



Tesla's Texas taxes: Elon Musk could benefit from Lone Star State Gigafactory

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May 15, 2020

Tesla CEO Elon Musk is reportedly considering setting up shop in Texas following a dispute with California over coronavirus-related health protections that required his plant to shutter – which could have some interesting implications on the company's tax obligations.

Auto website Elecktrek reported Friday that Musk has chosen a site near Austin as the location for Tesla's next Gigafactory, citing a source familiar with the matter.

While California's corporate income tax sits at a flat rate of 8.84 percent, Texas does not have a corporate income tax. However, the Lone Star State does have a margin tax that affects businesses.

The Texas franchise tax has a rate of .75 percent of the taxable margin (.375 percent for retail and wholesale), which is equal to the least of 70 percent of total revenue, 100 percent of total revenue minus cost of goods sold, 100 percent of total revenue minus compensation or total revenue minus \$1 million.

Chris Edwards, director of tax policy at the Cato Institute and editor of www.DownsizingGovernment.org, told FOX Business the franchise tax is “punishing.”

However, Texas is well known for having no personal income taxes. That could be a major benefit for attracting a qualified workforce or even relocating employees from California, Edwards noted. Contrarily, California has some of the highest individual income tax rates in the country.

“Musk and his advisers must also know that Texas has been a large inflow state in terms of interstate migration in recent years,” Edwards said. “That’s a strong indicator that he will be able to draw good workers to his new facilities in Texas if he decides to move.”

The Tax Foundation ranked Texas 13th in terms of overall business tax climate in 2020, while California came in at 48th.

Typically, a governor will also put together an incentive package to entice a company to plant roots in its state, which would likely lower the automaker's liabilities.

And Texas' Republican Gov. Greg Abbott seems keen on the idea, tweeting on Thursday that the state is a perfect fit for the plant.

Austin is gaining momentum as an emerging technology hub. The city has even been dubbed by some as the new Silicon Valley. Companies that have already set up shop in Austin include Apple, Amazon, Google and Facebook.

Part of the allure is attractive tax incentive programs, including for hiring and relocating. Both of those options offer up to 50 percent property tax reimbursement and up to 3 percent wage reimbursement per job/ per year.

Meanwhile, Musk has been feuding with California over restrictions that left him unable to reopen his plant, though county officials ultimately agreed to let some operations resume. The disagreement initially caused him to threaten to relocate Tesla's headquarters.

Musk has been openly critical of national lockdown policies.

A Tesla spokesperson did not return FOX Business' request for comment on the reported plans in Texas.