

## **BILL ANALYSIS**

Senate Research Center

S.J.R. 29  
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Finance  
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### **AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

Freeport property is tangible personal property that is used for manufacturing, processing, assembling, fabricating, or processing and stored temporarily in Texas. The freeport exemption was enacted in 1989 with the intent of allowing businesses in Texas to operate on a more equal footing with businesses in other states. This exemption was enacted because many other states offer freeport exemptions and some do not tax inventory at all. However, because Texas relies so heavily upon property taxes to fund public schools, businesses that hold inventory in Texas longer than the 175 days allowed under the freeport exemption still face a heavy tax burden.

S.J.R. 29, if the voters approve it, will give the legislature the authority to provide tax relief for these businesses by increasing the time that freeport property may stay in the state without any property tax imposed from 175 to 365 days. If freeport property remains in Texas longer than 365 days, then it becomes taxable. The enabling legislation is S.B. 516.

School property taxes compose roughly 55 percent of the property tax burden and S.B. 516 will provide immediate tax relief to business taxpayers that have freeport eligible property. The bill will also make the state more attractive to businesses looking to relocate. Texas is one of seven states to tax inventory and some of Texas' biggest competitor states, such as Florida and California, do not tax inventories. As an example of the need to extend the duration of the freeport exemption, the aerospace industry last session sought legislation that extended the freeport exemption for them for up to two years to enable some of their operations to remain in Texas.

The freeport exemption is a local option exemption, meaning it is up to the discretion of each taxing unit to grant. School districts that grant the freeport exemption are compensated by the state for the lost revenue. Other local taxing entities may also grant the exemption, but they are not compensated by the state for their revenue loss. S.J.R. 29 does not make any changes to which taxing units elect to grant the exemption, so no taxing units will be required to grant the exemption if they do not currently do so.

S.J.R. 29 proposes a constitutional amendment to extend the number of days that certain tangible personal property to be transported outside of this state is exempt from ad valorem taxation.

### **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 1-j(a), Article VIII, Texas Constitution, to increase from 175 days to 365 days the period for which freeport goods may be exempt from ad valorem taxation.

SECTION 2. Adds a temporary provision to the Texas Constitution as follows:

TEMPORARY PROVISION. (a) Provides that this temporary provision applies to the constitutional amendment proposed by the 84th Legislature, Regular Session, 2015, to

extend the number of days that certain tangible personal property to be transported outside of this state is exempt from ad valorem taxation.

(b) Provides that the amendment to Section 1-j(a), Article VIII, of this constitution takes effect January 1, 2016, and applies only to a tax year that begins on or after that date.

(c) Provides that this temporary provision expires January 1, 2017.

SECTION 3. Requires that the proposed constitutional amendment be submitted to the voters at an election to be held November 3, 2015. Sets forth the required language of the ballot.