LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 22, 2013

TO: Honorable Harvey Hilderbran, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB2500** by Bohac (relating to the appraisal for ad valorem tax purposes of solar energy property.), **Committee Report 1st House, Substituted**

The bill's requirement that the chief appraiser calculate the depreciated value of the solar energy property by using a useful life that does not exceed ten years would create a cost to the state through the operation of the school finance formulas.

This bill would amend Chapter 23, of the Tax Code, to require a chief appraiser to use a specified cost method of appraisal to determine the market value of solar energy property installed after January 1, 2014. The bill would require the chief appraiser to:

1) use cost data obtained from generally accepted sources;
2) make any appropriate adjustment for physical, functional, or economic obsolescence;
3) calculate the depreciated value of the property by using a useful life that does not exceed 10 years; and
4) use a market value floor of 20 percent of the value computed after making the appropriate adjustments required above.

The bill would define "solar energy property" and would specify that the term includes commercial storage devices, power conditioning equipment, transfer equipment, and necessary parts for these items.

The bill's requirement that the chief appraiser calculate the depreciated value of the solar energy property by using a useful life that does not exceed 10 years would create a cost to local taxing units and to the state through the operation of the school finance formulas.

The generally accepted cost appraisal method requires an appraiser to match a depreciation table's life to the expected useful life of the kind of property being appraised. Useful life is the period for which the property is expected to perform its function. To the extent that the useful life of solar equipment exceeds 10 years, the appraised value of the solar equipment under the bill would be below the market value because of the accelerated depreciation required by the bill during the 10 year period. This would, in effect, result in a partial exemption for such property. For example, a review indicates that the useful life of solar panels is from 20 to 40 years and that manufacturers' warranties for solar panels are normally for 20 years or more.

It is not known to what extent the useful life of 10 years and market value floor of 20 percent specified in the bill would match the actual expected useful life and market value floor (also known as salvage value) of each type of solar energy property. Consequently, the fiscal loss cannot be estimated.

The bill would take effect on January 1, 2014.

Local Government Impact

The bill's requirement that the chief appraiser calculate the depreciated value of the solar energy property by using a useful life that does not exceed ten years would create a cost to local taxing units.

Source Agencies: 304 Comptroller of Public Accounts

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