TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

INTEROFFICE MEMO

DATE: December 1, 2025

TO: Tax Administration

FROM: Tax Policy

SUBJECT: Federal Government Ending Production of the Penny

Issue

This memo describes the actions the Texas Comptroller of Public Accounts (Agency) will implement to address the federal government's decision to end production of the penny. The memo specifically discusses how the Agency will handle cash payments it receives and the calculation of sales tax on cash transactions.

Implementation Summary

Cash Payments of Taxes

The Agency will continue to accept pennies while they continue to be legal tender.

The Agency will continue to make change using pennies when the office accepting payment has sufficient pennies available to do so.

If a taxpayer does not have exact change and the office accepting payment does not have sufficient pennies to make change, the Agency will round the total due down to the next lowest nickel and accept that amount as payment in full.

Rounding will not apply to any payments to the Agency using a different method, such as electronic payments or check payments. Those payments will still be handled to the penny.

Calculation of Sales Tax on Cash Transactions

Taxpayers must calculate sales tax on the sales price of the taxable item under Sections 151.410 and 151.053 and Rule 3.286 (d)(1) [1]. Taxpayers must remit this amount to the Agency regardless of method of payment from the taxpayers' customers.

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[1] Unless otherwise indicated, all references to "Section" are to the Texas Tax Code, and all references to "Rule" are to Title 34 of the Texas Administrative Code.

If the sales price plus sales tax results in a total that cannot be collected without pennies, retailers may round the transaction to the next lowest or next highest nickel, as they see fit, and the Agency will not adjust the sales price or recalculate tax due.

If a retailer rounds past the next lowest or next highest nickel, the Agency will adjust the sales price and recalculate the tax due.

Background

The federal government ended production of the penny in May 2025.[2] Shortages are expected to occur sometime between November 2025 and February 2026. *Id*. Canada made a similar decision to eliminate its penny in 2012.[3] This required cash purchases to be rounded to the nearest nickel, but did not affect electronic transactions. *Id*.

The Agency receives cash payments from taxpayers for remittances and collections and other non-tax charges (*e.g.*, payments for permits) at Enforcement offices around the state, and to a lesser extent via mail at Revenue Processing headquarters.

Taxpayers that receive cash payments subject to any indirect tax, such as sales tax, will need to determine how to calculate tax on cash transactions.

Discussion

Section 111.002 provides broad authority for the Agency to adopt rules for the collection of taxes, including "…to reflect changes in the power of this state to collect taxes and enforce the provisions of this title due to changes in the constitution or laws of the United States…"

The production of the penny is being ended due to a change in federal law, and it will have a direct impact on the practical power of Texas to collect taxes. Section 111.002 and the federal-law nature of the change to the penny justify Agency rules to address the situation.

Cash Payments Received by the Agency

The Agency receives a significant amount of cash payments, and the amount of cash received is increasing year-to-year. Agency offices accepting cash payments should follow the following procedures:

1. Continue to accept pennies for as long as pennies continue to be legal tender, including accepting exact-change cash payments.
2. Continue to use any pennies available to make change when needed.
3. Once an office's supply of pennies runs out, round cash payments down to the next lowest nickel.

[2] Paul Williams, *Penny's End Is Imminent, Treasury Rep Tells Tax Pact Board*, Law360 Tax Authority (May 21, 2025), https://www.law360.com/tax-authority/articles/2343196/penny-s-end-is-imminent-treasury-rep-tells-tax-pact-board.
[3] *Canada's Last Penny Minted*, CBC News (May 4, 2012), https://www.cbc.ca/news/canada/manitoba/canada-s-last-penny-minted-1.1134670.

When rounding, if a taxpayer is making payments for multiple periods or taxes in the same transaction, the rounding should occur after the total due is added together.

Cash Payments Received by Taxpayers Remitting Indirect Taxes

This guidance applies to all taxes remitted to the Agency by a person who collects the tax from another person. The largest tax in this category is the Sales Tax imposed by Tax Code, Chapter 151. This guidance applies only to cash transactions.

There should be no change to tax calculations for transactions using other methods of payment, such as credit card or check. Tax amounts of $0.005 or higher should be collected and remitted as $0.01 and amounts less than $0.005 should not be collected or remitted.

Existing Law

The general rule for reporting sales tax is to multiply the tax rate times the total receipts of the seller from all sales of taxable tangible personal property and taxable services. Section 151.410. Section 151.053 provides rounding rules for collecting and reporting sales tax. If the tax due includes a fraction of one cent, fractions greater than or equal to half a cent are collected as one cent and fractions less than half a cent are not collected. *Id*. The Agency is also authorized to publish brackets of amounts of taxes based on this formula. *Id*.

Rule 3.286 (d)(1) further explains this practice. It explains that this calculation is made on each separate retail sale and that tax is calculated on the sum of all taxable items in a retail sale, not individual items. It prohibits rounding the amount of sales or use tax that is due on the sale, other than as provided in the statutory bracket system.

Under existing law, rounding the cash accepted after calculating tax changes the sales price of the taxable item[4]. This change in sales price changes the tax due on the transaction, which can result in the assessment of additional tax.

Procedure

The Agency will not require a taxpayer to adjust the sales price when taxpayers collect and remit an indirect tax as follows:

1. The total sales price is calculated for each transaction by multiplying the total sales price by the applicable tax rate as provided under existing law.
2. If the total to be collected from the customer (total sales price + tax) results in an amount that cannot be collected without using pennies, taxpayers may either provide the customer exact change or round the total to be collected from the customer to the next lowest or next highest nickel.

[4] "Sales price" and "taxable item" are the terms used in sales tax statutes for the amount subject to tax and the items that are taxable. This memo applies to other indirect taxes even if those statutes use different terms.

For audit purposes, the person collecting and remitting an indirect tax must keep sufficient records to substantiate any rounding.

Examples

In these examples, a retailer charges $299.99 for a taxable item and the applicable tax rate is 8.25%. The tax due on the item is $24.75 and the total due is $324.74. The customer pays in cash.

Example 1 – The retailer has a policy to round all transactions down to the next lowest nickel after calculating tax. The retailer accepts $324.70 as payment in full. The Agency will not adjust the sales price or tax due because of this rounding. The retailer should remit $24.75 in tax to the Agency on the transaction.

Example 2 – The retailer has a policy to round all transactions up to the next highest nickel after calculating tax. The retailer accepts $324.75 as payment in full. The Agency will not adjust the sales price or tax due because of this rounding. The retailer should remit $24.75 in tax to the Agency on the transaction.

Example 3 – The retailer has a policy to round all transactions to the nearest nickel after calculating tax. The retailer accepts $324.75 as payment in full. The Agency will not adjust the sales price or tax due because of this rounding. The retailer should remit $24.75 in tax to the Agency on the transaction.

Example 4 – The retailer has a policy to round all transactions up to the next highest dollar after calculating tax. The retailer accepts $325 as payment in full. Unless the retailer includes tax in this $325 purchase price as provided by Rule 3.286 (d)(2)(B), the Agency will adjust the sales price to account for the $0.26 rounding. The sales price would be $300.25 ($299.99 + $0.26) and the tax due would be $24.77 ($300.25 x 8.25%). The retailer should collect $325.02 ($300.25 + $24.77) from the customer.

<u>Implementation</u>

The Agency will begin the practices described in this memo immediately. The Agency will provide training to its staff in the impacted divisions on how to handle the cash transactions as well as on what to look for during audit and refund assignments. The Agency will also post signage at the field offices to put the public on notice for the updated procedures. Additionally, the Agency will amend Rule 3.13 (Postmarks, Timely Filing of Reports, and Timely Payment of Taxes and Fees) to incorporate the contents of this memo. Other more specific rules regarding reports and payments may also be amended.