

Calculating the Franchise Tax Physician Example

Table A
Revenue

	Total Charges	Patient Receipts			Medicare Receipts	Insurance Receipts	Total Receipts
		Co-Pymt	Deductible	Other			
Patient #1	\$400	\$20	\$50		\$230		\$300
Patient #2	\$350			\$75			\$75
Patient #3	\$275						\$0
Patient #4	\$900	\$30	\$100			\$600	\$730
Revenue	\$1,925	\$50	\$150	\$75	\$230	\$600	\$1,105

Table B
Operating Expenses

From IRS Form 1065:

Salaries and wages	\$200
Guaranteed payments	\$300
Repairs and maintenance	\$20
Bad debt	\$40
Rent	\$225
Taxes and licenses	\$55
Interest	\$50
Depreciation	\$35
Depletion	
Retirement Plans	\$40
Employee Benefit Programs	\$60
Other Deductions	
Total Operating Expense	<u>\$1,025</u>

Table C
Cost of Uncompensated Care

Uncompensated care charges	\$625	from Table A, Patient #2 and Patient #3
less partial payments	<u>\$75</u>	from Table A, Patient #2
	\$550	
divided by total charges	\$1,925	from Table A
Uncompensated Care Ratio	0.2857	
multiplied by		
Operating expenses	<u>\$985</u>	from Table B, Total deductions less Bad debt
Cost of Uncompensated Care	<u>\$281</u>	

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Table D
Adjustment to Compensation Deduction*

Compensation Included in Operating Expenses:		
Salaries and wages	\$200	from Form 1065, Table B
Guaranteed payments	\$300	from Form 1065, Table B
Retirement Plans	\$40	from Form 1065, Table B
Employee Benefit Programs	\$60	from Form 1065, Table B
Total	\$600	
multiplied by the Uncompensated Care Ratio	0.2857	
Adjustment to Compensation Deduction	\$171	

*If using cost of goods sold to determine margin, a similar adjustment must be made for the cost of goods sold included in the operating expenses.

Table E
Calculating the Franchise Tax

Revenue	\$1,105	from Table A, Total Receipts
Deductions:		
Bad debt	\$40	from Table B, see 171.1011(c)(2)(B)(i)
Exclusions:		
Medicare Payments	\$300	from Table A, Patient #1*
Cost of Uncompensated Care	\$281	from Table C
Total Revenue	\$484	
Compensation		
Wages and cash compensation	\$500	
Employee Benefits	\$100	
Adjustment to Compensation Deduction	(\$171)	
Total Compensation	\$429	
Margin (Revenue less Compensation)	\$55	
Apportionment Factor	1.0000	Assuming all receipts are Texas receipts
Taxable Margin	\$55	
Tax Rate	1%	
Tax Due	\$1	

* Co-payments and deductibles received under Medicare programs may be excluded from total revenue.