

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATURE 2nd CALLED SESSION - 2005

July 21, 2005

TO: Honorable Jim Keffer, Chair, House Select Committee on Property Tax Relief

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: HB3 by Keffer, Jim (Relating to property tax relief and protection of taxpayers, certain taxes, fees, and property, and other matters relating to the financing of public schools; providing civil and criminal penalties; making an appropriation.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3, As Introduced: a positive impact of \$6,753,183,000 through the biennium ending August 31, 2007, if the effective date of the bill is September 1, 2005; or a positive impact of \$6,145,203,000 through the biennium ending August 31, 2007, if the effective date of the bill is November 1, 2005.

The following tables presume passage by 2/3 vote (September 1, 2005 effective date).

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from <i>GENERAL REVENUE FUND 1</i>	Probable Revenue Gain/(Loss) from <i>STATE HIGHWAY FUND 6</i>	Probable Revenue Gain/(Loss) from <i>School Districts</i>	Probable Revenue Gain/(Loss) from <i>Cities</i>
2006	\$3,079,219,000	\$2,772,000	(\$2,638,781,000)	\$48,418,000
2007	\$3,673,964,000	\$3,487,000	(\$4,020,702,000)	\$71,268,000
2008	\$3,696,902,000	\$3,661,000	(\$4,050,319,000)	\$81,310,000
2009	\$3,871,240,000	\$3,845,000	(\$4,192,486,000)	\$86,384,000
2010	\$3,927,923,000	\$4,035,000	(\$4,347,526,000)	\$91,795,000

Fiscal Year	Probable Revenue Gain/(Loss) from <i>Counties/Special Districts</i>	Probable Revenue Gain/(Loss) from <i>Transit Authorities</i>
2006	\$6,025,000	\$16,655,000
2007	\$8,868,000	\$24,516,000
2008	\$10,118,000	\$27,971,000
2009	\$10,749,000	\$29,715,000
2010	\$11,423,000	\$31,577,000

The following tables presume passage without 2/3 vote and conclusion of the 2nd Called Session by July 31 (November 1, 2005 effective date).

Fiscal Year	Probable Revenue Gain/(Loss) from GENERAL REVENUE FUND 1	Probable Revenue Gain/(Loss) from STATE HIGHWAY FUND 6	Probable Revenue Gain/(Loss) from School Districts	Probable Revenue Gain/(Loss) from Cities
2006	\$2,471,239,000	\$2,580,000	(\$2,638,781,000)	\$38,734,000
2007	\$3,673,964,000	\$3,487,000	(\$4,020,702,000)	\$71,268,000
2008	\$3,696,902,000	\$3,661,000	(\$4,050,319,000)	\$81,310,000
2009	\$3,871,240,000	\$3,845,000	(\$4,192,486,000)	\$86,384,000
2010	\$3,927,923,000	\$4,035,000	(\$4,347,526,000)	\$91,795,000

Fiscal Year	Probable Revenue Gain/(Loss) from Counties/Special Districts	Probable Revenue Gain/(Loss) from Transit Authorities
2006	\$4,820,000	\$13,325,000
2007	\$8,868,000	\$24,516,000
2008	\$10,118,000	\$27,971,000
2009	\$10,749,000	\$29,715,000
2010	\$11,423,000	\$31,577,000

Fiscal Analysis

The bill relates to property taxes, the implementation of new taxes, the increase in rates for existing taxes, and the expansion of tax bases.

Article 1 would reduce the ad valorem maintenance and operations (M&O) tax rate cap from \$1.50 per hundred dollars of valuation to \$1.25, plus \$0.15 for local enrichment, per \$100 valuation for the 2005 tax year, and \$1.21, plus \$0.15 for local enrichment, each year thereafter. A new subsection would allow any school district election held before September 1, 2005 authorizing a rate cap of at least \$1.25 to be sufficient authorization for a rate of \$1.25 or less, and a school district election held before January 1, 2006 authorizing a rate cap of at least \$1.21 to be sufficient authorization for a rate of \$1.21 or less.

Part B of Article 1 would establish the distribution of increases in available state revenue for school district property tax reduction. The Comptroller, before each regular session, would determine the increase, if any, in available state revenue, comparing certain preceding and current state revenue estimates required by Section 49a(a) of the Texas Constitution. The Comptroller would certify to the Legislature the amount of any increase and the school district M&O taxes levied for the second year of the current fiscal biennium. The Comptroller would distribute to school districts 15 percent of any increase in available state revenue for the reduction of school district tax rates. Further, the bill would establish the School Property Tax Relief Fund as an account in the General Revenue Fund. For each of five fiscal years beginning September 1, 2006, the Comptroller would be required to deposit to the credit of the account the amount, if any, by which actual revenue collections from the provisions of this Act exceed the estimated amount of revenue of this Act as estimated on or before the effective date of the Act. The revenue would be distributed in equal amounts in each fiscal year of the biennium based on the taxable value in each school district, as determined by the Comptroller's property value study. The bill would provide additional state aid to school districts as compensation for losses in state funding caused by the proposed tax rate reductions. The bill would require school districts receiving additional state aid for property tax relief to reduce their maintenance and operations tax rates commensurate with the additional aid.

Part C of Article 1 would define the jurisdiction of taxation of certain offshore drilling rig equipment; that certain administrative proceedings be closed to the public; and that an arbitrator may require an appraisal district to provide meeting space for an arbitration hearing at no cost to the arbitrator or property owner. Part D of Article 1 provide for an increase in the school district residential homestead

exemption of \$7,500, effective January 1, 2006. The residences of over-65 and disabled taxpayers subject to the current tax freeze would be eligible for a proportional reduction in taxes. Part E of Article 1 would exempt from ad valorem taxation possessory interests in certain rail facilities, effective January 1, 2006.

Article 2 would amend several provisions of Chapter 171 of the Tax Code. Part A would expand the type of business entities subject to the franchise tax to include corporations holding certain partnership interests, except those that hold an interest in certain real estate investment trusts. Net taxable capital and net taxable earned surplus are redefined to include a corporations' share of certain partnership interests or income.

Part B defines the franchise tax's application to partnerships. Part B becomes law if only a final judgment that the franchise tax violates the U.S. Constitution or federal law because of the application of new Section 171.001(d-1) of the Tax Code.

Part C would require that taxable entities add-back to reportable federal taxable income certain payments made to related entities. The bill would specify safe harbors for the add-back of royalty and interest payments. The bill would grant the Comptroller authority to adjust items of income and deductions among related parties if such adjustment were necessary to reflect an arm's length standard.

Part D contains transition language for Parts A, B and C, and provides that those parts become effective November 1, 2005 and apply to reports originally due on or after that date. For taxpayers that would become subject to the tax because of this bill, income or losses occurring before January 1, 2005 could not be considered for the earned surplus component. A taxpayer that would become subject to the tax because of this bill and that would be subject to the tax on January 1, 2006, but for which January 1, 2006, was not the beginning date, would file an annual report due May 15, 2006.

Article 3 would amend sales and use taxes. The state sales and use tax rate would increase from 6.25 percent to 7 percent. Further, certain computer goods and services and motor vehicle repair services would be taxable under the sales tax. The partial exemption for internet access and the timely filer discount for sales tax payers would be repealed. These provisions, except for the rate increase, would take effect September 1, 2005, assuming that the bill received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, they would take effect 91 days after the legislative session ends. The sales tax rate increase would take effect October 1, 2005, assuming that the bill received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect January 1, 2006.

The motor vehicle sales tax rate, the motor vehicle rental tax rate on rentals of more than 30 days and the boat and boat motor sales and use tax rate would increase from 6.25 percent to 7 percent. These provisions would take effect September 1, 2005 if the bill received a vote of two-thirds of the members elected to each house. If the bill did not receive the necessary votes for immediate effect, these provisions would take 91 days after the end of the session.

The bill would establish a presumptive value for determining the proper amount of motor vehicle sales tax due on certain motor vehicle sales transactions. The presumptive value would be the average retail value of a motor vehicle for motor vehicle sales tax computation purposes. The Texas Department of Transportation (TxDOT) would determine the presumptive value of a motor vehicle based on a nationally recognized motor vehicle industry reporting service. If the amount paid for a motor vehicle in a sales transaction were greater than or equal to the presumptive value, a tax assessor-collector would compute and collect the motor vehicle sales tax due on the amount paid. If, however, the amount paid for a motor vehicle in a sales transaction was less than the presumptive value, the tax assessor-collector would compute and collect the motor vehicle sales tax due on the presumptive value, unless the purchaser could establish a retail value. The bill would allow a purchaser to establish a retail value by obtaining an appraisal certified by an adjuster licensed under Chapter 4101 of the Insurance Code or by a motor vehicle dealer operating under Subchapter B, Chapter 503 of the Transportation Code. Appraisals would have to be on a form prescribed by the Comptroller, and they would have to be obtained no later than the 20th day after purchase. Dealers could charge a fee, set by the Comptroller, for providing the certified appraisal; and the tax assessor-collector would retain a copy of each certified appraisal for a period prescribed by the Comptroller. TxDOT would maintain

information on the standard presumptive values of motor vehicles as part of its registration and title system; TxDOT would update the information at least quarterly each calendar year. Standard presumptive value would not apply to even exchange transactions or gift transactions. The provisions relating to standard presumptive value and its use by tax assessor-collectors would take effect November 1, 2005.

Article 4 would raise the tax rates for cigarettes, cigars, and other tobacco products. The bill would raise the cigarette tax rate by \$50.00 per 1,000 cigarettes weighing three pounds or less per thousand (\$1.00 per pack of 20 cigarettes), to a new rate of \$70.50 per 1,000 cigarettes (\$1.41 per pack). Cigarette tax revenue generated by the rate increase would be allocated to the General Revenue Fund. The bill would raise the tax rates for all of the tobacco products included in Chapter 155 of the Tax Code. The tax on small cigars (weighing three pounds or less per thousand) would increase from \$0.01 per 10 cigars to \$0.0125 per 10 cigars; the tax on each of the three categories of large cigars (\$7.50, \$11.00, and \$15.00 per thousand) would increase by 25 percent (to \$9.375, \$13.75, and \$18.75 per thousand, respectively); and the tax on tobacco products other than cigarettes and cigars (i.e., snuff; chewing and pipe tobacco) would increase from 35.213 percent to 40 percent of the manufacturer's list price. Cigar and tobacco products tax revenue generated by the rate increases would be allocated to the General Revenue Fund. These provisions would take effect September 1, 2005 if the bill received a vote of two-thirds of the members elected to each house. If the bill did not receive the necessary votes for immediate effect, these provisions would take effect 90 days after session ends.

Article 5 would require the Office of Attorney General (OAG) to provide legal services for the collection of uncollected and delinquent obligations. The article would allow OAG to contract with private debt collectors, and it would allow the collectors to charge and retain an amount equal to 30 percent of the total obligation for services rendered. This article would take effect September 1, 2005, assuming that the bill received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect on the 91st day after the last day of the legislative session.

Article 6 would require that certain local government traffic penalties be deposited to the credit of the general revenue fund.

Article 7 would further define certain procedures used to petition the state for unclaimed property.

Article 8 would extend certain subchapters of the Texas Economic Development Act to December 31, 2011 from the current sunset date of December 31, 2007. Further, certain non-corporations would become eligible under the Act. Also, the applicability of the Act to certain school districts as of January, 2002 would remain throughout the total life of the Act.

Article 9 would provide for a fee of 10 percent of the gross receipts of a business authorized by this state to store or dispose certain radioactive waste.

Article 10 would allow certain tribal bingo operations to provide gaming through certain electronic means.

Article 11 would appropriate to the Comptroller of Public Accounts an amount necessary to implement the provisions of the bill.

Unless otherwise noted, this bill would take effect September 1, 2005, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect on the 91st day after the last day of the legislative session.

Methodology

The estimates in the tables above reflect only revenue changes to the state and affected local governments. The fiscal impact to state public education funding from the decrease in property taxes and the administrative requirements of this bill are not reflected in the tables. Further, the estimates in the tables do not reflect dynamic tax impacts as identified by the Comptroller of Public Accounts.

Estimates of the provisions contained in Articles 2, 3, 4 and 5 are provided by the Comptroller of

Public Accounts. The estimate of the loss due to the increased homestead exemption is also provided by the Comptroller of Public Accounts. The estimate of the loss due to the reduction in school district maintenance and operation tax rates is provided by the Legislative Budget Board. The provisions in Articles 6, 7, 8, 9 and 10 have no significant fiscal impact.

Local Government Impact

The impacts to local governments are shown in the above tables.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, SD, WP