

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

May 11, 2023

TO: Honorable Paul Bettencourt, Chair, Senate Committee on Local Government

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB456 by Craddick (Relating to an exemption from ad valorem taxation of certain royalty interests owned by a charitable organization.), **As Engrossed**

Passage of the bill would exempt the value of royalty interests owned by charitable organizations from ad valorem taxation of real property. As a result, taxable property values could be reduced and the related costs to the Foundation School Fund could be increased through the operation of the school finance formulas.

The bill would amend Chapter 11 of the Tax Code (Taxable Property and Exemptions) to add a royalty interest, as defined by Tax Code Section 201.001 (gas production tax) to the list of assets owned by a charitable organization that are exempt from property tax.

The bill would create a cost to local taxing units and the state through the school finance formulas by exempting royalty interests owned by charitable organizations. There are 157,000 charitable organizations in Texas. The number of organizations with a royalty interest and the value of those properties that would be exempt under this bill is unknown. Consequently, the cost of the bill cannot be estimated.

The bill would take effect January 1, 2024.

Local Government Impact

Passage of the bill would exempt the value of royalty interests owned by charitable organizations from ad valorem taxation of real property. As a result, taxable property values and the related ad valorem tax revenue for units of local government could be reduced.

Source Agencies: 304 Comptroller of Public Accounts, 701 Texas Education Agency

LBB Staff: JMc, AF, KK, SD, BRI