

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

May 12, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2253 by Darby (relating to the interest rate on a refund of ad valorem taxes made following the final determination of an appeal that decreases a property owner's tax liability.), **Committee Report 2nd House, Substituted**

No fiscal implication to the State is anticipated.

The bill would amend Chapter 42 of the Tax Code, regarding judicial review (property tax), to require a refund from a taxing unit to a property owner after a court appeal reduces the property owner's tax liability to be calculated at an annual rate of two percent plus the most recent prime rate quoted and published by the Federal Reserve Board as of the first day of the month in which the refund is made, but not more than a total of 8 percent (rather than calculated at an annual rate of 9.5 percent), calculated from the delinquency date for the taxes until the date the refund is made.

The bill would apply only to a tax refund that is made following an appeal that is filed on or after the effective date of the bill.

The prime rate is currently 4 percent and is expected to grow slowly; consequently, the interest rate for a property tax refund to a property owner under the bill would currently be 6 percent (2 percent plus the prime rate) and would be expected to grow slowly. This 6 percent rate is 3.5 percent less than the 9.5 percent rate in current law, which would create a gain to local taxing units by requiring lower interest payments from the taxing units on the tax refunded after a property tax appeal. The number of future court cases resulting in lower property tax liabilities for property owners, the amount of tax reduction, and the resulting interest payments under the bill are unknown; consequently the gain to local taxing units cannot be estimated. There would be no fiscal impact on the state because interest payments are not included in the school finance formulas.

The bill would take effect immediately upon enactment, assuming it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2017.

Local Government Impact

The bill would require a refund from a taxing unit to a property owner after a court appeal reduces the property owner's tax liability to be calculated at an annual rate of two percent plus the most recent prime rate quoted and published by the Federal Reserve Board. The prime rate is currently

4 percent and is expected to grow slowly; consequently, the interest rate for a property tax refund to a property owner under the bill would currently be 6 percent (2 percent plus the prime rate) and would be expected to grow slowly. This 6 percent rate is 3.5 percent less than the 9.5 percent rate in current law, which would create a gain to local taxing units by requiring lower interest payments from the taxing units on the tax refunded after a property tax appeal.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS