

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

March 12, 2019

TO: Honorable Dustin Burrows, Chair, House Committee on Ways & Means

FROM: John McGeady, Assistant Director Sarah Keyton, Assistant Director
 Legislative Budget Board

IN RE: HB1978 by Harris (Relating to the repeal of the additional ad valorem taxes imposed as a result of certain changes in the use of agricultural or open-space land.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1978, As Introduced: a negative impact of (\$9,184,000) through the biennium ending August 31, 2021.

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
2020	(\$3,077,000)
2021	(\$6,107,000)
2022	(\$4,799,000)
2023	(\$3,659,000)
2024	(\$2,493,000)

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>
2020	(\$3,077,000)	(\$122,158,000)	(\$35,027,000)	(\$7,521,000)
2021	(\$6,107,000)	(\$395,328,000)	(\$111,113,000)	(\$23,788,000)
2022	(\$4,799,000)	(\$416,708,000)	(\$115,457,000)	(\$24,644,000)
2023	(\$3,659,000)	(\$438,924,000)	(\$119,971,000)	(\$25,531,000)
2024	(\$2,493,000)	(\$462,219,000)	(\$124,661,000)	(\$26,450,000)

Fiscal Year	Probable Revenue Gain/(Loss) from <i>Other Special Districts</i>
2020	(\$26,047,000)
2021	(\$83,508,000)
2022	(\$87,700,000)
2023	(\$92,101,000)
2024	(\$96,724,000)

Fiscal Analysis

The bill would repeal Section 23.55 of the Tax Code, regarding additional property taxes and interest imposed on a taxpayer who changes the use of land qualified for special appraisal as open-space agricultural land. The bill would also repeal Section 23.46 of the Tax Code, regarding additional taxation of land designated for agricultural use. The bill would make conforming changes elsewhere in the Tax Code and in other Codes.

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, 2019.

Methodology

Tax Code Section 23.55 (in Subchapter D) imposes an additional property tax and interest in certain instances when the property owner changes the use of agricultural land that receives a special reduced appraisal as qualified open-space agricultural land. Section 23.46 imposes an additional property tax and interest in a similar fashion when land qualified for a special reduced appraisal under Subchapter C of the Tax Code is sold or diverted from an agricultural use. The additional tax is computed based on the difference in each of the preceding 5 years between the market value of the land and the taxable value of the land as reduced by the special appraisal. Interest is computed at 7 percent for land qualified under Subchapter D and at the rate for delinquent taxes for land qualified under Subchapter C. The bill's proposed repeals would create a cost to school districts and other units of local government because they would no longer receive the additional tax and interest. The loss of the additional tax would also create a cost to the state through the operation of the school funding formula.

The bill's proposed repeal of Section 23.46 of the Tax Code, (in Subchapter C) is not expected to produce a significant cost because little agricultural land is qualified under Subchapter C as a result of its much more stringent qualification requirements. Further, because of its requirement that the owner's income be primarily from the agricultural operations the land tends to be further from urban areas, is less likely to be diverted from an agricultural use, and the difference between the special appraised value and the market value is less.

The costs were estimated based on information from appraisal districts. The estimate assumes that the costs would begin September 1, 2019; consequently only one-third of the annual cost was included in fiscal 2020. Under provisions of the Education Code, only a small portion of the school district loss would be transferred to the state because there would be a collections loss, but no corresponding value 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: WP, KK, SD, SJS