11.2
Newspaper inserts	11.0
Magazine subscriptions	8.6
Repair equipment used to repair aircraft operated by certificated or licensed carriers	8.5
Sales to religious, educational, and public service organizations	8.5
Railroad fuel and supplies	7.8
Newspapers	7.0
Horses, mules, and work animals	5.7
One day sales by exempt organizations	2.0
Religious writings	1.9
Mining gas and electricity	1.8
Rolling stock and locomotives	1.1
Ice used in commercial fishing	0.6
Equipment used in enterprise zones	0.3
Agribusiness items (containers)	0.3
Certain aircraft	0.1
Exemptions required by prevailing law (Sales into foreign or interstate commerce)	n/a
Previously taxed items (under other laws)	n/a
Sales of services to affiliated corporations	n/a
Sales for resale	n/a
Occasional sales	**
Sales by or to Indian tribes	**
Transfers of common interests in property	**
Texas Hospital Equipment Financing Council	**
TOTAL	\$2,614.5

¹ Estimates assume a tax rate of 6.25 percent and are for the full twelve months of fiscal 1991.

² The refund of sales tax paid on manufacturing machinery and equipment is limited to \$57 million in fiscal 1991.

³ Coin-operated amusement machines are taxed under a separate tax based upon the number of machines operated.

n/a Not estimated due to data limitations

**Negligible amount, less than \$50,000

SOURCE: John Sharp, Comptroller of Public Accounts.



excluded from tax. Total service exclusions will be worth about \$1.7 billion in fiscal 1991, an amount equal to 20.8 percent of expected state sales tax collections.

The highest-dollar service exclusions are for professional services. These include medical, dental and other health care (\$445 million); legal services (\$178.5 million); accounting and audit services (\$75.4 million); engineering and architectural services (\$86.5 million); real estate brokerage (\$74.3 million); financial securities brokerage (\$46.4 million), and veterinary services (\$22.7 million).

Labor charges by contractors on new residential and nonresidential construction jobs are not taxable (\$102.7 million). And labor for residential repair and remodeling is still tax-free (\$36.3 million).

Other business services that are not taxed include advertising (\$104.6 million) contract computer programming (\$28.2 million); management, consultancy, and public relations (\$37.3 million); employment agency, temporary labor supply and other personnel services (\$46 million), and intrastate freight hauling (\$141 million).

Personal services not taxed include beauty and barber service (\$27 million), funeral services (\$19.7 million), child day care (\$30.3 million) and coin-operated laundry (\$5.7 million).

Automotive maintenance and repair (\$68.8 million), car washing (\$8.3 million), and travel arrangement services (\$23.4 million) remain tax-free. Other untaxed services include certain educational services (\$11.2 million), interior design (\$3.1 million) and telephone answering services (\$3.6 million).

Other exclusions

Intermediate sales of goods to businesses are generally excluded from the tax base. Purchases of goods for resale (i.e. sales for resale) are not taxed. Also untaxed are materials used as components in

manufactured products or used in the production process.

Some items are excluded from the general sales tax base because they are already taxed under a separate

Estimated cost of services excluded from the sales tax base, fiscal 1991¹

Millions of dollars	
Item	Amount
Construction labor	
New residential construction	\$ 45.6
New non-residential construction	57.2
Residential repair and remodeling	36.3
Personal services	
Barber and beauty services	27.0
Funeral services	19.7
Coin-operated laundry	5.7
Child day care	30.3
Miscellaneous personal services	2.3
Business and professional services	
Physicians services	268.4
Dental services	75.5
Other health care	101.1
Legal services	178.5
Accounting and audit services	75.4
Architectural services	26.0
Engineering	60.5
Management consulting and public relations	37.3
Contract computer programming	28.2
Research and development laboratory services	7.3
Economic and sociological research	10.1
Testing labs	14.1
Advertising media	104.6
Film production	2.8
Employment agency services	15.1
Temporary labor supply	30.9
Financial securities brokerage	46.4
Other financial services	39.3
Real estate brokerage and agency	74.3
Freight hauling and private mail delivery	141.0
Other transportation (except scheduled passenger)	6.0
Veterinary services	22.7
Other services	
Automotive maintenance and repair	68.8
Car washes	8.3
Travel arrangement	23.4
Private vocational education	7.3
Other educational services	3.9
Interior design	3.1
Answering services	3.6
TOTAL	\$1,708.8

¹ Estimates assume a tax rate of 6.25 percent and are for the full twelve months of fiscal 1991.

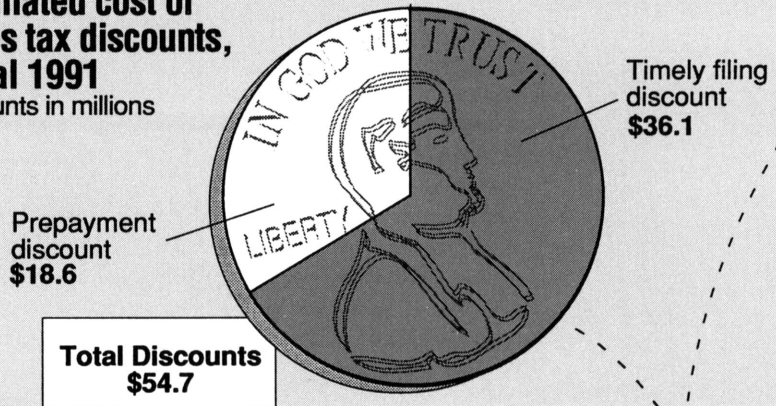
SOURCE: John Sharp, Comptroller of Public Accounts.



Sales Tax

Estimated cost of sales tax discounts, fiscal 1991

Amounts in millions



SOURCE: John Sharp, Comptroller of Public Accounts.

state sales, excise or severance tax. The major items excluded from the sales tax for this reason are motor vehicles, motor fuels, crude oil, mixed alcoholic drinks, cement and sulphur.

In the case of motor fuels and mixed drinks, the separate tax is higher than the sales tax. Crude oil, cement and sulphur are taxed under separate statutes at lower effective tax rates.

Motor vehicle sales and rentals are taxed at the rate of 6 percent—a quarter of a percent lower than the general state sales tax. In addition to the lower tax rate, purchasers of cars and trucks receive another tax break, because items taxed under the general state sales tax are also subject to local sales taxes, while there are no local sales

taxes added to the state motor vehicle sales tax.

Major exceptions to the general rule of avoiding double taxation are items taxed under the so-called "sin" taxes. Alcoholic beverages sold at stores, cigarettes and other tobacco products are subject to separate excise taxes in addition to the sales tax.

Sales tax discounts

Texas' sales tax law allows two kinds of discounts.

Taxpayers who report and remit on time may keep 0.5 percent of the tax they collect. In 1991, this timely filing discount will cost the state an estimated \$36.1 million.

Taxpayers who prepay their taxes based on a reasonable estimate of their tax liability may keep an additional 1.25 percent as reward for early payment. The cost of this prepayment discount will run about \$18.6 million in fiscal 1991. ■

Estimated cost of sales tax exclusions other than services

Amounts in millions

Items taxed under other laws

Item	1990 revenue	Value of sales tax exclusion ¹
Crude oil	\$ 516.1	\$ 0
Motor vehicles	1,088.8	1,134.2
Motor fuels	1,515.5	595.2
Mixed drinks	194.9	101.5
Cement	4.0	0
Sulphur	3.6	0
Subtotal	\$ 3,322.9	\$ 1,830.9
Materials used in manufacturing	n/a	5,580.3
TOTAL		\$ 7,411.3

¹Even with exclusion due to taxation under other law, crude oil, cement, and sulphur would not be subject to sales tax liability because these items would qualify for exclusion as materials used in manufacturing. The value of the sales tax exclusions are estimated based upon the current sales tax rate of 6.25 percent.

SOURCE: John Sharp, Comptroller of Public Accounts.



Franchise Tax



Net receipts from the state franchise tax totalled \$539 million in fiscal 1990. Corporations doing business in Texas pay the franchise tax. Like the sales tax law, Texas' franchise tax law includes certain exemptions and tax breaks.

Nearly all nonprofit corporations and a few profit-making corporations are exempt from the tax. A few other corporations pay only one-fifth of the usual rate or take special deductions.

Approximately 277,000 corporations pay the franchise tax. Most Texas corporations are small businesses, but the bulk of the state's franchise tax comes from a relatively small number of large corporations. The top 10 percent of franchise taxpayers pay more than 90 percent of the tax. More than half of all franchise taxpayers paid the minimum tax of \$68 in 1990 and accounted for less than 2 percent of franchise tax receipts.

The biggest franchise taxpayers are in industries requiring large capital investment. Manufacturing, oil and gas and transportation, communications and utilities accounted for 56 percent of total franchise tax paid in fiscal 1990. These industries represented about 13 percent of franchise taxpayers.

The franchise tax has been the target of many successful legal challenges in recent years and is thus declining as a state revenue source. Franchise taxes contributed 4 percent of state tax collections in fiscal 1990. This will drop to 3.4 percent in 1991, primarily because of the legal challenges.

How franchise tax is figured

The tax base is taxable capital, which is the sum of a corporation's

stated capital and surplus. Stated capital is the par value of all outstanding shares of a corporation's stock. Surplus is total assets minus total debts minus stated capital. Essentially, the tax is on net assets (assets minus debts), or net worth.

Multi-state businesses allocate their taxable capital to Texas according to the share of their business that occurs in the state, as measured by gross receipts. The current tax rate is \$5.25 per \$1,000 of taxable capital allocated to Texas, with a minimum tax of \$68.

Exemptions for profit-making corporations

The law exempts seven kinds of profit-making corporations from the franchise tax. These are insurance companies, open-end investment companies, savings and loan institutions, solar energy companies, certain trade show participants, corporations that hold title to property for an exempt organization and farm finance corporations.

The total value of these exemptions, granted to approximately 3,700 firms statewide, will be \$101.0 million for fiscal 1991.

The biggest exemption—\$55.2 million in 1991—goes to insurance companies that pay the Texas insurance gross premiums tax. This exemption was enacted in 1907, as part of the original franchise tax statute.

In 1990, Texas' 2,054 insurance companies paid \$526.1 million in insurance premiums tax.

Open-end investment companies—which manage money-market funds and mutual funds—account

Cost of franchise tax exemptions for profit-making corporations, fiscal 1991

Amounts in millions

Exemptions	Amount
Insurance companies	\$ 55.2
Open-end investment companies	8.4
Savings and loan institutions	7.9
Solar energy businesses	0.2
Trade show participants	0.6
Title-holding companies	0.4
Farm finance companies	negligible
Total	72.7
Special rates	
<i>One-fifth normal rate</i>	
Railroad, pipeline and bridge companies	4.5
Public utility holding companies	21.9
<i>Two and three-factor allocation rates</i>	
Total	repealed
Total	26.4
Deductions	
Food and medicine sales	1.9
Purchases of solar energy devices	negligible
Total	1.9
TOTAL	\$101.0

SOURCE: John Sharp, Comptroller of Public Accounts.



Franchise Tax

for the second-largest exemption. This exemption dates to 1951. The funds managed by these companies are extremely large, exceeding \$982 billion nationwide, but the companies themselves are comparatively small. The value of their 1991 exemptions will total \$8.4 million. The third-largest exemption—for savings and loan institutions—will total \$7.9 million for 1991. In 1990, Texas' 197 thrifts had total deposits of about \$71 billion. Solvent thrifts had a net worth of \$2 billion. They

have been exempt from franchise tax since 1949 and are not taxed under any other statute.

In 1987, another exemption was added for corporations whose business in Texas is limited to participation in five or fewer trade shows in the state per year. The value of this exemption will be \$621,000 in 1991.

Companies whose only business is to make, sell or install solar energy devices are also exempt from paying franchise tax. The Legislature exempted these businesses in 1975 to encourage development of alternative energy sources.

The solar energy industry is relatively small. Only 92 companies qualify for exempt status in Texas, and the exemption is valued at \$220,000 in 1991.

In 1987, the Legislature exempted from franchise tax corporations that hold title to property for an exempt organization. The value of this exemption in 1991 will be \$406,000.

In 1989, corporations organized to finance farm crop operations were exempted from franchise tax. The value of this exemption is negligible.

Special rates and deductions

Approximately 100 profit-making corporations qualify for Texas franchise tax breaks.

- Some corporations pay one-fifth the standard franchise tax rate.
- Some corporations lower their Texas gross receipts—and their franchise tax bill—by taking deductions on certain items when they figure their allocation formulas.

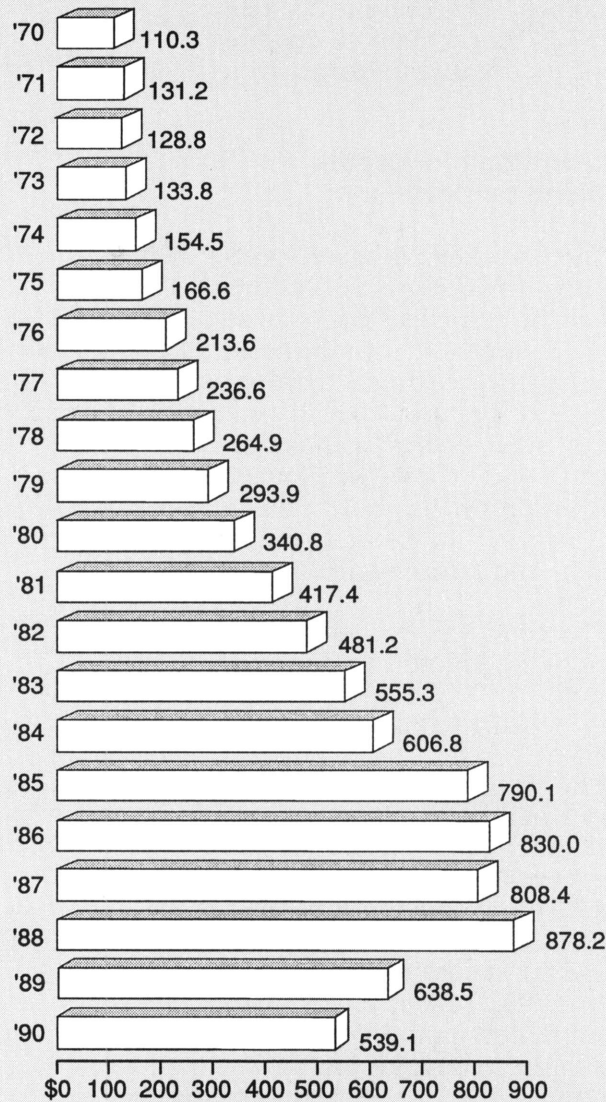
The value of these special rates and deductions will be about \$28.3 million in 1991.

Four kinds of for-profit corporations qualify for the one-fifth rate of \$1.05 per \$1,000 of taxable capital: companies that pay county tax on their intangible assets, public utility holding companies, city railway and passenger bus systems and interurban railways.

Only firms in the first two of these categories actually pay the lower

Trends in the franchise tax

Amounts in millions



SOURCE: John Sharp, Comptroller of Public Accounts.



rate. No active rail or bus systems claim it.

Thirty-nine pipeline companies, 27 railroads and three international-bridge companies pay county tax on their intangible assets and take the \$1.05 state franchise tax rate. At the \$5.25 rate, these companies would pay an additional \$4.5 million of franchise tax in 1991.

Eight public utility holding companies also pay the \$1.05 rate. The lower rate will be worth \$21.9 million to these companies in 1991.

The law also allows corporations to deduct certain receipts from shipments into Texas of tax-exempt food and health-care supplies from their Texas total when they allocate their taxable capital. This deduction will be worth \$1.9 million in 1991.

The Legislature in 1975 allowed the cost of solar energy equipment to be deducted directly from net taxable capital. The value of this deduction is negligible.

In the past, some corporations were able to lower their tax bill by using additional factors (property and payroll) to allocate their tax base to the state. In 1989, the Legislature repealed this tax break by requiring all companies to allocate their tax base using gross receipts. This change affected about 1,200 corporations.

Nonprofit Corporations

Texas law recognizes two kinds of nonprofit corporations: public welfare organizations and mutual benefit organizations. Both categories have been exempt from the franchise tax since 1907.

Public welfare organizations—schools, colleges, churches, charities and civic groups—serve the public. Mutual benefit organizations serve their members. Examples include chambers of commerce, labor unions, farmers' co-ops, trade associations and country clubs.

Lack of information makes it difficult to estimate the net worth of nonprofit corporations in Texas. Churches are exempt from all finan-

Cost of franchise tax exemptions for exempt nonprofit corporations, fiscal 1991

Amounts in millions

	Amount
Religious, charitable and education organizations and foundations ¹ (Red Cross, private schools, universities and foundations)	\$ 71.6
Civic welfare organizations (public-interest groups, civic groups, lodges, conservation groups and agricultural fairs)	3.6
Economic development and promotion (chambers of commerce, boards of real estate and trade associations)	7.2
Economic cooperatives and mutual benefit organizations (farm co-ops, utility co-ops, credit unions and homeowners' associations)	14.2
Social and recreational organizations (country clubs, sporting clubs, sororities and fraternities)	<u>1.7</u>
TOTAL	\$98.3

¹ Financial data on churches are not available. Estimate does not include the effect of a franchise tax on churches.

SOURCE: John Sharp, Comptroller of Public Accounts.

cial filing laws, both state and federal. Other nonprofits do not have to file financial statements under Texas' franchise tax law.

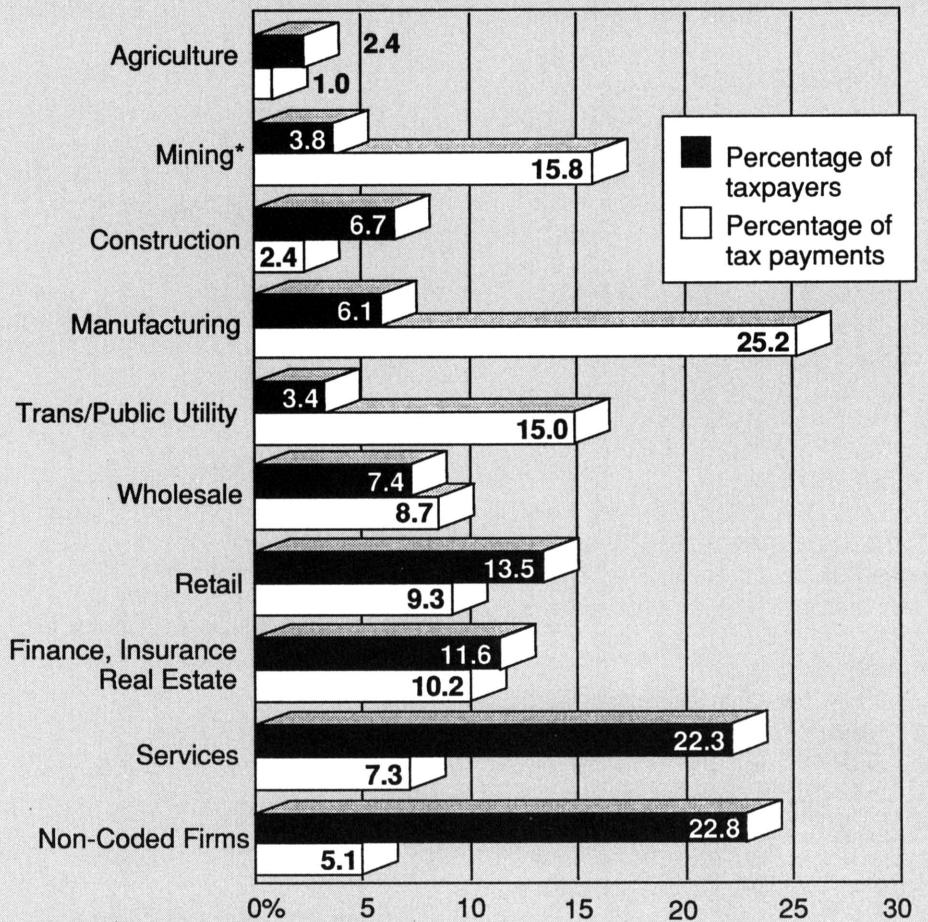
Estimates of these corporations' franchise tax exemption are based on federal data. Nonprofits other than churches file yearly financial statements with the Internal Revenue Service.

Churches aside, the total exemption for nonprofit corporations will be worth \$98.3 million in 1991.

For estimating purposes, nonprofit organizations are divided into five categories according to their purpose. These categories are religious, charitable or educational institutions; civic welfare organizations;



Distribution of the franchise tax by industry, Fiscal 1990



* Petroleum refining and chemicals are included with manufacturing.
SOURCE: John Sharp, Comptroller of Public Accounts.

economic development groups; producer or consumer cooperatives, and social or recreational clubs.

Over half of all exempt nonprofits fall into the first of these categories, which includes churches, charities, schools, amateur sports associations and animal-welfare groups. Excluding churches, these groups' exemption will be worth \$71.6 million in 1991.

Another 15 percent of exempt nonprofits are civic welfare organizations—Lions clubs and the like. Their exemption will total \$3.6 million in 1991.

The 1991 exemption for economic development groups will be worth \$7.2 million. These groups include

chambers of commerce, real estate boards, industrial development corporations and trade associations.

Economic cooperatives have the biggest exemption among mutual-benefit organizations—\$14.2 million in 1991.

The co-op category includes agricultural production and marketing co-ops such as cooperative cotton gins, feedlots, insect-control associations, grain elevators, livestock marketing and other corporations.

Texas law also exempts country clubs, yacht clubs and other social and recreational clubs from the franchise tax. This exemption will be worth \$1.7 million in 1991. ■

For Additional Copies, Write:

John Sharp, Texas State Comptroller
P.O. Box 13528, Capitol Station
Austin, Texas 78711-9831

BULK RATE
U.S. POSTAGE PAID
AUSTIN, TX
PERMIT NO. 1411

