

**Illustration of potential ideas raised at the June 4 Texas House Ways & Means Committee Meeting**

Note: This calculation is based on hypothetical changes to the Texas margin tax. It should not be used as a guide to complete Texas franchise tax reports.

	<u>Service Business</u>	<u>Parts Business</u>	<u>Total</u>
Revenue	20,000,000	20,000,000	40,000,000
Potential deductions	8,000,000	14,000,000	22,000,000
"Economic" Margin	<u>12,000,000</u>	<u>6,000,000</u>	<u>18,000,000</u>

**Tax Due under current law:**

Revenue	40,000,000
COGS Deduction	<u>14,000,000</u>
Margin	26,000,000
1% Rate	1%
Tax Due	<u><b>260,000</b></u>

**Tax due if statute allows an entity to pay .5% on "margin" from retail business activity, but still requires either COGS or compensation:**

*Compensation method*

	<u>Service Business</u>	<u>Parts Business</u>	<u>Total</u>
Revenue	20,000,000	20,000,000	
Potential deductions	8,000,000	-	
Margin	<u>12,000,000</u>	<u>20,000,000</u>	
Rate	1%	0.5%	
Tax Due	120,000	100,000	<u><b>220,000</b></u>

*Cost of Goods Sold method*

	<u>Service Business</u>	<u>Parts Business</u>	<u>Total</u>
Revenue	20,000,000	20,000,000	
Potential deductions	-	14,000,000	
Margin	<u>20,000,000</u>	<u>6,000,000</u>	
Rate	1%	0.5%	
Tax Due	200,000	30,000	<u><b>230,000</b></u>

**Taking the higher deduction results in MORE tax.**