

# TTARA Webcast Update on Tax and Fiscal Issues

February 9, 2017

TEXAS TAXPAYERS  
**TTARA**  
AND RESEARCH ASSOCIATION

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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

# 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 Review: Dale**
2. **Economic Development: George**
3. **School Finance: Sheryl**
4. **Property Tax: Debbie**
5. **Sales Tax and Tax Administration: John**
6. **Franchise Tax: Dale**



# Fiscal Review

# Budget Positioning

Item	Senate	House	Governor
2016-17 Supplemental	Not Funded	Funded	Not Funded
Public Education	Funds Formulas Only	Formulas +\$1.5 bl	Funds Formulas Only
Pre-K	+\$32 ml	-\$1 ml	+\$120 ml
Higher Education	Cuts \$800 ml in special items	Maintains most current funds + 2 med schools	Adopts Senate budget
Border Security	Maintains Funding	Cuts \$100 ml	Maintains Funding
Medicaid	Does not fund any growth	Funds caseloads, but not costs & acuity	Does not fund any growth
Enterprise Fund	-\$65 ml	-\$65 ml	Maintains Funding
Across-the-board cuts	1.5%	Not included	1.5%

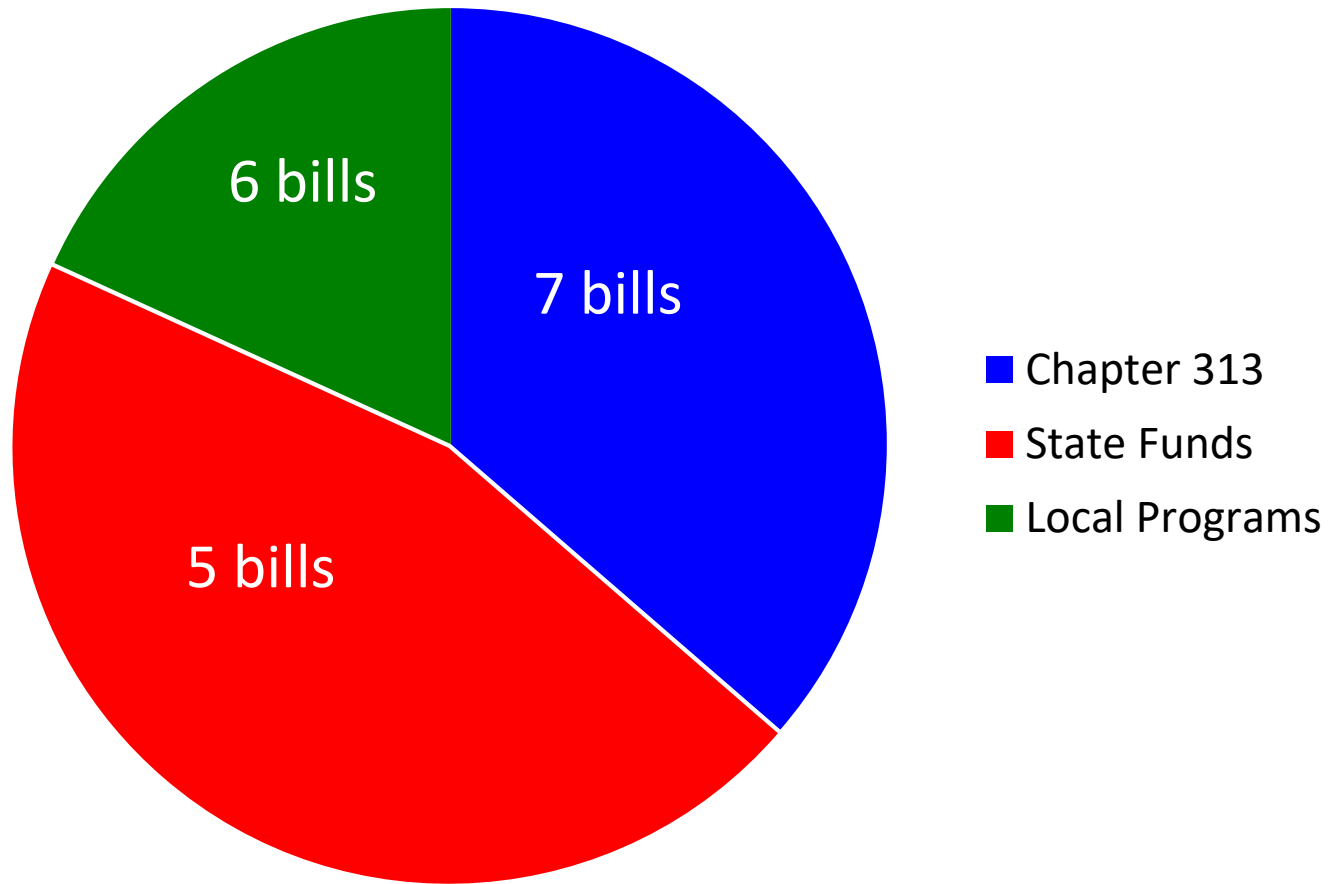
# Governor's Hiring Freeze

- Estimated to “save” the state \$200 million
- Based on Governor's influence, rather than specific legal authority
- Savings may require reductions in appropriations in order to count
- Uncertain how institutions of higher education will staff summer classes

# Budget Battlegrounds

Battleground	Corner 1	Corner 2
1. Medicaid	Senate & Governor	House
2. Public School Funding	Senate & Governor	House
3. Pre Kindergarten Funding	House & Senate	Governor
4. Higher Education	Senate & Governor	House
5. Enterprise Fund	Senate & House	Governor
6. Use of Rainy Day Fund	Senate & Governor	House

# Economic Development 18 Bills Introduced



# Economic Development

## HB 1674 by Murphy:

- Provides that if a project is located in more than one but not more than three contiguous districts, the project is considered to be located in the district with the highest taxable value for purposes of determining the minimum qualified investment and minimum value limitation;
- Prorates the value limitation in each district in proportion to the amount of qualified investment in each district;
- Requires the comptroller to determine eligibility of the whole project based on the project's eligibility if it were located in one district;
- Requires the comptroller to verify the new qualifying jobs data in a random sample of 313 agreements using information from the Workforce Commission, the appraisal district, and other sources the comptroller considers reliable;
- Maintains confidentiality of personal identifying information.

# Economic Development (cont'd)

## SB 650 by Bettencourt:

- Requires the attorney general authority to define by rule the meaning of “unproductive,” “undeveloped,” or “blighted” for purposes of qualifying for the creation of a tax increment zone;
- Requires a city to give at least 7 days’ notice by mail to each property owner, county commissioner, and state senator and representative of the meeting at which the city will vote to issue tax increment bonds or notes;
- Requires a city to provide legally sufficient evidence of eligibility to the attorney general before the initial issuance of tax increment bonds or notes;
- Prohibits funds in a tax increment fund for a zone from being transferred to an adjacent zone.

# Economic Development (cont'd)

## HB 1636 by Schaefer:

- Authorizes a Type A or Type B economic development corporation to make expenditures for general infrastructure consisting of streets and roads, water supply facilities, or sewage facilities if the use of sales tax proceeds or other corporate revenue for those purposes is approved at an election called for that purpose;
- Allows either the governing board of the corporation's authorizing municipality to order the election directly, or allows at least 10% of the voters in the municipality to petition the board of directors of the corporation to call the election.



# Chapter 313: Job Compliance Reports

- 2013's HB3390 by Hilderbran requires the Comptroller to “conduct an annual review” to determine if the project has created the required number of jobs for applications 2014 and beyond
- Comptroller has promulgated a 4 page form requiring employee names, unique identification numbers, locations, and salaries. (Form contains disclaimer: *Do NOT include sensitive or private data on this form*)
- Comptroller's Office will not post completed forms, but concerns about data remain

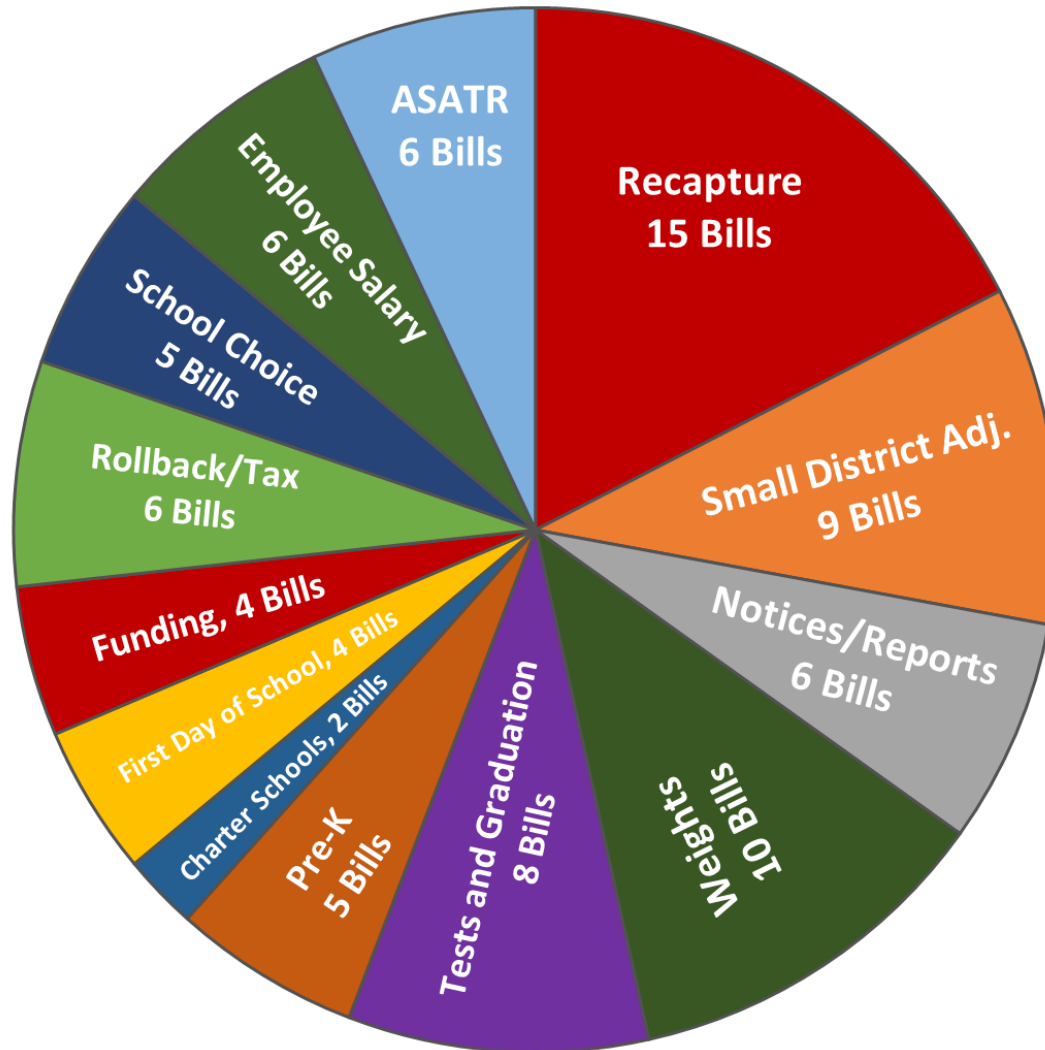
# Comptroller's Tax Exemptions and Incidence Study

Projected “cost” of Chapter 313:

2017	\$513.2 million
2018	\$601.2 million
2019	\$706.0 million
2020	\$914.1 million
2021	\$1,014.2 million
2022	\$1,093.7 million

“Costs” are benefits received by taxpayer, regardless of demonstrating absent the limitation, the project would not have moved forward.

# School Finance and Education Tracking 86 Bills



# SB 3 by Larry Taylor

## Education Savings Accounts

- Comptroller will make **quarterly payments** into education savings accounts of parents who sign up for the program
- Children must be eligible to attend a public school and be born on or after September 1, 2012; or **attended a public school during the entire preceding academic year.**
- The **school district** the child would otherwise attend is entitled to receive for the first year an amount equal to **50 percent** of the difference between the amount the child's parent receives and the state average M&O expenditures per ADA for the previous year.

## Income Qualifications

Free and Reduced Price Lunch Program Qualification \$44,955 for Family 4	Qualifying Salary	Annual Payment into Account
Greater than 200% of FRPLP Qualification	> \$89,910	~ \$5,100
200% or Less of FRPLP Qualification	\$89,910 or less	~ \$6,375
No Limit if Child is Disabled	N/A	~ \$7,650

# SB 3 by Larry Taylor

## Education Savings Accounts – Permissible Expenses

1. **Tuition and fees at a private school**
2. Purchase of **textbooks** or other instructional materials
3. Purchase of a **curriculum**
4. Fees for classes or other educational services provided by a public school, if the classes or services do not qualify the child to be included in the school's average daily attendance
5. Fees for services provided by a **private tutor** or teaching service
6. Fees for **educational therapies** or services provided by a practitioner or provider for a child with a disability
7. Costs of **computer hardware and software** and other technological devices, not to exceed in any year 10 percent of the total amount paid to the program participant's account that year
8. Fees for a nationally norm-referenced **achievement test** or examination, an assessment instrument adopted by TEA, an advanced placement test or similar examination, or any examination related to college or university admission
9. Fees for the **management of the participant's account** charged by a financial institution

# SB 3 by Larry Taylor

## State Premium Tax Credit for Scholarships

- Taxable entity can **make a contribution** to an “educational assistance organization” to be used to pay educational expenses for eligible students to attend a public or private school, and **claim a credit against the entity’s state premium tax liability**.
- Tax credit can be up to **50% of the entity’s total state premium tax liability**.
- Total tax credits statewide **cannot exceed \$100 million** for the 2018 fiscal year. For subsequent fiscal years, total allowable tax credits statewide are 110% of the allowable credits for the previous fiscal year.
- The comptroller will grant preliminary approval for credits under this chapter on a **first-come, first-served basis**, based on the date the comptroller receives the application for preliminary approval.
- A student who receives a scholarship **is included in the weighted average daily attendance of the school district** the student would otherwise attend for purposes of determining the district's equalized wealth level for recapture purposes for one year.

# SB 3 by Larry Taylor

## State Premium Tax Credit for Scholarships

Scholarships can be awarded to any student who:

1. Meets the income requirements and **attended public school** for the preceding year
2. Meets the income requirements and is **starting school in Texas for the first time**
3. Meets the income requirements and is the **sibling of a student who is eligible**
4. Is in **foster care**
5. Is in **institutional care**
6. Has a parent on active duty in the **military**
7. Is eligible to participate in a school district's **special education** program

# SB 3 by Larry Taylor

## State Premium Tax Credit for Scholarships

### Income Qualifications

Free and Reduced Price Lunch Program Qualification \$44,955 for Family 4	Qualifying Salary	Annual Payment into Account
176% - 200% of FRPLP Qualification	\$78,672-\$89,910	~ \$4250
175% or Less of FRPLP Qualification	Less than \$78,672	~ \$6,375
Up to 200% of FRPLP Qualification	\$89,910 or less	\$500 for transportation



# Houston ISD

## Commissioner's Directive

The Commissioner of Education issued a directive on February 1 stating that **he will recognize 50% of local optional homestead value loss when calculating recapture payments from property wealthy school districts** and when calculating state aid for facilities for very poor school districts.

**209 school districts grant an optional homestead exemption.  
110 of them benefit from the directive.**

Directive costs approximately \$100 million per year  
70% is attributable to Houston ISD and Spring Branch ISD

- ✓ 83 property wealthy school districts benefit
- ✓ 41 poor school districts benefit from recalculation of facilities aid
- ✓ 895 other school districts don't benefit

# Houston ISD

## Commissioner's Directive (cont.)

Commissioner's directive would impact **Houston ISD** in one of the following ways depending on future developments:

1. Reduce recapture payments by **\$55-\$60 million** to approximately **\$100 million**

OR

2. Reduce the value of detached property from \$17.4 billion to **\$11.1 billion**

(cost to Houston ISD would be \$134 million, **\$34 million more than the recapture payments**)

# Determination of Property Values

## Government Code Sec. 403.302. DETERMINATION OF SCHOOL DISTRICT PROPERTY VALUES.

(d) For the purposes of this section, "taxable value" means the **market value of all taxable property less** (1)-(13). (*Optional Homestead Exemption is #2*):

(2) **one-half of the total dollar amount of any residence homestead exemptions** granted under Section 11.13(n), Tax Code, in the year that is the subject of the study for each school district

# Determination of Property Values

**Education Code Sec. 42.2522. ADJUSTMENT FOR OPTIONAL HOMESTEAD EXEMPTION.** (a) In any school year, **the commissioner may not provide funding under this chapter** based on a school district's taxable value of property computed in accordance with Section 403.302(d)(2), Government Code, **unless:**

- (1) **funds are specifically appropriated** for purposes of this section; or
- (2) the commissioner determines that the total amount of **state funds appropriated** for purposes of the Foundation School Program for the school year **exceeds the amount of state funds distributed to school districts** in accordance with Section 42.253 based on the taxable values of property in school districts computed in accordance with Section 403.302(d), Government Code, without any deduction for residence homestead exemptions granted under Section 11.13(n), Tax Code.

**This qualifier is not in Chapter 41 or 46 of the Education Code**

# Houston ISD

## Houston ISD Board of Trustees Meeting February 9 2017

Because the Commissioner's directive lowers the amount that will be recaptured from Houston ISD by approximately \$60 million, the HISD Board of Trustees has put an item on the agenda for their meeting being held this **Thursday, February 9** that **calls for an election on May 6 to approve the recapture payments.**

**B-2 Approval Of Resolution Ordering An Election On May 6, 2017, For The Houston Independent School District Concerning Texas Education Code Chapter 41 Status (Also Known As "Recapture"); Authorization To Submit A Signed Chapter 41 Contract To The TEA; And Authorization To Negotiate, Execute, And Amend Agreements With Harris County To Provide Election Services**

**If this agenda item is approved** and the proposition passes on **May 6, there will not be any property detached** from Houston ISD as long as the school district makes the required payments.

# Houston ISD

## Houston ISD Board of Trustees Meeting February 9, 2017 (cont.)

**Tonight!**

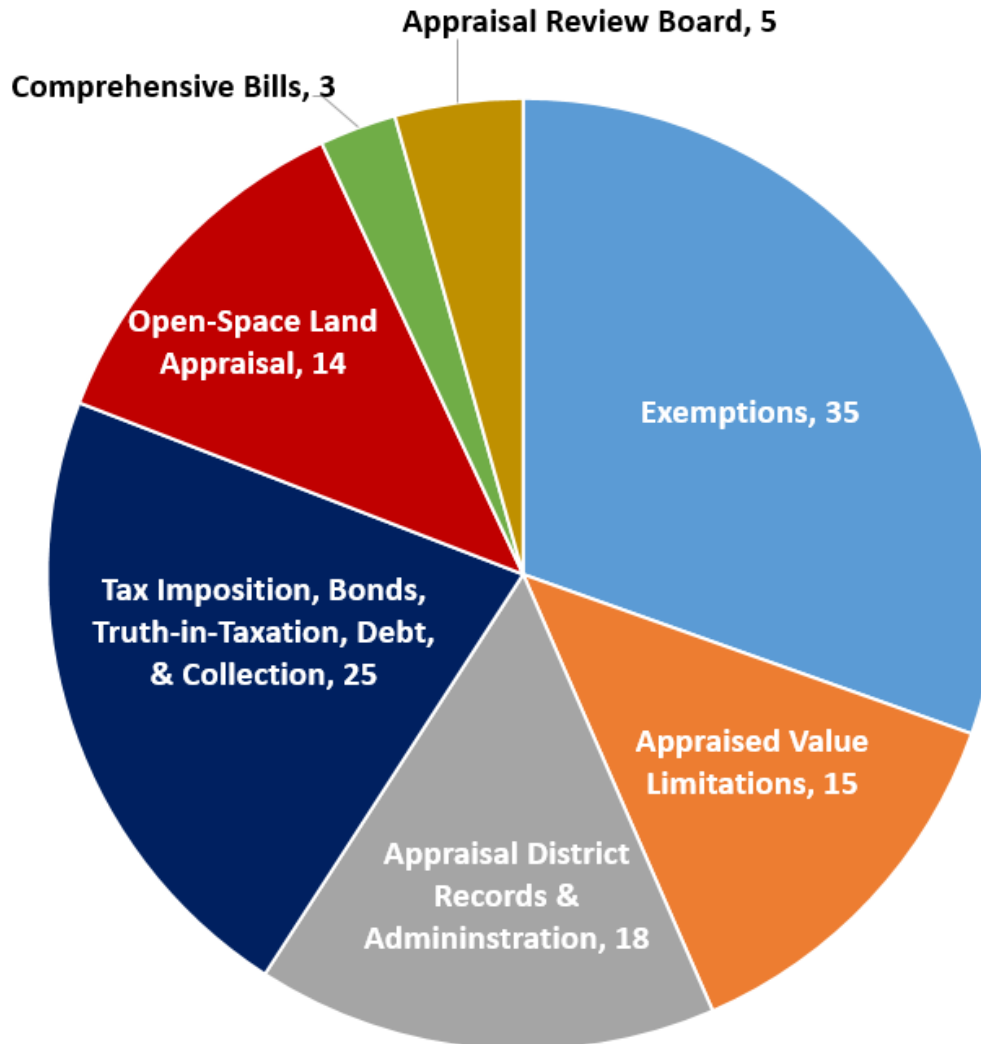
**Houston ISD Board of Trustees Meeting**  
**5:00 pm, Thursday, February 9, 2017**  
**HISD Board Auditorium**  
**4400 West 18th Street, Houston, TX**

**Livestream: <http://www.houstonisd.org/board>**



# Property Tax

145 bills being tracked as of today



# New Exemption Bills

- **HB 906/HJR 54 (Elkins):** creates an exemption for property owned by universities or medical centers and used for commercialization of technology
- **HB 1050 (Swanson):** abolishes the property tax
- **HB 1182/HJR 60 (Button):** exempts certain food products from property tax if held by the owner for sale at retail
- **HB 1330 (Kuempel):** increases the exemption for tangible personal property held for the production of income from \$500 to \$2,500 (existing constitutional authorization)
- **HB 1334 (Isaac):** provides a local option exemption for part of the value of property used for rain water harvesting (existing constitutional authorization)



# Exemption Bills (cont'd)

- **HB 1473/HJR 64 (Bohac):** exempts the residence homesteads of persons age 80 or older or their surviving spouses
- **HB 1548/HJR 66 (Dutton):** creates a school district exemption of property used to build low-income or moderate income single-family and multi-family housing
- **HB 1591/HJR 67 (Bohac):** exempts the residence homesteads of Purple Heart recipients or their surviving spouses
- **SB 730 (Bettencourt):** same as HB 1330 (Kuempel)

# Public Access to Property Tax Information

- **HB 1310 (Sanford):** authorization for issuing school, city, and county bonds must state (1) purpose of the bonds; (2) amount; and (3) rate of interest and be publicly disseminated, including websites
- **HB 1343 (Stephenson):** creation of the Special Purpose District Public Information Database by the Comptroller to include contact information, revenue statements, account balances, sales tax rates, and property tax rates
- **HB 1454 (Rinaldi):** requirement that a school district must provide notice that registered voters have an opportunity at a tax rate ratification election to approve the adopted tax rate, if a rollback election is pending when tax bills are mailed; the date of the election and other information must be provided

# Public Access Bills (cont'd)

- **SB 625 (Kolkhorst)**: same as HB 1343 (Stephenson)
- **SB 642 (Bettencourt)**: requirements for city, county, school district, or special taxing district bond elections to include estimated tax burdens or reductions on homesteads (median value) that would be imposed after the imposition of a proposed tax, if approved or disapproved, and a detailed description of the purpose for which the tax rate is to be increased (if applicable); the ballot language must contain certain language about purpose, amount of principal, outstanding debt, payments, and estimated tax burden
- Also see **SB 200 (Campbell)** and **SB 623 (Burton)**

# Rollback Tax Rates

- **HB 1017 (Perez):** city rollback tax rates remain at 8%, regardless of other changes to law
- **HB 1144 (Davis of Harris):** requirement that all taxing units hold tax ratification elections when adopted rates exceed the rollback tax rates
- **HB 1146 and HB 1147 (Davis of Harris):** rollback tax rate changed to  $(1 + \text{inflation rate})$ ; inflation rate defined as the percentage change in the consumer price index (average over a calendar year of the index determined by the Comptroller to most accurately report changes in the purchasing power of the dollar for consumers in the state) for the preceding calendar year; HB 1146 also requires automatic ratification elections to exceed rollback rates
- **HB 1165 (Paul):** reduces rollback tax rate from 8% to 6% and requires automatic ratification elections to exceed rollback rates
- Also see **SB 2 (Bettencourt et.al.)** and **HB 345 (Canales)**

# Appraisal Review Boards

- **SB 669 (Nelson):** requirements for ARB training and arbitrator training by Comptroller; changes to survey form; limits on years of service by ARB members; exchange of evidence before hearings; prohibition for value increases by ARB; selection of ARB officers; scheduling hearings; and other revisions
- Also see **SB 2 (Bettencourt et.al.)**

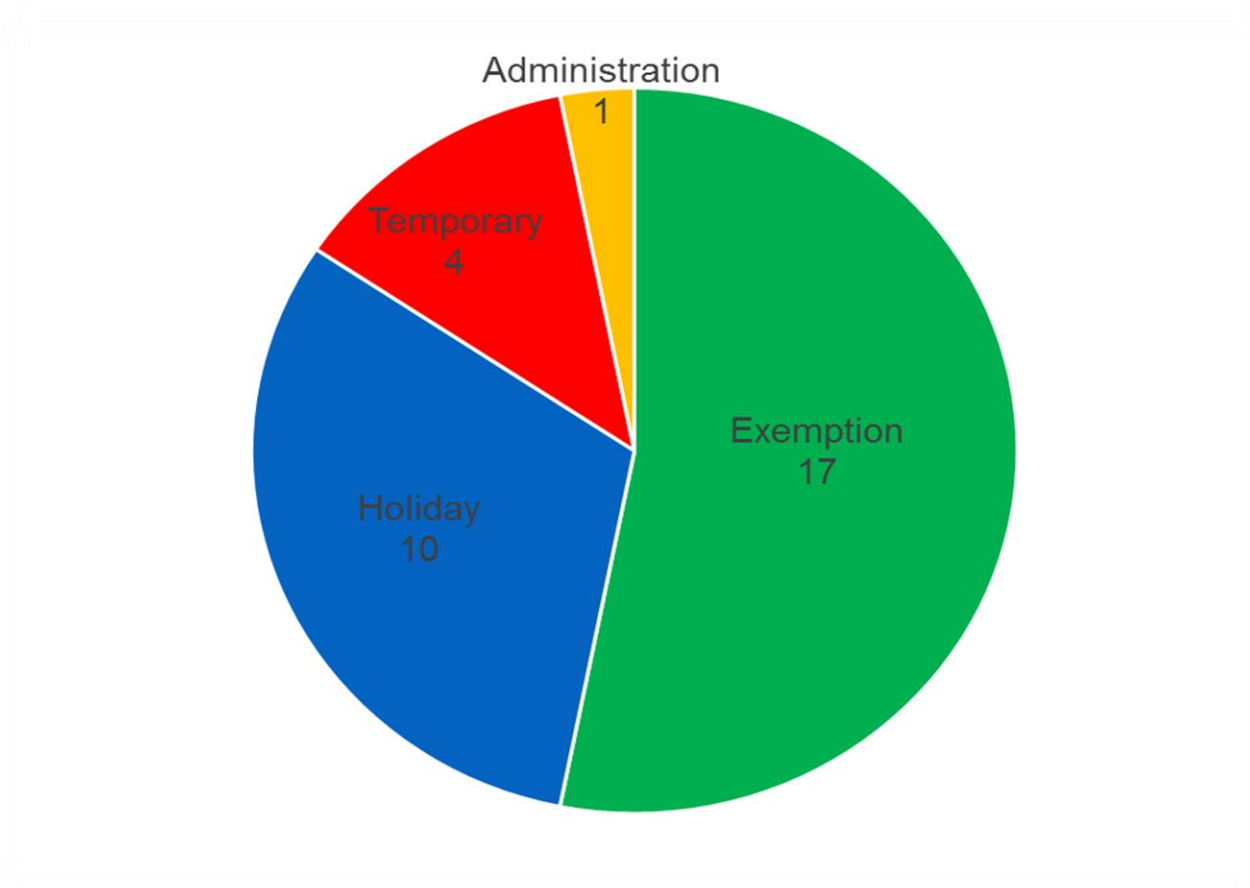
# Other Bills

- **HB 1139 (Davis of Dallas):** requirement that the Comptroller report corporate and business entities that receive tax reductions payable because of a special provision of law and the actual dollar amount of the reduction, regardless of whether the information is confidential under state law
- **HB 1564 (Miller):** provision to allow owner of residence homestead to defer or abate taxes (if age 65 or older) without approval of holder of a mortgage unless (1) the mortgage balance is 60% of the appraised value, or (2) default has occurred (other than for unpaid taxes)

# Sales Tax

## 32 Bills Introduced

(Exemptions, Exemptions, Exemptions)



# Sales Tax Exemptions

**Holidays:** feminine hygiene products, personal & tablet computers, LED lightbulbs, guns & ammo, college textbooks, school art supplies, small business sales

**Full exemption:** feminine hygiene products, Internet access, child & adult diapers, state flags, surveying, pool safety covers and enclosures, condoms, items rented by caterers

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

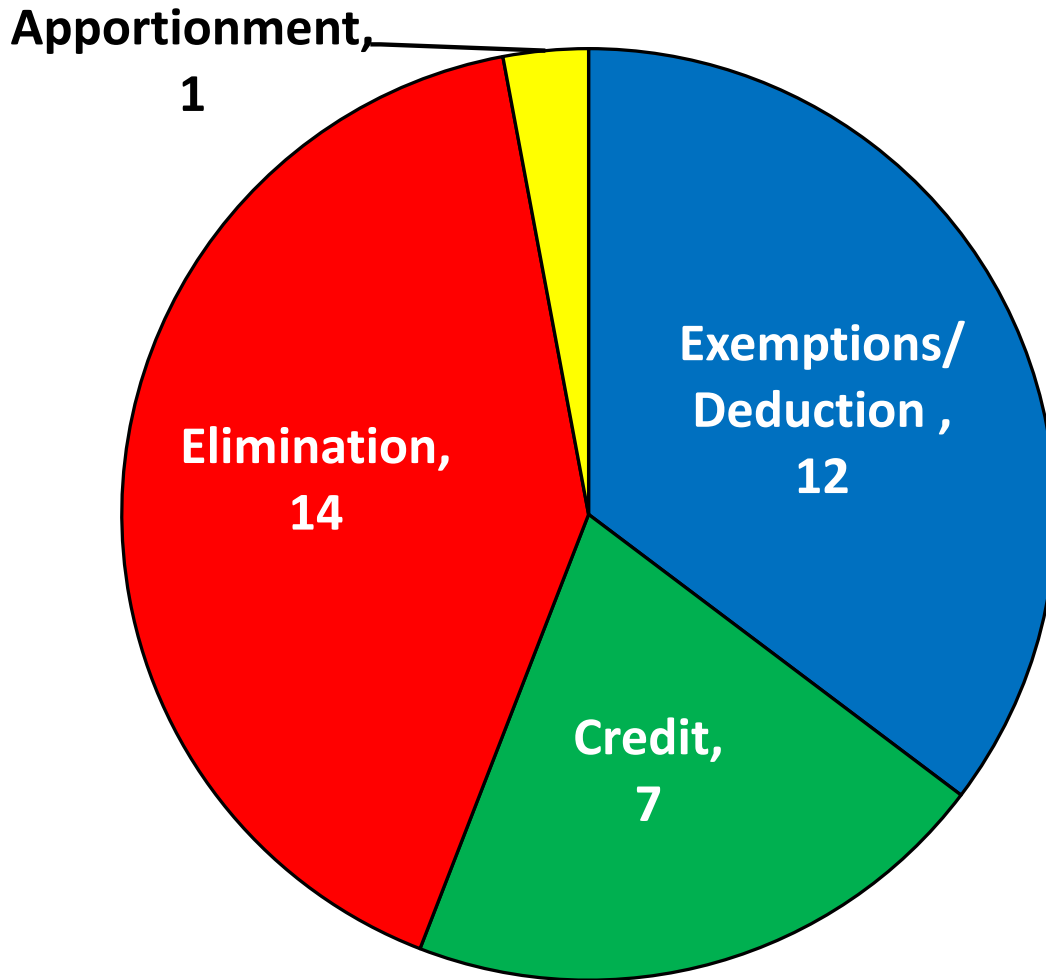


# Sales Tax Administration

## **HB 1370 by Springer – *Relating to sales and use tax information provided to certain local governmental entities.***

- Current law – Report amount paid by taxpayers paying over \$5,000 of state & local taxes
  - Proposal – Report gross sales, taxable sales and taxable purchases for all taxpayers
- Current law – Report to entities with no property tax amount paid by taxpayers paying over \$500 of state & local taxes
  - Proposal – Add report of taxpayer remittances in entities under 150,000 population and reduce reporting threshold to \$100
- Current law – Report aggregate amount paid by taxpayers in special taxing districts (e.g. crime control, fire, EMS, enterprise zone) with consent required if 3 or less taxpayers
  - Proposal – Repeal provisions preventing reporting of remittances by individual taxpayers
- Rep. Springer has agreed to work with us to address our concerns about the reporting of confidential taxpayer information

# Franchise Tax 34 Bills Introduced



# Franchise Tax Bills of Interest

- **SB 17 by Nelson:** uses excess state revenues to proportionately reduce the rates of the franchise tax
- **SB 575 by Schwertner, Birdwell, Buckingham, Burton, Campbell, Creighton, Estes, Hall, Hinojosa, Kolkhorst, Lucio, Nichols, Perry, Seliger, Taylor (Larry):** raises the small business exemption to \$4 million

# Senate Bill 17 by Nelson

*One half of any future revenue growth in excess of 5% is to be used to lower franchise tax rates*

Years	Rates			Revenue
	Basic	Wsl/Retail	EZ	
2018-19	0.75%	0.375%	0.331%	n.a.
2020-21	0.61	0.31	0.27	\$1.6 bl
2022-23	0.47	0.24	0.21	\$1.7 bl
2024-25	0.34	0.17	0.15	\$1.8 bl
2026-27	0.20	0.10	0.09	\$1.9 bl
2028-29	0.07	0.04	0.03	\$2.0 bl

# Senate Bill 575 by Schwertner, et al.

- Increases the small business exemption from the current \$1 million (indexed to inflation) to \$4 million
- Would exempt roughly half of all current taxpayers
- Annual state revenue loss of roughly \$300 million

# R&D Reporting Requirement

- 2013's HB800 by Murphy provides taxpayer a choice between:
  - Sales tax exemption for purchases of R&D equipment, or
  - Franchise tax credit for R&D spending.
- Bill required, beginning in 2017, study of the economic impact of the credit/exemption, by an independent researcher at an Education Research Center, but none has been done
- In exemptions study, Comptroller estimates annual costs:
  - \$180 million franchise tax
  - \$150 million sales tax

**About 2X original estimates**

# Thanks for Joining Us!

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

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