LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

April 25, 2021

TO: Honorable Morgan Meyer, Chair, House Committee on Ways & Means

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB2288** by White (Relating to the repeal of the additional ad valorem taxes imposed as a result of the sale or change in the use of land appraised as agricultural or open-space land.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2288, As Introduced : a negative impact of ($110,520,892) through the biennium ending August 31, 2023.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to *General Revenue Related Funds*
2022	$0
2023	($110,520,892)
2024	($115,392,651)
2025	($75,927,685)
2026	($89,671,641)

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 *Cities*	Probable Revenue Gain/(Loss) from *Counties*
2022	$0	$0	$0	$0
2023	($110,520,892)	($397,594,000)	($26,074,000)	($120,071,000)
2024	($115,392,651)	($417,473,000)	($27,455,000)	($126,807,000)
2025	($75,927,685)	($438,347,000)	($28,906,000)	($133,910,000)
2026	($89,671,641)	($460,264,000)	($30,432,000)	($141,398,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2022	$0
2023	($104,194,000)
2024	($111,214,000)
2025	($118,698,000)
2026	($126,674,000)

Fiscal Analysis

The bill would repeal Section 23.46 and 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. The bill would make conforming changes elsewhere in the Tax Code and in other Codes.

The bill would take effect January 1, 2022.

Methodology

Under Chapter 23 of the Tax Code, qualified land is appraised at a value much lower than its market value. Tax Code Sections 23.46 (Subchapter C) and 23.55 (Subchapter D) impose 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 land designated for agricultural use or qualified open-space agricultural land (rollback). The additional tax is computed based on the difference between the market value of the land and the taxable value of the land as reduced by the special appraisal in each of the preceding three years, plus interest. The bill's proposed repeal of these sections 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 estimated number of acres changing use is based on rollback information from a sample of appraisal districts. The estimated loss is based on average market and productivity values. Information from responding appraisal districts was extrapolated to other districts and the results were projected through the five-year period in the table below. Under provisions of the Education Code, only a portion of the school district loss would be transferred to the state because there would be a collections loss, but no corresponding value loss.

The estimated cost to the Foundation School Program is $110.5 million in fiscal year 2023, $115.4 million in fiscal year 2024, $75.9 million in fiscal year 2025, and $89.7 million in fiscal year 2026.

Repeal of the tax penalty under Subchapter C is contingent upon passage and voter approval of a constitutional amendment (HJR 106). If the constitutional amendment does not pass, only the subchapter D tax penalty is repealed and the cost associated with implementing the provisions of the bill would be reduced, but not significantly. Little agricultural land is qualified under Subchapter C because its qualification requirements are much more stringent. 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.

Local Government Impact

The fiscal impact to units of local government is shown in the table above.

Source Agencies: 304 Comptroller of Public Accounts

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