

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 11, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB2560 by King, Tracy O. (Relating to the appraisal for ad valorem tax purposes of certain dealer's heavy equipment inventory.), **As Introduced**

The number of items of heavy equipment that would be appraised under the terms of the changes to Section 23.12 of the Tax Code is unknown; therefore, the fiscal implications of the legislation are indeterminate.

The bill would amend Section 23.1241 of the Tax Code, relating to appraisal methods and procedures and dealer's heavy equipment inventory, to remove leases and rentals from the definition of "dealer."

The bill would modify the definition of "dealer's heavy equipment inventory," to include heavy equipment held for sale at retail and leases and rentals of heavy equipment subject to a purchase option and excludes leases and rentals that are not subject to a purchase option. The bill would also remove leases and rentals from the definition of "subsequent sale."

The bill would modify the calculation of the market value of dealer's heavy equipment inventory by amending the definition of "total annual sales" to strike lease and rental payments. "Total annual sales" would still include "sales price" for each sale from the heavy equipment inventory. The bill would modify the definition of "sales price" to provide that the current inclusion of the total amount of lease or rental payments applies to leases or rentals with an option to purchase plus any final consideration, excluding interest. The bill provides that a sale is considered to occur when possession of an item of heavy equipment is transferred from the dealer to the purchaser. The bill would repeal Section 23.1241(b-1) of the Tax Code to strike the calculation of the sales price of an item sold after being leased or rented in the same tax year. The bill would amend Section 23.1242 of the Tax Code, relating to prepayment of taxes by heavy equipment dealers, to strike provisions specific to assigning a unit property tax to a lease or rental of heavy equipment and the prepayment of those taxes.

According to appraisal districts, approximately \$2.5 billion of heavy equipment value is subject to dispute. The bill's provision narrowing the definition of dealer would decrease the number of items of heavy equipment that would be appraised using the heavy equipment special inventory market value calculation. The bill's provisions narrowing the items included in dealer's heavy equipment inventory would exclude from special inventory heavy equipment items not held for sale at retail and would exclude items of heavy equipment that are leased or rented but not subject to a purchase option, which would decrease the number of items of heavy equipment appraised using the heavy equipment special inventory market value calculation. The bill's provision to include any final consideration, excluding interest, of leases and rentals in the sales price would

increase the heavy equipment special inventory market value.

Generally, the market value of heavy equipment special inventory is significantly lower than the inventory market value determination under Section 23.12 of the Tax Code under which the market value of heavy equipment excluded from special inventory is determined. The bill would tend to create a gain to local taxing units and to the state through the operation of the school funding formula; this gain would decrease over time as lease and rental agreements are restructured to include a purchase option which does not have to be exercised.

This bill would take effect January 1, 2016.

Local Government Impact

The bill would result in increases in the market value of heavy equipment inventory, which would create a gain to local taxing units; this gain would decrease over time as lease and rental agreements are restructured to include a purchase option which does not have to be exercised.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, JJ, BRi