LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

March 13, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **SB730** 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 SB730, As Introduced: a negative impact of ($10,000) through 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
2018	$0
2019	($10,000)
2020	($2,428,000)
2021	($2,475,000)
2022	($2,525,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *Foundation School Fund* 193	Probable Revenue Gain/(Loss) from *School Districts*	Probable Revenue Gain/(Loss) from *Counties*	Probable Revenue Gain/(Loss) from *Cities*
2018	$0	$0	$0	$0
2019	($10,000)	($536,000)	($160,000)	($164,000)
2020	($2,428,000)	$1,884,000	($159,000)	($161,000)
2021	($2,475,000)	$1,934,000	($157,000)	($158,000)
2022	($2,525,000)	$1,987,000	($156,000)	($154,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2018	$0
2019	($121,000)
2020	($120,000)
2021	($118,000)
2022	($117,000)

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, 2018.

Methodology

The bill's proposed increase in 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 would create a cost to school districts, other local taxing units, and to the state through 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 up to but not including $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 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).

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." The estimated costs in the table above are net of the estimated local taxing unit administrative savings that would result from the bill.

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