

A FIELD GUIDE

TO THE

TAXES

OF

TEXAS

MARCH 2015

GLENN HEGAR • TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

A FIELD GUIDE TO THE TAXES OF TEXAS

This guide provides a high-level overview of the major Texas state taxes. Of the more than 60 separate taxes, fees and assessments that Texas collects under current statutes, the major taxes outlined here provide nearly 90 percent of state tax collections.

Read on to

- learn how major taxes have contributed to state revenue during the past 10 years;
- see on one page the future revenue estimates, exemption forecasts and tax allocations; and
- connect to other in-depth resources about state taxes and finances.

The state's \$100 billion per year budget relies on the economy to fund public schools, highway projects, health and human services, the criminal justice system and many other responsibilities.

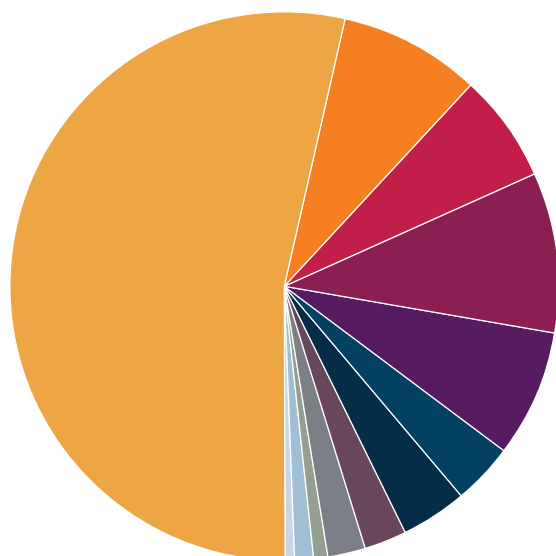
The Legislature sets a balanced budget biennially, allocating revenue mostly generated from state taxes, fees, investments and federal funds.

State Tax Revenue By Source

FISCAL YEAR ENDED AUG. 31, 2014

All Funds Excluding Trust

TOTAL = \$50,992,561,539



SALES TAX COLLECTIONS	% OF TAXES
\$27,385,709,242	53.7%
MOTOR VEHICLE SALES AND RENTAL TAXES	
\$4,209,952,924	8.3%
MOTOR FUEL TAXES	
\$3,315,952,089	6.5%
FRANCHISE TAX	
\$4,732,261,872	9.3%
OIL PRODUCTION AND REGULATION TAXES	
\$3,874,070,862	7.6%
NATURAL GAS PRODUCTION TAX	
\$1,899,581,526	3.7%
INSURANCE TAXES	
\$1,947,908,252	3.8%
CIGARETTE AND TOBACCO TAXES	
\$1,342,454,822	2.6%
ALCOHOLIC BEVERAGES TAXES	
\$1,053,231,009	2.1%
UTILITY TAXES	
\$478,188,876	0.9%
HOTEL OCCUPANCY TAX	
\$485,384,563	1.0%
OTHER TAXES	
\$267,865,502	0.5%

Source: Texas Comptroller of Public Accounts, Annual Cash Report 2014

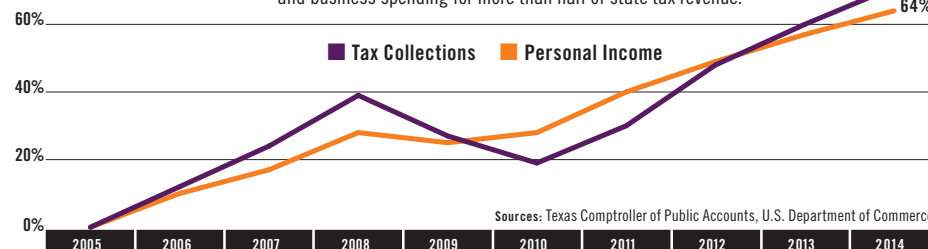
Bolstered by the businesses and industries that added hundreds of thousands of jobs in Texas last year, as well as sales and production tax revenues from the oil and gas sector, state taxes accounted for 48.6 percent of state revenue in fiscal 2014. State tax revenue grew to almost \$51 billion, and continued growth is forecasted.

STATE TAX COLLECTIONS AND PERSONAL INCOME

FISCAL 2005-2014

Cumulative Annual Growth Rates

In the past 10 years, state tax collections and personal income in Texas have grown; however, economic conditions caused steeper growth and losses for the state, which depends on consumer and business spending for more than half of state tax revenue.



Sources: Texas Comptroller of Public Accounts, U.S. Department of Commerce

Net Revenue By Source

FISCAL 2014

All Funds Excluding Trust

SOURCE	REVENUES	CHANGE FROM FY 2013
State Tax Collections	\$50,992,561,539	6.7%
Federal Income	\$34,266,042,884	5.3%
Licenses, Fees, Permits, Fines and Penalties	\$8,497,084,352	7.3%
Interest and Investment Income	\$1,463,131,137	23.7%
Net Lottery Proceeds	\$1,878,111,901	-0.8%
Sales of Goods and Services	\$262,340,778	16.1%
Settlements of Claims	\$575,202,495	-5.7%
Land Income	\$1,863,363,858	40.6%
Contributions to Employee Benefits	\$86,983	0.5%
Other Revenue Sources	\$5,144,367,991	-7.7%
Total Net Revenue	\$104,942,293,918	6.0%

Note: Total may not sum due to rounding.

Where Does Tax Revenue Come From?

Texas' two largest generators of tax revenue are the sales tax, levied on consumers and businesses, and the franchise tax, the largest tax paid solely by businesses and industries. We rely on these two taxes today more than ever:

- In fiscal 2014, sales and franchise taxes exceeded 60 percent of all state tax revenue.
- Sales tax collections totaled nearly \$27.4 billion, a 5.6 percent increase from the previous year.
- Franchise tax collections were more than \$4.7 billion, about 1.4 percent lower than fiscal 2013.

The motor vehicle sales and rental taxes are the third largest source of tax revenue. Taxes on motor fuels, oil and gas production, insurance, and tobacco also produce significant revenue.

Taxes and Fees: What's the Difference?

Taxes and fees are revenues paid by consumers and businesses. The distinction between taxes and fees can be controversial and has been the subject of litigation in Texas and many other states. However, the commonly referenced difference lies in how the revenue is used and whether it's connected to some direct government resource the payer is accessing.

TAXES are primarily imposed to raise revenue, and the resulting funds are spent on general government services.

FEES are primarily imposed to recoup the cost of providing a service, and those who directly benefit from that service pay the funds.

Taxes That Texas Does Not Levy

Texas does not collect a state property tax. These taxes are levied by local entities (see p. 20).
Texans pay only federal and not a state income tax. Federal dollars contributed almost one-third of total state net revenue in fiscal 2014.

Non-Tax Revenue

The state's major non-tax revenue sources are fees and fines, state lottery proceeds, land income, and proceeds from the state's investments.

Non-Tax Revenue by Source
All Funds Excluding Trust and Federal Income
FISCAL 2014

REVENUE SOURCE	2014	CHANGE FROM FISCAL 2013
Licenses, Fees, Permits, Fines and Penalties	\$8,497,084,352	7.3%
Net Lottery Proceeds	\$1,878,111,901	(0.8)%
Land Income	\$1,863,363,858	40.6%
Interest and Investment Income	\$1,463,131,137	23.7%
Settlement of Claims	\$575,202,495	(5.7)%
Sales of Goods and Services	\$262,340,778	16.1%
Contributions to Employee Benefits	\$86,983	0.5%
Other Revenue Sources	\$5,144,367,991	(7.7)%
Total Non-Tax Revenue	\$19,683,689,495	6.0%

Find the Latest Revenue Data

To learn more about where the money comes from, use the interactive tools on TexasTransparency.org to find state revenue by category and tax, as well as a monthly snapshot of revenue collections.



The State's Accounts

For accounting and budgeting purposes, state revenue is deposited or transferred into various funds:

- Most revenue goes to the state's General Revenue Fund 0001. From there, it is either held for the Legislature to appropriate or transferred by statute to a dedicated fund to be appropriated for a specific purpose.
- Some tax revenue is deposited directly or transferred into various Special Revenue Funds which consist of constitutional funds (nonexpendable or expendable for specific purposes) and pledged funds. The State Highway Fund 0006, the Property Tax Relief Fund (PTRF), Tax and Revenue Anticipation Note (TRAN) Fund, the Economic Stabilization Fund (ESF) and numerous bond and note proceeds funds are among the funds included in Special Revenue Funds.
- The state's Economic Stabilization Fund 0599, also known as the Rainy Day Fund, receives one-half of 75 percent of oil production and natural gas production tax revenues in any fiscal year that exceeds fiscal 1987 collections, and one-half of any unencumbered general revenue surplus remaining at the end of each biennium. The fund has increased significantly thanks to the growth in the Texas oil and gas sector in the past several years. (A constitutional amendment passed in November 2014 real-locates the remainder of the 75 percent of oil and gas tax revenues greater than 1987 revenues to the highway fund, provided the legislatively-set ESF sufficient balance is met.)

Economic Stabilization Fund 0599

	FISCAL 2014	FISCAL 2015 YTD ¹
Oil Production Tax Transfer	\$1,843,252,767	\$1,252,652,760
Natural Gas Production Tax Transfer	\$671,569,681	\$487,426,902
Unencumbered Balance Transfer	—	—
Interest	\$24,519,557	\$8,953,908
Net Transfers/Expenditures	(\$2,006,015,058) ²	\$2,415,444 ²
Ending Balance ³	\$6,703,511,566	\$8,454,960,579
ESF Cap	\$14,086,005,302	\$14,086,005,302

Footnotes:
¹ Year-to-date through Dec. 31, 2014.
² Appropriated by H.B. 1025, 83rd Leg., R.S., Ch. 836.
³ Totals may not sum due to rounding.

Want More Details?

The Comptroller's office publishes many reports that assist state government planning and decision-making, and account for state spending to the taxpayers of Texas. This guide highlights some of the current data from several of these reports, and provides links to find more in-depth or updated data.

KEY TO SOURCES PAGES 6-17

MOTOR VEHICLE SALES AND RENTAL TAXES

FIRST ENACTED — 1941

The Motor Vehicle Sales and Use tax, the Seller-financed Motor Vehicles tax, the Motor Vehicle Rental tax, and the Manufactured Housing Sales and Use tax are paid on each purchase or rental. The exception is the Manufactured Housing Sales and Use tax paid upon the first sale of a new manufactured home in Texas or when the manufactured home is first brought into Texas. Motor Vehicle Sales and

HISTORICAL COLLECTIONS

Excludes Trust (\$ Billions)

Fiscal 2005-2014 change: +47.8%

SOURCES OF REVENUE:
http://www.texastransparency.org/State_Finance/Revenue/Sources/

ANNUAL CASH REPORT:
http://www.texastransparency.org/State_Finance/Budget_Finance/Reports/Cash_Report/

Percentage of Total Tax Collection FISCAL 2014

All Funds Excluding Trust \$4.21 BILLION

MOTOR VEHICLE SALES & RENTAL TAXES

6.3%

ALLOCATIONS

FISCAL 2014

Motor Vehicle Sales and Use Tax

General Revenue 0001¹ \$3,757,790,227.11
Property Tax Relief Fund (PTRF)² \$20,585,804.46
GR - Emissions Reduction Plan 5071³ \$10,316,643.40

2005 Motor Vehicle Rental Tax

General Revenue 0001 \$256,625,713.63

2016 Motor Vehicle Sales and Use Tax - Seller-financed Motor Vehicles

General Revenue 0001 \$341,204,952.20

2014 Manufactured Housing Sales and Use Tax

General Revenue 0001 \$17,428,564.81

2003 Motor Vehicle Sales and Use Tax - Motor Carriers⁴

General Revenue 0001 \$1,019.00

REVENUES

Excludes Trust (\$ Billions)

The biggest revenue source in this category

BIENNIAL REVENUE ESTIMATE:
http://www.texastransparency.org/State_Finance/Budget_Finance/Reports/Biennial_Revenue_Estimate/2016_17/

EXEMPTIONS

Sales to governments; motor vehicle rental companies; vehicles for orthopedically handicapped persons; fire trucks/EMS vehicles; vehicles transported out of state; certain childcare facilities; driver training vehicles; vehicles used for religious purposes; certain hydrogen-powered vehicles; farm machines/trailers used primarily for farm or timber use.

TAX EXEMPTIONS & TAX INCIDENCE:
http://www.texastransparency.org/State_Finance/Budget_Finance/Reports/Tax_Exemptions_and_Incidence/

Motor Vehicle Sales Tax Exemptions Est. Value Fiscal 2015 \$73.4 MILLION

EST. VALUE (\$ MILLIONS)

Farm or timber use \$33.3
Sales to or use by a public agency \$23.4

REVENUE (HOW MUCH?) \$4.21B

STATE RATE 6.25%
LOCAL RATE NONE
FEDERAL RATE NONE

WHO PAYS?
BUSINESS 38.8%
CONSUMER 61.2%

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Note: Tax Exemptions & Tax Incidence 2015 containing these data will be published in Spring 2015. Incidence data is based on Fiscal 2017 estimates.

State Tax Exemptions, Exclusions and Discounts

Certain products or services are specifically exempted from taxation. Sales and use tax exemptions include basic necessities such as:

- Groceries
- Residential gas and electric utilities
- Prescription and over-the-counter drugs

Certain groups are exempted from paying taxes for products or services. For example:

- Governmental entities and certain religious and nonprofit groups can buy items tax free;
- Certain sellers that only make one or two sales of taxable items per year are not obligated to collect tax;

Agricultural, aviation and some industrial users can buy tax-free fuel.

The Comptroller's office issues a biennial report, *Tax Exemptions & Tax Incidence*, which estimates the value of certain major exemptions as well as other exclusions and discounts. The 2015 report estimates:

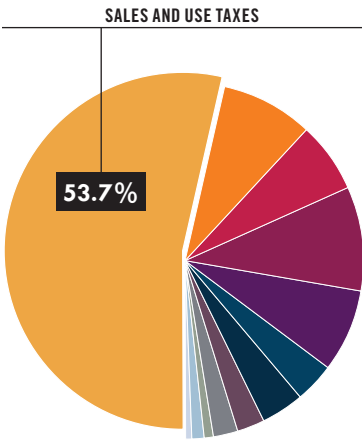
- all sales tax exemptions, exclusions and discounts will total \$42.2 billion for fiscal 2015; and
- exemptions to the franchise tax will total \$1.88 billion for fiscal 2015.

SALES AND USE TAXES

FIRST ENACTED — 1961

Since fiscal 1967, Sales and Use taxes have been the state's single largest source of tax revenue, raising about 54 cents of every state tax dollar in fiscal 2014. 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 or their classified equivalent — and on sales of certain services, such as the repair of tangible personal property, amusements and telephone services.

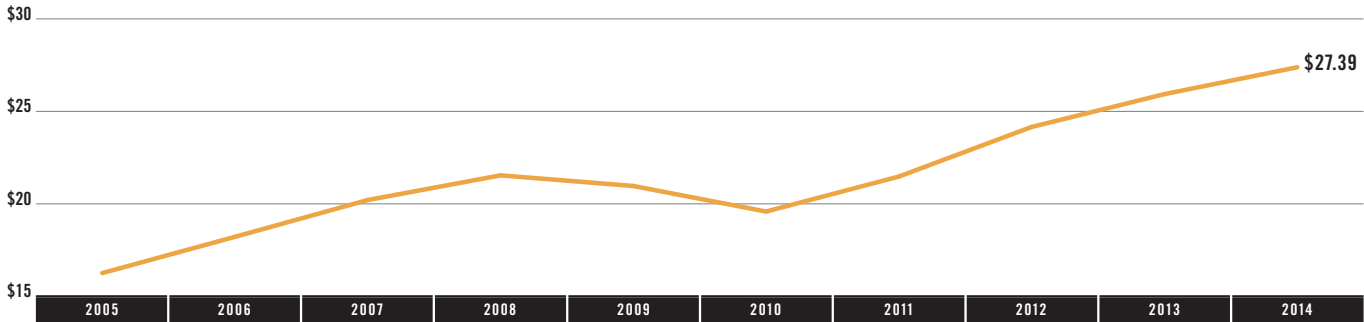
Percentage of
Total Tax Collection
FISCAL 2014
All Funds Excluding Trust
\$27.39 BILLION



HISTORICAL COLLECTIONS

Excludes Trust (\$ Billions)

Fiscal 2005-2014 change: +67.9%



ALLOCATIONS

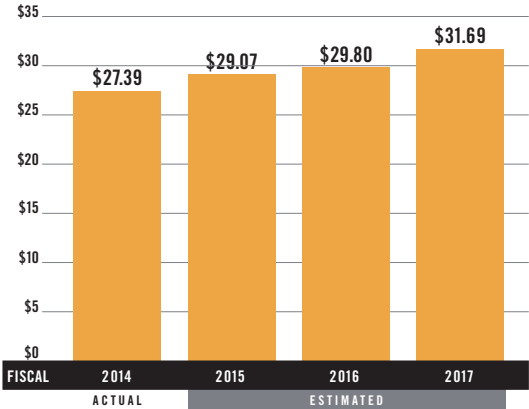
OBJECT CODE	SALES AND USE TAXES WITH FUNDS	FISCAL 2014
3102	Limited Sales and Use Tax	
	General Revenue 0001 ¹	\$18,366,365,814.26
	GR — Emissions Reduction Plan 5071 ²	\$64,024,632.74
3101	Prepayments of Limited Sales and Use Tax	
	General Revenue 0001	\$8,839,626,000.78
3111	Boat and Boat Motor Sales and Use Tax ³	
	General Revenue 0001	\$54,152,128.20
	GR — Game, Fish, and Water Safety 0009	\$2,588,859.68
3010	Motor Fuel Lubricants Sales Tax	
	State Highway Fund 0006	\$43,275,000.00
3103	Limited Sales and Use Tax - State	
	General Revenue 0001	\$12,859,159.19
3127	Fireworks Tax ⁴	
	General Revenue 0001	\$9,473.90
	GR — Rural Vol. Fire Dept. Insurance 5066	\$1,698,065.17
3100	Interest on Retail Credit Sales	
	General Revenue 0001	\$1,053,632.32
3105	Discount for Sales Tax - State Agencies and Higher Education	
	General Revenue 0001	\$56,475.56

FOOTNOTES

- ¹ There are maximum percentage allocations for sales tax collections on certain sporting goods sales. For additional information on special allocations, refer to the *Sources of Revenue* report.
- ² There is a 2 percent diesel equipment surcharge.
- ³ County tax assessor-collectors or the Texas Parks and Wildlife Department can retain 5 percent.
- ⁴ There is an additional 2 percent sales tax on fireworks.
- ⁵ Reflects initial distribution of total Limited Sales and Use tax revenue.

REVENUES

Excludes Trust (\$ Billions)



Total sales tax collections reached a new high in fiscal 2014. The recent steep decline in the price of crude oil will dampen the rate of growth even as the broader economy continues to expand.

EXEMPTIONS

Sales for resale; food for home consumption; residential and manufacturing gas and electricity; sales to governmental bodies and religious and nonprofit educational groups.

Total Tax Exemptions, Exclusions, and Discounts
Est. Value Fiscal 2015
\$42.4 BILLION

LARGEST EXEMPTIONS		EST. VALUE (\$ BILLIONS)
1	Property used in manufacturing	\$14.2
2	Total for items taxed by other law	\$13.4

REVENUE
(HOW MUCH?)

\$27.39B

STATE RATE

6.25%

LOCAL RATE

UP TO 2%

FEDERAL RATE

NONE

WHO PAYS?⁵

BUSINESS

41.0%

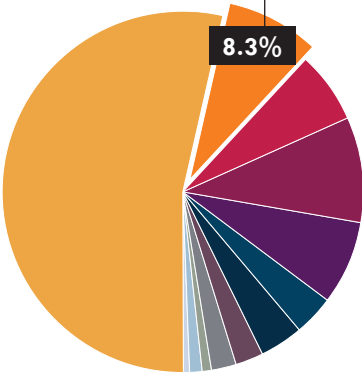
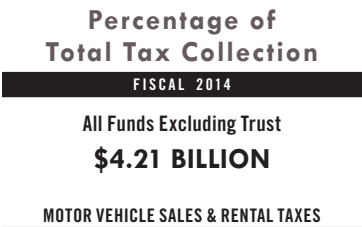
CONSUMER

59.0%

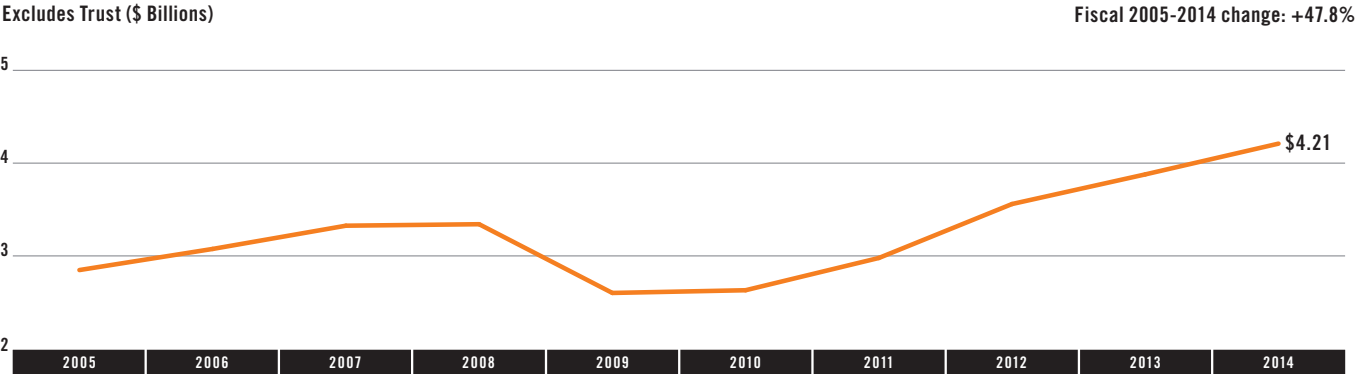
MOTOR VEHICLE SALES AND RENTAL TAXES

FIRST ENACTED — 1941

The Motor Vehicle Sales and Use tax, the Seller-financed Motor Vehicles tax, and the Motor Vehicle Rental tax are paid on each purchase or rental. The exception is the Manufactured Housing Sales and Use tax paid upon the first sale of a new manufactured home in Texas or when the manufactured home is first brought into Texas. Motor Vehicle Sales and Use taxes account for 90 percent of these collections, while Motor Vehicle Rental tax generates 6.1 percent.



HISTORICAL COLLECTIONS



ALLOCATIONS		
OBJECT CODE	MOTOR VEHICLE SALES AND RENTAL TAXES WITH FUNDS	FISCAL 2014
3004	Motor Vehicle Sales and Use Tax	
	General Revenue 0001 ¹	\$3,757,790,227.11
	Property Tax Relief Fund 0304 ²	\$20,585,804.46
	GR – Emissions Reduction Plan 5071 ³	\$16,316,643.40
3005	Motor Vehicle Rental Tax	
	General Revenue 0001	\$256,625,713.63
3016	Motor Vehicle Sales and Use Tax – Seller-Financed Motor Vehicles	
	General Revenue 0001	\$141,204,952.20
3104	Manufactured Housing Sales and Use Tax	
	General Revenue 0001	\$17,428,564.81
3003	Motor Vehicle Sales and Use Tax – Motor Carriers ⁴	
	General Revenue 0001	\$1,019.00

FOOTNOTES

¹ Starting in Fiscal 2015, 95 percent of revenue is required to be deposited into the General Revenue Fund and the remaining 5 percent is retained by counties.

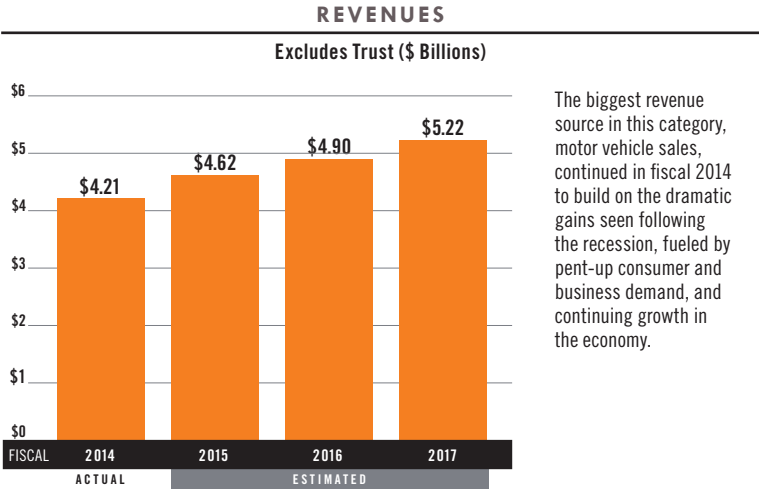
² Revenue derived from the tax is based on a vehicle's presumptive value and is required to be deposited into the Property Tax Relief Fund.

³ 100 percent of applicable surcharge is required to be deposited into GR - Emissions Reduction Plan.

⁴ Repealed by S.B. 3, 74th Leg., R.S. effective Sept. 1, 1997.

⁵ The 6.25 percent sales and use tax is based on the vehicle sales price, less any trade-in. Additional taxes or surcharges may apply to the sale of certain diesel trucks. Rentals: 10 percent of gross receipts on rentals of 30 days or less and 6.25 percent on rentals of 31 to 180 days. Manufactured Housing Sales: 5 percent of 65 percent of the sales price on the initial sale or use of a new manufactured home.

⁶ Reflects initial distribution of total Motor Vehicle Sales tax revenue.



EXEMPTIONS		
Sales to governments; motor vehicle rental companies; vehicles for orthopedically handicapped persons; fire trucks/EMS vehicles; vehicles transported out of state; certain childcare facilities; driver training vehicles; vehicles used for religious purposes; certain hydrogen-powered vehicles; farm machines/trailers/semi-trailers used primarily for farm or timber use.		
Total Motor Vehicle Sales Tax Exemptions Est. Value Fiscal 2015 \$79.7 MILLION		
LARGEST EXEMPTIONS	EST. VALUE (\$ MILLIONS)	
1	Farm or timber use	\$33.3
2	Sales to or use by a public agency	\$30.7

REVENUE
(HOW MUCH?)

\$4.21B

STATE RATE

6.25%⁵

LOCAL RATE

NONE

FEDERAL RATE

NONE

WHO PAYS?⁶

BUSINESS

39.6%

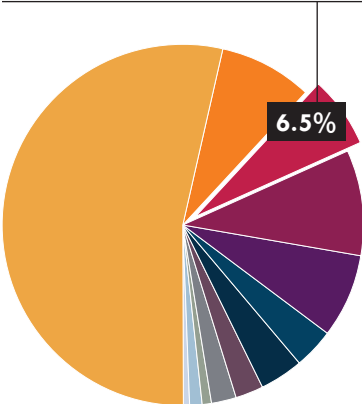
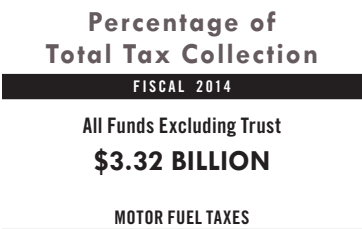
CONSUMER

60.4%

MOTOR FUELS TAXES

FIRST ENACTED — 1923

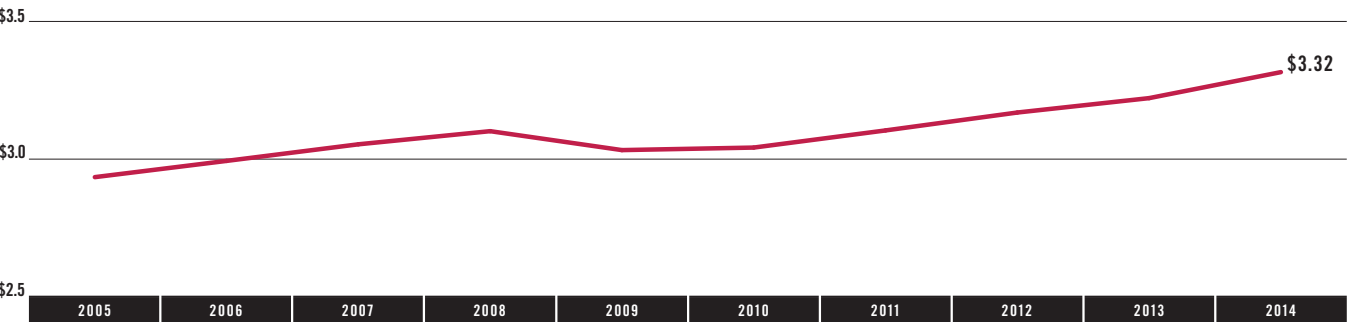
Motor Fuels taxes consist of the state's consumption taxes on gasoline, diesel fuel, liquefied gas and liquefied and compressed natural gas. In general, these taxes are charged on each gallon of fuel sold in Texas used to propel vehicles on Texas' public roads. The share of Motor Fuels tax collections in 2014 from the Gasoline tax was 74.8 percent, with 25.1 percent from the Diesel Fuel tax.



HISTORICAL COLLECTIONS

Excludes Trust (\$ Billions)

Fiscal 2005-2014 change: +13%



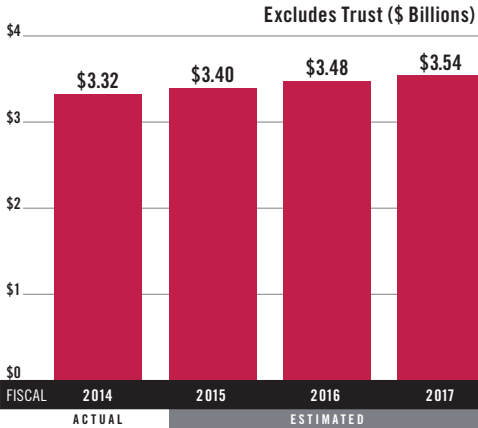
ALLOCATIONS

OBJECT CODE	MOTOR FUELS TAXES WITH FUNDS	FISCAL 2014
3007	Gasoline Tax ¹	
	General Revenue 0001	\$2,480,229,281.33
3008	Diesel Fuel Tax ²	
	General Revenue 0001	\$832,978,211.49
3009	Liquefied Gas Tax ²	
	General Revenue 0001	\$343,994.80
3011	Liquefied and Compressed Natural Gas Tax ²	
	General Revenue 0001	\$2,400,601.86

FOOTNOTES

- ¹ After deductions for refunds, the tax is allocated as follows:
Available School Fund 0002 – 25% of balance
State Highway Fund 0006 – 50% of balance
County and Road District Highway Fund 0057 – 25% of balance, up to \$7.3 million, with the remaining amount deposited to the State Highway Fund 0006
- ² After deductions for refunds, the tax is allocated as follows:
Available School Fund 0002 – 25% of balance
State Highway Fund 0006 – 75% of balance
- ³ This rate is for gasoline and diesel fuel (eligible transit companies qualify for a refund of 1 cent per gallon on gasoline and 1/2 cent per gallon on diesel fuel). A 15 cents per gallon rate exists for liquefied gases, liquefied natural gas (LNG) and compressed natural gas (CNG).
- ⁴ Reflects initial distribution of total Gasoline tax revenue. Estimated by the Texas Comptroller of Public Accounts, although the tax's value is insufficient to meet the statutory threshold for inclusion in the *Tax Exemptions & Tax Incidence 2015* report.

REVENUES



In fiscal 2014, the biggest tax in this category, Gasoline tax collections, increased 2.6 percent. This growth reflected in part the continuing expansion of the Texas economy and a growing state population.

EXEMPTIONS

Includes federal government; aircraft and aircraft servicing equipment; volunteer fire departments; gasoline and diesel fuel leaving the state in the fuel supply tank of licensed commercial motor vehicles; Texas public school districts; nonprofit electric/telephone cooperatives organized under the Texas Utilities Code; moveable specialized oil field servicing equipment; agricultural; industrial and commercial; marine; railway engine; Texas counties.

Total Gasoline Tax Exemptions, Refunds and Discounts
Est. Value Fiscal 2015
\$120.6 MILLION

LARGEST EXEMPTIONS		EST. VALUE (\$ MILLIONS)
1	Collection allowances	\$50.2
2	Agricultural use	\$19.4

REVENUE
(HOW MUCH?)

\$3.32 B

GASOLINE TAX

STATE RATE

\$0.20 PER GALLON³

LOCAL RATE

NONE

FEDERAL RATE

\$0.184 PER GALLON

WHO PAYS?⁴

BUSINESS

18.8%

CONSUMER

81.2%

FIRST ENACTED — 1907

Franchise, or margins, tax is one of the state's oldest and has been subject to significant reforms in recent years. Levied for the privilege of doing business in Texas, the tax due is based on an entity's taxable margin.

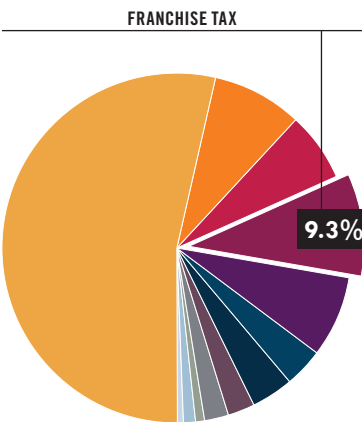
In 2006, the Legislature made significant changes to the tax, including transitioning to the taxable margin as the sole base component and expanding it to limited partnerships, business trusts and other legal entities. (More information about the changes can be found in the *Sources of Revenue* report at TexasTransparency.org/State_Finance/Revenue/Sources/.

Percentage of
Total Tax Collection

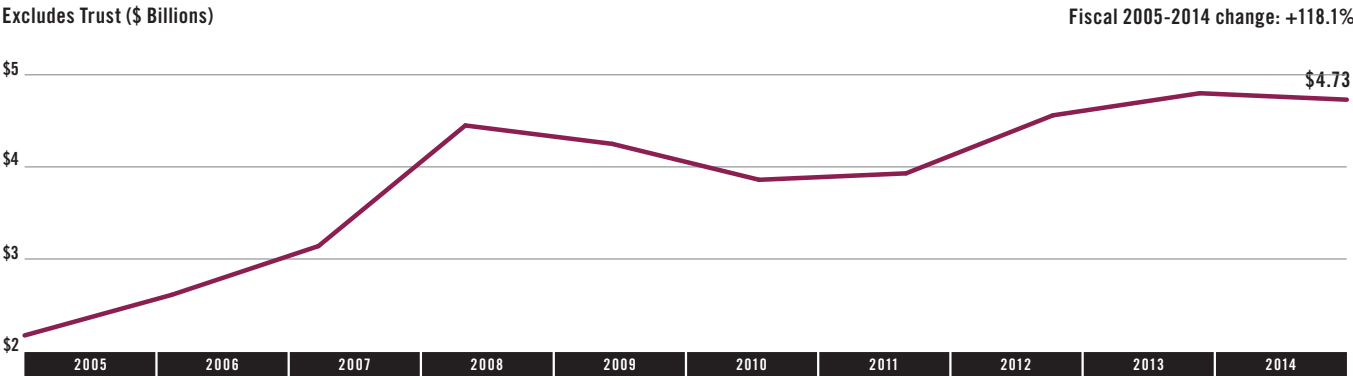
FISCAL 2014

All Funds Excluding Trust

\$4.73 BILLION



HISTORICAL COLLECTIONS



ALLOCATIONS		
OBJECT CODE	FRANCHISE TAXES WITH FUNDS	FISCAL 2014
3130	Franchise/Business Margins Tax	
	General Revenue 0001 ¹	\$2,801,788,652.45
	Property Tax Relief Fund 0304 ²	\$1,907,021,871.75
3131	Franchise Tax	
	General Revenue 0001	\$23,451,347.55

FOOTNOTES

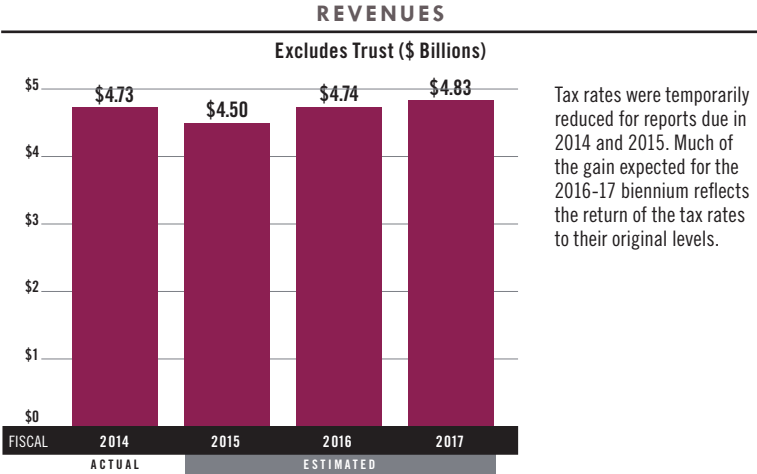
¹ The portion of franchise tax revenues that would have been generated had the 2006 reforms not occurred.

² All revenue exceeding the amount that would have been brought in under the previous version of the franchise tax.

³ Taxable margin is defined as the total revenue less the greater of (1) the cost of goods sold, (2) total compensation, (3) 30% of total revenue, or (4) \$1 million. For filing year 2014, the franchise tax rates were temporarily reduced from 1% to 0.975% of taxable margin for most entities, and from 0.5% to 0.4875% of taxable margin for retail and wholesale businesses. For filing year 2015, the franchise tax rates were temporarily reduced to 0.95% of taxable margin for most entities and 0.475% of taxable margin for retail and wholesale businesses.

⁴ There is no federal franchise tax; however, a corporate income tax is levied at marginal rates ranging from 15% to 39% of net income.

⁵ Reflects initial distribution of Franchise tax revenue.



EXEMPTIONS AND EXCEPTIONS		
Total Franchise Tax Exemptions, Deductions, Special Accounting Methods, Credits and Refunds Est. Value Fiscal 2015 \$1.88 BILLION		
LARGEST EXEMPTIONS/ EXCEPTIONS		EST. VALUE (\$ MILLIONS)
2	Certain nonprofit corporations	\$392.5
2	Insurance company	\$271.2

REVENUE
(HOW MUCH?)

\$4.73B

STATE RATE

1%/.5%³

LOCAL RATE

NONE

FEDERAL RATE

NONE⁴

WHO PAYS?⁵

BUSINESS

100%

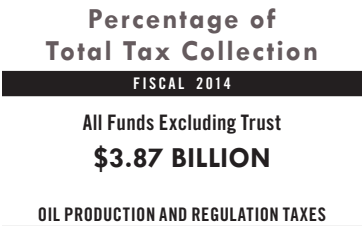
CONSUMER

0%

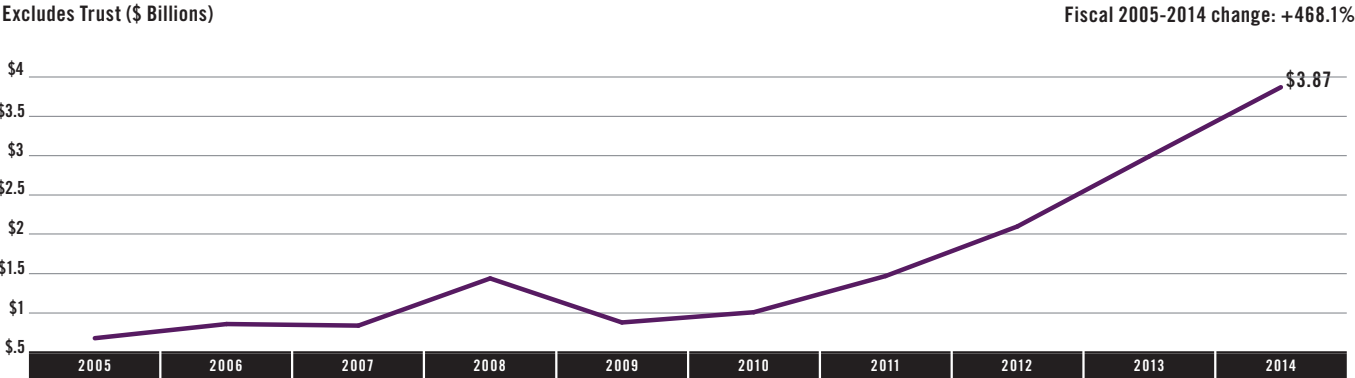
OIL PRODUCTION AND REGULATION TAXES

FIRST ENACTED — 1905

Oil Production and Regulation taxes are severance taxes on the removal of oil from Texas land. The Oil Production tax, which is the larger of the two, has remained unchanged since 1951, longer than any other major state tax. Oil taxes are the largest source of Economic Stabilization Fund revenues.

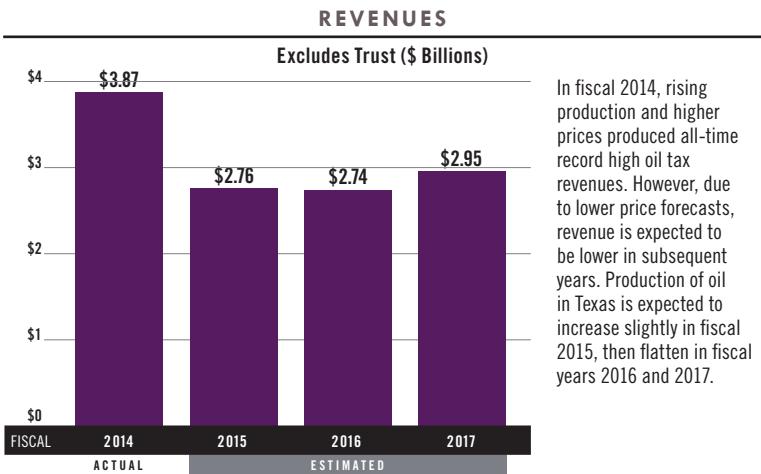


HISTORICAL COLLECTIONS



ALLOCATIONS		
OBJECT CODE	OIL PRODUCTION & REGULATION TAXES WITH FUNDS	FISCAL 2014
3290	Oil Production Tax	
	General Revenue 0001 ¹	\$2,904,209,173.24
	Foundation School Fund 0193 ²	\$968,069,724.41
3295	Oil Regulation Tax	
	General Revenue 0001	\$1,791,964.01

FOOTNOTES	
¹ 75% of revenue	
² 25% of revenue	
³ Or 4.6 cents on each barrel for oil production, whichever is greater; Oil Regulation tax is 0.1875 cents per barrel.	
⁴ Reflects initial distribution of Oil Production tax revenue.	



EXEMPTIONS		
Production from oil wells that were previously inactive for at least two years and from approved enhanced oil recovery projects.		
Total Oil Production Tax Exemptions Est. Value Fiscal 2015 \$78.7 MILLION		
LARGEST EXEMPTIONS	EST. VALUE (\$ MILLIONS)	
1	New or expanded enhanced recovery project	\$41.9
2	Wells previously inactive	\$36.8

REVENUE
(HOW MUCH?)
\$3.87 B

OIL PRODUCTION
TAX

STATE RATE
4.6%³ OF MARKET VALUE

LOCAL RATE
NONE

FEDERAL RATE
NONE

WHO PAYS?⁴

BUSINESS
100%

CONSUMER
0%

NATURAL GAS PRODUCTION TAX

FIRST ENACTED — 1931

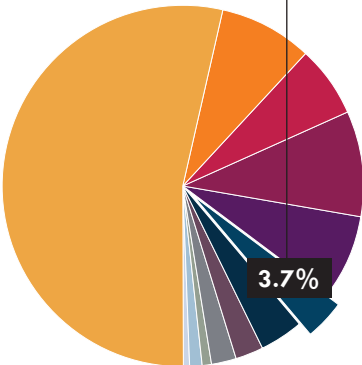
Natural gas production is taxed as part of Texas' severance tax structure, which taxes the removal of natural resources from Texas land. The tax is imposed on the market value of the gas produced in the state.

Percentage of
Total Tax Collection

FISCAL 2014

All Funds Excluding Trust
\$1.90 BILLION

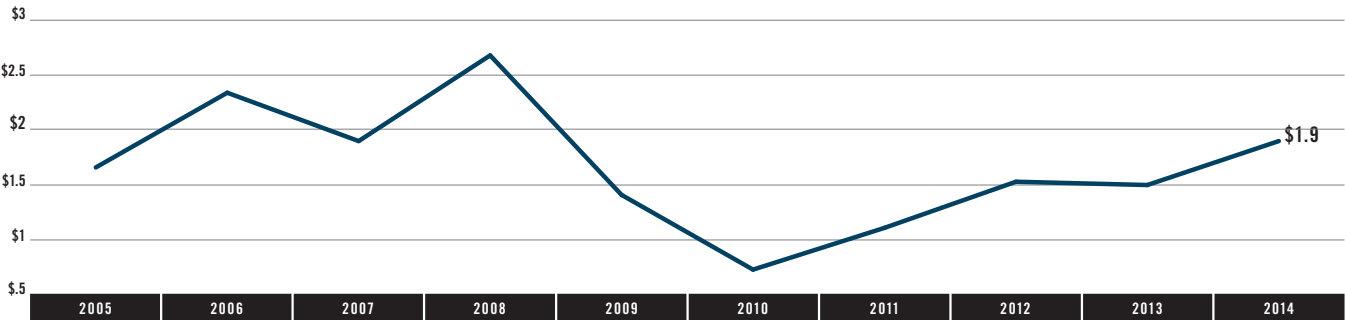
NATURAL GAS PRODUCTION TAX



HISTORICAL COLLECTIONS

Excludes Trust (\$ Billions)

Fiscal 2005-2014 change: +14.6%



ALLOCATIONS

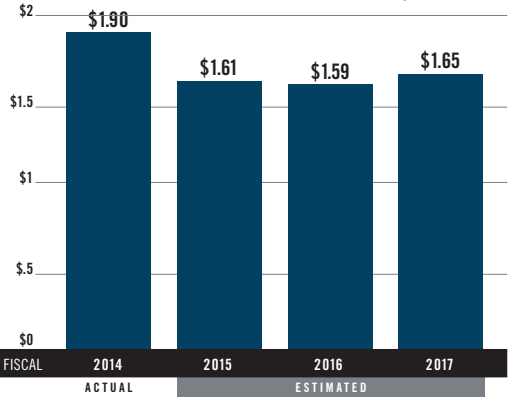
OBJECT CODE	NATURAL GAS PRODUCTION TAX WITH FUNDS	FISCAL 2014
3291	Natural Gas Production Tax	
	General Revenue 0001 ¹	\$1,424,686,144.77
	Foundation School Fund 0193 ²	\$474,895,381.59

FOOTNOTES

- ¹ 75% of revenue
- ² 25% of revenue
- ³ 7.5% of market value for natural gas; 4.6% of market value for condensate.
- ⁴ Estimated by Texas Comptroller of Public Accounts, although the tax's value is insufficient to meet the statutory threshold for inclusion in the *Tax Exemptions & Tax Incidence 2015* report.

REVENUES

Excludes Trust (\$ Billions)



Natural gas drilling rigs declined to fewer than 100 in 2014, but due to stronger interest in shale plays liquids production, the associated gas contribution from that sector has meant production has remained steady.

DISCOUNTS AND EXEMPTIONS

Reduced tax rates applied for approved "high-cost gas" wells that were based upon drilling and completion costs for each well, and exemptions applied for low-producing gas wells that had production of 90 mcf per day.

Total Tax Discounts and Exemptions
Est. Value Fiscal 2015
\$750.7 MILLION

LARGEST DISCOUNTS AND EXEMPTIONS		EST. VALUE (\$ MILLIONS)
1	High-cost natural gas	\$718.9
2	Qualifying low-producing gas wells	\$20.8

REVENUE
(HOW MUCH?)
\$1.90B

NATURAL GAS PRODUCTION TAX
STATE RATE
7.5%³
LOCAL RATE
NONE
FEDERAL RATE
NONE

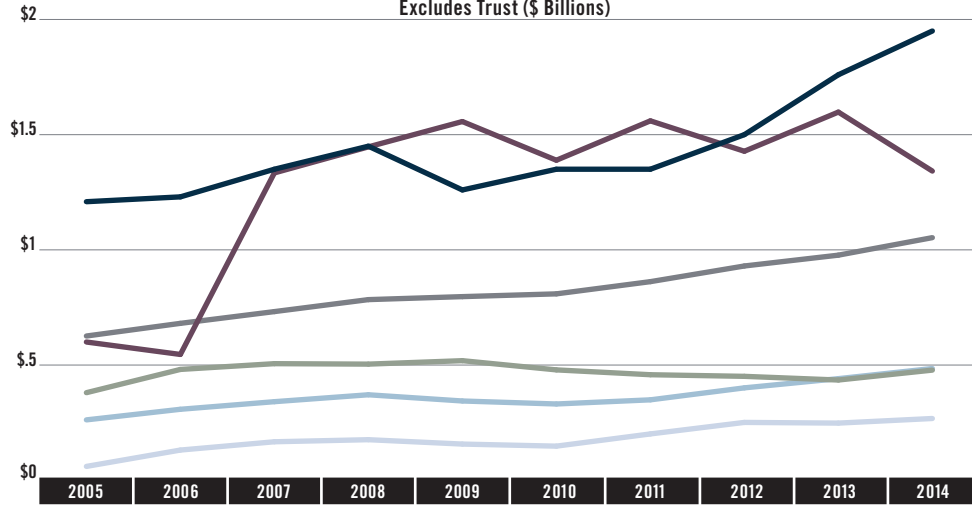
WHO PAYS?⁴
BUSINESS
100%
CONSUMER
0%

ADDITIONAL STATE TAXES

HISTORICAL COLLECTIONS

FISCAL 2005-2014

Excludes Trust (\$ Billions)

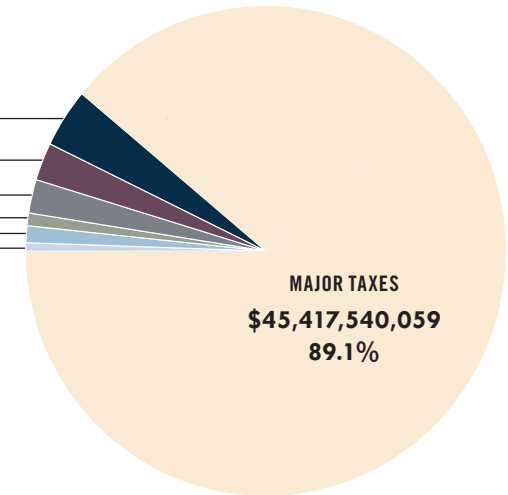


PERCENTAGE OF TOTAL TAX COLLECTIONS

FISCAL 2014

All Funds Excluding Trusts

INSURANCE TAXES	% OF TAXES
\$1,947,908,252	3.8%
CIGARETTE AND TOBACCO TAXES	
\$1,342,454,822	2.6%
ALCOHOLIC BEVERAGE TAXES	
\$1,053,231,009	2.1%
UTILITY TAXES	
\$478,188,876	0.9%
HOTEL OCCUPANCY TAX	
\$485,384,563	1.0%
OTHER TAXES	
\$267,865,502	0.5%



INSURANCE TAXES

(OBJECT CODES 3201, 3203, 3207, 3214, 3219, 3220)

Insurance taxes include Premium taxes and more than a dozen Maintenance taxes collected on behalf of the Texas Department of Insurance. Insurance Premium taxes generally apply to taxes paid on insurance that covers risk located in Texas.

REVENUE: \$1.95 BILLION

STATE RATES

Life Insurance & HMO:	0.875% of the first \$450,000; 1.75% in excess of \$450,000.
Property & Casualty Insurance:	1.6%
Accident & Health Insurance:	1.75%
Unauthorized, Independently Procured & Surplus Lines Insurance:	4.85%
Licensed Captive Insurance Companies:	0.5%
Title Insurance:	1.35%

FISCAL 2014 REVENUE FROM ALL ADDITIONAL STATE TAXES:

\$5.58 BILLION

CIGARETTE AND TOBACCO TAXES

(OBJECT CODES 3275 AND 3278)

Cigarette and Tobacco taxes include the Cigarette tax and the Cigar and Tobacco Products tax. Almost all of the growth in these tax revenues since the mid-1980s is from legislative rate increases, as decreasing consumption has gradually eroded the underlying base due to health-related concerns, price increases, and changing social attitudes.

REVENUE: \$1.34 BILLION

STATE RATES

Cigarettes:	Cigarettes weighing ≤3 lbs – \$1.41 per 20 pack Cigarettes weighing >3 lbs – \$1.452 per 20 pack
Cigars and Tobacco Products:	Cigar rates vary by weight, constituents, and price. Snuff, chewing tobacco, pipe tobacco, and roll-your-own tobacco – \$1.22 per ounce

ALCOHOLIC BEVERAGE TAXES

(OBJECT CODES 3250, 3251, 3253, 3254, 3258, 3259, 3265)

Alcoholic Beverage taxes consist of separate excise taxes on the first sale in Texas of Liquor, Beer, Wine and Malt Liquor (also known as ale); Airline/Passenger Train Beverage taxes; and the Mixed Beverage Gross Receipts tax and Mixed Beverage Sales tax on alcoholic beverages sold to consumers by mixed beverage and private club permittees.

REVENUE: \$1.05 BILLION

STATE RATES

Beer:	\$6.00 per 31-gallon barrel
Liquor:	\$2.40 per gallon
Wine:	Alcohol volume ≤14% – 20.4¢ per gallon; >14 percent – 40.8¢ per gallon; Sparkling wine – 51.6¢ per gallon
Malt Liquor (Ale):	19.8¢ per gallon
Mixed Beverage:	6.7% of gross receipts; 8.25% sales tax
Airline/Passenger Train Beverage Tax:	5¢ per serving

HOTEL OCCUPANCY TAX

(OBJECT CODES 3138 AND 3139)

The Hotel Occupancy tax is imposed on a person who pays for a hotel room or space that costs \$15 or more per day. Factors affecting the growth of revenue collections include population change, business travel and inflation.

REVENUE: \$0.49 BILLION

STATE RATES

6 percent of room rate paid by occupant

UTILITY TAXES

(OBJECT CODES 3230, 3233, 3234)

Utility taxes are a group of three related revenue sources. The largest, with 85 percent of 2014 revenues, is the Gas, Electric and Water Utility tax, levied at a varying rate depending upon a city's population. Next, with 10 percent of 2014 revenue, is the Public Utility Gross Receipts Assessment, created in 1975. The third is the Gas Utility Pipeline tax that produces 5 percent of 2014 revenue.

REVENUE: \$0.48 BILLION

STATE RATES

Public Utility Gross Receipts Assessment:	One sixth of 1% of gross receipts
Gas, Electric and Water Utility:	Cities 1,000-2,499 population – 0.581% of gross receipts Cities 2,500-9,999 population – 1.070% of gross receipts Cities >10,000 population – 1.997% of gross receipts
Gas Utility Pipeline:	One half of 1% of gross income of gas utilities

OTHER TAXES

(OBJECT CODES 3299, 3136, 3166, 3296, 3580, 3581, 3584, 3135, 3146, 3150, 3728, 3771)

Other taxes include the Sulphur tax, Cement tax, Bingo Rental tax, Oil and Gas Well Servicing tax, Controlled Substance tax certificates, Controlled Substance tax fine, Controlled Substance tax certificates billing, Occupation tax, Combative Sports Admissions tax, Coin-operated Amusement Machine tax, Unemployment Assessments and the Tax Refunds to Employers of TANF Recipients.

REVENUE: \$0.27 BILLION

FIRST ENACTED — 1837

Property taxes are an important source of revenue for local governments. These taxes are levied through two rates: the Maintenance and Operations (M&O) rate, which is used for most purposes, and the Interest and Sinking (I&S) rate, which is dedicated to debt service.

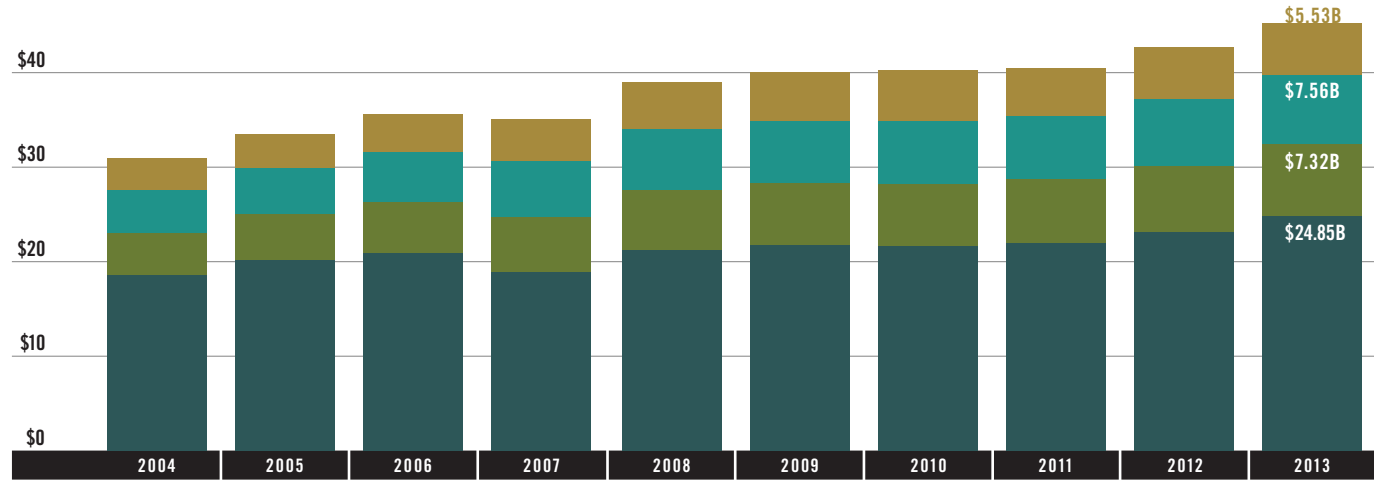
Texas stopped levying a statewide property tax in 1980. Property tax revenues collected by public school districts, however, have a large impact on the state budget. The Foundation School Program, which is the primary vehicle for distributing funding to school districts, is funded through a mix of state, local and federal funds, and is the single largest appropriation in the state budget.

To learn more about local government taxes, visit the Comptroller's Local Government Transparency pages at www.TexasTransparency.org/LocalGovernment/



LOCAL PROPERTY TAX LEVIES

(\$ Billions)



ENTITIES BY TYPE

SPECIAL PURPOSE DISTRICTS - 1,756	SCHOOL DISTRICTS - 1,020
COUNTIES - 254	CITIES - 1,066

NOTES AND SOURCES

Note: These figures represent property tax levied not actual property tax collections in 2013.
Source: Texas Comptroller of Public Accounts, *Tax Rates and Levies*

AVERAGE PROPERTY TAX RATES

	M&O	I&S
School Districts	\$1.057	\$0.262
Cities	\$0.419	\$0.161
Counties (General Fund)	\$0.328	\$0.050

NOTES AND SOURCES

Note: Average property tax rates are weighted by calculated property tax levies and only include entities that reported the respective tax rate to the Comptroller's office.
Source: Texas Comptroller of Public Accounts, *Tax Rates and Levies*

EXEMPTIONS, DISCOUNTS AND SPECIAL APPRAISALS

Various property value exemptions for residence homesteads; valuation of agricultural land at productivity value; cap on taxes paid by homeowners aged 65 and older or disabled; certain veterans; exemption of certain tangible property being transported out of the state within 175 days; economic development activity under Chapters 311 and 313.

Total School Property Tax Exemptions, Discounts or Special Appraisals
Est. Value Fiscal 2015
\$9.80 BILLION

LARGEST EXEMPTIONS AND DISCOUNTS		EST. VALUE (\$ BILLIONS)
1	Special appraisals for agricultural and timber land	\$3.13
2	Residence homestead exemptions	\$1.87
3	School tax ceiling; age 65 and older or disabled	\$0.66
4	Freeport property and cotton stored in warehouses	\$0.37
5	Ch. 313 - Texas Economic Development Act	\$0.22
6	Ch. 311 - Tax Increment Financing Act	\$0.19

MAXIMUM RATES¹
(PER \$100 IN PROPERTY VALUE)

SCHOOL DISTRICTS:
M&O - \$1.17
I&S - \$0.50

CITIES:
CITIES AND TOWNS WITH POPULATION ≤ 5,000
\$1.50

CITIES WITH POP. > 5,000
\$2.50

COUNTIES:
GENERAL FUND
\$0.80

¹ Maximum rates represent the general rule applied to nearly all applicable entities. There may, however, be cases in which some entities can either exceed this limit or are subject to a more restrictive tax rate limit.

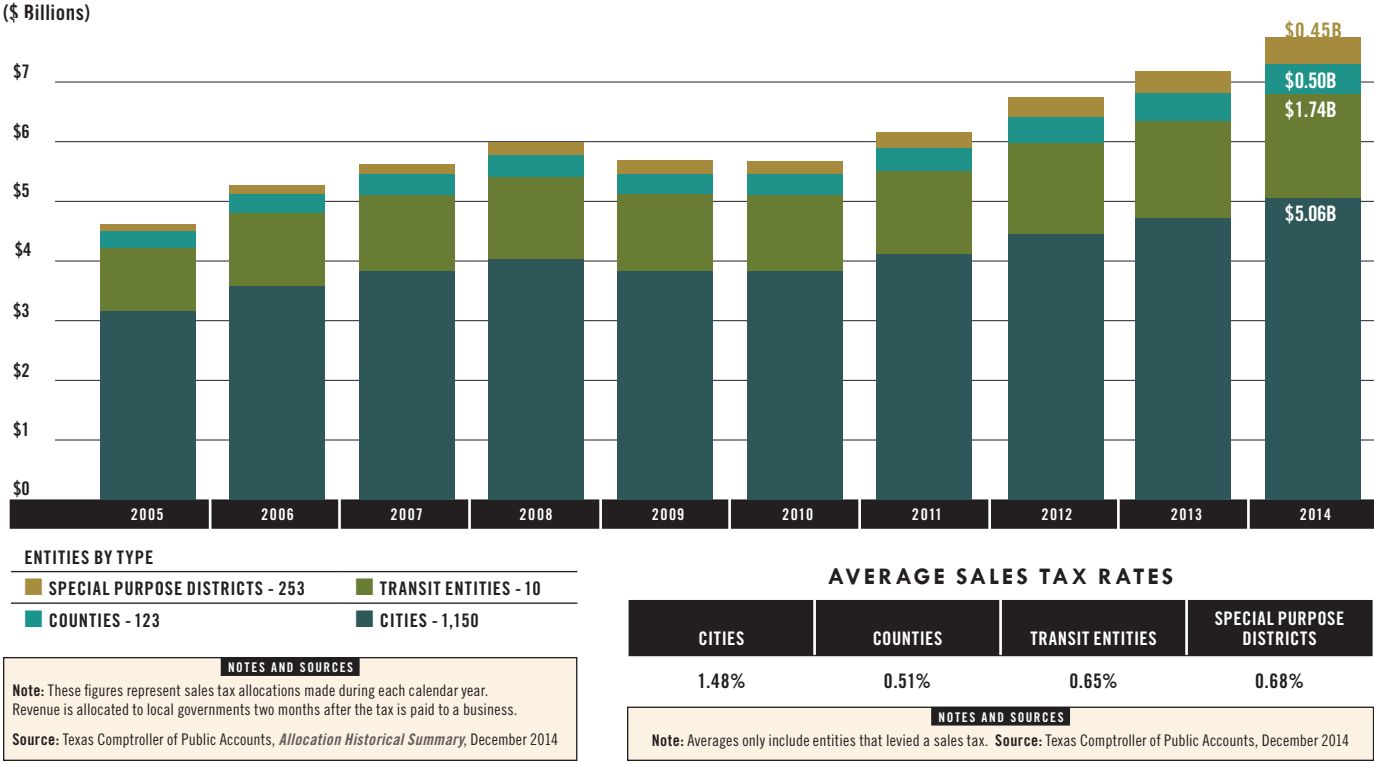
LOCAL SALES TAXES

FIRST ENACTED — 1967

More than 1,500 local entities levied a local sales tax during 2014, including 49 percent of counties and approximately 95 percent of cities. Each local sales tax rate must be approved by the entity's voters.

The local sales tax is collected by the retailer and remitted to the state Comptroller's office, which distributes it back to local entities.

HISTORICAL LOCAL SALES TAX ALLOCATIONS



MAXIMUM RATES

THE SUM OF ALL LOCAL RATES CANNOT EXCEED 2%.

CITIES: 2%

COUNTIES: 1.5%

TRANSIT ENTITIES: 1%

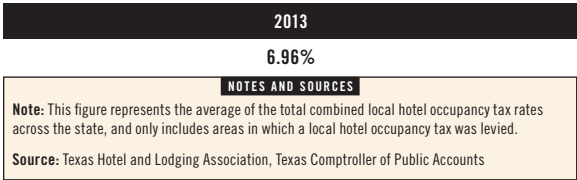
SPECIAL PURPOSE DISTRICTS: 2%

LOCAL HOTEL OCCUPANCY TAXES

In 2014, more than 500 Texas cities levied a local hotel occupancy tax. Counties must be individually authorized in statute in order to levy a hotel occupancy tax, with 73 counties currently authorized to do so.

Unlike the sales tax, most local entities do not need voter approval to adopt a local hotel occupancy tax. The local hotel occupancy tax is not remitted to the Texas Comptroller — local entities collect the tax directly from lodging places.

AVERAGE LOCAL HOTEL OCCUPANCY TAX RATES



MAXIMUM RATES

FOR MOST CASES, THE SUM OF ALL LOCAL RATES CANNOT EXCEED 11% WITHIN CITY LIMITS AND 9% IN A CITY'S ETJ.

CITIES: 7-9%

COUNTIES: 1-7%

SPECIAL PURPOSE DISTRICTS: 7%

BUDGETING AND APPROPRIATIONS

The constitution requires the Comptroller to estimate the amount of revenue available for general-purpose spending each biennium to fund public services delivered by state agencies and public universities and colleges.

Legislators must approve a balanced budget for state spending that may be less than, but not exceed, this biennial revenue estimate (BRE), which is published just before the start of each legislative session. Each new budget cycle follows this formula:

Texas Formula For Available General Revenue

$$\begin{array}{r}
 \text{(Current budget's ending balance +} \\
 \text{incoming tax revenue and anticipated non-tax receipts)} \\
 - \\
 \text{(estimated transfers to} \\
 \text{Economic Stabilization Fund and Highway Fund +} \\
 \text{adjustments to dedicated general revenue account balances)} \\
 = \\
 \text{revenue available for appropriation.}
 \end{array}$$

The General Appropriations Act (GAA) is the Texas Legislature's two-year budget. The state constitution requires that this budget be balanced.

State budget writers are also required to limit spending growth from the current budget to the next. Revenue constitutionally dedicated to a specific purpose, such as motor fuels taxes, is not subject to limits. Under this spending limit, the growth rate of tax revenue not dedicated by the constitution must not exceed the growth estimate of personal income selected by the Legislative Budget Board (LBB). Only majority votes by both the House and Senate can override the spending limit.

For the 2016-17 biennium, the LBB approved an 11.68 percent cap on spending growth, nearly 1 percent higher than the 10.71 percent cap adopted for the previous budget.

State Spending Decisions

In recent years, Texas has spent the majority of its available revenue on:

- health and human services programs such as Medicaid, adult and child protection, and assistance to the disabled and those in poverty;
- public education spending that supplements local property tax revenues;
- transportation, primarily for road and bridge maintenance and construction, and airports;
- higher education;
- law enforcement, courts and prisons;
- state government operations; and
- natural resources and state parks.

The Budgeting Process in Brief

Each state agency prepares a detailed legislative appropriations request (LAR) itemizing the funding it feels is needed to pursue various tasks.

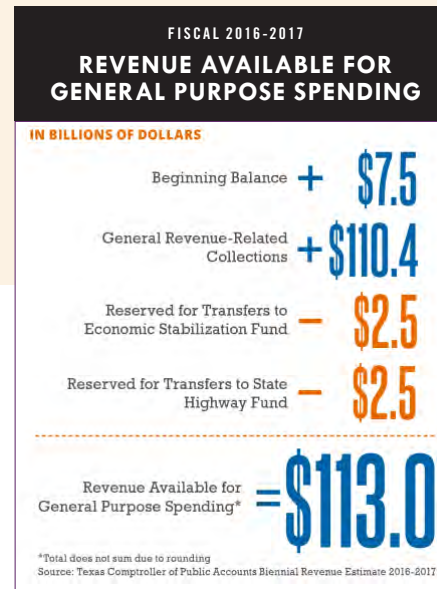
After several reviews, hearings and approvals, the LBB uses the LARs to draft the general appropriations bill, which is then submitted to the Legislature.

The Governor also submits an independently developed budget to the Legislature.

Prior to the legislative session, the Comptroller's office issues an estimate (biennial revenue estimate, or BRE) of the funds likely to be available from taxes and other revenue sources over the next two years.

Budget Approval Steps

- The Texas House Committee on Appropriations and the Senate Finance Committee simultaneously deliberate on the general appropriations bill. After the committees pass their versions of the bills, the full House and Senate consider each chamber's version of the budget.
- A conference committee of both House and Senate members works to combine the two versions into the final General Appropriations Act.
- Once approved, it goes to the Comptroller's office to receive a final certification that the bill spends no more than the amounts in the BRE.
- The final step is the governor's signature. Once signed, the bill becomes law, directing the state's finances for two more years.



Find out where the money goes. The Comptroller's online tools reveal spending by agency, purchase code, category, and payments to vendors. Search the state check register, track state spending and see tax dollars at work. Link to http://www.texas transparency.org/State_Finance/Spending/



Texas Tax Code



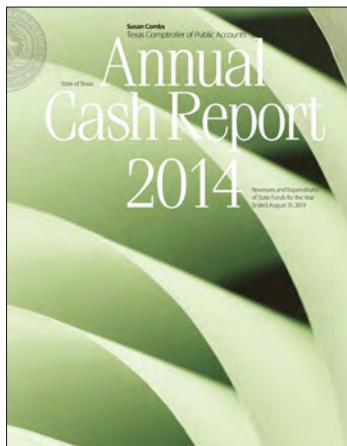
Select a specific tax code, chapter and section to see statutes that are current through the last Texas legislative session.

Monthly Revenue Watch

Month	Net State Revenue by Source - All Funds (Including Trust)
January 2015	\$1,100,000,000
February 2015	\$1,150,000,000
March 2015	\$1,200,000,000
April 2015	\$1,250,000,000
May 2015	\$1,300,000,000
June 2015	\$1,350,000,000
July 2015	\$1,400,000,000
August 2015	\$1,450,000,000
September 2015	\$1,500,000,000
October 2015	\$1,550,000,000
November 2015	\$1,600,000,000
December 2015	\$1,650,000,000

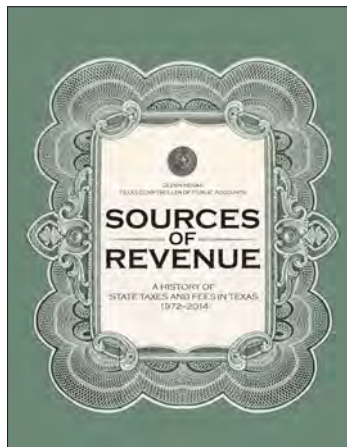
Data on net state revenue collections by source are posted every month to the Comptroller's website.

Texas Annual Cash Report



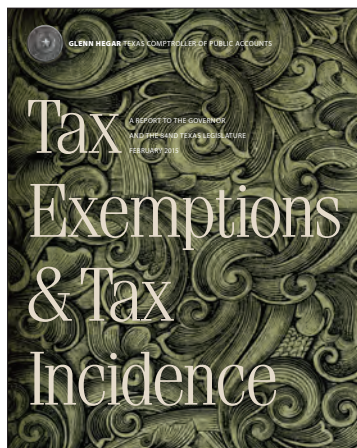
This report presents the state's financial condition, details revenues and expenditures on a cash basis, and shows revenue and expenditure details for all funds in the Texas Treasury (November 2014).

Sources of Revenue: A History of State Taxes and Fees in Texas



Providing a historical perspective, this guide reports on the current status of state revenue sources (January 2015).

Tax Exemptions & Tax Incidence



This legislatively required report estimates the value of each exemption, exclusion, discount, deduction, special accounting method, credit, refund, and special appraisal available under Texas' major taxes and school property taxes. (Next update planned for Spring 2015).

Texas taxes and tax publication web pages



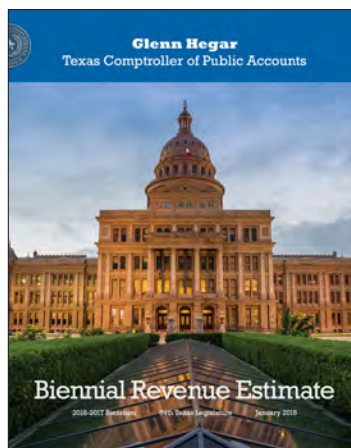
The Comptroller's office maintains extensive online resources on the more than 60 taxes, fees and assessments that the office collects.

State Spending: Where the Money Goes



These interactive tools on the Comptroller's website show state spending by agency, purchase code, category and more.

Biennial Revenue Estimate



The Comptroller estimates the amount of revenue available for spending each biennium, which Legislators then use to devise the state's budget (January 2015).

Fiscal Size-Up

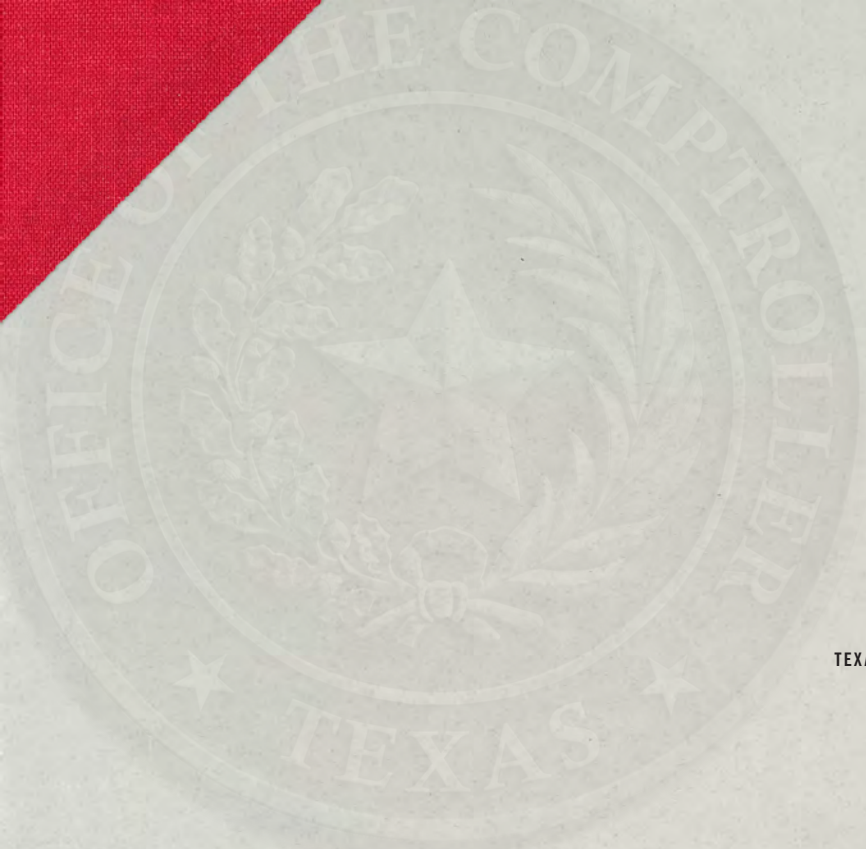


The Legislative Budget Board produces this biennial report: a single source of information on the budget, fiscal actions of each legislature and the state's fiscal condition (February 2014).

State Tax Automated Research (STAR) System



This online policy resource center facilitates research on Texas tax law and tax policy.



For additional copies, write:

TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

P.O. Box 13528

Austin, Texas 78711-1440

This report is also available online at:

comptroller.texas.gov/finances



Glenn Hegar

Texas Comptroller of Public Accounts