

# **New Tax Alert: The Texas Margin Tax**

## *Why It is Crucial to Report Business Income Correctly To Keep from Owing Thousands of Dollars*

By L. M. Wagnon

A new Texas Franchise Margin tax was just passed in 2006, and is effective as of January 1, 2007. Some companies and even accountants are not up to date on the enormous affect it could have on their business. Now that the margin tax has been put into motion, it is here to stay. The old franchise tax might have cost a company \$1000.00 per year. With the new margin tax, companies can be subject to paying 10 to 20 times this amount, even if the company lost money at the end of the year.

Companies must get competent advice on this margin tax to learn the many money saving solutions to its high cost. The tax was put into affect to replace the old Franchise Tax. The additional revenue from this tax was meant to replace the tax revenue lost in the property tax cut that the Texas Legislature had passed previously.

One big difference is that now the money companies pay to contractors is no longer deductible. Also, no business can deduct payroll paid to illegal aliens. And the worrisome part of the new tax is that the calculations are not applied to the net income as they always have been before. The new calculation is on the gross income. Not all of the expenses can be deducted from the income.

The trucking and moving industry is an example of the many companies that have high gross revenue, but with the high cost of operations their net income is sometimes very low. Pam Matheson, President of A&W Transfer & Storage in Amarillo, Texas, was amazed that her huge expense for contract drivers would not be deductible for this tax.

The only deductions allowed for truckers will be payroll and benefits.

Another owner, Dean Dahle of A-1 Transfer & Storage in Dallas, Texas, was pleased to learn that although he could not deduct his contractors, he could save on the margin tax by simply reporting his income in the correct way. That is why it is imperative that companies be prepared and look at this new tax now. The first report for this tax is due April 15, 2008 on income from 2007, but there is still some time to be sure the income is reported correctly.

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