

# INSTRUCTIONS FOR COMPLETING FRANCHISE TAX REPORTS

For reports due before January 1, 1992

*NOTE: General Information on filing franchise tax reports is on the back of the report form.*

## GENERAL INFORMATION

**TAX PERIOD:** ANNUAL REPORTS DUE BEFORE MAY 1, 1984- The privilege period is May 1 through April 30 of the following year.

ANNUAL REPORTS DUE ON OR AFTER MAY 1, 1984 AND BEFORE JANUARY 1, 1992- The privilege period is May 1 of the report year through the following April 30 except for the 1991 report year which is May 1, 1991 through December 31, 1991.

INITIAL REPORTS DUE BEFORE MAY 1, 1984- For a Texas corporation, the beginning date is the charter date; for a non-Texas corporation, the earlier of the date it began doing business in Texas or the date of its certificate of authority. The privilege period ends on April 30 PLUS one full franchise tax year (May 1 through April 30) unless the beginning date is between January 1 and May 1, then an additional franchise tax year is added. INITIAL REPORTS DUE ON OR AFTER MAY 1, 1984 AND BEFORE JANUARY 1, 1992- For a Texas corporation, the beginning date is the charter date; for a non-Texas corporation, the earlier of the date it began doing business in Texas or the date of its certificate of authority. For all corporations, the initial franchise tax report will cover both an initial privilege period and a second privilege period. The initial privilege period starts on the beginning date and ends on the day before the first anniversary of the beginning date. The second privilege period begins on the anniversary date, and ends on the following April 30. If the beginning date is after October 3 and before May 1, an additional franchise tax year (May 1 through April 30) is included in the initial report except for the annual 1991 period as indicated above. **NOTE:** Because the tax period for the initial period covers more than one year, the tax rate will be greater than that of the annual report.

**DUE DATE:** ANNUAL REPORTS DUE BEFORE MAY 1, 1984- The annual report and payment were due by June 15 of the report year.

ANNUAL REPORTS DUE ON OR AFTER MAY 1, 1984 AND BEFORE JANUARY 1, 1992- The annual report and payment were due March 15 of the report year. If you were the survivor of a merger occurring after August 25, 1985, see SPECIFIC INSTRUCTIONS (Item 1) below.

INITIAL REPORT- The initial report and payment are due within 90 days after the date the initial privilege period ends. If the corporation is the survivor of a merger, see Item 1.

*NOTE: If the due date of a report falls on a Saturday, Sunday or legal holiday, the due date will be the next business day.*

**ACCOUNTING METHODS:** Effective for reports originally due on or after January 1, 1988, surplus and gross receipts must be determined in accordance with Generally Accepted Accounting Principles (G.A.A.P.). Books and records will no longer control for franchise tax purposes. The law does contain some exceptions to the G.A.A.P. reporting requirements. It also contains definitions on surplus and debt. The exceptions and definitions are explained in these instructions as they pertain to various components of the franchise tax report.

A corporation with surplus of less than \$1,000,000, as determined by the accounting methods used to compute its federal income tax liability in the year prior to the report year, may use the same accounting method to compute its franchise tax liability.

Effective for reports originally due on or after January 1, 1990, corporations with no more than 35 shareholders that are organized under the Texas Close Corporation Law, or under the close corporation law of the state of incorporation, and corporations that have elected "S" status under the Internal Revenue Code (IRS) may elect to compute their franchise tax in accordance with the accounting method used to compute their federal income tax. This election may be taken even if the close or "S" corporation's surplus is greater than \$1,000,000.

Regardless of which of the above accounting methods is used, corporations are required to file based on their own financial condition. Consolidated reporting is not allowed.

*NOTE: For reports due prior to January 1, 1988, surplus may be determined in accordance with G.A.A.P. or an acceptable federal income tax accounting method.*

## SPECIFIC INSTRUCTIONS

**ITEM 1** - Applies only to survivors of mergers occurring after 08/25/85.

ANNUAL REPORTS - If you were the survivor of a merger which occurred between your accounting year ending date in the year prior to the report year and May 1 of the report year, you owed franchise tax based on your financial condition as of the day after the date of merger You should

check "YES" in Item 1 and enter the day after the date of merger in Item 2. In addition, if the merger occurred in February, March or April of the report year, the report was automatically due June 15 of the report year. It was not necessary to request an extension and no further extension could have been granted.

INITIAL REPORTS- If you were the survivor of a merger which occurred between the date in Item 2 and May 1 of the year in which the report was due, you owed franchise tax based on your financial condition as of the day after the date of the merger. You should check "YES" in Item 1 and enter this date in Item 2. The new due

date was automatically 91 days after the date of the merger and no further extension could have been granted.

*SPECIAL NOTE: The survivor should combine its receipts and the receipts of the nonsurvivors for the same 12-month period to determine the Apportionment Factor (Item 8).*

**ITEM 2 - ANNUAL REPORTS-** Enter the date of your normal accounting year end in the calendar year prior to the report year. *EXAMPLE: Report year 1985; corporation's normal ending date - January 31. Corporation should use January 31, 1984 to file the 1985 report.*

**INITIAL REPORTS-** For a Texas corporation, use the date that is the end of the month closest to the first anniversary of the charter date. For a non-Texas corporation, use the date that is the end of the month closest to the Texas Certificate of Authority date or the date the corporation began doing business in Texas, whichever is earlier. This date is required by statute.

**ITEM 3 -** Enter your corporation's assets located only in Texas.

**ITEM 4 -** Enter your corporation's assets located everywhere as of the end of your fiscal year. "Total Assets" includes all items reported or which should have been reported in the balance sheet on your corporate federal return for your fiscal year reported.

*NOTE: In reporting total assets, a cash deficit or a credit balance in any other asset account should be counted as "zero" and may not be used to reduce total assets.*

**ITEM 5 - NOTE:** *In filing an annual report (not valid for an initial report and reports due after 1983), you have the option to pay franchise tax based on the amount of your corporation's total assets everywhere OR on your net taxable capital and surplus. TO QUALIFY TO PAY TAX BASED ON TOTAL ASSETS:*

- "Total Assets everywhere" must be less than \$1,000,000 if filing a report for 1980 or later or less than \$150,000 if filing a report for years prior to 1980; and
- you must submit a signed copy of your corporation's federal income tax return (Form 1120 or 990) which contains a balance sheet showing total assets and liabilities of the corporation. (SEE ATTACHED TABLES)

**ITEM 6 - FOR REPORTS DUE BEFORE MAY 1, 1984** - Gross receipts in Texas includes:

- sales of tangible personal property when the property is delivered or shipped to a purchaser within Texas;
- services performed within Texas;
- rentals from property situated in Texas and royalties from use of patents or copyrights within Texas;
- all other business receipts within Texas including the corporation's share of net earnings or gross receipts of partnerships and joint ventures operating in Texas (net losses should be considered "zero" receipts) and dividends and interest from Texas payors.

Gross receipts in Texas excludes:

- receipts from interstate sale of food or food products exempt from Texas Limited Sales Tax, TEX. TAX CODE ANN. sec. 151.314(a);
- receipts from interstate sale of drugs, medicines, prosthetic devices or other items exempt from Texas Limited Sales Tax, TEX. TAX CODE ANN. sec. 151.313.

All such sales are excluded ONLY when the exempted items are shipped to the purchaser from outside Texas.

Sales of drugs and medicines are exempt if they can only be sold at retail under a prescription by a licensed practitioner of the healing arts.

**FOR REPORTS DUE ON OR AFTER MAY 1, 1984 AND BEFORE JANUARY 1, 1992-** Gross receipts in Texas include:

- sales of tangible personal property when the property is delivered or shipped to a purchaser within Texas;
- sales of tangible personal property when the property is shipped from Texas to a state in which you are not subject to taxation, i.e., the "Throwback rule," effective for reports due on or after October 2, 1984;
- services performed within Texas;
- rentals from property situated in Texas and royalties from use of patents or copyrights within Texas;
- all other business receipts within Texas including dividends\* and interest from Texas payors. *For example, dividends paid by a Texas corporation will be considered Texas receipts. Dividends paid by a corporation incorporated outside Texas are not Texas receipts.*

*NOTE: A corporation with zero Texas receipts will have zero percent of Texas business and will pay minimum tax.*

- \* Corporations must include dividends in gross receipts as of the date declared by the declaring corporation.

**ITEM 7 - FOR REPORTS DUE BEFORE MAY 1, 1984** - Gross receipts everywhere

include:

- all sales of tangible personal property;
- all rentals;
- all services;
- all royalties;
- all other business receipts;
- dividends and interest whether in or out of Texas;
- net gain from sales of investments and capital assets;
- corporation's share of net earnings or gross receipts of a partnership or joint venture. (Consider net losses as "zero" receipts.)

**FOR REPORTS DUE ON OR AFTER MAY 1, 1984 AND BEFORE JANUARY 1, 1992** - Gross receipts everywhere include:

- all sales of tangible personal property;
- all rentals;
- all services;
- all royalties;
- all other business receipts;
- all dividends\* and interest;
- net gain from sale in investment or capital assets\*\*;

(A net loss is treated as zero receipts.)

Twelve months of receipts information must be used ending with the date in Item 2.

- \* For 1988 through 1991 reports, corporations must include dividends in gross receipts as of the date declared by the declaring corporation.

\*\* A capital asset is any asset, other than an investment, which is held for use in the production of income, and is subject to depreciation, depletion, and amortization. An investment is any other non-cash asset not held as inventory or proceeds from the sale of inventory.

**ITEM 8 -** Divide "Gross receipts in Texas" by "Gross receipts everywhere," to obtain percentage, and round to four (4) places past the decimal.

**ITEM 9 -** Enter the stated capital. (Cannot be a deficit amount.)

- Include the par or stated value of all shares of stock for all classes, outstanding and in the treasury, as of your corporation's fiscal year ending date.
- If there is no par or stated value, use the amount actually received.

*NOTE: Treasury shares remain in stated capital unless canceled. A Texas corporation must file a Statement of Cancellation with the Secretary of State in accordance with the Texas Business Corporation Act. A foreign corporation must file in accordance with the laws of the state of incorporation.*

**ITEM 10 - FOR REPORTS DUE BEFORE JANUARY 1, 1988-** Surplus is the excess of net assets (total assets minus total debts) over the stated capital (capital shares). Some items included in surplus:

- retained earnings;
  - paid-in capital;
  - appraisal capital from appreciation of assets;
  - deferred investment credit;
  - donated capital;
  - investments in subsidiaries or other corporations at historical cost.
- Specifically excluded from surplus:
- deferred federal income tax based on liberalized depreciation or accelerated amortization;
  - reserve for bad debts;
  - cost of treasury shares purchased;
  - equity in subsidiary or investee corporation (includes only undistributed earnings of subsidiary).

**FOR REPORTS DUE ON OR AFTER JANUARY 1, 1988 AND BEFORE JANUARY 1, 1992** - Surplus is the amount of net assets that is in excess of stated capital. Debts are any legally enforceable obligations measured in a certain amount of money which must be performed or paid within an ascertainable period of time or on demand.

Corporations receiving dividends shall include those dividends in surplus as of the declaration date of the declaring corporation. Dividends are included in surplus when actually received.

Corporations declaring dividends shall exclude those dividends from surplus as of the declaration date.

Corporations involved in oil and gas exploration and production activities must

report in accordance with the successful efforts or full cost method of accounting unless they are qualified to use the federal income tax accounting method as explained under "Accounting Methods."

The cost method of accounting must be used for investments in subsidiary corporations or other investees. Effective May 1, 1989, of any tax period, the investment cost must include the investor's share of the pre-acquisition earnings of an investee. Pre-acquisition earnings are those earnings of the acquired corporation beginning from the date such corporation was formed up to the date the corporation was acquired.

*NOTE: A surplus deficit can be subtracted from stated capital. If your corporation has a surplus deficit, the deficit must be enclosed in brackets as follows: <XX,XXX>. Failure to do so will result in an improper calculation of your tax liability.*

Some items included in surplus:

- retained earnings;
- paid-in capital;
- donated capital;
- reserves not reflecting actual debts (for example, contingent liabilities).

*NOTE: For reports due prior to January 1, 1988, contingent liabilities based on events that have occurred and the amount of which can be reasonably estimated are excluded from surplus.*

Some items not included in surplus:

- deferred federal income tax;

- reserve for bad debts;
- equity in subsidiary or investee corporation (includes only undistributed earnings of subsidiary).

*NOTE: The cost of treasury shares purchased is allowed to decrease surplus.*

**ITEM 16 - ANNUAL REPORTS** - Enter the amount of any existing credit, such as an extension payment.

**INITIAL REPORTS** - The amount of any existing credit, such as the \$100 prepayment, will be preprinted on initial report.

**ITEM 18 - FOR REPORTS DUE ON OR AFTER MAY 1, 1984 AND BEFORE JANUARY 1, 1992 - ANNUAL REPORTS** - If any extension payment was not at least 100 percent of the tax paid in the year prior to the report year, or 90 percent of the tax that was due with the report you are filing, then penalty and interest will apply to:

- any part of the 90 percent not paid on or before March 15 of the report year, and
- any part of the 10 percent not paid on or before June 15 of the report year.

**INITIAL REPORTS** - If any extension payment was not at least 90 percent of the tax that was due when the initial report is filed, then penalty and interest will be assessed based on the original due date of the report.

*NOTE: If there was no extension, penalty and interest will be assessed based on the original due date of the return.*

## FRANCHISE TAX SHORT FORM TAX RATE SCHEDULES

*To be used when filing franchise tax reports prior to 1984.*

**REMEMBER - YOU MUST INCLUDE A SIGNED COPY OF THE CORPORATIONS FEDERAL INCOME TAX RETURN**

<b>TO BE USED ONLY WHEN FILING THE ANNUAL 1969 REPORT</b>		
<b>TOTAL ASSETS EVERYWHERE</b>		
<b>Are at least</b>	<b>But less than</b>	<b>Tax shall be</b>
\$ 0.00	\$ 15,000.00	\$ 35.00
15,000.00	20,000.00	45.00
20,000.00	25,000.00	55.00
25,000.00	30,000.00	70.00
30,000.00	40,000.00	90.00
40,000.00	50,000.00	115.00
50,000.00	60,000.00	140.00
60,000.00	70,000.00	165.00
70,000.00	80,000.00	190.00
80,000.00	90,000.00	215.00
90,000.00	100,000.00	240.00
100,000.00	110,000.00	265.00
110,000.00	120,000.00	290.00
120,000.00	130,000.00	315.00
130,000.00	140,000.00	340.00
140,000.00	150,000.00	365.00

<b>TO BE USED ONLY WHEN FILING THE ANNUAL 1970 or 1971 REPORT</b>		
<b>TOTAL ASSETS EVERYWHERE</b>		
<b>Are at least</b>	<b>But less than</b>	<b>Tax shall be</b>
\$ 0.00	\$ 15,000.00	\$ 40.00
15,000.00	20,000.00	55.00
20,000.00	25,000.00	65.00
25,000.00	30,000.00	85.00
30,000.00	40,000.00	105.00
40,000.00	50,000.00	135.00
50,000.00	60,000.00	165.00
60,000.00	70,000.00	195.00
70,000.00	80,000.00	225.00
80,000.00	90,000.00	255.00
90,000.00	100,000.00	285.00
100,000.00	110,000.00	315.00
110,000.00	120,000.00	345.00
120,000.00	130,000.00	370.00
130,000.00	140,000.00	400.00
140,000.00	150,000.00	430.00

<b>TO BE USED ONLY WHEN FILING THE ANNUAL 1972 THROUGH 1975 REPORTS</b>		
<b>TOTAL ASSETS EVERYWHERE</b>		
<b>Are at least</b>	<b>But less than</b>	<b>Tax shall be</b>
\$ 0.00	\$ 15,000.00	\$ 55.00
15,000.00	20,000.00	70.00
20,000.00	25,000.00	85.00
25,000.00	30,000.00	105.00
30,000.00	40,000.00	140.00
40,000.00	50,000.00	175.00
50,000.00	60,000.00	215.00
60,000.00	70,000.00	255.00
70,000.00	80,000.00	290.00
80,000.00	90,000.00	330.00
90,000.00	100,000.00	370.00
100,000.00	110,000.00	410.00
110,000.00	120,000.00	450.00
120,000.00	130,000.00	485.00
130,000.00	140,000.00	525.00
140,000.00	150,000.00	565.00

<b>TO BE USED ONLY WHEN FILING THE ANNUAL 1976 THROUGH 1979 REPORTS</b>		
<b>TOTAL ASSETS EVERYWHERE</b>		
<b>Are at least</b>	<b>But less than</b>	<b>Tax shall be</b>
\$ 0.00	\$ 15,000.00	\$ 35.00
15,000.00	20,000.00	45.00
20,000.00	25,000.00	55.00
25,000.00	30,000.00	70.00
30,000.00	40,000.00	90.00
40,000.00	50,000.00	115.00
50,000.00	60,000.00	140.00
60,000.00	70,000.00	165.00
70,000.00	80,000.00	190.00
80,000.00	90,000.00	215.00
90,000.00	100,000.00	240.00
100,000.00	110,000.00	265.00
110,000.00	120,000.00	290.00
120,000.00	130,000.00	315.00
130,000.00	140,000.00	340.00
140,000.00	150,000.00	365.00

<b>TO BE USED ONLY WHEN FILING THE ANNUAL 1980 THROUGH 1983 REPORTS</b>		
<b>TOTAL ASSETS EVERYWHERE</b>		
<b>Are at least</b>	<b>But less than</b>	<b>Tax shall be</b>
\$ 0.00	\$ 15,000.00	\$ 35.00
15,000.00	20,000.00	45.00
20,000.00	25,000.00	55.00
25,000.00	30,000.00	70.00
30,000.00	40,000.00	90.00
40,000.00	50,000.00	115.00
50,000.00	70,000.00	150.00
70,000.00	90,000.00	200.00
90,000.00	110,000.00	250.00
110,000.00	130,000.00	300.00
130,000.00	150,000.00	350.00
150,000.00	175,000.00	720.00
175,000.00	200,000.00	825.00
200,000.00	225,000.00	930.00
225,000.00	250,000.00	1,040.00
250,000.00	275,000.00	1,155.00
275,000.00	300,000.00	1,260.00
300,000.00	325,000.00	1,365.00
325,000.00	350,000.00	1,480.00
350,000.00	375,000.00	1,585.00
375,000.00	400,000.00	1,705.00
400,000.00	425,000.00	1,805.00
425,000.00	450,000.00	1,915.00
450,000.00	475,000.00	2,020.00
475,000.00	500,000.00	2,135.00
500,000.00	550,000.00	2,300.00
550,000.00	600,000.00	2,520.00
600,000.00	650,000.00	2,740.00
650,000.00	700,000.00	2,960.00
700,000.00	750,000.00	3,175.00
750,000.00	800,000.00	3,395.00
800,000.00	850,000.00	3,610.00
850,000.00	900,000.00	3,835.00
900,000.00	950,000.00	4,050.00
950,000.00	1,000,000.00	4,270.00

<b>SCHEDULE OF TAX RATES AND MINIMUM TAX BY REPORT YEAR FOR THE 1969 THROUGH 1991 REPORTING PERIODS</b>		
<b>REPORT YEAR</b>	<b>TAX RATE</b>	<b>MINIMUM TAX</b>
1968	\$2.25	\$25.00
1969	2.75	35.00
1970	3.25	41.36
1971	3.25	41.36
1972	4.25	54.09
1973	4.25	54.09
1974	4.25	54.09
1975	4.25	54.09
1976	4.25	55.00
1977	4.25	55.00
1978	4.25	55.00
1979	4.25	55.00
1980	4.25	55.00
1981	4.25	55.00
1982	4.25	55.00
1983	4.25	55.00
1984	4.25	55.00
1985	5.25	68.00
1986	5.25	68.00
1987	5.25	68.00
1988	6.70	150.00
1989	6.70	150.00
1990	5.25	68.00
1991	5.25	68.00

**INTEREST RATE SCHEDULE**

Through December 31, 1979 ..... 6% per annum  
 From January 1, 1980 to December 31, 1981 ..... 7% per annum  
 From January 1, 1982 to September 1, 1991 ..... 10% per annum  
 From September 1, 1991 to December ..... 12% per annum