



AECT
ASSOCIATION OF ELECTRIC
COMPANIES OF TEXAS, INC

**STATE AND LOCAL TAXATION OF THE
ELECTRIC INDUSTRY IN TEXAS**

2017



AECT MEMBER COMPANIES



SUMMARY OF TAX IMPACT OF AECT MEMBER COMPANIES

AECT member companies pay and collect significant taxes to bolster state revenue

- The electric industry is a major source of state and local tax revenue in Texas.
- In 2015, members of AECT paid \$1.8 billion in state and local levies. On average, this cost is over \$59,000 per employee.
- AECT companies also collected \$339 million in sales taxes from end-use customers.

State and Local Taxes Paid or Collected by AECT Member Companies in 2015

TAXES IMPOSED ON AECT COMPANIES	Millions of Dollars
State Taxes	
Gas, Electric & Water Utility Tax	\$203.9
Public Utilities Gross Receipts Assessment	24.3
State Sales & Use Tax (Paid on Company purchases)	163.1
State Franchise Tax	148.3
Local Taxes	
Property Taxes	670.7
Local Sales & Use Taxes (Paid on Company Purchases)	36.0
Municipal Franchise Fees	550.6
Subtotal, Company Taxes	\$1,796.9
SALES TAXES ON AECT ELECTRIC SALES	
State Sales & Use Tax (Collected from Customers)	233.6
Local Sales & Use Taxes (Collected from Customers)	105.5
Subtotal, Customers' Taxes	\$339.1
TOTAL, STATE & LOCAL TAXES	\$2,136.0

Source: Association of Electric Companies of Texas

TAXATION: CORE PRINCIPLES

AECT member companies believe that any state revenue proposal should be based on:

- **Accountability** to ensure prudent and responsible spending of tax dollars
- **Equity** to ensure all sectors of the economy equally share the responsibility to fund our schools and no one group of taxpayers shoulders a disproportionate share of this obligation
- **Stability** to provide businesses the confidence that their investments in Texas will not be at risk to increasing tax burdens that could put them at competitive disadvantages

GAS, ELECTRIC & WATER UTILITY TAX

Gas, Electric & Water Utility Tax: A gross receipts tax is imposed on each electric utility and transmission & distribution utility located in an incorporated city or town having a population of more than 1,000 according to the most recent federal census. Utility companies subject to tax include electric companies, natural gas distribution companies, and water utility companies that make local sale and distribution. In areas open to retail electric competition the tax applies to the retail electric providers. The typical tax rate is 1.997%.

About 84 percent of revenues from the tax derives from sales of electricity, and 16 percent from sales of natural gas. Tax collections from water companies are negligible. AECT member companies pay just over half of the entire GEW tax.

Amount paid by AECT retail electric providers or integrated electric utilities: \$203.9 million (2015)

AECT Position:

- This gross receipts assessment tax is extremely complex to administer, and has become quite outdated with the competitive electric market structure.
- This tax is paid only by retail electric providers in competitive areas, and by integrated electric utilities in non-competitive areas. The tax is incorporated into the price of electricity, which customers must pay. Electric cooperatives and municipally owned utilities are completely exempt from this tax.

PUBLIC UTILITIES GROSS RECEIPTS ASSESSMENT

Public Utilities Gross Receipts Assessment: Paid by electric providers within the jurisdiction of the PUC who serve the ultimate customers. This assessment is 1/6 of 1% of the providers' gross receipts from sales of electricity. These tax revenues are used to defray costs of administering PURA.

Since inception, the assessment at a rate of one-sixth of one percent of gross receipts has yielded significantly more general revenue than has been required for administration of PURA. In recent and current budget cycles, general revenue appropriations to PUC and the Office of Public Utility Counsel for administration of PURA have consumed less than a fourth of assessment revenues.

Amount paid by AECT retail electric providers or integrated utilities: \$24.3 million (2015)

AECT Position:

- The assessment is incorporated into the price of electricity that customers must pay. Municipally owned utilities are completely exempt from this tax.

STATE AND LOCAL SALES & USE TAXES

Sales & Use Taxes: Electricity purchased for commercial use is subject to tax. Electricity purchased for residential consumption is exempt, as is electricity used directly in manufacturing.

When the exemption of residential use was enacted in 1978, an exception was provided for the city sales tax. The majority of cities continue to levy city sales tax on residential use of electricity. More recently, fire control, prevention, and emergency medical services districts have been authorized to impose local sales tax on residential electricity.

- Amount paid to state by AECT member companies on their own purchases: \$163.1 million (2015)
- Amount paid to local govts. by AECT member companies on their own purchases: \$36.0 million (2015)
- Amount collected for state by AECT member companies: \$233.6 million (2015)
- Amount collected for local govts. by AECT member companies: \$105.5 million (2015)

Total State and Local Sales & Use Taxes associated with electric service from AECT members: \$538.2 million (2015)

AECT Position:

- Existing manufacturing sales tax exemptions are valid. Eliminating or reducing these would be detrimental as this sector already bears a disproportionate share of the total tax burden within the state, and would put Texas companies at a disadvantage to neighboring states which would still allow for these exemptions.

STATE FRANCHISE TAX

State Franchise Tax: Corporations and other limited-liability business entities doing business in Texas are subject to franchise tax for the privilege of the liability veil provided to those forms of business organization by state law.

For most industries, including electricity, a 0.75 percent tax is due on the lesser of three methods of calculating taxable margin. Margin is the difference between a company's gross revenue and its option to deduct: (1) its cost of goods sold, or (2) its employee compensation costs, or (3) a flat 30 percent of its revenue. Margin for a multi-state firm is apportioned to Texas based on its percentage share of gross receipts from Texas. Investor-owned electric companies typically are incorporated or are organized in affiliated groups that include liability-shielded entities that make the entire company subject to the franchise tax.

Amount paid by AECT member companies: \$148.3 million (2015)

AECT Position:

- Any franchise tax relief granted by the state should be across-the-board rate relief so that all taxpayers are treated equally.
- Any changes to the corporate franchise tax should not create additional, multiple layers of taxation for capital-intensive businesses—the same taxpayers who are already bearing a heavy share of the State's total tax burden.

PROPERTY TAXES

Property Tax: The property tax base consists generally of all real and business personal property, unless exempt by constitutional mandate or constitutionally sanctioned local option. All taxable property is to be appraised and assessed at 100 percent of fair market value, unless eligible for special appraisal. Exemption policies vary by type of jurisdiction, and among jurisdictions of the same type when provided on a local option basis.

Electric companies have major investments in taxable property, principally generating plant and transmission and distribution infrastructure.

Amount paid by AECT member companies: \$670.7 million (2015)

AECT Position:

- The fundamental principle underlying a fair property tax system is that all property owners support their local governments equally by paying tax in proportion to the value of their property. Any non-uniform artificial limitations or restrictions imposed on that system erode that fundamental fairness.
- If property tax relief is offered, the fairest method is rate relief that applies to all properties, and taxpayers should be protected from other taxing jurisdictions making up the difference.

MUNICIPAL FRANCHISE FEES

Municipal Franchise Fees: Fees imposed by municipalities on electric utilities and transmission & distribution utilities for use of public rights-of-way. Texas Tax Code §182.025 and §33.008 of the Utilities Code authorize these fees and contain some limitations on the amounts to be charged. Generally, for agreements entered into after September 1, 1999 the requirement is simply that the computation be mutually agreed upon by the utility and the municipality.

Amount paid by AECT member companies: \$550.6 million (2015)

AECT Position:

- These franchise fees are considered a reasonable and necessary operating expense of an electric utility and are included in the nonbypassable delivery charges that a customer's retail electric provider must pay under Section 39.107 to the utility serving the customer.

HOW TO REACH US



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