



M2K Advisors



# TAXATION IN TEXAS



# Franchise Tax (1/4)

The franchise tax is a privilege tax imposed on each taxable entity formed or organized in Texas or doing business in Texas

## Entities Subject to Tax

Entities subject to tax: Corporations; limited liability companies (LLCs), including single member and series LLCs; banks; state limited banking associations; savings and loan associations; S corporations; professional corporations; partnerships (general and limited liability); trusts; professional associations; business associations; joint ventures; and other legal entities..



## Entities Not Subject to Tax

Sole proprietorships (except for single member LLCs); general partnerships where direct ownership is composed entirely of natural persons (except for limited liability partnerships); trusts and not for profit organizations etc.



# Franchise Tax (2/4)

The applicable Franchise tax rates, thresholds, and deduction limits for the year 2022 and 2023 are tabulated below:



2024 and 2025	
Item	Amount (USD)
No Tax Due Threshold	Annual revenue amounting to USD 2,470,000
Tax Rate (retail or wholesale)	0.375%
Tax Rate (other than retail or wholesale)	0.75%
Compensation Deduction Limit	450,000
EZ Computation Total Revenue Threshold	Annual revenue amounting to USD 20 million or less*
EZ Computation Rate	0.331%

\* Entities with \$20 million or less in annualized total revenue may elect to file and report their franchise tax using the EZ Computation Report (Form 05-169). Taxable entities that elect this method to file are not eligible to take any credits or deductions. When using the EZ computation, the current year's portion of the temporary credit for business loss carryforwards may not be used and may not be carried over to a future period.



# Franchise Tax (3/4)

## Due Date

The franchise tax report is due annually on May 15th of the subsequent year following the end of the tax year. If May 15 falls on a weekend or is a holiday, the due date will be the next business day.



## Penalty & Interest

- On the delinquent filing of a return, a penalty of USD 50 is assessed on the taxpayer for the late filing of the return.
- In the case of late payment of tax, a penalty of 5% of the tax due shall be imposed on the taxpayer who fails to pay the tax when due. If the entity fails to pay the tax within 30 days after the due date, then an additional penalty of 5% will be imposed.
- Interest is accrued on the taxes due starting from 60 days after the date the tax is due. The interest rate to be charged is the prime rate plus 1%.

# Franchise Tax (4/4)

## Extension of Time to File

If the taxpayer is unable to file the annual report timely, including the first annual report, the taxpayer may request an extension of time to file the report. Further, the extension payment must be at least 90% of the tax that will be due with the report or 100% of the tax reported as due on the prior franchise tax for both mandatory EFT (electronic fund transfer) payors and non-EFT payors.

The extended due date for mandatory EFT payors is different from that of other franchise taxpayers. An EFT payor is the taxpayer who has remitted USD 10,000 or more in franchise tax payments during the preceding state fiscal year. The EFT payor may extend the filing date from May 15 to August 15. An EFT payor may request a second extension to Nov 15 to file the report by paying electronically before Aug 15.

In the case of non-EFT payor, once the extension has been granted, the due date for such payor falls on November 15<sup>th</sup> of the subsequent tax year following the end of the reporting year.

## Minimum Franchise Tax

There is no minimum tax requirement under the franchise tax provisions. However, an entity having the taxable amount due less than USD 1,000 or that has annual total revenue less than or equal to USD 2,470,000 is not required to pay any franchise tax.

Further, it should be noted that if an entity meets the USD 2,470,000 threshold, known as the no tax due threshold, the taxpayer must file a No Tax Due Report (Form 05-163).

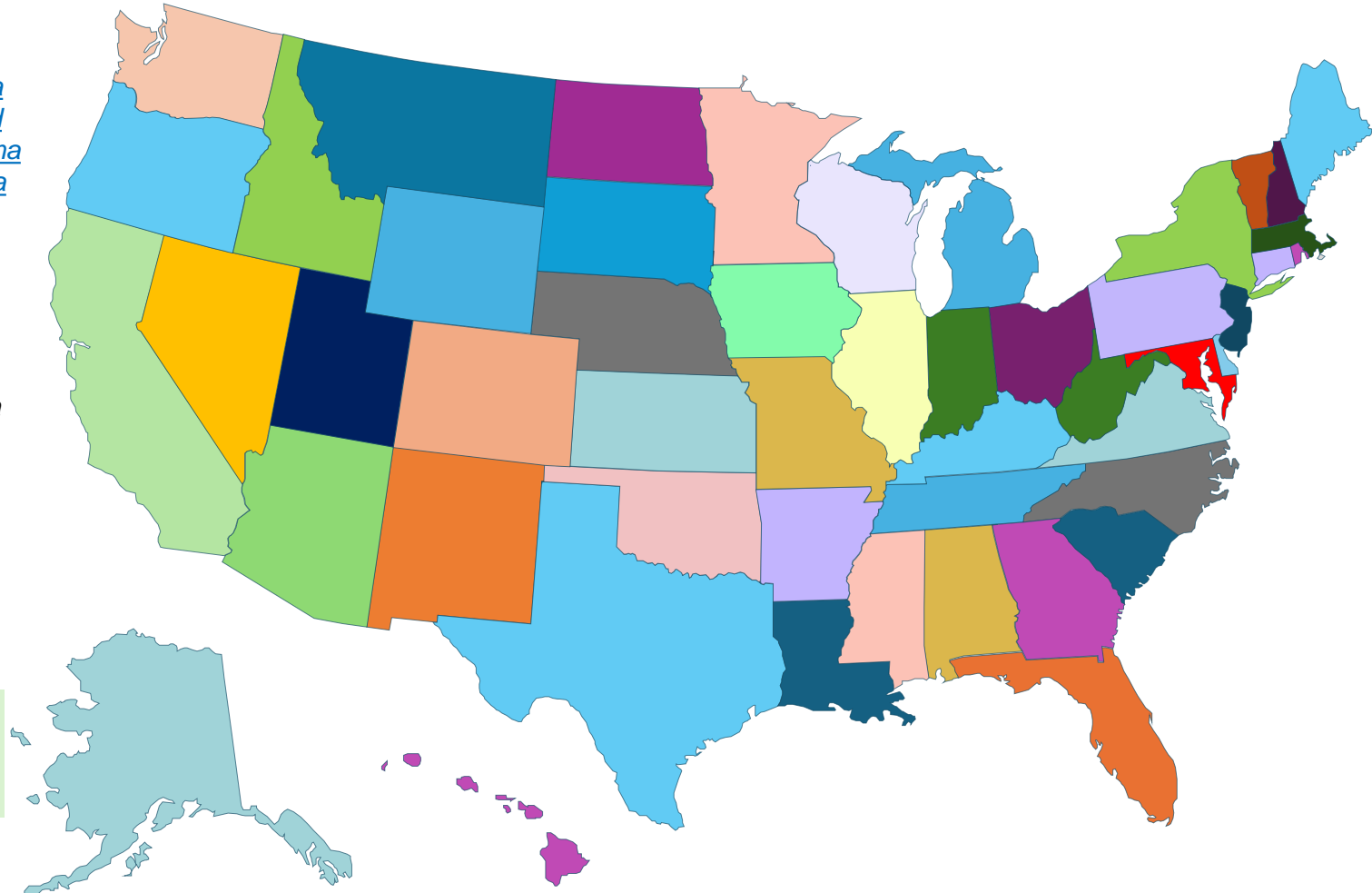


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