

# **TTARA Webcast Update on Tax and Fiscal Issues**

**January 18, 2017**

**TEXAS TAXPAYERS  
TTARA  
AND RESEARCH ASSOCIATION**

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# Continuing Education Credits

We are pleased to offer 1 hour of continuing education credit for attorneys, accountants, and professionals in taxation with the State Bar of Texas, the Texas State Board of Public Accountancy, and the Institute for Professionals in Taxation.

Certificates of participation have been uploaded and can be found on the Gotowebinar toolbar on the right side of your screen under the “Handout” menu. You can download and place a copy in your files. If you have trouble locating the certificate, contact Ryan at [ryan@ttara.org](mailto:ryan@ttara.org) and he will send you a copy. We will enter the State Bar of Texas credit, but accountants and tax professionals need to submit their credit to those organizations.



# Upcoming TTARA Meetings

# TTARA Legislative Session Preview Meetings

(No registration fee)

- ~~Dallas Area: Friday, December 9, 10:00 a.m. – 12:00 p.m. Host: Texas Instruments, 12500 TI Blvd., Dallas, TX 75266~~
- ~~Austin: Wednesday, December 14, 9:30 a.m. to noon, at 400 West 15<sup>th</sup> Street, 3<sup>rd</sup> Floor Auditorium, Austin, TX.~~
- ~~Houston Area: Thursday, January 12, 10:00 a.m. – 12:00 p.m. Host: Shell, 910 Louisiana Street, Houston, TX 77002~~
- **San Antonio: Friday, January 20, 10:00 a.m. – 12:00 p.m., Host: H-E-B, 646 S. Main Avenue, San Antonio, TX 78204**



# 2017 Legislative and Tax Committee Meeting Schedule

Meetings will be held in the third floor auditorium at 400 West 15<sup>th</sup> Street, Austin, TX

Date	Legislative 9:00-10:00 am	Property Tax 10:00 am-12:00 pm	State Tax 10:00 am-12:00 pm
January 11	✓	✓	
January 26	✓		✓
February 8	✓	✓	
February 22	✓		✓
March 8	✓	✓	
March 22	✓		✓
April 5	✓	✓	
April 19	✓		✓
May 3	✓	✓	
May 17	✓		✓
May 31	✓	✓	
June 14	✓		



# 2017 Webcast Schedule

(All webcasts will begin at 9:30 a.m. and last approximately one hour)

- ~~January 18~~
- February 9
- March 9
- April 13
- May 11
- June 8
- September 14
- November 9

## Other 2017 TTARA Meetings

- **Dallas Area Luncheon:** April 7 from 11:30 a.m. to 1:00 p.m., La Cima Club, 5215 North O'Connor Blvd., Suite 2600, Irving, TX 75039
- **Houston Area Luncheon:** April 20 from 11:30 a.m. to 1:00 p.m., The Downtown Center at Houston Club, 1100 Caroline St., Houston, TX 77002
- **Golf Tournament:** June 5 at Falconhead Golf Club, Austin, 1:30 p.m. start.
- **Annual Meeting:** November 30 & December 1, JW Marriot, Austin, TX 78701

# Agenda

1. **Fiscal Outlook: Dale**
2. **Economic Development Bills: George**
3. **School Finance: Sheryl**
4. **Property Tax: Debbie**
5. **Sales Tax: John**
6. **Tax Administration: John**
7. **Franchise Tax: Dale**



# Fiscal Outlook

# Budget Challenges

General Revenues + Property Tax Relief Fund (\$billions)

<u>Item</u>	<u>2016-17</u>
Beginning Balance	\$8.3
Current Revenues	\$108.9
Dedications/Transfers	<u>(\$3.8)</u>
Total Revenues	\$113.4
Total Spending	<u>(\$109.3)</u>
Ending Balance	\$4.1

# Budget Challenges

General Revenues + Property Tax Relief Fund (\$billions)

<u>Item</u>	<u>2016-17</u>
Beginning Balance	\$8.3
Current Revenues	\$106.2
Dedications/Transfers	<u>(\$3.1)</u>
Total Revenues	\$111.4
Total Spending	<u>(\$109.9)</u>
Ending Balance	\$1.5

# Budget Challenges

General Revenues + Property Tax Relief Fund (\$billions)

<u>Item</u>	<u>2016-17</u>	
Beginning Balance	\$8.3	
Current Revenues	\$106.2	Down \$2.7 billion
Dedications/Transfers	<u>(\$3.1)</u>	Up \$0.7 billion
Total Revenues	\$111.4	
Total Spending	<u>(\$109.9)</u>	
Ending Balance	\$1.5	Down \$2.6 billion

# Budget Challenges

General Revenues + Property Tax Relief Fund (\$billions)

<u>Item</u>	<u>2016-17</u>	<u>2018-19</u>	<u>Diff.</u>
Beginning Balance	\$8.3	\$1.5	(\$6.8)
Current Revenues	\$106.2	\$114.8	\$8.6
Dedications/Transfers	<u>(\$3.1)</u>	<u>(\$3.1)</u>	0.0
New Highway Dedication		<u>(\$4.7)</u>	<u>(\$4.7)</u>
Total Revenues	\$111.4	\$108.5	(\$2.9)
<b>Total Spending</b>	<b><u>(\$109.9)</u></b>		
Ending Balance	\$1.5		

# House and Senate Budgets

- **2017 Supplemental Appropriations:** House provides \$1.2 billion; Senate does not
- **Medicaid:** House funds caseload growth; Senate does not (neither funds increases in client costs, utilization, or acuity)
- **Public Education:** House provides \$1.5 billion more than formulas require; Senate does not
- **Higher Education:** Senate cuts special items by \$800 million; House generally maintains special items and adds funding for 2 new medical schools
- **Across-the-board cuts:** Senate requires a 1.5% across-the-board cut to all items except for the Foundation School Program

# House and Senate Bottom Line

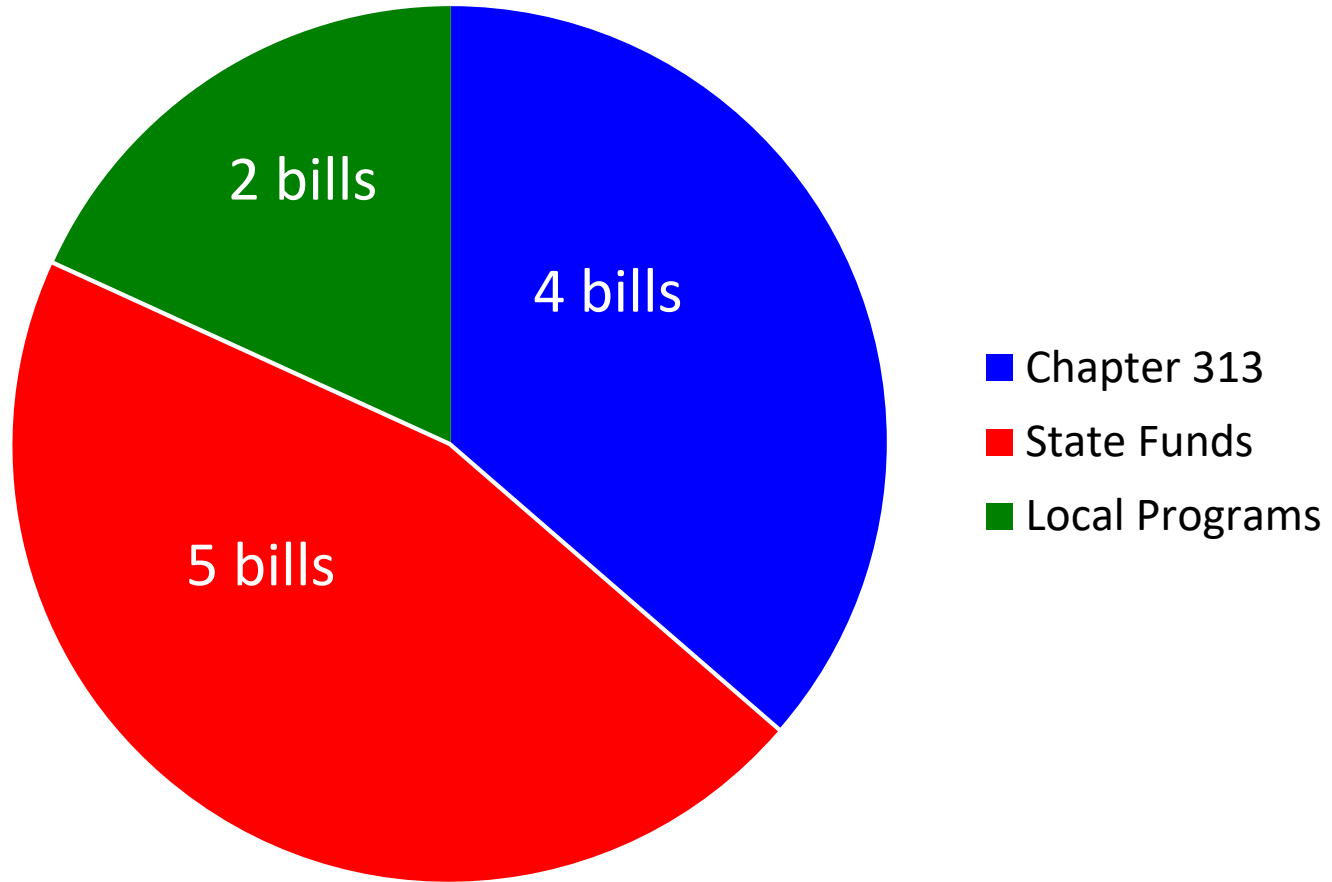
- Neither bill addresses the \$1.3 billion shortfall in TRS-care—the state’s health insurance program for retired teachers
- Neither budget adequately funds Medicaid—a federal mandate that cannot be ignored
- Both budgets cut state aid to schools while relying on a \$5 to \$6 billion increase in local property taxes to “fully fund” state education formulas
- The Senate Budget spends \$1.3 billion less than the Comptroller’s Revenue Estimate—enough to fund a 2017 supplemental bill
- The House Budget spends \$5.2 billion more than the Comptroller’s Revenue Estimate

# House and Senate Bottom Line

- Either budget will be politically and technically difficult to achieve—Medicaid cuts may be a fiction and higher education cuts will be particularly incendiary
- Both budgets are “works in progress,” and are only a starting point for legislators to begin work. While the House/Senate starting differences are immense, what ultimately matters is the final bill
- The “Rainy Day Fund” is estimated to have a balance of almost \$12 billion



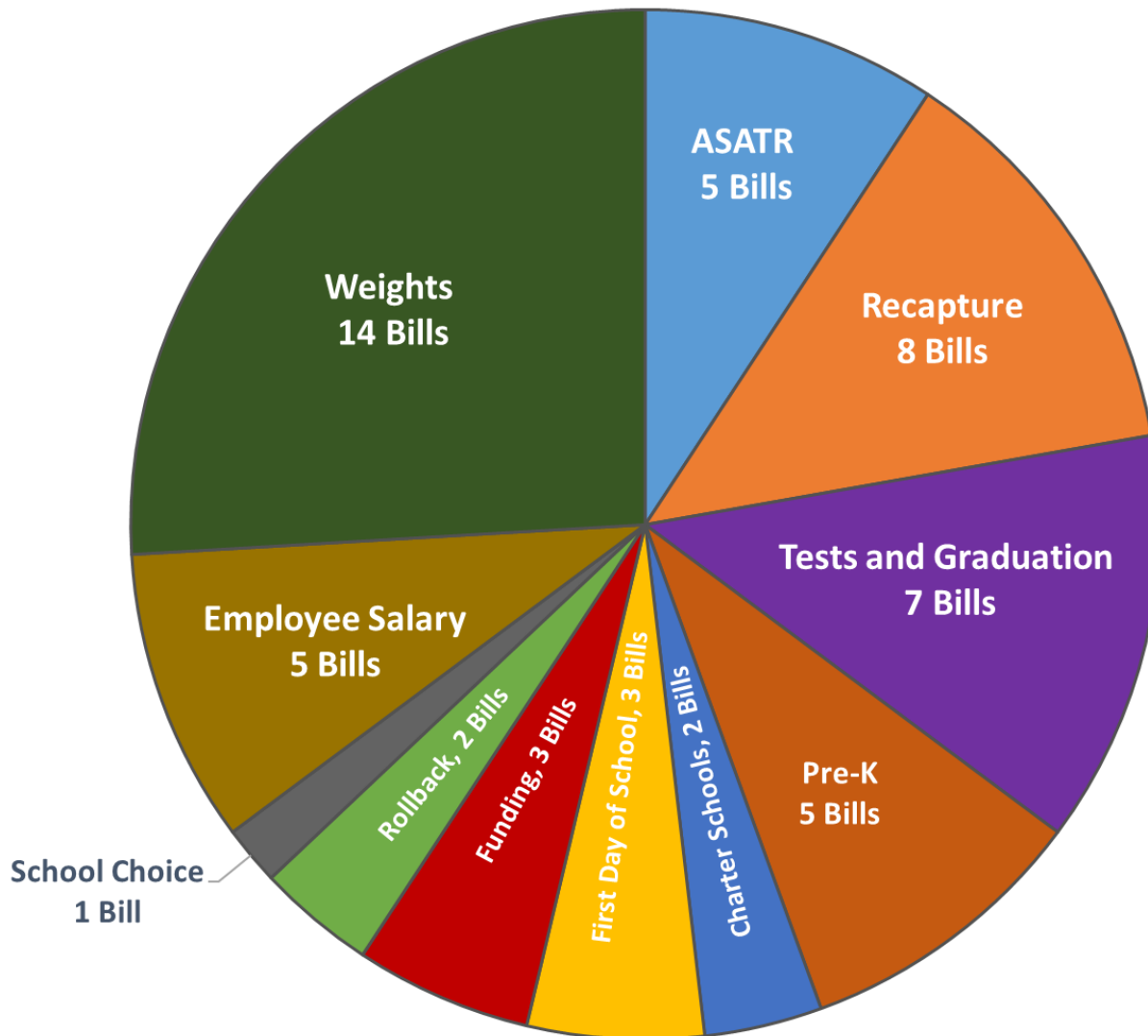
# Economic Development 11 Bills Introduced



# Economic Development

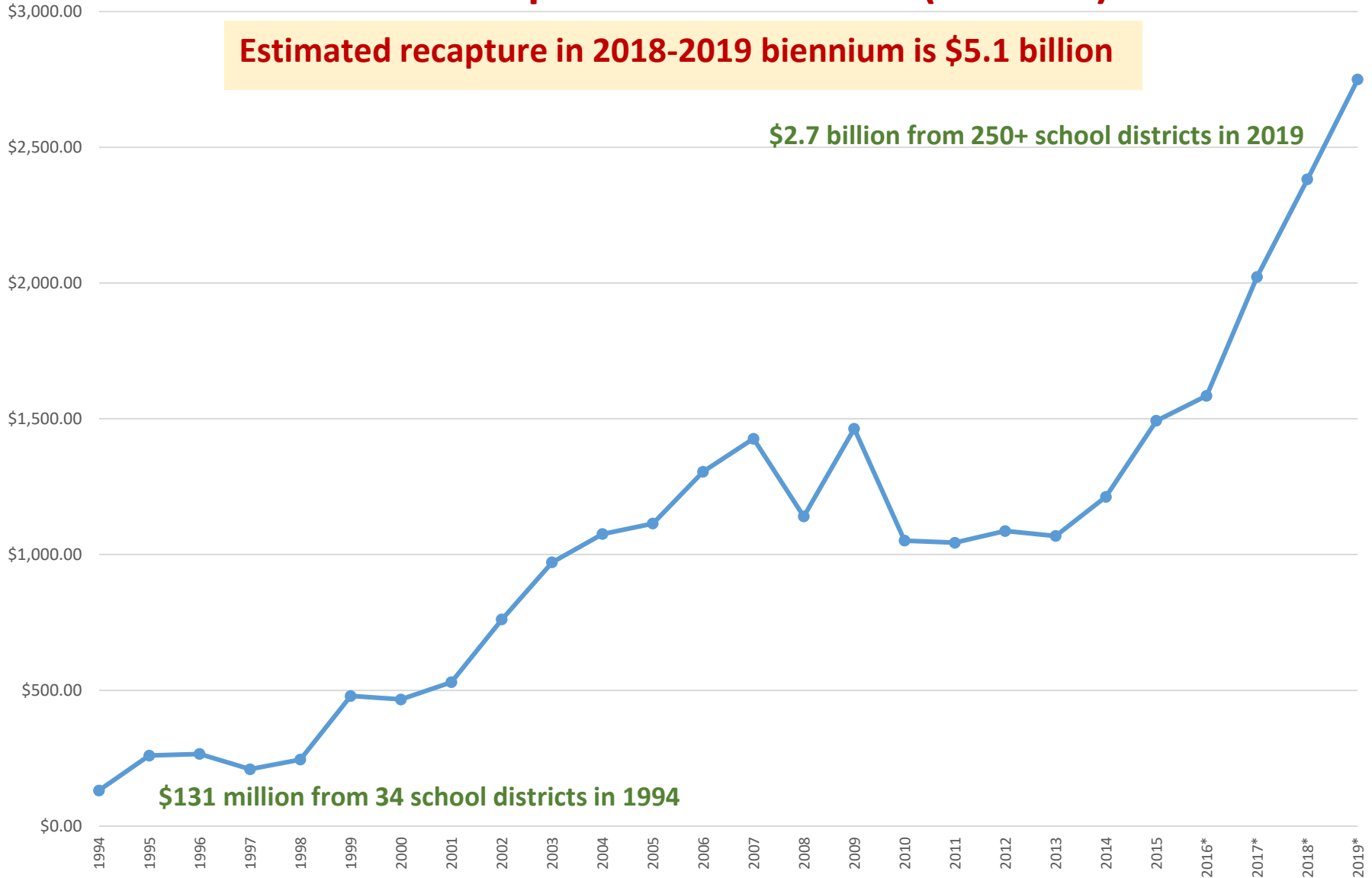
- HB 386 by Murphy:** defines “qualifying job” to include transfer of a job from another part of the state; changes the wage requirement to lesser of state or county median annual wage for manufacturing jobs.
- SB 400 by Kolkhorst/HB 559 by Hernandez:** requires comptroller to verify data in 313 compliance reports.
- SB 388 by Burton:** requires governing bodies to conduct economic development negotiations in open meeting.
- SB 388-93 by Burton:** Abolishes state economic development funds (Enterprise, Events, Major Events, Racing).

# School Finance and Education 55 Bills Introduced



# Amount Recaptured 1994 - 2019 (millions)

Estimated recapture in 2018-2019 biennium is \$5.1 billion



Data Source: Legislative Budget Board



# Houston ISD

- **Houston ISD** is subject to recapture for the first time this year. District owes **\$166 million**.
- Proposition to approve the payments **failed 35% - 65%**.
  - ✓ School Board members lobbied against it
  - ✓ Mayor ran television commercials against it
  - ✓ Houston Chronicle ran Op-Ed pieces against it
  - ✓ Hoping for a legislative solution
- Statute directs the Commissioner of Education to **detach business property** to be annexed by other school districts until the required wealth level is met.
- If detachment is not possible, statute directs the Commissioner to **consolidate Houston ISD with one or more school districts** until the required wealth level is met.

# Bills Filed to Address Recapture

Bill No.	Description
HB 94 Dutton	Increases the basic allotment to <b>\$5,800</b> and the equalized wealth level to \$580,000. ~\$4.6 billion per year.
HB 286 Rinaldi	<b>Repeals Chapter 41</b> of the Education Code. ~\$5 billion will be collected in 2018-19 biennium.
HB 1037 Capriglione SB 358 Watson	Deducts a school district's <b>transportation allotment</b> from the amount recaptured.
HB 1059 Murphy	Directs the Commissioner to <b>re-attach property</b> to a school district that was subject to forced detachment and annexation if the original district's wealth level falls to at least \$10,000 below the equalized wealth level.
SB 353 Watson	Requires recaptured property tax revenue be used to <b>increase the basic allotment and equalized wealth level.</b>
SB 356 Watson	Increases the recapture threshold and guaranteed yield for <b>copper pennies</b> to the tier one yield per penny.
SB 357 Watson	Excludes the <b>instructional facilities</b> allotment and <b>high school</b> allotment when calculating the number of weighted students for recapture purposes.

## Additional State Aid for Tax Reduction “ASATR”

- **“ASATR”** is state aid sent to school districts to enable them to maintain the level of state and local revenue per weighted student they had before their rates were compressed by a third in 2006.
- ASATR will **expire on September 1, 2017**.
- 846 districts have recouped the revenue over the years through increases in formula elements coupled with increased values.
- **173 districts** still receive **\$220 million**.

# Bills Filed to Extend ASATR

Bill No.		Description
HB 308	Burrows	<b>10 years</b> (Sept. 1, 2027)
HB 527	Workman	<b>2 years</b> (Sept. 1, 2019)
HB 811	Ken King	<b>4 years</b> (Sept. 1, 2021)
HB 856	Schubert	<b>2 years</b> (Sept. 1, 2019)
SB 419	Kolkhorst	<b>6 years</b> (Sept. 1, 2023)



# Bills Filed to Increase Funding

Bill No.	Description
HB 1040 Mary Gonzalez	Beginning in the the 2019-20 school year, annually increases the basic allotment by the greater of <b>1% or inflation</b> .
HJR 27 Howard	Requires that the state provide state funding in an amount that constitutes, as determined by the Legislature, <b>at least 50%</b> of the cost of maintaining and operating an efficient system of public free schools.
SB 290 Watson	Directs the Legislature to provide a basic allotment and guaranteed yield that results in at least a level of state expenditure equal to the state's expenditure for the <b>preceding biennium</b> .

# Bills Filed to Increase Weights & Adjustments

Formula Weight	Bill No.
Bilingual Weight	HB 177 Lucio III
	HB 193 Mary Gonzalez
	SB 161 Rodriguez
Career and Technology Weight	HB 883 Ken King
Compensatory Ed Weight	HB 488 Mary Gonzalez
Small District Adjustment	HB 565 Burrows
	HB 875 Schubert
	HB 881 Ken King
	HB 1034 Burns
Special Education	HB 363 Huberty
Transportation Allotment	HB 882 Ken King
Windstorm-Hail Allotment	HB 945 Paul
Comprehensive Study of Weights	SB 192 Garcia



# Charter School Facilities

Bill No.	Description
HB 467 Murphy	Expands the <b>PSF guarantee</b> for charter school bonds.
SB 457 Campbell	Provides funding to open-enrollment charter schools <b>for facilities</b> in the amount of \$35 per ADA multiplied by the state average interest and sinking fund tax rate imposed by school districts for the current year.

# Testing and Graduation

Description	Bill No.
Repeal the September 1, 2017 expiration date for the requirement that <b>"Individual Graduation Committees"</b> be appointed by school districts.	HB 77 Metcalf HB 966 Huberty SB 463 Seliger
Eliminate the STAAR test in <b>Writing, Social Studies, and US History</b> in grades 3-8.	HB 546 Deshotel SB 215 Menendez
Eliminate the <b>US History end-of-course test</b> .	HB 515 VanDeaver
Requires the Texas Workforce Commission to notify school districts of <b>employment opportunities</b> for high school students.	HB 374 Jarvis Johnson

# Rollback

Bill No.	Description
HB 390 Howard HB 486 VanDeaver	Authorizes a school district to lower its M&O rate and increase it back to the higher rate within a 10-year period <b>without holding a tax ratification election.</b>

# Other Bills

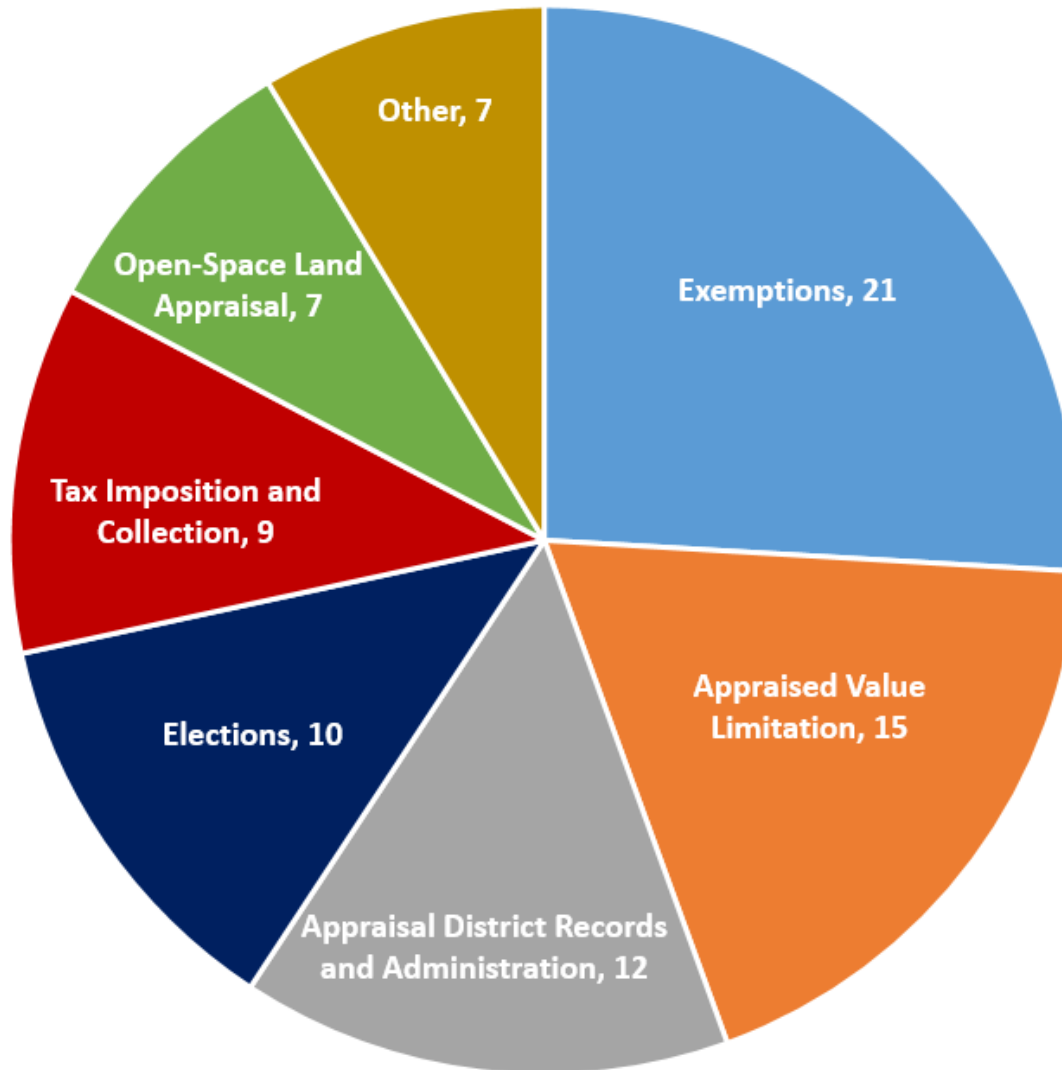
Description	Bill No.
Employee salary increases	HB 54 Mando Martinez
	HB 157 Raymond
	HB 399 Allen
	HB 861 Reynolds
	SB 216 Menendez
Increase funding for pre-k	HB 196 Mary Gonzalez
	HB 357 Huberty
	HB 480 Burkett
	SB 35 Zaffirini
	SB 484 Miles
Change or eliminate first day of school limitations	HB 441 Mando Martinez
	HB 620 Leach
	SB 338 Van Taylor

# School Choice

Description	Bill No.
Prohibit vouchers	HJR 24 Raymond
Education Savings Accounts Tax Credit for Scholarship	SB 3 Not yet filed

# Property Tax

81 bills being tracked as of today





# Senate Bill 2

Product of the Select Committee on Property Tax Relief and Reform chaired by Senator Paul Bettencourt (R-Houston)

Sponsors: Senators Bettencourt, Creighton, Hancock and Taylor (Van)

Caption: Relating to ad valorem taxation

## **Tax Relief Proposals:**

- Reduces the rollback tax rate from 8% to 4%
- Requires elections on general election date if the adopted rate exceeds the rollback rate
- Raises the exemption for business personal property from \$500 to \$2,500

# Senate Bill 2 (cont'd)

## Tax Administration / Reform Proposals:

- Creates an advisory board for the Comptroller to make recommendations on property tax administration
- Mandates that appraisal districts use Comptroller appraisal manuals; biennial reviews and audits to ensure compliance
- Requires that appraisal district boards of directors be appointed from locally elected taxing unit officials
- Creates special appraisal review board panels in counties with populations of 120,000 or more to hear protests of real & personal commercial, utility, industrial/manufacturing, and multi-family property; requires certain professional qualifications
- States that generally accepted appraisal methods & techniques includes those prescribed by the Comptroller in appraisal manuals

# Senate Bill 2 (cont'd)

## Tax Reform Proposals (cont'd):

- Requires that notices of appraised value in counties with populations of 120,000 or more must state that special appraisal review panels may be requested for certain categories of property
- Makes provisions for property owners to request special appraisal review board panels to hear protests
- Changes deadlines for filing renditions and protests, as well as appraisal roll certification and tax rate setting procedures
- Omits provision allowing taxing units to challenge level of appraisal for categories of property
- Prohibits ARB hearings after 7 p.m. on weekdays and altogether on Sundays
- Expands optional binding arbitration to property valued at \$5 million or less (rather than \$3 million or less)

# House Bill 934

Sponsor: Representative Zerwas (R-Richmond)

Caption: Relating to ad valorem taxation

Comparison to Senate Bill 2:

- Includes tax administration / reform proposals, **except**
  - changes to deadlines for filing renditions and protests, as well as appraisal roll certification and tax rate setting procedures
  - prohibition of taxing unit challenges to levels of appraisal
  - limitations on appraisal review board hearings
  - expansion of binding arbitration
- Excludes tax relief proposals

# Exemption Bills

- SB 15 by Huffines** and **SJR 1 by Campbell:** provides for a 100% homestead exemption for surviving spouse of first responder killed or fatally injured in line of duty
- HB 150/HJR 21 by Bell:** allows partial homestead exemption to veterans who purchase certain property
- HB 102/HJR 18 by Guillen; HB 425/HJR 35 by Button; HB 734/HJR 48 by Workman:** exempts business personal property or inventory in different ways
- HB 302 by Goldman:** increases mineral interest exemption from \$500 to \$2,000
- HB 382/HJR 34 by Murphy:** exempts property leased by charter schools

# Exemption Bills (cont'd)

**HB 820/HJR 50 by Shaheen:** creates a partial homestead exemption for doctors providing free services to indigent persons

**HB 845/HJR 51 by Lozano:** exempts mineral interests owned by certain nonprofit organizations

**HB 850/HJR 52 by Turner, C.:** exempts group homes or intermediate care facilities that provide care for persons with disabilities

**HB 758/HJR 49 by Keough:** allows churches to seek property tax refunds without applying for exemptions with appraisal districts

**SB 418/SJR 29 by Watson:** allows taxing units (other than school districts) to offer optional homestead exemptions at dollar amounts rather than percentages (up to 20%)

# Appraised Value Limitation Bills

- HB 44/HJR 17 by Keough** and **HB 167/HJR 26 by Bell**: changes 10% appraisal limitation on homesteads to 5% for all real property
- HB 301/HJR 30 by Larson**: limits value increase to 5% in year following a value reduction by agreement, protest, or appeal
- HB 376/HJR 33 by Metcalf** and **HB 586/HJR 43 by Bohac**: changes the 10% appraisal limitation on homesteads to 5%
- SB 172/SJR 19 by Nichols**: lowers appraisal limitation on homesteads from 10% to 5%, but allows county commissioners to call election binding on all taxing units to increase amount (not to exceed 10%)
- SB 376/SJR 28 by Creighton**: lowers appraisal limitation on homesteads from 10% to 5% for homes valued at more than \$1 million and 3% for homes valued at \$1 million or less
- SB 403 by Kolkhorst**: prohibits increases in market value of residences or commercial property for 2 years following a year in which values were reduced by at least 15% by ARB order or court determination

# Other Bills

## Abolition of Property Tax:

**HB 1050 by Swanson:** repeals Title I, Tax Code, effective January 1, 2022

## Open Space or Agricultural Appraisal Bills:

**HB 231 by Rodriguez:** provides for small acreage farming and comptroller guidelines for tracts under 10 acres

**HB 320 by Canales:** reduces rollback penalty to 2 years

**HB 643 by Phillips:** removes requirement that land be used for agricultural purposes before qualifying for wildlife management

**HB 777 by Ashby:** allows continued designation as open-space when land is not used while owner who is a member of armed services is stationed outside of Texas

**HB 801 by Murphy:** repeals rollback penalty for change of land use

**HB 950 by Rodriguez of Bexar:** permits land to qualify as open-space without a 5 of 7 year history if owned by a veteran or a person who is under the age of 35 years and has not been the operator of a farm or ranch for any period of more than 10 consecutive years

**SB 175 by Nichols:** extends qualification for open-space land for armed services members on active duty



# Other Bills (cont'd)

## Bills related to elections:

**HB 85 by Keough** and **SB 447 by Burton:** requires chief appraisers to be elected

**HB 151 by Simmons** and **HB 212 by Springer:** requires all bond elections on November uniform election date

**HB 495 by Phelan:** requires appraisal district boards of directors to be elected

**HB 566 by Keough:** requires appraisal review boards to be elected

**HB 739 by Shaheen:** defines “debt” for bond election ballot language

**SB 201 by Campbell:** describes ballot language for issuing debt secured by property taxes (excepts school districts)

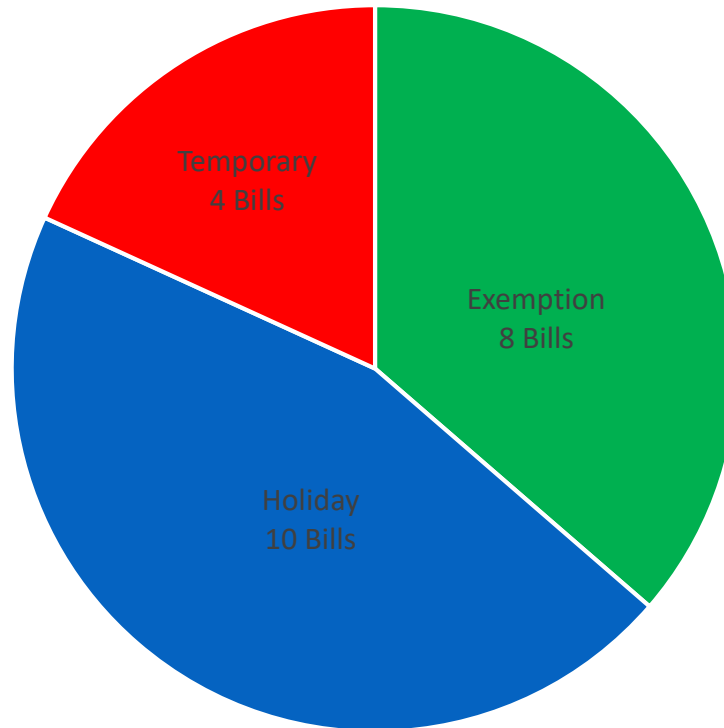
**SB 245 by Burton:** requires a public hearing before calling bond election

**SB 363 by Perry:** allows general elections on first Tuesday in March (except for counties)

# Sales Tax

## 22 Bills Introduced

(Exemptions, Exemptions, Exemptions)



# Sales Tax Exemptions

**Holidays:** feminine hygiene products, personal & tablet computers, LED lightbulbs, guns & ammo, college textbooks

**Full exemption:** feminine hygiene products, Internet access, child & adult diapers, state flags

**Temporary period:** new manufacturing or R&D business in small counties, new space flight businesses

# Tax Administration



# Tax Administration

## Comptroller “technical” bills

### Sales tax

- Motion picture, video or audio master recordings
- Temporary employment services

### Franchise tax

- Prepaid calling cards not telecommunications service

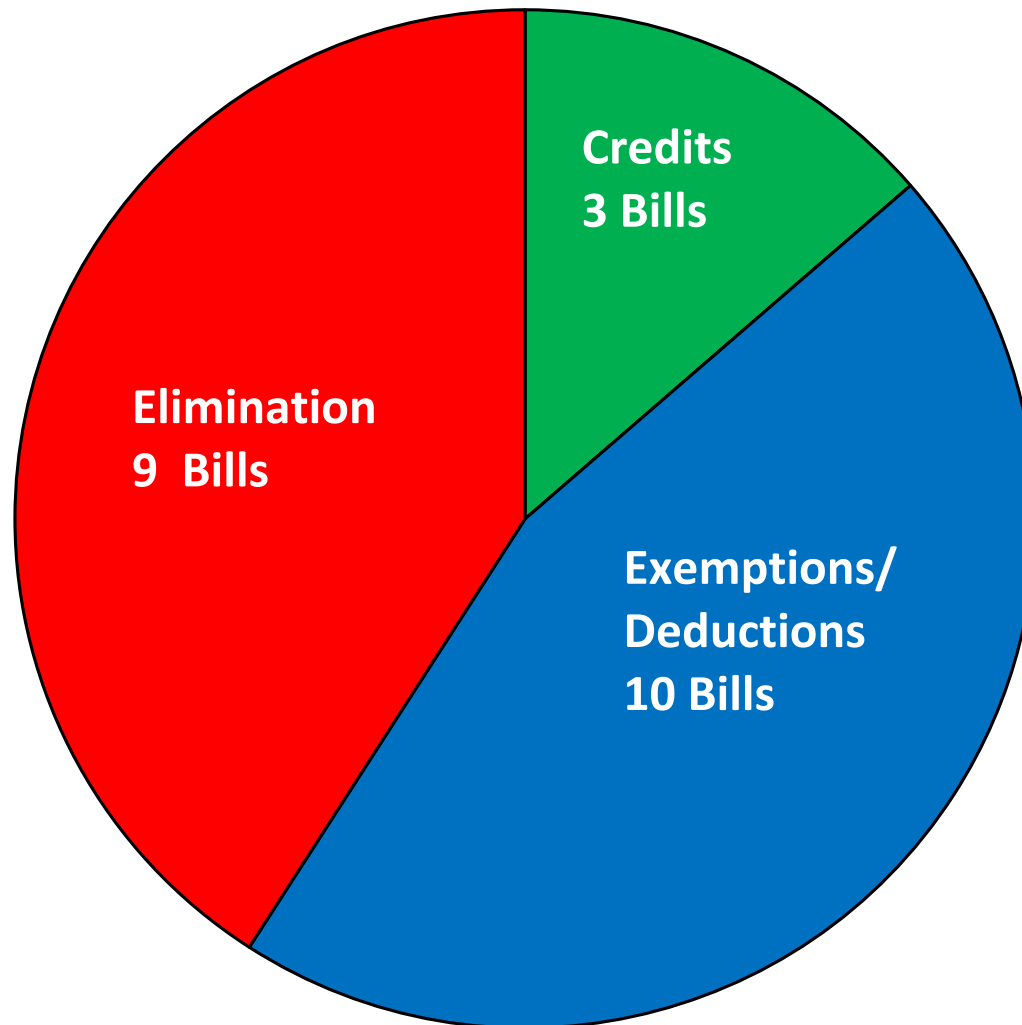
### Motor fuels tax

- Prohibition of other taxes on CNG/LNG

### Utility gross receipts tax

- Definition of “utility company”

# Franchise Tax 22 Bills Introduced



# Franchise Tax

**SB 72 by Nelson:** reduces the franchise tax rate in 1/30 increments, subject to revenue exceeding the Comptroller's projections.

**HB 509 by Button:** federal contractors may deduct costs allowable under federal acquisition regulations.

**SB 142 by Van Taylor:** allows filer claiming "cost of goods sold" deduction to use either state or federal definition.

**SB 17 by ???:** Lt. Governor's franchise tax bill.

# Thanks for Joining Us!

If you have any questions or comments, please feel free to contact TTARA staff.

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