

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

May 2, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB3138 by Gutierrez (Relating to the definition of intangible personal property for ad valorem tax purposes.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3138, As Introduced: a negative impact of (\$54,353,000) through the biennium ending August 31, 2019.

The cost is estimated to increase to (\$13,717,556,000) beginning in fiscal year 2020.

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
2018	\$0
2019	(\$54,353,000)
2020	(\$13,717,556,000)
2021	(\$14,394,657,000)
2022	(\$15,110,528,000)

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>
2018	\$0	\$0	\$0	\$0
2019	(\$54,353,000)	(\$16,514,308,000)	(\$4,861,051,000)	(\$4,972,254,000)
2020	(\$13,717,556,000)	(\$3,818,681,000)	(\$5,121,968,000)	(\$5,184,450,000)
2021	(\$14,394,657,000)	(\$4,166,152,000)	(\$5,396,889,000)	(\$5,405,701,000)
2022	(\$15,110,528,000)	(\$4,535,239,000)	(\$5,686,567,000)	(\$5,636,394,000)

Fiscal Year	Probable Revenue Gain/(Loss) from Other Special Districts
2018	\$0
2019	(\$3,668,544,000)
2020	(\$3,859,675,000)
2021	(\$4,060,764,000)
2022	(\$4,272,330,000)

Fiscal Analysis

The bill would amend Chapter 1 of the Tax Code, regarding general property tax provisions, to expand the definition of "intangible personal property" to include the income derived from the operation of a business other than income from use of the property, and the value of:

1. a brand name;
2. a business service; and
3. a business.

The bill would take effect September 1, 2017.

Methodology

By expanding the definition of intangible personal property, the bill would create a cost to local taxing units and to the state through the school funding formulas because intangible personal property is not taxable (it is exempt). In particular, the bill's exemption of the value of a business would remove all categories of business property from the appraisal rolls.

The taxable value loss estimate was based on information from appraisal districts. Projected tax rates were applied to the taxable value losses through the five-year projection period to estimate tax revenue losses to school districts, special districts, cities and counties. Under provisions of the Education Code, the school district tax revenue loss is partially transferred to the state. Projected school funding rates were applied to estimate the state loss and the net school district loss.

In the first year of a taxable value loss, state recapture is reduced (a state loss). Because of the use of lagged year property values, in the second and successive years of a taxable value loss, state recapture is further reduced and the previous year's school district loss related to the Tier 1 rate is generally transferred to the state through the Tier 1 funding formulas (a state loss).

In the school district enrichment formula (Tier 2), property values do not reflect the first-year value loss because of the one-year value lag. Because the formula does reflect a tax collections decline in that year, school districts lose Tier 2 funding creating a state gain. In the second and successive years a large portion of the previous year's enrichment loss is transferred to the state (a state loss).

The school district debt (facilities) funding formula does not reflect the first-year taxable value loss because of lagged property values. In the second and successive years a small portion of the previous year's school district facilities loss is transferred to the state (a state loss).

Local Government Impact

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

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS