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LEGAL UPDATES

PUBLISHED: JANUARY 2, 2024

Texas Franchise Tax Updates for 2024

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The calendar year 2024 will bring multiple changes to the Texas franchise tax. Taxpayers responsible for entities operating in Texas should be aware of these rules as they plan for their filing and payment obligations in the year ahead.

The no tax due threshold is increased

For reports originally due on or after January 1, 2024, the no tax due threshold is increased to $2,470,000 of annualized total revenue, more than doubling the prior $1,230,000 threshold. See Tex. Tax Code § 171.002(d)(2).

Form 05-163 (Texas franchise tax “No Tax Due Report”) is discontinued

In an effort to ease tax compliance burdens for many, Texas no longer requires taxpayers below the no tax due threshold to file a “No Tax Due Report.” See Tex. Tax Code § 171.204(b). Such entities, however, may still be required to file Information Reports (Form 05-102) and Ownership Information Reports (Form 05-167). In addition to helping entities below the no tax due threshold, this may help ease the burden for many nonprofit organizations which need to maintain their Texas registration while awaiting IRS approval of their federal tax exemption, which is necessary for establishing a Texas franchise tax exemption. Previously, such entities were sometimes advised to file “No Tax Due Reports” pending their Texas exemption approval.

Certain entities that have filing obligations despite not being subject to the Franchise Tax (such as certain qualifying passive entities and REITS) may no longer use Form 05-163 to satisfy such filing obligations. Such entities must instead now file either the Long Form Report (Form 05-158) or the EZ Computation Report (Form 05-169), but need only blacken the circle that has been added to the taxpayer information section that identifies them as such entities. Entities with annualized total revenue over the new no tax due threshold but with zero Texas gross receipts must file either the Long Form

Report or the EZ Computation Report to enter total revenue and Texas gross receipts only.

The compensation limit is increased

One method for calculating an entity's taxable margin is total revenue minus compensation. However, the amount of compensation permitted to be included in the calculation is subject to a per-person limitation. For reports originally due on or after January 1, 2024, the limit on compensation is $450,000 per person, increased from the former $400,000 per person limitation. See Tex. Tax Code § 171.1013(c); Tex. Tax Code § 171.006; and 2024 Texas Franchise Tax Report Information and Instructions Form 05-913 (Rev. 9-23).

New veteran-owned businesses are no longer required to file a "No Tax Due Report"

In general, qualifying new veteran-owned businesses are not subject to the Texas Franchise Tax for an initial five-year period. However, new veteran-owned businesses were previously still required to file a "No Tax Due Report" annually during this initial five-year period. For reports originally due on or after January 1, 2024, new veteran-owned businesses are no longer required to file a "No Tax Due Report" during its initial five-year period. See Tex. Tax Code § 171.204(d).

Contact us

If you have questions regarding changes to the Texas franchise tax, contact Husch Blackwell's State & Local Taxation team or your Husch Blackwell attorney.