

BILL ANALYSIS

Senate Research Center
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S.B. 641
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

When a property owner engages in litigation with an appraisal district over the value or exemption of its property, the owner is required to pay the undisputed amount of the taxes in issue, but may pay the full tax bill as originally assessed. Once the litigation is resolved, if the owner ends up owing less taxes than he or she paid, the owner gets a refund from the taxing units such as school districts, counties, and cities, with interest. That interest, on most refunds, was fixed in 1997 at eight percent, when eight percent interest was reasonable. Interest on refunds after religious exemption litigation was left, as all refunds had formerly been, to float with three-month treasury bills.

Now, eight percent is well above market rate. No taxing unit can hope to invest any money that it might have to refund at anything close to an eight percent return. Thus, litigants are encouraged to pay more than the undisputed amount of taxes, knowing that any refund will earn far better interest than they can expect elsewhere. The taxing units, which do not control the litigation, are faced with large refunds accruing interest for which they cannot adequately account by investment of the disputed taxes. The Federal Reserve Board now refers to the rate in question as the "secondary market" rate.

S.B. 641 returns the interest rate paid on refunds after any litigation to floating with the treasury bill, or secondary market rate, which is set by the Federal Reserve Board. Thus, property owners are given market rates of return on any refunds, and taxing units can place in escrow disputed tax payments that will earn sufficient interest to pay any refund that may ultimately be due.

As proposed, S.B. 641 amends current law relating to the calculation of interest on certain ad valorem tax refunds.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 42.43(b), Tax Code, as follows:

(b) Deletes existing text relating to an exemption granted under Section 11.20 (Religious Organizations) that was denied by the chief appraiser or appraisal review board. Deletes existing text requiring the taxing unit, for any other refund made under this section, to include with the refund interest on the amount refunded at an annual rate of eight percent, calculated from the delinquency date for the taxes until the date the refund is made.

SECTION 2. Makes application of the change in law made by this Act to the rate of interest on a tax refund, prospective.

SECTION 3. Effective date: September 1, 2011.