

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 9, 2003

TO: Honorable Fred Hill, Chair, House Committee on Local Government Ways and Means

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB515 by Madden (Relating to the continuation of the exemption from ad valorem taxation of motor vehicles leased for personal use.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB515, As Introduced: a positive impact of \$7,804,000 through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	\$3,842,000
2005	\$3,962,000
2006	(\$9,534,000)
2007	(\$7,861,000)
2008	(\$21,818,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from GENERAL REVENUE FUND 1	Probable Savings/ (Cost) from FOUNDATION SCHOOL FUND 193	Probable Revenue Gain/(Loss) from School Districts	Probable Revenue Gain/(Loss) from Counties
2004	\$3,842,000	\$0	\$0	\$0
2005	\$3,962,000	\$0	(\$13,645,000)	(\$3,367,000)
2006	\$4,111,000	(\$13,645,000)	(\$5,252,000)	(\$4,444,000)
2007	\$11,035,000	(\$18,896,000)	(\$5,541,000)	(\$6,030,000)
2008	\$2,620,000	(\$24,438,000)	(\$7,097,000)	(\$7,781,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code to extend the ad valorem tax exemption for motor vehicles leased for personal use.

Currently, the owner of a passenger car or truck, with a shipping weight of not more than 9,000 pounds and subject to a lease, is entitled to a property tax exemption if the lessee does not hold the vehicle for the production of income, and the vehicle is used primarily for activities that do not involve the production of income. The exemption is set to expire December 31, 2003. This bill would establish a new expiration date of December 31, 2007.

The bill would take effect immediately upon enactment, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2003.

Methodology

Under current law, qualified personal leased motor vehicles are exempt from property taxation by independent school districts, cities, counties, and special districts until December 31, 2003. This bill would reduce revenues to these taxing districts. Under the school finance formula, the state would reimburse school districts for their losses after a one-year lag, beginning in fiscal 2006.

New passenger car and light truck sales in Texas were approximately 1.6 million in fiscal 2002. Nationally, 24 percent of all new vehicle sales are leases; and, in a survey conducted by the Comptroller's Office, it was determined that approximately 12.27 percent of all leases (47,461 Texas leases) were for personal use. The survey identified 16,078 personal use leases, indicating that the potential for increased leases was 31,383. It was assumed that an equal number of leases, 8,967, would be added each period, with an average lease period of 42 months. It was assumed that, based on the marketing potential from having no more property tax on personal use leases, an additional 10,000 leases could be initiated each year for four years.

In addition, leased autos are "turned round," or disposed of by the lessee, on average about every 42 months, while purchased autos are "turned around" on average about every 53 months. Therefore, a secondary effect would be to generate an increase in motor vehicle sales and use tax collections. This increase would appear immediately after the effective date of the bill (and before the first property tax losses would occur), and it would continue as a reflection of the increased turnover in the Texas motor vehicle fleet.

The first losses to units of local government reflect a one-year lag, and a two-year lag in state reimbursement to independent school districts, given the mechanics of property taxation and school finance provisions. The fiscal implications to municipalities cannot be determined.

Local Government Impact

Local units of government would have a corresponding fiscal impact from property tax revenues, as indicated in the above table.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JK, JO, SD, WP, SM