

<b>Shenzhen, China</b> Rooms 1203-06, 12/F. Di Wang Commercial Centre 5002 Shennan Road East Luohu District, Shenzhen T: +86 755 8268 4480	<b>Shanghai, China</b> Room 603, 6/F., Tower B Guangqi Culture Plaza 2899A Xietu Road Xuhui District, Shanghai T: +86 21 6439 4114	<b>Beijing, China</b> Room 303, 3/F. Interchina Commercial Bldg. 33 Dengshikou Street Dongcheng District, Beijing T: +86 10 6210 1890	<b>Taipei, Taiwan</b> Room 303, 3/F. 142 Section 4 Chung Hsiao East Road Daan District, Taipei T: +886 2 2711 1324	<b>Singapore</b> 138 Cecil Street #13-02 Cecil Court Singapore 069538 T: +65 6438 0116	<b>New York, USA</b> 202 Canal Street Suite 303, 3/F. New York NY 10013, USA T: +1 646 850 5888
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## U.S. States with No Income Tax—Texas

Texas offers businesses some competitive advantages found in few other states. Texas is one of seven states that do not levy a personal income tax. The state does not collect a corporate income tax either. This tax structure tends to benefit successful companies as they become more profitable and allows them to keep those profits to fuel further growth and expansion.

### 1. Franchise Tax

Although Washington businesses are not responsible for corporate income tax, they are subject to franchise tax. All active business entities registered at Texas must file franchise tax report and pay franchise tax annually with the Comptroller of Public Accounts. For business entities that total revenue under the \$1,180,000 limit, they do not owe any franchise tax but still need to file the franchise tax report. For business entities doing retail or wholesale, the tax rate is 0.375%; for entities doing business other than retail or wholesale, the tax rate is 0.75%. Also, for businesses with \$20 million or less in total revenue that elect to use the so-called E-Z Computation, the rate is 0.331%.

If your Texas business entities engage in qualified research and development activities, historic structure rehabilitation or clean energy projects, you may be eligible to use franchise tax credits.

### 2. Sales and Use Tax

Sales or use tax is the tax imposed upon all retail sales, leases and rentals of most goods, as well as taxable services.

The sales and use tax rate in Texas State consist of the state tax rate (6.25%) and local tax rate (up to 2%) imposed by a city, county, or school district. The combined rates vary in each county and in cities that impose sales/use tax.

Discounts may be applied for qualified taxpayer. Permitted sales taxpayers can claim a discount of 0.5 percent of the amount of tax timely reported and paid. Sales taxpayers who prepay can claim 0.5 percent for timely filing and paying, plus 1.25 percent for prepaying (for monthly filer are due on or before the 15<sup>th</sup> day of each month; for quarterly filer are due on or before the 15<sup>th</sup> day of the second month of each quarter).

### 3. Payroll Tax

If the business entities have employees and pay wages in Texas, they must register as employer with Texas State Workforce Commission. Texas State does not have withholding requirement. But employers must contribute to Unemployment Insurance Tax (UI). Employers will pay unemployment taxes on the first \$9,000 of each employee's earnings during the calendar year.

#### 4. Annual Renewal

All active business entities registered at Texas are required to operate in compliance with the General Corporation Law/Limited Liability Company Law of the State of Texas. They must have and maintain a registered agent, which has a physical street address in Texas; file Franchise Tax Report and Public Information Report with the Texas Comptroller of Public Accounts every year; and renew the business license/permit periodically (if applicable). The annual report is due May 15. If May 15 falls on a weekend or holiday, the due date will be the next business day. Penalty or interests will be charged for late filing.

Beside above state requirements, you are also required to file federal tax returns to comply with the U.S. tax law. If you are interested in Texas business registration or annual renewal services, please contact Kaizen professional consultants.



*If you wish to obtain more information or assistance, please visit our official website at [www.kaizencpa.com](http://www.kaizencpa.com) or contact us through the following means:*

**T:** +852 2341 1444

**M:** +852 5616 4140, +86 152 1943 4614

**WhatsApp/Line/WeChat:** +852 5616 4140

**Skype:** kaizencpa

**E:** [info@kaizencpa.com](mailto:info@kaizencpa.com)