

BILL ANALYSIS

Senate Research Center
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S.B. 32
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Local Government
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

S.B. 32 will provide for an increase to the business personal property exemption from a \$2,500 de minimis exemption to a \$25,000 universal exemption per situs, with reasonable restrictions set forth. All businesses in Texas would therefore see a reduction of their ad valorem taxation paid for income producing tangible personal property.

S.B. 32 defines the terms "related business entity" and "unified business enterprise" for the purposes of the bill. This bill requires that anyone entitled to a tax exemption of their tangible personal property and is owned by a unified business composed of other businesses taking advantage of the aforementioned exemption is subject to an investigation by the chief appraiser. This investigation will determine if the entity is a related business entity and if it has aggregated personal property under the aforementioned tax exemption. The bill also mandates that a person's rendition statement claiming the exemption must include their business' physical address. The bill also requires that companies disclose if they are a related business entity on their tax rendition form.

S.B. 32 will also provide eligible taxable entities a credit equal to 20 percent of the amount of ad valorem taxes paid during the period on which the report is based, that are derived from the taxable value of the inventory owned by the entity and located in Texas. The total amount of credits that may be awarded under this subchapter in a state fiscal year is limited to \$700 million. The comptroller would be responsible for allocating the amount of credits available on a pro rata basis.

As proposed, S.B. 32 amends current law relating to an exemption from ad valorem taxation of a portion of the appraised value of tangible personal property that is held or used for the production of income and a franchise tax credit for the payment of certain related ad valorem taxes.

RULEMAKING AUTHORITY

Rulemaking authority is expressly granted to the Comptroller of Public Accounts of the State of Texas in SECTION 2.01 (Sections 171.703 and 171.707, Tax Code) of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 11.145, Tax Code, as follows:

Sec. 11.145. New heading: INCOME-PRODUCING TANGIBLE PERSONAL PROPERTY. (a) Defines "inventory," "related business entity," and "unified business enterprise."

(b) Creates this subsection from existing text. Provides that, subject to Subsection (f) and except as provided by Subsection (d), a person is entitled to an exemption from taxation by a taxing unit of \$25,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit, rather than if that property has a taxable value of less than \$2,500. Makes a nonsubstantive change.

(c) Redesignates existing Subsection (b) as Subsection (c). Provides that the exemption provided by Subsection (b), rather than Subsection (a), applies to each separate location in a taxing unit in which a person holds or uses tangible personal property for the production of income, and, for the purposes of Subsection (b), rather than Subsection (a), all property that has taxable situs in each separate location in the taxing unit is aggregated to determine taxable value.

(d) Provides that a person who leases tangible personal property is entitled to an exemption from taxation by a taxing unit of \$25,000 of the total appraised value of all the tangible personal property the person owns that is held or used for the production of income and is subject to a lease, regardless of where the property is located in the taxing unit.

(e) Provides that the exemption provided by Subsection (d) applies to each separate taxing unit in which a person holds or uses tangible personal property for the production of income.

(f) Provides that, for the purposes of Subsection (b), if a person is a related business entity, all property described by that subsection that has taxable situs at the same location in a taxing unit and that is owned by the person is aggregated with the property described by that subsection that has taxable situs at the same location in the taxing unit and that is owned by each other related business entity that composes the same unified business enterprise to determine taxable value for the entity.

(g) Authorizes a chief appraiser to investigate a business entity to determine whether the entity is a related business entity and has aggregated tangible personal property as provided by Subsection (f).

(h) Requires a taxing unit, when calculating an exemption to which the person is entitled under this section, to apply the amount of the exemption to tangible personal property other than inventory that the person owns and is held or used for the production of income before applying the exemption to inventory owned by the person.

SECTION 1.02. Amends Section 22.01, Tax Code, by amending Subsection (c-1) and adding Subsections (j-1), (j-2), (j-3), and (n), as follows:

(c-1) Defines "related business entity" and "unified business enterprise."

(j-1) Provides that, notwithstanding Subsections (a) (relating to requiring a person to render for taxation all tangible personal property used for the production of income that the person owns or manages and controls as a fiduciary) and (b) (relating to requiring a person to render for taxation any other taxable property that he owns or manages and controls as a fiduciary), a person is required to render tangible personal property the person owns that is held or used for the production of income only if, in the person's opinion and as applicable, the aggregate market value of the property that has taxable situs in the same location in at least one taxing unit that participates in the appraisal district is greater than the amount exempted under Section 11.145(b) or the aggregate market value of the property in at least one taxing unit that participates in the appraisal district is greater than the amount exempted under Section 11.145(d).

(j-2) Requires a person required to render property for taxation under Subsection (j-1) to render all tangible personal property the person owns that is held or used for the production of income and has taxable situs in the appraisal district. Provides that this subsection does not apply to property exempt from taxation under a provision of law other than Section 11.145.

(j-3) Requires a person who elects not to render property for taxation as authorized by Subsection (j-1) to file a rendition statement or property report that includes a certification that the person reasonably believes that the value of the property is not more than the amount exempted under Section 11.145(b) or (d), as applicable. Provides that the election takes effect beginning with the tax year following the tax year in which the rendition statement or property report is filed and continues in effect until the ownership of the person changes. Requires a person described by that subsection, notwithstanding Subsection (j-1), to render property for taxation if required by the chief appraiser.

(n) Requires that a rendition statement of a related business entity contain the information required by Subsection (a) or (f), as applicable, stated for each related business entity that composes the unified business enterprise of which the related business entity that is the subject of the rendition is a part.

SECTION 1.03. Amends Section 22.24(c), Tax Code, as follows:

(c) Requires that each form for filing a rendition or report include a box that a property owner that is a related business entity, as defined by Section 11.145, is required to check to identify the owner as a related business entity. Requires that each form include a box that a property owner who elects not to render the property for taxation as authorized by Section 22.01(j-1) is required to check to certify that the owner reasonably believes that the value of the property is not more than the amount exempted under Section 11.145(b) or (d), as applicable.

SECTION 1.04. Amends Chapter 25, Tax Code, by adding Section 25.14, as follows:

Sec. 25.14. INVENTORY AND TANGIBLE PERSONAL PROPERTY. (a) Defines "inventory."

(b) Provides that, for the purposes of this section, the term "inventory" does not include certain inventories.

(c) Requires that a person's inventory, except as provided by Subsection (d), be listed separately from any other tangible personal property the person holds or uses for the production of income.

(d) Provides that this section does not apply to tangible personal property for which a person is required to file a rendition statement under Section 22.01(j-3) but that the person is not required to render for taxation under any other provision of that section.

SECTION 1.05. Amends Section 31.01, Tax Code, by amending Subsection (c) and adding Subsection (c-3), as follows:

(c) Requires that the tax bill or a separate statement accompanying the tax bill meet certain requirements, including stating the assessment ratio for the taxing unit and, for tangible personal property, stating separately the amount of taxes imposed on a person's inventory from the amount of taxes imposed on any other tangible personal property the person held or used for the production of income. Makes conforming and nonsubstantive changes.

(c-3) Defines "inventory."

SECTION 1.06. Makes application of this article prospective.

SECTION 1.07. Effective date, this article: January 1, 2026, contingent upon approval by the voters of the constitutional amendment relating to authorize the legislature to exempt from ad valorem taxation a portion of the market value of tangible personal property a person owns that is held or used for the production of income.

ARTICLE 2. FRANCHISE TAX CREDIT FOR INVENTORY AD VALOREM TAX
LIABILITY

SECTION 2.01. Amends Chapter 171, Tax Code, by adding Subchapter N, as follows:

SUBCHAPTER N. TAX CREDIT FOR INVENTORY TAX LIABILITY

Sec. 171.701. DEFINITION. (a) Defines "inventory."

(b) Provides that, notwithstanding Subsection (a) and for purposes of this subchapter, the term "inventory" does not include a dealer's motor vehicle inventory, as defined by Section 23.121.

Sec. 171.702. ELIGIBILITY FOR CREDIT. Provides that a taxable entity is entitled to apply for a credit against the tax imposed under this chapter in the amount and under the conditions provided by this subchapter.

Sec. 171.703. AMOUNT OF CREDIT; LIMITATIONS. (a) Provides that, subject to Subsections (b) and (c), the amount of a taxable entity's credit for a report is equal to the lesser of:

(1) the total franchise tax due for the report after applying all other applicable credits; or

(2) 20 percent of the aggregate amount of ad valorem taxes imposed by each taxing unit during the ad valorem tax year preceding the year in which the report is originally due on property owned by the taxable entity that were derived from the taxable value of inventory owned by the taxable entity and located in this state.

(b) Prohibits the total amount of credits that is authorized to be awarded under this subchapter for all reports originally due in a year from exceeding \$700 million.

(c) Requires the Comptroller of Public Accounts of the State of Texas (comptroller) by rule to prescribe procedures by which the comptroller will allocate credits under this subchapter. Requires that the procedures provide that if the total amount of credits for which taxable entities apply under Subsection (a) exceeds the limit under Subsection (b) for a calendar year, the comptroller is required to:

(1) for each taxable entity that applied for the credit, reduce the amount under Subsection (a)(2) to a pro rata share of \$700 million based on the amount of ad valorem taxes described by Subsection (a)(2) imposed on property of the taxable entity and on property of all taxable entities that applied for the credit;

(2) after making the reductions under Subdivision (1), determine the amount by which each taxable entity's pro rata share under Subdivision (1) exceeds the amount provided by Subsection (a)(1) for the taxable entity, if any, and the sum of those amounts for all taxable entities; and

(3) allocate the sum determined under Subdivision (2) to other taxable entities that applied for the credit on a pro rata basis to partly or wholly restore the amount reduced under Subdivision (1).

(d) Provides that, for the purposes of Subsection (a)(2), the aggregate amount of ad valorem taxes imposed on property owned by the taxable entity that were derived from the taxable value of inventory does not include, and a taxable entity is not entitled to a credit for any taxes imposed on, the taxable value of any

inventory for which the taxable entity was exempt from taxation under Section 11.145.

(e) Authorizes a taxable entity, for purposes of calculating the amount of the credit under this subchapter in connection with the 2025 ad valorem tax year, to make a good faith estimate of the portion of the ad valorem taxes imposed on the taxable entity's property that were derived from inventory owned by the taxable entity and located in this state. Defines "good faith." Provides that this subsection expires January 1, 2028.

Sec. 171.704. APPLICATION FOR CREDIT. (a) Requires a taxable entity to apply for the credit under this subchapter on or with the originally filed report for the period for which the credit is claimed.

(b) Requires the comptroller to prescribe the form and method for applying for a credit under this subchapter. Requires a taxable entity to use the form in applying for the credit and submit the form electronically with the report for the period for which the credit is claimed.

(c) Authorizes the comptroller to require the taxable entity to include any other information the comptroller determines is necessary to demonstrate whether the entity is eligible for the credit and the amount of the credit.

(d) Provides that the burden of establishing eligibility for and the amount of the credit is on the taxable entity.

(e) Authorizes the comptroller to request permission to examine the books and records of a taxable entity as necessary to determine whether the entity is entitled to a credit under this subchapter and the amount of the credit. Authorizes the comptroller to disallow the credit if the taxable entity refuses to allow the comptroller to examine the books and records.

Sec. 171.705. ADMINISTRATION OF CREDIT; REFUND. (a) Authorizes the comptroller to require a taxable entity that applies for a credit under this subchapter to submit with the report a payment for all or part of the taxes to which the credit applies. Requires the comptroller, as soon as practicable after determining the amount of the credit under Section 171.703, to issue a warrant for any portion of the credit for which payment was made.

(b) Provides that the amount of a warrant issued by the comptroller under Subsection (a) does not accrue interest under Section 111.064 (Interest on Refund or Credit).

Sec. 171.706. SALE, ASSIGNMENT, OR CARRYFORWARD PROHIBITED. Prohibits a taxable entity that receives a credit under this subchapter from selling, assigning, or carrying forward any part of the credit.

Sec. 171.707. RULES. Requires the comptroller to adopt rules as necessary to implement and administer this subchapter.

SECTION 2.02. Makes application of Subchapter N, Chapter 171, Tax Code, as added by this article, prospective.

SECTION 2.03. Effective date, this article: January 1, 2026.