

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

March 1, 2015

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB762 by Bettencourt (Relating to the exemption from ad valorem taxation of income-producing tangible personal property having a value of less than a certain amount.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB762, As Introduced: a negative impact of (\$403,000) through the biennium ending August 31, 2017.

The estimated net impact to General Revenue Related Funds would increase to a negative (\$4,163,000) for the biennium ending August 31, 2019.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2016	\$0
2017	(\$403,000)
2018	(\$2,030,000)
2019	(\$2,133,000)
2020	(\$2,243,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>Foundation School Fund 193</i>	Probable Revenue Gain/(Loss) from <i>School Districts</i>	Probable Revenue Gain/(Loss) from <i>Counties</i>	Probable Revenue Gain/(Loss) from <i>Cities</i>
2016	\$0	\$0	\$0	\$0
2017	(\$403,000)	(\$2,053,000)	(\$728,000)	(\$719,000)
2018	(\$2,030,000)	(\$560,000)	(\$770,000)	(\$760,000)
2019	(\$2,133,000)	(\$599,000)	(\$816,000)	(\$801,000)
2020	(\$2,243,000)	(\$639,000)	(\$863,000)	(\$847,000)

Fiscal Year	Probable Revenue Gain/(Loss) from <i>Other Special Districts</i>
2016	\$0
2017	(\$506,000)
2018	(\$535,000)
2019	(\$566,000)
2020	(\$599,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, regarding taxable property and exemptions, to increase the taxable value below which tangible personal property held or used for the production of income is exempt from property taxation from \$500 to \$2,500.

The bill would take effect January 1, 2016.

Methodology

The increase in the exemption of tangible personal property held or used for the production of income valued from \$500 up to but not including \$2,500 would create a cost to school districts, other local taxing units, and to the state through the operation of the school funding formula.

Information from appraisal districts on the statewide number and value of tangible personal property parcels was used to estimate the value loss from the proposed new exemption of tangible personal property parcels valued from \$500 to \$2,500. Tangible personal property parcels valued at less than \$500 were excluded because they are exempt under current law.

Projected tax rates were applied through the five-year projection period to estimate the tax revenue loss to special districts, cities and counties, and to estimate the school district loss that would be partially transferred to the state. Under the hold harmless provisions of the Education Code, only a small portion of the first year school district loss related to the compressed rate would be transferred to the state while nearly 100 percent of the loss would be transferred to the state in later years. Because lagged year property values are used in the enrichment formula, school districts lose enrichment funding (state gain) in the first year of a taxable property value reduction. In the second and successive years the enrichment loss and a portion of the school district debt (facilities) loss are transferred to the state through the relevant funding formulas.

Note: The constitutional authorization for this exemption would presumably be Article VIII, Section 1(g), of the Texas Constitution. That section provides that "The Legislature may exempt from ad valorem taxation tangible personal property that is held or used for the production of income and has a taxable value of less than the minimum amount sufficient to recover the costs of the administration of the taxes on the property, as determined by or under the general law granting the exemption."

Local Government Impact

The estimated fiscal implication to units of local government is reflected in the above table.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS, AH