

# TEXAS BUSINESS TAX ENVIRONMENT

## I. Introduction

Many businesses and entrepreneurs are looking for the best place to set up their business and corporate operations. Although there are many factors to consider, taxation is a top concern. The State of Texas offers one of the best tax and legal environments in the United States and outperforms many jurisdictions in the USA and the world.

## II. Texas Income Tax

The Texas State Constitution expressly forbids levying an income tax on individuals. This amendment to the Constitution was passed overwhelmingly by voters in the Nov. 5, 2019 election. It enshrined into law what has always been in practice — Texas has never levied a tax on personal or corporate income. This is one of the major reasons why companies are moving to Texas and why individuals in search of a better economic environment are increasingly relocating to the Lone Star State.

Texas has one of the lowest tax burdens in the nation because of no personal or corporate taxation. In addition, the state offers a number of other advantages for businesses, including a sales tax exemption for manufacturing machinery and equipment and R&D-related materials, software, and equipment, as well as a franchise tax exemption to manufacturers, sellers or installers of solar energy devices. Property tax abatements, permit fee waivers, local cash grants and local funding are also available to assist companies looking to relocate or expand in the state.

## III. Business Taxes in Texas

Texas has a very friendly corporate environment with various types of entities to choose from including corporations, limited liability companies, limited partnerships and many others. Texas is one of only six states that do not levy a corporate income tax. In addition, Texas does not have a value added tax (VAT) and many businesses are exempt from sales tax obligations. Many foreign companies and out-of-state

businesses and investor are attracted to Texas with its low tax incentives for businesses.

While Texas state business income taxes do not exist, the state does levy a franchise tax, which is calculated on a company's margin for all entities with revenues above \$1.23 million. The tax rate in 2022-23 is 0.375% for retail and wholesale businesses, and 0.75% for other businesses.

Low corporate taxes are a key driver of Texas economic strength. Other factors contributing to the economic boom in the Lone Star State include a diverse range of competitive Texas business incentives and financing options, the largest deal-closing fund in the nation to attract projects that will stimulate job creation and capital investment, and innovative programs to assist employers and education institutions with customized job training for skilled workers.

#### **IV. Tax Structure in Texas**

The key feature of the Texas tax structure is no personal income tax. Because of this, municipalities, counties and school districts rely on property taxes for funding. Property tax rates vary by county. In some counties, the tax rate is relatively low.

Overall, Texas boasts the fifth-lowest tax burden per capita. On average, residents pay 7.6% of their income in state and local taxes, as per the Tax Foundation. That's below the average rate of 10.3% nationally. That's almost half the rate of New York, at 14.1%.

Texas tax incentives for both businesses and individuals make Texas attractive for expanding and relocating businesses and their employees.

#### **V. Friendly Corporate and Legal environment**

The State of Texas has superior corporate and entity laws that are pro-business, provide asset protection and flexibility to do business. Texas provides for the formation of limited liability companies, limited partnerships, and corporations that have very favorable protection for business owners. Also, Texas has very favorable trust laws for protecting family wealth, avoiding probate and inheritance taxes. Texas corporate and trust law is competitive with South Dakota, Nevada and Delaware.

## **VI. Conclusion**

In deciding where to do business and set up your entity in the United States, Texas is very attractive, it is recommendable to consult with a corporate and tax attorney to properly analyze the options.

We are Attorneys and Tax Advisors, we strive to provide our clients the highest quality of legal and tax representation in the complex area of tax law.

This alert has provided only general information and specific factual scenarios may change any conclusions that would apply.

We strongly recommend you consult a corporate and tax attorney regarding your particular case. Should you need additional information it will be our pleasure to assist you.

*Source: Texas Comptroller and Secretary of State*

*Sincerely,*

*Ruben Flores, Attorney & CP*