

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 23, 2003

TO: Honorable Teel Bivins, Chair, Senate Committee on Finance

FROM: John Keel, Director, Legislative Budget Board

IN RE: SB658 by Brimer (Relating to making permanent 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 SB658, As Introduced: a positive impact of \$15,826,000 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	\$7,768,000
2005	\$8,058,000
2006	(\$5,215,000)
2007	\$1,729,000
2008	(\$3,920,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain from <i>GENERAL REVENUE FUND 1</i>	Probable (Cost) from <i>FOUNDATION SCHOOL FUND 193</i>	Probable Revenue (Loss) from <i>School Districts</i>	Probable Revenue (Loss) from <i>Counties</i>
2004	\$7,768,000	\$0	\$0	\$0
2005	\$8,058,000	\$0	(\$13,573,000)	(\$3,349,000)
2006	\$8,358,000	(\$13,573,000)	(\$5,182,000)	(\$4,409,000)
2007	\$20,484,000	(\$18,755,000)	(\$5,468,000)	(\$5,977,000)
2008	\$20,303,000	(\$24,223,000)	(\$2,593,000)	(\$6,617,000)

Fiscal Analysis

The bill would repeal Section 11.252(g) of the Tax Code, which currently sets a December 31, 2003 expiration date on the property tax exemption for personal leased motor vehicles, unless continued in effect by the Legislature. Cities that exercised the option to tax otherwise exempt personal leased motor vehicles would be permitted to continue taxing those vehicles.

Methodology

Under current law, qualified personal leased motor vehicles are exempt from property taxation by independent school districts, some 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, or 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 over," or disposed of by the lessee, on average about every 42 months, while purchased autos are "turned over" 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.

Local Government Impact

The impact on school districts and counties is illustrated in the above tables. In addition to these amounts, property tax revenue for cities and special districts would be reduced.

Source Agencies: 304 Comptroller of Public Accounts

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