



*"Working together to
fund Washington's future"*

Business Tax Reform: Reforming the B&O

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Outline

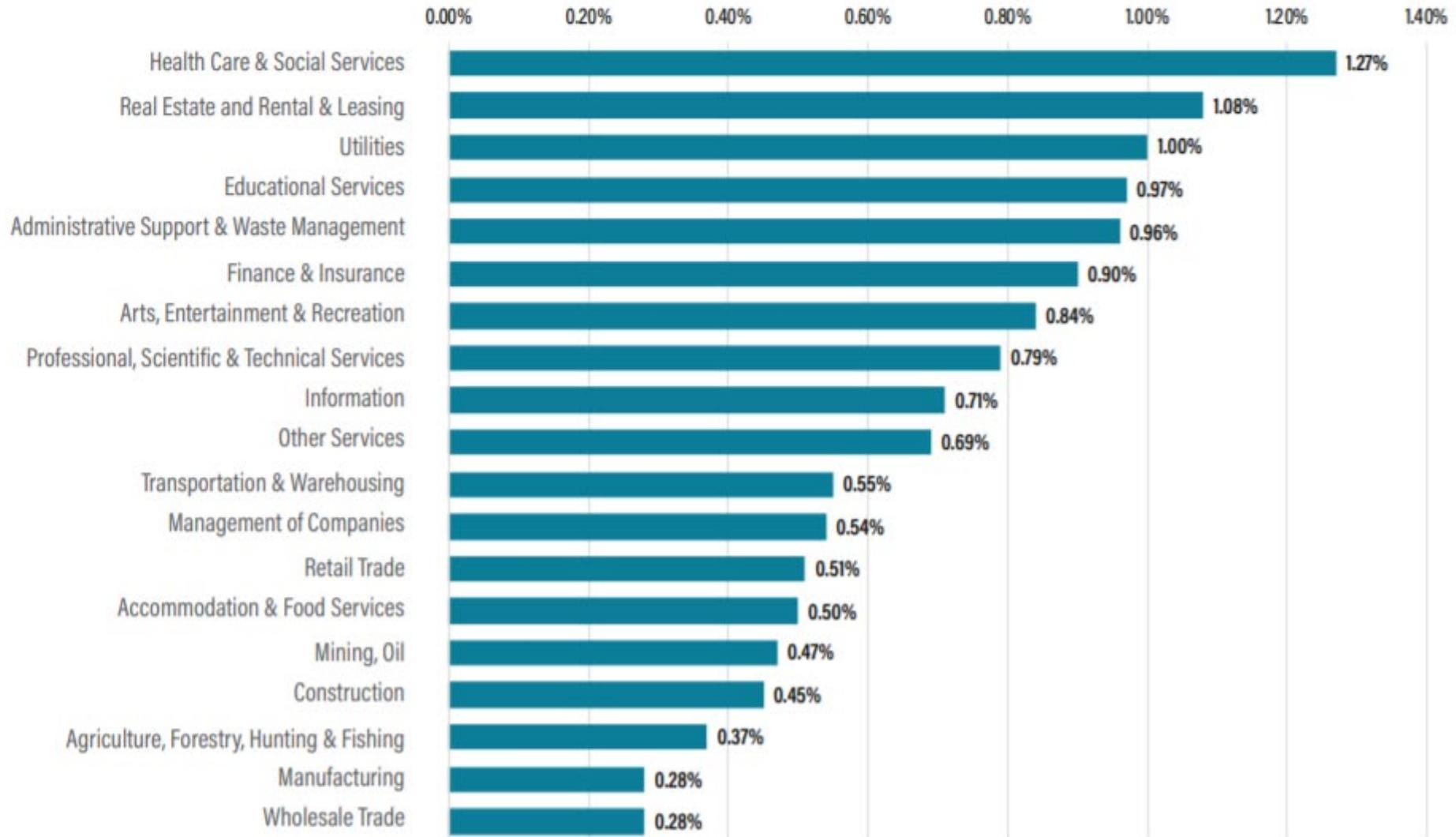
- B&O challenges
- Margins tax
- Margins tax challenges
- Technical questions

B&O: challenges

- Main issues:
 - Pyramiding
 - Exemptions, preferential rates, and exclusions
- Recent public engagement resulted in the following sentiment about the B&O:
 - Make it easier to comply with
 - Make it fairer
 - Reduce rates
 - Consider **Margins (or Franchise Tax)**

EXHIBIT 19: Summary of Current Business Tax Burdens by Sector

CURRENT BUSINESS & OCCUPATION TAX AS A SHARE OF GROSS RECEIPTS BY SECTOR



Margins Tax

- [Texas's Franchise Tax](#) is the most popular
- **Key characteristics:**
 - Taxed at the gross margin level

Revenue

Less (whichever is largest):

a. Cost of Goods Sold

b. Compensation

c. 70% of revenue

d. \$1,000,000

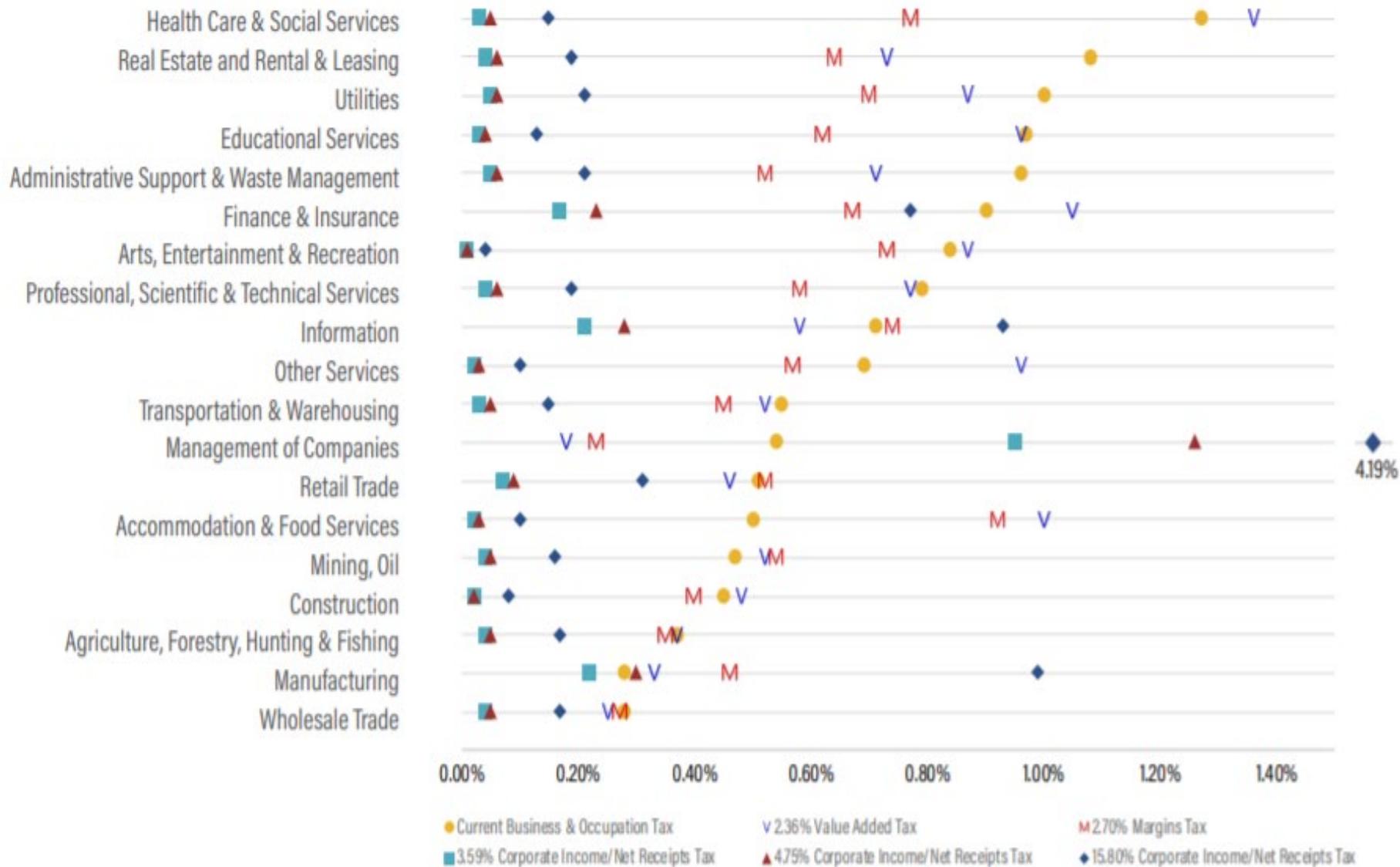
Margin

*Single Factor
Apportionment*

Taxable Margin

EXHIBIT 20: Comparison of Business Tax Burden Changes

BUSINESS TAXES AS A SHARE OF GROSS RECEIPTS BY SECTOR



Margins Tax Challenges

- Transition costs?
 - ✓ Taxpayer
 - ✓ Department
- Who is exempt?
- Frequency of filing?
- What about revenue exclusions/carveouts?

Sector Margins, Jan. 22

Below 30%

Selected sectors:

- Chemicals, Aerospace & Defense, Automotive, Advertising

Selected companies:



At or above 30%

Selected Sectors:

- Apparel, Financial Services, Software, Oil & Gas

Selected companies:



Technical Questions

Structure:

- How will businesses report?
- Separate entity or consolidated corporate entity?

COGS:

- Federal vs Texas definition?
- How about COGS?
 - ✓ Tangible vs intangible?
 - ✓ Information industry?

Exclusions/carveouts:

- How about revenue exclusions? How many? For whom?
- How about the treatment of costs?

Questions
