

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

March 26, 2007

TO: Honorable Jim Keffer, Chair, House Committee on Ways & Means

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

IN RE: HB2196 by McCall (Relating to the imposition and collection of an ad valorem tax recovery fee by persons engaged in the business of leasing or renting certain vehicles, machinery, or equipment and to the ad valorem taxation of the inventory of a heavy equipment dealer.), **As Introduced**

As a result of reducing the unit property tax factor for the 2007 tax year by 33 cents, taxable property values would be reduced and the related costs to the Foundation School Fund would be increased.

The bill would amend Chapter 49 of the Business and Commerce Code and Chapter 23 of the Tax Code, concerning the collection of property taxes on the inventory of a heavy equipment dealer.

The bill would amend Chapter 49 of the Business and Commerce Code to require a heavy equipment dealer to impose and collect an "ad valorem tax recovery fee" from the lessee or renter of "qualified property." Under the bill, qualified property would be defined by the North American Industry Classification System to include construction, mining, farm and forestry machinery. The fee would be 3 percent of the gross lease or rental receipts received by the dealer from a lease or rental agreement.

The fees collected in a calendar year would be used to pay property taxes on qualified property or to make escrow payments for payment of property taxes on the dealer's other heavy equipment inventory. Any amount of recovery fees remaining after payment of property taxes would be distributed to taxing units that imposed property taxes on the dealer's inventory, in proportion to the amount of taxes each taxing unit imposing in the applicable tax year.

The bill would amend Section 23.1241 of the Tax Code by expanding the definition of "sale" for heavy equipment dealers to include a lease or rental of an item of heavy equipment from a dealer that is subject to an option to purchase by the lessee or renter.

The bill would amend Section 23.1242 of the Tax Code to reduce the unit property tax factor for the 2007 tax year by 33 cents to reflect the recent legislative reduction in school tax rates.

Because the state is constitutionally prohibited from imposing a state property tax, there would be no direct fiscal impact on the state.

Passage of the bill would shift the tax burden for payment of property taxes on certain heavy equipment inventory from the dealer to a lessee or renter, but would otherwise have no fiscal impact on units of local government.

Changing the definition of a "sale" relative to heavy equipment dealers would change the method of payment of property taxes on leased or rental items, but it would otherwise have no fiscal impact on units of local government.

The bill would take effect September 1, 2007.

Local Government Impact

Reducing the unit property tax factor for the 2007 tax year by 33 cents would result in an undetermined loss of revenue to units of local government.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, CT, SD, SJS