

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 13, 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.), **As Introduced**

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 five years would create a cost to the state through the operation of the school finance formulas.

This bill would amend Chapter 23, Tax Code, to require a chief appraiser to use the cost method of appraisal to determine the market value of solar energy property. 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; and
- 3) calculate the depreciated value of the property by using a useful life that does not exceed five years.

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 property by using a useful life that does not exceed five 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 five years, the appraised value of the solar equipment under the bill would be below the market value which would, in effect, result in a partial exemption for such property (or in a complete exemption 5 years after purchase). 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.

Insufficient information is available on varieties or amounts of solar equipment with useful lives exceeding 5 years, so the actual value loss to the bill's proposed 5 year depreciation limit cannot be calculated. Consequently, the fiscal loss cannot be estimated.

Note: For solar energy property with a useful life of more than 5 years, and that is more than 5 years old, the bill would create a de facto total exemption.

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 five years would create a cost to local taxing units.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS