



Important Tax Changes in the 2009 Texas Legislative Session

The 81st Texas Legislature convened on Jan. 13, 2009 and adjourned on June 1, 2009, but they clearly have not finished their business in the capitol for the summer. The Governor has already indicated that he will be calling a special session to address some of the outstanding issues. Although the State's business is not complete, the 2009 session has resulted in two important tax changes for small businesses and individuals.

Texas' Small Businesses Receive Tax Breaks

Texas' 81st Legislature wrapped things up last month with a significant change to the state franchise tax, also known as the "margin tax". Specifically, the new legislation raises the current \$300,000.00 revenue threshold that a business must meet before it becomes liable to pay the franchise tax. The threshold amount increases to \$1,000,000 for tax reports filed in 2010 and 2011 and then reverts to a permanent minimum of \$600,000 starting in 2012. According to the Texas Comptroller, the change will affect more than 40,000 small businesses in the state. The State is paying for the change in revenue in part with new income expected as a result of another tax change involving smokeless tobacco: Effective September 1, 2009, the state tax on smokeless tobacco products will be based on weight rather than list price.

The tax discount under current law for businesses with total revenue less than \$1,000,000 does not apply until the lower revenue threshold takes effect, and then it will apply as follows:

- Taxpayers with total revenue greater than \$600,000 but less than \$700,000 are entitled to a 40% tax discount
- Taxpayers with total revenue equal to or greater than \$700,000 but less than \$900,000 are entitled to a 20% tax discount.

It is anticipated that the Texas' business tax policy will be reviewed again in the next session and include a deeper study of the fairest method for Texas businesses to pay taxes. Contact your McConnell & Jones tax consultant for advice on how your state tax bill could be impacted.

Could Texas' Property Taxes be Reformed?

The 81st Legislature reviewed a property tax reform package championed by State Representative John Otto, and Senator Tommy Williams. The centerpiece of the package was a resolution authorizing a fall election on a constitutional amendment that would give the state authority to enforce uniform appraisal standards and procedures across all counties. Highlights of the reform package include:

- Creation of a six-county pilot program for owners of commercial property valued at \$1 million or more to appeal local Appraisal Review Board decisions to the State Office of Administrative Hearings. The program is limited to 3,000 appeals statewide. The six participating counties are Harris, Travis, El Paso, Bexar, Cameron, and Tarrant.
- Initiation of new restrictions on property value increases the year after a property owner succeeds in lowering the appraised value of a property through protest, court action, or arbitration. The bill bars an increase the following year unless the chief appraiser has substantial evidence to support it.
- Requirement of the central appraisal districts to take into account all available evidence of value that is specific to a piece of property in determining that property's market value.
- Guidelines for determining whether property is "comparable" for appraisal purposes. The bill provides that whether a property is comparable to the subject property is required to be determined based on similarities with regard to location, square footage of the lot and improvements, property age, property condition, property access, amenities, views, income, operating expenses, occupancy and the existence of easements, deed restrictions, or other legal burdens affecting marketability.
- Protection of residential homestead property from the requirement that property is valued at its highest and best use. Residential homestead must be valued as a homestead, regardless of its highest and best use.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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