

# SENATE AMENDMENTS

2<sup>nd</sup> Printing

By: Chavez

H.B. No. 621

A BILL TO BE ENTITLED

AN ACT

1  
2 relating to the exemption from ad valorem taxation of tangible  
3 personal property held temporarily at a location in this state for  
4 assembling, storing, manufacturing, processing, or fabricating  
5 purposes.

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

7 SECTION 1. Subchapter B, Chapter 11, Tax Code, is amended by  
8 adding Section 11.253 to read as follows:

9 Sec. 11.253. TANGIBLE PERSONAL PROPERTY IN TRANSIT. (a) In  
10 this section:

11 (1) "Dealer's motor vehicle inventory," "dealer's  
12 vessel and outboard motor inventory," "dealer's heavy equipment  
13 inventory," and "retail manufactured housing inventory" have the  
14 meanings assigned by Subchapter B, Chapter 23.

15 (2) "Goods-in-transit" means tangible personal  
16 property that:

17 (A) is acquired in or imported into this state to  
18 be forwarded to another location in this state or outside this  
19 state;

20 (B) is detained at a location in this state in  
21 which the owner of the property does not have a direct or indirect  
22 ownership interest for assembling, storing, manufacturing,  
23 processing, or fabricating purposes by the person who acquired or  
24 imported the property;

1           (C) is transported to another location in this  
2 state or outside this state not later than 175 days after the date  
3 the person acquired the property in or imported the property into  
4 this state; and

5           (D) does not include oil, natural gas, petroleum  
6 products, aircraft, dealer's motor vehicle inventory, dealer's  
7 vessel and outboard motor inventory, dealer's heavy equipment  
8 inventory, or retail manufactured housing inventory.

9           (3) "Location" means a physical address.

10           (4) "Petroleum product" means a liquid or gaseous  
11 material that is an immediate derivative of the refining of oil or  
12 natural gas.

13           (b) This section applies only to property located in a  
14 county:

15           (1) with a population of 650,000 or more; and

16           (2) adjacent to an international border.

17           (c) A person is entitled to an exemption from taxation of  
18 the appraised value of that portion of the person's property that  
19 consists of goods-in-transit.

20           (d) The exemption provided by Subsection (c) is subtracted  
21 from the market value of the property determined under Section  
22 23.01 or 23.12, as applicable, to determine the taxable value of the  
23 property.

24           (e) Except as provided by Subsections (g) and (h), the chief  
25 appraiser shall determine the appraised value of goods-in-transit  
26 under this subsection. The chief appraiser shall determine the  
27 percentage of the market value of tangible personal property owned

1 by the property owner and used for the production of income in the  
2 preceding calendar year that was contributed by goods-in-transit.  
3 For the first year in which the exemption applies to a taxing unit,  
4 the chief appraiser shall determine that percentage as if the  
5 exemption applied in the preceding year. The chief appraiser shall  
6 apply that percentage to the market value of the property owner's  
7 tangible personal property used for the production of income for  
8 the current year to determine the appraised value of  
9 goods-in-transit for the current year.

10 (f) In determining the market value of goods-in-transit  
11 that in the preceding year were assembled, stored, manufactured,  
12 processed, or fabricated in this state, the chief appraiser shall  
13 exclude the cost of equipment, machinery, or materials that entered  
14 into and became component parts of the goods-in-transit but were  
15 not themselves goods-in-transit or that were not transported to  
16 another location in this state or outside this state before the  
17 expiration of 175 days after the date they were brought into this  
18 state by the property owner or acquired by the property owner in  
19 this state. For component parts held in bulk, the chief appraiser  
20 may use the average length of time a component part was held by the  
21 owner of the component parts during the preceding year at a location  
22 in this state that was not owned by or under the control of the owner  
23 of the component parts in determining whether the component parts  
24 were transported to another location in this state or outside this  
25 state before the expiration of 175 days.

26 (g) If the property owner was not engaged in transporting  
27 goods-in-transit to another location in this state or outside this

1 state for the entire preceding year, the chief appraiser shall  
2 calculate the percentage of the market value described in  
3 Subsection (e) for the portion of the year in which the property  
4 owner was engaged in transporting goods-in-transit to another  
5 location in this state or outside this state.

6 (h) If the property owner or the chief appraiser  
7 demonstrates that the method provided by Subsection (e)  
8 significantly understates or overstates the market value of the  
9 property qualified for an exemption under Subsection (c) in the  
10 current year, the chief appraiser shall determine the market value  
11 of the goods-in-transit to be exempt by determining, according to  
12 the property owner's records and any other available information,  
13 the market value of those goods-in-transit owned by the property  
14 owner on January 1 of the current year, excluding the cost of  
15 equipment, machinery, or materials that entered into and became  
16 component parts of the goods-in-transit but were not themselves  
17 goods-in-transit or that were not transported to another location  
18 in this state or outside this state before the expiration of 175  
19 days after the date they were brought into this state by the  
20 property owner or acquired by the property owner in this state.

21 (i) The chief appraiser by written notice delivered to a  
22 property owner who claims an exemption under this section may  
23 require the property owner to provide copies of property records so  
24 the chief appraiser can determine the amount and value of  
25 goods-in-transit and that the location in this state where the  
26 goods-in-transit were detained for assembling, storing,  
27 manufacturing, processing, or fabricating purposes was not owned by

1 or under the control of the owner of the goods-in-transit. If the  
2 property owner fails to deliver the information requested in the  
3 notice before the 31st day after the date the notice is delivered to  
4 the property owner, the property owner forfeits the right to claim  
5 or receive the exemption for that year.

6 (j) Property that meets the requirements of this section  
7 constitutes goods-in-transit regardless of whether the person who  
8 owns the property on January 1 is the person who transports the  
9 property to another location in this state or outside this state.

10 (k) The governing body of a taxing unit, in the manner  
11 required for official action by the governing body, may provide for  
12 the taxation of goods-in-transit exempt under Subsection (c) and  
13 not exempt under other law. The official action to tax the  
14 goods-in-transit must be taken before January 1 of the first tax  
15 year in which the governing body proposes to tax goods-in-transit.  
16 Before acting to tax the exempt property, the governing body of the  
17 taxing unit must conduct a public hearing as required by Section  
18 1-n(d), Article VIII, Texas Constitution. If the governing body of  
19 a taxing unit provides for the taxation of the goods-in-transit as  
20 provided by this subsection, the exemption prescribed by Subsection  
21 (c) does not apply to that unit. The goods-in-transit remain  
22 subject to taxation by the taxing unit until the governing body of  
23 the taxing unit, in the manner required for official action,  
24 rescinds or repeals its previous action to tax goods-in-transit, or  
25 otherwise determines that the exemption prescribed by Subsection  
26 (c) will apply to that taxing unit.

27 (l) A property owner who receives the exemption from

1 taxation provided by Subsection (c) is not eligible to receive the  
2 exemption from taxation provided by Section 11.251 for the same  
3 property.

4 SECTION 2. Section 26.012(15), Tax Code, is amended to read  
5 as follows:

6 (15) "Lost property levy" means the amount of taxes  
7 levied in the preceding year on property value that was taxable in  
8 the preceding year but is not taxable in the current year because  
9 the property is exempt in the current year under a provision of this  
10 code other than Section 11.251 or 11.253, the property has  
11 qualified for special appraisal under Chapter 23 [~~of this code~~] in  
12 the current year, or the property is located in territory that has  
13 ceased to be a part of the unit since the preceding year.

14 SECTION 3. Section 403.302(d), Government Code, is amended  
15 to read as follows:

16 (d) For the purposes of this section, "taxable value" means  
17 the market value of all taxable property less:

18 (1) the total dollar amount of any residence homestead  
19 exemptions lawfully granted under Section 11.13(b) or (c), Tax  
20 Code, in the year that is the subject of the study for each school  
21 district;

22 (2) one-half of the total dollar amount of any  
23 residence homestead exemptions granted under Section 11.13(n), Tax  
24 Code, in the year that is the subject of the study for each school  
25 district;

26 (3) the total dollar amount of any exemptions granted  
27 before May 31, 1993, within a reinvestment zone under agreements

1 authorized by Chapter 312, Tax Code;

2 (4) subject to Subsection (e), the total dollar amount  
3 of any captured appraised value of property that:

4 (A) is within a reinvestment zone created on or  
5 before May 31, 1999, or is proposed to be included within the  
6 boundaries of a reinvestment zone as the boundaries of the zone and  
7 the proposed portion of tax increment paid into the tax increment  
8 fund by a school district are described in a written notification  
9 provided by the municipality or the board of directors of the zone  
10 to the governing bodies of the other taxing units in the manner  
11 provided by Section 311.003(e), Tax Code, before May 31, 1999, and  
12 within the boundaries of the zone as those boundaries existed on  
13 September 1, 1999, including subsequent improvements to the  
14 property regardless of when made;

15 (B) generates taxes paid into a tax increment  
16 fund created under Chapter 311, Tax Code, under a reinvestment zone  
17 financing plan approved under Section 311.011(d), Tax Code, on or  
18 before September 1, 1999; and

19 (C) is eligible for tax increment financing under  
20 Chapter 311, Tax Code;

21 (5) for a school district for which a deduction from  
22 taxable value is made under Subdivision (4), an amount equal to the  
23 taxable value required to generate revenue when taxed at the school  
24 district's current tax rate in an amount that, when added to the  
25 taxes of the district paid into a tax increment fund as described by  
26 Subdivision (4)(B), is equal to the total amount of taxes the  
27 district would have paid into the tax increment fund if the district

1 levied taxes at the rate the district levied in 2005;

2 (6) the total dollar amount of any exemptions granted  
3 under Section 11.251 or 11.253, Tax Code;

4 (7) the difference between the comptroller's estimate  
5 of the market value and the productivity value of land that  
6 qualifies for appraisal on the basis of its productive capacity,  
7 except that the productivity value estimated by the comptroller may  
8 not exceed the fair market value of the land;

9 (8) the portion of the appraised value of residence  
10 homesteads of individuals who receive a tax limitation under  
11 Section 11.26, Tax Code, on which school district taxes are not  
12 imposed in the year that is the subject of the study, calculated as  
13 if the residence homesteads were appraised at the full value  
14 required by law;

15 (9) a portion of the market value of property not  
16 otherwise fully taxable by the district at market value because of:

17 (A) action required by statute or the  
18 constitution of this state that, if the tax rate adopted by the  
19 district is applied to it, produces an amount equal to the  
20 difference between the tax that the district would have imposed on  
21 the property if the property were fully taxable at market value and  
22 the tax that the district is actually authorized to impose on the  
23 property, if this subsection does not otherwise require that  
24 portion to be deducted; or

25 (B) action taken by the district under Subchapter  
26 B or C, Chapter 313, Tax Code;

27 (10) the market value of all tangible personal



1 property, other than manufactured homes, owned by a family or  
2 individual and not held or used for the production of income;

3 (11) the appraised value of property the collection of  
4 delinquent taxes on which is deferred under Section 33.06, Tax  
5 Code;

6 (12) the portion of the appraised value of property  
7 the collection of delinquent taxes on which is deferred under  
8 Section 33.065, Tax Code; and

9 (13) the amount by which the market value of a  
10 residence homestead to which Section 23.23, Tax Code, applies  
11 exceeds the appraised value of that property as calculated under  
12 that section.

13 SECTION 4. This Act applies only to taxes imposed for a tax  
14 year beginning on or after the effective date of this Act.

15 SECTION 5. This Act takes effect January 1, 2008.

ADOPTED

MAY 18 2007

*Leta Spaw*  
Secretary of the Senate

*Robert Duncan*

By: \_\_\_\_\_

H.B. No. 621

Substitute the following for H.B. No. 621 :

By: *Duncan*

C.S.H.B. No. 621

A BILL TO BE ENTITLED

AN ACT

relating to the exemption from ad valorem taxation of tangible personal property held temporarily at a location in this state for assembling, storing, manufacturing, processing, or fabricating purposes.

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

SECTION 1. Subchapter B, Chapter 11, Tax Code, is amended by adding Section 11.253 to read as follows:

Sec. 11.253. TANGIBLE PERSONAL PROPERTY IN TRANSIT. (a) In this section:

(1) "Dealer's motor vehicle inventory," "dealer's vessel and outboard motor inventory," "dealer's heavy equipment inventory," and "retail manufactured housing inventory" have the meanings assigned by Subchapter B, Chapter 23.

(2) "Goods-in-transit" means tangible personal property that:

(A) is acquired in or imported into this state to be forwarded to another location in this state or outside this state;

(B) is detained at a location in this state in which the owner of the property does not have a direct or indirect ownership interest for assembling, storing, manufacturing, processing, or fabricating purposes by the person who acquired or imported the property;

1                   (C) is transported to another location in this  
2 state or outside this state not later than 175 days after the date  
3 the person acquired the property in or imported the property into  
4 this state; and

5                   (D) does not include oil, natural gas, petroleum  
6 products, aircraft, dealer's motor vehicle inventory, dealer's  
7 vessel and outboard motor inventory, dealer's heavy equipment  
8 inventory, or retail manufactured housing inventory.

9                   (3) "Location" means a physical address.

10                   (4) "Petroleum product" means a liquid or gaseous  
11 material that is an immediate derivative of the refining of oil or  
12 natural gas.

13                   (b) A person is entitled to an exemption from taxation of  
14 the appraised value of that portion of the person's property that  
15 consists of goods-in-transit.

16                   (c) The exemption provided by Subsection (b) is subtracted  
17 from the market value of the property determined under Section  
18 23.01 or 23.12, as applicable, to determine the taxable value of the  
19 property.

20                   (d) Except as provided by Subsections (f) and (g), the chief  
21 appraiser shall determine the appraised value of goods-in-transit  
22 under this subsection. The chief appraiser shall determine the  
23 percentage of the market value of tangible personal property owned  
24 by the property owner and used for the production of income in the  
25 preceding calendar year that was contributed by goods-in-transit.  
26 For the first year in which the exemption applies to a taxing unit,  
27 the chief appraiser shall determine that percentage as if the

1 exemption applied in the preceding year. The chief appraiser shall  
2 apply that percentage to the market value of the property owner's  
3 tangible personal property used for the production of income for  
4 the current year to determine the appraised value of  
5 goods-in-transit for the current year.

6 (e) In determining the market value of goods-in-transit  
7 that in the preceding year were assembled, stored, manufactured,  
8 processed, or fabricated in this state, the chief appraiser shall  
9 exclude the cost of equipment, machinery, or materials that entered  
10 into and became component parts of the goods-in-transit but were  
11 not themselves goods-in-transit or that were not transported to  
12 another location in this state or outside this state before the  
13 expiration of 175 days after the date they were brought into this  
14 state by the property owner or acquired by the property owner in  
15 this state. For component parts held in bulk, the chief appraiser  
16 may use the average length of time a component part was held by the  
17 owner of the component parts during the preceding year at a location  
18 in this state that was not owned by or under the control of the owner  
19 of the component parts in determining whether the component parts  
20 were transported to another location in this state or outside this  
21 state before the expiration of 175 days.

22 (f) If the property owner was not engaged in transporting  
23 goods-in-transit to another location in this state or outside this  
24 state for the entire preceding year, the chief appraiser shall  
25 calculate the percentage of the market value described in  
26 Subsection (d) for the portion of the year in which the property  
27 owner was engaged in transporting goods-in-transit to another

1 location in this state or outside this state.

2 (g) If the property owner or the chief appraiser  
3 demonstrates that the method provided by Subsection (d)  
4 significantly understates or overstates the market value of the  
5 property qualified for an exemption under Subsection (b) in the  
6 current year, the chief appraiser shall determine the market value  
7 of the goods-in-transit to be exempt by determining, according to  
8 the property owner's records and any other available information,  
9 the market value of those goods-in-transit owned by the property  
10 owner on January 1 of the current year, excluding the cost of  
11 equipment, machinery, or materials that entered into and became  
12 component parts of the goods-in-transit but were not themselves  
13 goods-in-transit or that were not transported to another location  
14 in this state or outside this state before the expiration of 175  
15 days after the date they were brought into this state by the  
16 property owner or acquired by the property owner in this state.

17 (h) The chief appraiser by written notice delivered to a  
18 property owner who claims an exemption under this section may  
19 require the property owner to provide copies of property records so  
20 the chief appraiser can determine the amount and value of  
21 goods-in-transit and that the location in this state where the  
22 goods-in-transit were detained for assembling, storing,  
23 manufacturing, processing, or fabricating purposes was not owned by  
24 or under the control of the owner of the goods-in-transit. If the  
25 property owner fails to deliver the information requested in the  
26 notice before the 31st day after the date the notice is delivered to  
27 the property owner, the property owner forfeits the right to claim

1 or receive the exemption for that year.

2 (i) Property that meets the requirements of this section  
3 constitutes goods-in-transit regardless of whether the person who  
4 owns the property on January 1 is the person who transports the  
5 property to another location in this state or outside this state.

6 (j) The governing body of a taxing unit, in the manner  
7 required for official action by the governing body, may provide for  
8 the taxation of goods-in-transit exempt under Subsection (b) and  
9 not exempt under other law. The official action to tax the  
10 goods-in-transit must be taken before January 1 of the first tax  
11 year in which the governing body proposes to tax goods-in-transit.  
12 Before acting to tax the exempt property, the governing body of the  
13 taxing unit must conduct a public hearing as required by Section  
14 1-n(d), Article VIII, Texas Constitution. If the governing body of  
15 a taxing unit provides for the taxation of the goods-in-transit as  
16 provided by this subsection, the exemption prescribed by Subsection  
17 (b) does not apply to that unit. The goods-in-transit remain  
18 subject to taxation by the taxing unit until the governing body of  
19 the taxing unit, in the manner required for official action,  
20 rescinds or repeals its previous action to tax goods-in-transit, or  
21 otherwise determines that the exemption prescribed by Subsection  
22 (b) will apply to that taxing unit.

23 (k) A property owner who receives the exemption from  
24 taxation provided by Subsection (b) is not eligible to receive the  
25 exemption from taxation provided by Section 11.251 for the same  
26 property.

27 SECTION 2. Section 26.012(15), Tax Code, is amended to read

1 as follows:

2 (15) "Lost property levy" means the amount of taxes  
3 levied in the preceding year on property value that was taxable in  
4 the preceding year but is not taxable in the current year because  
5 the property is exempt in the current year under a provision of this  
6 code other than Section 11.251 or 11.253, the property has  
7 qualified for special appraisal under Chapter 23 [~~of this code~~] in  
8 the current year, or the property is located in territory that has  
9 ceased to be a part of the unit since the preceding year.

10 SECTION 3. Section 403.302(d), Government Code, is amended  
11 to read as follows:

12 (d) For the purposes of this section, "taxable value" means  
13 the market value of all taxable property less:

14 (1) the total dollar amount of any residence homestead  
15 exemptions lawfully granted under Section 11.13(b) or (c), Tax  
16 Code, in the year that is the subject of the study for each school  
17 district;

18 (2) one-half of the total dollar amount of any  
19 residence homestead exemptions granted under Section 11.13(n), Tax  
20 Code, in the year that is the subject of the study for each school  
21 district;

22 (3) the total dollar amount of any exemptions granted  
23 before May 31, 1993, within a reinvestment zone under agreements  
24 authorized by Chapter 312, Tax Code;

25 (4) subject to Subsection (e), the total dollar amount  
26 of any captured appraised value of property that:

27 (A) is within a reinvestment zone created on or

1 before May 31, 1999, or is proposed to be included within the  
2 boundaries of a reinvestment zone as the boundaries of the zone and  
3 the proposed portion of tax increment paid into the tax increment  
4 fund by a school district are described in a written notification  
5 provided by the municipality or the board of directors of the zone  
6 to the governing bodies of the other taxing units in the manner  
7 provided by Section 311.003(e), Tax Code, before May 31, 1999, and  
8 within the boundaries of the zone as those boundaries existed on  
9 September 1, 1999, including subsequent improvements to the  
10 property regardless of when made;

11 (B) generates taxes paid into a tax increment  
12 fund created under Chapter 311, Tax Code, under a reinvestment zone  
13 financing plan approved under Section 311.011(d), Tax Code, on or  
14 before September 1, 1999; and

15 (C) is eligible for tax increment financing under  
16 Chapter 311, Tax Code;

17 (5) for a school district for which a deduction from  
18 taxable value is made under Subdivision (4), an amount equal to the  
19 taxable value required to generate revenue when taxed at the school  
20 district's current tax rate in an amount that, when added to the  
21 taxes of the district paid into a tax increment fund as described by  
22 Subdivision (4)(B), is equal to the total amount of taxes the  
23 district would have paid into the tax increment fund if the district  
24 levied taxes at the rate the district levied in 2005;

25 (6) the total dollar amount of any exemptions granted  
26 under Section 11.251 or 11.253, Tax Code;

27 (7) the difference between the comptroller's estimate



1 of the market value and the productivity value of land that  
2 qualifies for appraisal on the basis of its productive capacity,  
3 except that the productivity value estimated by the comptroller may  
4 not exceed the fair market value of the land;

5 (8) the portion of the appraised value of residence  
6 homesteads of individuals who receive a tax limitation under  
7 Section 11.26, Tax Code, on which school district taxes are not  
8 imposed in the year that is the subject of the study, calculated as  
9 if the residence homesteads were appraised at the full value  
10 required by law;

11 (9) a portion of the market value of property not  
12 otherwise fully taxable by the district at market value because of:

13 (A) action required by statute or the  
14 constitution of this state that, if the tax rate adopted by the  
15 district is applied to it, produces an amount equal to the  
16 difference between the tax that the district would have imposed on  
17 the property if the property were fully taxable at market value and  
18 the tax that the district is actually authorized to impose on the  
19 property, if this subsection does not otherwise require that  
20 portion to be deducted; or

21 (B) action taken by the district under Subchapter  
22 B or C, Chapter 313, Tax Code;

23 (10) the market value of all tangible personal  
24 property, other than manufactured homes, owned by a family or  
25 individual and not held or used for the production of income;

26 (11) the appraised value of property the collection of  
27 delinquent taxes on which is deferred under Section 33.06, Tax

1 Code;

2 (12) the portion of the appraised value of property  
3 the collection of delinquent taxes on which is deferred under  
4 Section 33.065, Tax Code; and

5 (13) the amount by which the market value of a  
6 residence homestead to which Section 23.23, Tax Code, applies  
7 exceeds the appraised value of that property as calculated under  
8 that section.

9 SECTION 4. This Act applies only to taxes imposed for a tax  
10 year beginning on or after the effective date of this Act.

11 SECTION 5. This Act takes effect January 1, 2008.

**LEGISLATIVE BUDGET BOARD**  
Austin, Texas

**FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION**

**May 15, 2007**

**TO:** Honorable Steve Ogden, Chair, Senate Committee on Finance

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

**IN RE: HB621** by Chavez (Relating to the exemption from ad valorem taxation of tangible personal property held temporarily at a location in this state for assembling, storing, manufacturing, processing, or fabricating purposes. ), **Committee Report 2nd House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB621, Committee Report 2nd House, Substituted: a negative impact of (\$25,215,000) through the biennium ending August 31, 2009.

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)<br>Impact to General Revenue Related<br>Funds |
|-------------|--|
| 2008        | \$0  |
| 2009        | (\$25,215,000)   |
| 2010        | (\$31,184,000)   |
| 2011        | (\$32,429,000)   |
| 2012        | (\$33,723,000)   |

**All Funds, Five-Year Impact:**

| Fiscal Year | Probable Savings/<br>(Cost) from<br><i>FOUNDATION<br/>SCHOOL FUND<br/>193</i> | Probable Revenue<br>Gain/(Loss) from<br><i>School Districts - Initial<br/>Impact</i> | Probable Revenue<br>Gain/(Loss) from<br><i>Counties</i> | Probable Revenue<br>Gain/(Loss) from<br><i>Cities</i> |
|-------------|---|--|---|---|
| 2008        | \$0   | \$0  | \$0   | \$0   |
| 2009        | (\$25,215,000)  | (\$30,221,000)   | (\$9,419,000)   | (\$6,552,000)   |
| 2010        | (\$31,184,000)  | (\$31,430,000)   | (\$9,796,000)   | (\$6,814,000)   |
| 2011        | (\$32,429,000)  | (\$32,687,000)   | (\$10,188,000)  | (\$7,087,000)   |
| 2012        | (\$33,723,000)  | (\$33,994,000)   | (\$10,596,000)  | (\$7,370,000)   |

**Fiscal Analysis**

The bill would add a new section to Chapter 11 of the Tax Code to provide a new exemption from ad valorem taxation for "goods in transit."

To qualify for the exemption, personal property would have to be acquired in Texas or imported into Texas and stored at a Texas location in which the owner of the goods did not have a direct or indirect ownership interest.

Oil and gas and their immediate derivatives, aircraft, and dealer's special inventories would not qualify



for the exemption. In addition, the inventory would have to be transported or distributed to another location no later than 175 days after the property was acquired in or imported into the state.

The exemption would have to be granted by all taxing units unless the governing body of a taxing unit proposed by official action to tax goods in transit. Before acting to tax goods in transit, the governing body of a taxing unit would have to conduct a public hearing where the public would be allowed to speak for or against the action to tax the property.

The bill would take effect January 1, 2008.

### **Methodology**

Currently, Article VIII, Section 1-j of the Texas Constitution and Section 11.251 of the Tax Code provide for a "freeport exemption." This exemption, which can be granted at the option of each city, county, school district, or junior college district, exempts goods, wares, ores, raw materials, and other types of inventory that are brought into or acquired in the state and transported out of the state within 175 days of acquisition.

In November 2001, Texas voters approved of the amendment proposed in SJR 6, adding Article VIII, Section 1-n to the Texas Constitution. This amendment authorized the Legislature to exempt from ad valorem taxation "goods in transit."

The enabling legislation proposed in the bill would provide an exemption for property acquired in Texas or imported into Texas if the property is stored at a location in which the owner of the goods does not have a direct or indirect ownership interest and is transported to another location either inside or outside of the state within 175 days. The bill would provide a local option procedure to continue taxing the property.

The proposed exemption could cause an undetermined revenue loss to cities, counties, school districts, and junior college districts exempting goods in transit.

Because the state is constitutionally prohibited from imposing a state property tax, there would be no direct fiscal impact on the state. However, Section 403.302 of the Government Code requires the Comptroller to conduct a property value study to determine the total taxable value for each school district. Total taxable value is an element in the state's school funding formula. Depending on the number of school districts allowing the exemption, the state would reimburse school districts an undetermined amount of funding for this exemption, after a one-year lag.

The bill is estimated to have an impact on the state aid districts receive based on the enrichment tier as tied to the yield of the Austin Independent School District (ISD). To the extent that the bill has the effect of lessening Austin ISD's revenue per weighted student per penny of tax effort, as determined by the Commissioner of Education, the equalized yield on those enrichment pennies would decrease, resulting in a decrease in state aid.

### **Local Government Impact**

Because it is not known how many taxing unit governing bodies might vote to continue taxing the covered items, the fiscal impact cannot be determined. The fiscal impact table provides an illustrative example only. Appraisal district information about the potential value loss to the proposed bill was trended over the projection period to estimate the value loss in each year. The appropriate taxing unit rates were applied to estimate the levy loss. Information was not available to estimate special district losses.

In addition, with respect to school districts, the mechanics of the school finance system would likely transfer the initial fiscal impacts to the state, resulting in a zero or negligible fiscal impact to the school districts. Initial school district losses are shown, even though the operation of the "hold harmless" feature of HB 1, 79th Legislature, Third Called Session (2006), would likely transfer the losses to the state causing a net school district loss of zero.



**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** JOB, CT, SD, SJS





**LEGISLATIVE BUDGET BOARD**  
Austin, Texas

**FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION**

**April 11, 2007**

**TO:** Honorable Steve Ogden, Chair, Senate Committee on Finance

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

**IN RE: HB621** by Chavez (Relating to the exemption from ad valorem taxation of tangible personal property held temporarily at a location in this state for assembling, storing, manufacturing, processing, or fabricating purposes.), **As Engrossed**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB621, As Engrossed: a negative impact of (\$845,000) through the biennium ending August 31, 2009.

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)<br>Impact to General Revenue Related<br>Funds |
|-------------|--|
| 2008        | \$0  |
| 2009        | (\$845,000)  |
| 2010        | (\$887,000)  |
| 2011        | (\$931,000)  |
| 2012        | (\$978,000)  |

**All Funds, Five-Year Impact:**

| Fiscal Year | Probable Savings/<br>(Cost) from<br><i>FOUNDATION<br/>SCHOOL FUND<br/>193</i> | Probable Revenue<br>Gain/(Loss) from<br><i>School Districts</i> | Probable Revenue<br>Gain/(Loss) from<br><i>Counties</i> | Probable Revenue<br>Gain/(Loss) from<br><i>Cities</i> |
|-------------|---|---|---|---|
| 2008        | \$0   | \$0   | \$0   | \$0   |
| 2009        | (\$845,000)   | (\$845,000)   | (\$288,000)   | (\$255,000)   |
| 2010        | (\$887,000)   | (\$887,000)   | (\$302,000)   | (\$268,000)   |
| 2011        | (\$931,000)   | (\$931,000)   | (\$317,000)   | (\$281,000)   |
| 2012        | (\$978,000)   | (\$978,000)   | (\$333,000)   | (\$295,000)   |

**Fiscal Analysis**

The bill would add a new section to Chapter 11 of the Tax Code to provide an exemption from ad valorem taxation for certain "goods in transit."

The exemption only would apply to property located in a county with a population of 650,000 or more and adjacent to an international border.

To qualify for the exemption, personal property would have to be acquired in or imported into Texas and stored at a location in Texas in which the owner of the goods did not have a direct or indirect



ownership interest.

Oil and gas and their immediate derivatives, aircraft, and dealer's special inventories would not qualify for the exemption. In addition, the inventory would have to be transported or distributed to another location no later than 175 days after the property was acquired in, or imported into, the state.

The exemption would have to be granted by all taxing units unless the governing body of a taxing unit proposed by official action to tax goods in transit. Before acting to tax goods in transit, the governing body of a taxing unit would have to conduct a public hearing where the public would be allowed to speak for or against the action to tax the property.

This bill would take effect January 1, 2008.

## **Methodology**

Currently, Article VIII, Section 1-j of the Texas Constitution and Section 11.251 of the Tax Code provide for a "freeport exemption." This exemption, which can be granted at the option of each city, county, school district, or junior college district, exempts goods, wares, ores, raw materials, and other types of inventory that are brought into, or acquired in, the state and transported out of the state within 175 days of acquisition.

In November 2001, Texas voters passed SJR 6 to add Article VIII, Section 1-n to the Texas Constitution, thereby, authorizing the Legislature to exempt from ad valorem taxation "goods in transit."

This proposed enabling legislation would provide an exemption for property acquired in or imported into Texas, stored at a location in El Paso County in which the owner of the goods did not have a direct or indirect ownership interest, and transported to another location either inside or outside of the state within 175 days. The bill would provide a local option procedure to continue taxing the property.

The proposed exemption could cause an undetermined revenue loss to El Paso County and the municipalities, school districts, and junior college districts therein should they decide to exempt goods in transit.

Because it is not known how many taxing unit governing bodies in El Paso County might vote to continue taxing the covered items, the fiscal impact cannot be determined.

Note: Because the exemption would be optional, the fiscal impact table provides an illustrative example only. Appraisal district information about the potential value loss to the proposed bill was trended over the projection period to estimate the value loss in each year. The appropriate taxing unit rates were applied to estimate the levy loss. Information was not available to estimate special district losses.

Note: In addition, with respect to school districts, the mechanics of the school finance system would likely transfer the initial fiscal impacts to the state, resulting in a zero or negligible fiscal impact to the school districts. Initial school district losses are shown, even though the operation of the "hold harmless" feature of HB 1, 79th Legislature, Third Called Session (2006), would likely transfer the losses to the state causing a net school district loss of zero.

## **Local Government Impact**

Because the exemption would be optional, the fiscal impact table above provides an illustrative example only.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** JOB, CT, SD, SJS



LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

February 27, 2007

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

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

IN RE: **HB621** by Chavez (Relating to the exemption from ad valorem taxation of tangible personal property held temporarily at a location in this state for assembling, storing, manufacturing, processing, or fabricating purposes.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB621, As Introduced: a negative impact of (\$845,000) through the biennium ending August 31, 2009.

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 |
|-------------|--|
| 2008        | \$0  |
| 2009        | (\$845,000)  |
| 2010        | (\$887,000)  |
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| 2012        | (\$978,000)  |

All Funds, Five-Year Impact:

| Fiscal Year | Probable Savings/ (Cost) from FOUNDATION SCHOOL FUND 193 | Probable Revenue Gain/(Loss) from School Districts | Probable Revenue Gain/(Loss) from Counties | Probable Revenue Gain/(Loss) from Cities |
|-------------|--|--|--|--|
| 2008        | \$0  | \$0  | \$0  | \$0                                      |
| 2009        | (\$845,000)  | (\$845,000)  | (\$288,000)                                | (\$255,000)                              |
| 2010        | (\$887,000)  | (\$887,000)  | (\$302,000)                                | (\$268,000)                              |
| 2011        | (\$931,000)  | (\$931,000)  | (\$317,000)                                | (\$281,000)                              |
| 2012        | (\$978,000)  | (\$978,000)  | (\$333,000)                                | (\$295,000)                              |

Fiscal Analysis

The bill would add a new section to Chapter 11 of the Tax Code to provide an exemption from ad valorem taxation for certain "goods in transit."

The exemption only would apply to property located in a county with a population of 650,000 or more and adjacent to an international border.

To qualify for the exemption, personal property would have to be acquired in or imported into Texas and stored at a location in Texas in which the owner of the goods did not have a direct or indirect



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### **Local Government Impact**

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**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** JOB, CT, SD, SJS

