

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 2, 2015

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2117 by King, Tracy O. (Relating to the definition of "heavy equipment" for purposes of the ad valorem taxation of certain dealer's heavy equipment inventory.), **As Introduced**

The bill would amend appraisal methods to modify the definition of "heavy equipment" to exclude a natural gas compressor that is leased or rented to a person by a dealer or entity at less than the prevailing market value. Any items of heavy equipment which would be excluded under the bill from the special inventory heavy equipment market determination would generally have a higher market value, creating an indeterminate gain to the state through the operation of the school funding formula.

The bill would amend Section 23.1241 of the Tax Code, relating to appraisal methods and procedures and dealer's heavy equipment inventory, to modify the definition of "heavy equipment" to exclude a natural gas compressor that is leased or rented to a person by a dealer or entity at less than the prevailing market value.

The amount of a lease or rental will generally be much lower than the prevailing market value which is defined in Section 1.04 of the Tax Code as the price at which a property would transfer under prevailing market conditions. The bill would exclude most leased and rented compressors because most lessees would not pay a higher lease than market value because the lessee could buy the equipment at that price. Generally, the market value of heavy equipment special inventory is significantly lower than the inventory market determination under Section 23.12 of the Tax Code under which the market value of heavy equipment excluded from special inventory is determined. Any items of heavy equipment which would be excluded under the bill from the special inventory heavy equipment market determination would generally have a higher market value, creating an indeterminate gain to taxing units and to the state through the operation of the school funding formula.

The bill would take effect January 1, 2016.

Local Government Impact

The bill would amend appraisal methods to modify the definition of "heavy equipment" to exclude a natural gas compressor that is leased or rented to a person by a dealer or entity at less than the prevailing market value. Any items of heavy equipment which would be excluded under the bill from the special inventory heavy equipment market determination would generally have a higher market value, creating an indeterminate gain to local taxing units.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS