

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

April 16, 2023

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

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HJR141 by Guillen (Proposing a constitutional amendment relating to the taxation of assets used to begin production on agricultural land.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HJR141, As Introduced : a negative impact of (\$229,523,000) through the biennium ending August 31, 2025.

Additionally, the bill will have direct impacts of a revenue loss to the Property Tax Relief Fund of (\$51,000,000) and a revenue loss to the Tax Reduction and Excellence in Education (TREE) Fund of (\$8,325,000) to the for the 2024-25 biennium. Any loss to the Property Tax Relief Fund and TREE Fund and must be made up with an equal amount of General Revenue to fund the Foundation School Program.

General Revenue-Related Funds, Five- Year Impact:

<i>Fiscal Year</i>	<i>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</i>
2024	(\$106,997,000)
2025	(\$122,526,000)
2026	(\$128,910,000)
2027	(\$135,718,000)
2028	(\$143,035,000)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	<i>Probable Revenue Gain/(Loss) from General Revenue Fund 1</i>	<i>Probable Revenue Gain/(Loss) from Property Tax Relief Fund 304</i>	<i>Probable Revenue Gain/(Loss) from Tax Reduc. & Excell. Edu. Fund 305</i>	<i>Probable Revenue Gain/(Loss) from Cities</i>
2024	(\$106,997,000)	\$0	(\$3,881,000)	(\$20,350,000)
2025	(\$122,526,000)	(\$51,000,000)	(\$4,444,000)	(\$23,300,000)
2026	(\$128,910,000)	(\$51,700,000)	(\$4,676,000)	(\$26,520,000)
2027	(\$135,718,000)	(\$52,800,000)	(\$4,922,000)	(\$25,810,000)
2028	(\$143,035,000)	(\$54,100,000)	(\$5,188,000)	(\$27,200,000)

<i>Fiscal Year</i>	<i>Probable Revenue Gain/(Loss) from Counties and Special Districts</i>	<i>Probable Revenue Gain/(Loss) from Transportation Authorities</i>
2024	(\$4,620,000)	(\$6,760,000)
2025	(\$5,290,000)	(\$7,740,000)
2026	(\$5,560,000)	(\$8,140,000)
2027	(\$5,850,000)	(\$8,570,000)
2028	(\$6,170,000)	(\$9,030,000)

Fiscal Analysis

The resolution would propose an amendment to Article VIII, of the Texas Constitution, to exempt farm production inputs from all taxation until otherwise directed by a two-thirds vote of all the members elect to both houses of the Legislature.

The term “farm production input” is not precisely defined in the amendment but is expressed as a resource used to begin the production of a product of the earth or farm. Some items that would be deemed inputs are listed, such as: seeds, weaned animals, fertilizer, pesticides, or feed.

The proposed amendment would be submitted to voters at an election to be held November 7, 2023.

Methodology

The constitutional amendment would exempt farm production inputs from all taxation. The amendment is self-enacting and requires no enabling legislation.

This analysis assumes the amendment would exempt inventories of farm inputs from ad valorem taxation of business personal property; that it would exempt sales of such items from state and local sales taxation to the extent those items are not currently exempted by Section 151.316, Tax code as subject to limitation by Section 151.1551; and that it would require exclusion of receipts from sales of such items from revenue for purposes of franchise tax.

Passage of the resolution would reduce taxable property. Under provisions of the Education Code, the school district revenue loss is partially transferred to the state. However, this cost is not expected to be significant.

There would be effects on the Economic Stabilization Fund (ESF) balance limit and consequent effects for GR reserves and transfers to ESF. Because pertinent tax revenue is initially deposited to the general revenue fund, the reduction in tax revenue in the 2024-25 biennium would reduce the 2026-27 ESF balance limit by ten percent of the reduction in tax, reducing 2025 severance tax reserves for transfer to the ESF by the amount of the balance limit reduction, and increasing available GR in 2025 by the amount of reduction of the reserves, however that amount is not expected to be significant.

Local Government Impact

The fiscal impacts to units of local government are shown in the table above.

Additionally, passage of the resolution would exempt the value of certain farm production inputs from property taxation. As a result, taxable property value could be reduced. However, the no-new-revenue and voter-approval tax rates as provided by Section 26.04, Tax Code could be higher as a consequence of the reduction in taxable property value proposed by the bill.

Under provisions of the Education Code, the school district revenue loss is partially transferred to the state.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, KK, SD, BRI