LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

March 23, 2025

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

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **SB32** by Bettencourt (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.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB32, As Introduced: a negative impact of ($213,726,000) through the biennium ending August 31, 2027.

Additionally, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of ($700,000,000) for the 2026-27 biennium. Any loss to the Property Tax Relief Fund must be made up with an equal amount of General Revenue to fund the Foundation School Program.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to *General Revenue Related Funds*
2026	($85,485,000)
2027	($128,241,000)
2028	($129,412,000)
2029	($159,787,000)
2030	($200,497,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *General Revenue Fund* 1	Probable Savings/(Cost) from *Foundation School Fund* 193	Probable Revenue Gain/(Loss) from *Recapture Payments Atten Crdts* 8905	Probable Revenue Gain/(Loss) from *Property Tax Relief Fund* 304
2026	($461,000)	($85,024,000)	($24,166,000)	$0
2027	($146,000)	($128,095,000)	($28,479,000)	($700,000,000)
2028	($146,000)	($129,266,000)	($24,553,000)	($700,000,000)
2029	($146,000)	($159,641,000)	($26,270,000)	($700,000,000)
2030	($146,000)	($200,351,000)	($26,084,000)	($700,000,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *School Districts Levy Loss*	*Change in Number of State Employees from FY 2025*
2026	($100,615,000)	2.0
2027	($114,818,000)	2.0
2028	($110,214,000)	2.0
2029	($115,837,000)	2.0
2030	($129,450,000)	2.0

Fiscal Analysis

Contingent on the passage of SJR 81, the bill would exempt from property taxation $25,000 of the appraised value of tangible personal property the person owns that is held or used for the production of income, rather than less than $2,500 dollars of taxable value. The bill would require a taxing unit to apply the amount of the exemption to income producing tangible personal property other than inventory before applying the exemption to inventory property. The bill would provide a definition of "inventory" and require inventory property to be listed separately from other income producing tangible personal property.

The bill would provide a franchise tax credit for property taxes paid on inventory.

The amount of a taxable entity's credit for a report would be equal to the lesser of (1) the total franchise tax due after all other applicable credits, or (2) 20 percent of the amount of ad valorem taxes paid by the entity that are derived from the taxable value of the inventory owned by the entity and located in Texas, for the period on which the report is based.

The total amount of credits that could be awarded per year may not exceed $700 million. The credits would be subject to proration should initial applications for credit exceed $700 million, and reallocation from taxpayers with insufficient franchise tax liability to use the full amount of credit to taxpayers with sufficient tax liability to use the available credit.

The bill would direct the Comptroller by rule to prescribe procedures by which the comptroller will allocate the credits, to prescribe the form and method for applying for the credit and would address other administrative details.

Methodology

The bill's proposed exemption of $25,000 of tangible personal property that has an aggregate value of at least $25,000 would reduce taxable value of local taxing jurisdictions and create a cost to the state through the operation of the school funding formulas. Unlike the de minimis $2,500 exemption in current law, which exempts tangible personal property only if the total value of such property owned is less than $2,500, the proposed change would exempt $25,000 of the appraised value of such tangible personal property regardless the total value of such property owned.

The estimate is based on information reported to the comptroller by appraisal districts. The portion of taxable personal property value that would be exempted by the bill was determined for a sample of personal property accounts and the result extrapolated statewide.

Under provisions of the Education Code, the school district tax revenue loss is partially transferred to the state. The estimated cost to the Foundation School Program (FSP) is $85.0 million in fiscal year 2026, $128.1 million in fiscal year 2027, increasing to $200.4 million in fiscal year 2030. The cost to the FSP includes estimated decreases in Recapture Payments - Attendance Credits of $24.2 million in fiscal year 2026, $28.5 million in fiscal year 2027, decreasing to $26.1 million in fiscal year 2030 as a result of school district tax revenue loss. The decrease in recapture is reflected as a revenue loss in the table above because recapture is appropriated as a method of finance for the FSP in the General Appropriations Act.

The bill provides the total amount of franchise tax credits may not exceed $700 million annually. The provision for reallocation of available credit from taxpayers with insufficient franchise tax liability to exhaust the credit to taxpayers with remaining liability against which credit may be applied ensures that the annual reduction in net franchise tax collections would be $700 million. As the credits would not be taken on reports as originally filed but refunded after proration and reallocation following filing of reports on extensions, the amount of credit provided for a franchise tax report year would reduce net tax collections in the subsequent fiscal year.

This analysis assumes administrative costs of $461,100 in fiscal year 2026 and $146,000 in each subsequent year to administer the new franchise tax credit. The Comptroller's office anticipates needing to hire two

Accounts Examiners III and to hire a contractor for application development.

Technology

The administrative cost includes technology costs of $315,000 to implement the provisions of the bill. An estimated 2,100 programming hours are required to update and create a new credit for the franchise tax in all interfaces of the system.

Local Government Impact

Contingent upon passage of a constitutional amendment authorizing the property tax exemption, the bill would provide property owners with an exemption of $25,000 in tangible personal property that is held for the production of income which would reduce taxable value. However, the no-new-revenue and voter-approval tax rates as provided by Section 26.04, Tax Code would be higher as a consequence of the reduced taxable property value proposed by the bill. If cities, counties, and special districts did not adopt higher rates, local levies would be reduced by $146.5 million in fiscal year 2026. If those jurisdictions adopted higher tax rates, the initial revenue loss from the exemption would be offset by increased tax levies from owners of non-exempt property and slightly reduced tax savings from owners of exempt property.

The fiscal impact to school districts is shown in the table above.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, SZ, SD, BRI, JY