

By: Jackson

S.B. No. 17

A BILL TO BE ENTITLED

AN ACT

relating to the income and cost methods of appraisal of real property for ad valorem tax purposes.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

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

Sec. 23.012. INCOME METHOD OF APPRAISAL. (a) If the income method of appraisal is applicable and if ~~[If]~~ the chief appraiser uses the income method of appraisal to determine the market value of real property, the chief appraiser shall:

(1) analyze comparable rental data available to the appraiser or the potential earnings capacity of the property, or both the comparable rental data and the potential earnings capacity, to estimate the gross income potential of the property ~~[use rental income and expense data pertaining to the property if possible and applicable];~~

(2) analyze comparable operating expense data available to the appraiser to estimate the operating expenses of the property ~~[make any projections of future rental income and expenses only from clear and appropriate evidence];~~

(3) analyze comparable data available to the appraiser to estimate rates of capitalization or rates of discount ~~[use data from generally accepted sources in determining an appropriate capitalization rate]; [and]~~

1           (4) base projections of future rent or income  
2 potential and expenses on reasonably clear and appropriate  
3 evidence; and

4           (5) analyze the effect on value of any personal  
5 property, trade fixtures, or intangible items that are not real  
6 property but are included in the appraisal.

7           (b) When using potential earnings capacity to estimate the  
8 gross income potential of real property, the appraiser shall  
9 exclude the income and expenses attributable to any tangible  
10 personal property, intangible property, or other property that is  
11 not included in the appraisal. For purposes of Subsection (a), the  
12 income method of appraisal is not considered applicable if the  
13 appraiser cannot with reasonable certainty exclude the income and  
14 expenses attributable to other property as provided by this  
15 subsection ~~[determine a capitalization rate for income-producing~~  
16 ~~property that includes a reasonable return on investment, taking~~  
17 ~~into account the risk associated with the investment]~~.

18           SECTION 2. Section 23.011, Tax Code, is amended to read as  
19 follows:

20           Sec. 23.011. COST METHOD OF APPRAISAL. If the chief  
21 appraiser uses the cost method of appraisal to determine the market  
22 value of real property, the chief appraiser shall:

23           (1) use cost data obtained from generally accepted  
24 sources, such data to include ordinary installation where  
25 applicable;

26           (2) make any appropriate adjustment for physical,  
27 functional, or economic obsolescence;

1           (3) make available to the public on request cost data  
2 developed and used by the chief appraiser as applied to all  
3 properties within a property category and may charge a reasonable  
4 fee to the public for the data;

5           (4) clearly state the reason for any variation between  
6 generally accepted cost data and locally produced cost data if the  
7 data vary by more than 10 percent; and

8           (5) make available to the property owner on request  
9 all applicable market data that demonstrate the difference between  
10 the replacement cost of the improvements to the property and the  
11 depreciated value of the improvements.

12         SECTION 3. This Act takes effect January 1, 2004, and  
13 applies only to the appraisal of real property for ad valorem tax  
14 purposes for a tax year that begins on or after that date.