

## **BILL ANALYSIS**

C.S.H.B. 1460  
By: Eiland  
Local Government Ways and Means  
Committee Report (Substituted)

### **BACKGROUND AND PURPOSE**

Under current law, a chief appraiser is required to place a market value on a wide array of income-producing properties and is authorized to use the income method of appraisal on these properties for tax purposes. The chief appraiser may use the cost method, the market data comparison method, or the income method of appraisal or a combination of the three appraisal methods to determine the market value of real property. The income method of appraisal requires the chief appraiser to use rental income to make such a determination; however, rental income does not cover other types of real property which generates "non-rental" income. The Texas Constitution requires that taxation be equal and uniform, but with the rental income method rental income producing properties might be valued and taxed differently than non-rental producing property. CSHB 1460 serves to amend the current income method of appraisal of real property by conforming the language to match that of the Uniform Standards of Professional Appraisal Practice 2003 Edition.

### **RULEMAKING AUTHORITY**

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

### **ANALYSIS**

Section 1. Section 23.012, Tax Code, is amended as follows:

Section 23.012 (a) - When the income method is most appropriate the chief appraiser shall:

- (1) analyze comparable rental data and/or the potential earnings capacity of the property to estimate the income potential of the property .
- (2) analyze available and comparable operating expenses and estimate the operating expenses.
- (3) analyze available and comparable rates of capitalization and rates of discount and;
- (4) base future rent, income potential, and expenses on reasonably clear and appropriate evidence.

(b) The chief appraiser shall consider both historical information and trends including supply and demand and anticipated events from similar properties under construction when developing income, expense and cash flow projections.

Section 2. Amends Subchapter A, Chapter 23 of the Tax Code by adding 23.014

Section 23.014 - when determining the market value of real property, the chief appraiser shall analyze the effect on that value of and exclude from that value the value of, any:

- (1) tangible personal property including trade fixtures
- (2) intangible personal property; or
- (3) other property that is not subject to the appraisal as real property

Section 3. This Act takes affect January 1, 2004.

**EFFECTIVE DATE**

This Act takes affect January 1, 2004.

**COMPARISON OF ORIGINAL TO SUBSTITUTE**

Where HB1460 removed the word “rental” from the statute, CSHB1460 effectively replaces the current language with that found in the Uniform Standards of Professional Appraisal Practice 2003 Edition, Standards Rule 4-1 (c). The U.S.P.A.P. language is the nationally accepted language that the current statute was originally based upon. CSHB1460 also amends Subchapter A, Chapter 23, of the Tax Code by adding the language found in the Uniform Standards of Professional Appraisal Practice 2003 Edition, Standards Rule 4-1 (g), which addresses the exclusion of property considered in all appraisal methods and further clarifies the role of intangible property.