
Property Taxation of Business Personal Property

Evaluate the property tax as it applies to business personal property and the current \$500 exemption. Quantify the economic effect of taxing business personal property and determine whether the tax places Texas at a competitive disadvantage relative to other states. Evaluate the burden on taxpayers and local governments of administering the property tax on business personal property and determine whether the current \$500 exemption should be increased.

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Summary

Texas has among the highest property taxes of any state in the nation—5th highest on manufacturers. For a \$500 million industrial project, Texas' effective annual property tax burden would be \$25.2 million, 60 percent higher than the national average of \$15.6 million.

One reason Texas' property tax is so burdensome is that not only are tax rates high, the base is broader than that of most states. Texas taxes business personal property, which a number of states generally exempt. Almost all states exempt a key component of business personal property—inventories. Texas does not.

Aside from the amount of tax due, taxation of business personal property is harmful to the economy and taxpayers because:

- It puts Texas at a competitive disadvantage to many other states. Projects can locate in 8 states that do not tax business personal property under the property tax, including New York, Ohio, Illinois, and Pennsylvania; 13 other states allow partial exemptions or effectively tax business personal property at lower rates than other types of property,
- Texas is one of only 10 states that fully subject inventories to the property tax; another 4 states only tax inventories on a partial basis. The overwhelming majority of states do not tax inventories, and
- The administration of the tax on business personal property is administratively burdensome and complex.

Business personal property amounted to roughly ten percent of the state's tax base for the 2016 tax year, and inventories may be roughly half of that. Inventories may account for roughly half of the amount of business personal property on the tax rolls.

Texas does allow certain local jurisdictions to offer temporary property tax incentives for business personal property, but these incentives do not extend to inventories. Certain inventories of "*goods in transit*" may be exempted on a local option basis.

Texas does provide a \$500 exemption for business personal property (Tax Code 11.145) and mineral interests (Tax Code 11.146). The \$500 level was set 20 years ago, in 1997, and has not kept pace with inflation. A \$500 exemption in today's dollars is equivalent to \$367 in 1997 dollars.

A property valued at \$500 generates, on average, a tax bill of \$13—more than the likely cost of administering the tax.

Texas Property: What's Taxed, What's Exempt

| Type of Property | Business | Individually-Owned |
|-------------------|----------|--------------------|
| Real Property | Taxed | Taxed |
| Personal Property | Taxed | Not Taxed |

Texas' property tax applies to all real estate (land and improvements).

Texas's property tax also applies to tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income," i.e. business-owned property. Personal property owned by individuals is specifically exempted.

Inventories of raw materials and finished products is a key part of business tangible personal property.

Provisions governing the property tax are found in the Texas Constitution, which provides (Article 8, Section 1(b) and (d)):

All real property and tangible personal property in this State, unless exempt as required or permitted by this Constitution, whether owned by natural persons or corporations, other than municipal, shall be taxed in proportion to its value, which shall be ascertained as may be provided by law. The Legislature by general law shall exempt from ad valorem taxation household goods not held or used for the production of income and personal effects not held or used for the production of income.

Property Taxes Across the States

| State | Effective Tax Rate | Rank: High/Low | Annual Tax on \$500 ml property | BPP Taxable? | Inventory Taxable? |
|----------------|--------------------|----------------|---------------------------------|---------------------------------------|---|
| Alabama | 1.16% | 38 | 11,600,000 | Yes | No |
| Alaska | 1.44% | 25 | 14,420,000 | Yes | Partial |
| Arizona | 2.18% | 10 | 21,840,000 | Yes | No |
| Arkansas | 1.42% | 26 | 14,220,000 | Yes | Yes |
| California | 0.95% | 40 | 9,530,000 | Yes | No |
| Colorado | 1.81% | 17 | 18,060,000 | Yes | No |
| Connecticut | 2.09% | 11 | 20,930,000 | Yes | No |
| Delaware | 0.67% | 46 | 6,680,000 | No | No |
| Florida | 1.41% | 27 | 14,060,000 | Yes | No |
| Georgia | 1.52% | 23 | 15,180,000 | Yes | Partial |
| Hawaii | 0.60% | 49 | 5,970,000 | No | No |
| Idaho | 1.26% | 32 | 12,600,000 | Yes | No |
| Illinois | 1.92% | 14 | 19,220,000 | No | No |
| Indiana | 2.31% | 7 | 23,140,000 | Yes | No |
| Iowa | 1.97% | 12 | 19,720,000 | No | No |
| Kansas | 1.48% | 24 | 14,840,000 | Yes | No |
| Kentucky | 0.75% | 44 | 7,530,000 | Yes* | Yes |
| Louisiana | 2.20% | 8 | 22,010,000 | Yes* | Yes |
| Maine | 1.16% | 37 | 11,610,000 | Yes | No |
| Maryland | 1.33% | 30 | 13,270,000 | Yes* | Yes |
| Massachusetts | 1.17% | 36 | 11,660,000 | Yes | Partial |
| Michigan | 2.99% | 2 | 29,900,000 | Yes | Partial |
| Minnesota | 1.82% | 16 | 18,170,000 | Yes | No |
| Mississippi | 2.77% | 3 | 27,670,000 | Yes | Yes |
| Missouri | 2.19% | 9 | 21,870,000 | Yes* | No |
| Montana | 1.18% | 34 | 11,770,000 | Yes* | No |
| Nebraska | 1.71% | 18 | 17,110,000 | Yes | No |
| Nevada | 0.92% | 42 | 9,150,000 | Yes | No |
| New Hampshire | 1.12% | 39 | 11,230,000 | No | No |
| New Jersey | 1.60% | 20 | 16,010,000 | Yes | No |
| New Mexico | 1.21% | 33 | 12,070,000 | Yes | No |
| New York | 2.36% | 6 | 23,550,000 | No | No |
| North Carolina | 0.95% | 41 | 9,470,000 | Yes | No |
| North Dakota | 0.60% | 48 | 5,990,000 | Yes | No |
| Ohio | 1.33% | 29 | 13,290,000 | No | No |
| Oklahoma | 1.41% | 28 | 14,050,000 | Yes* | Yes |
| Oregon | 1.83% | 15 | 18,280,000 | Yes | No |
| Pennsylvania | 1.27% | 31 | 12,660,000 | No | No |
| Rhode Island | 1.95% | 13 | 19,500,000 | Yes* | No |
| South Carolina | 4.20% | 1 | 42,020,000 | Yes* | No |
| South Dakota | 0.85% | 43 | 8,460,000 | Yes | No |
| Tennessee | 2.64% | 4 | 26,350,000 | Yes* | No |
| Texas | 2.53% | 5 | 25,290,000 | Yes | Yes |
| Utah | 1.18% | 35 | 11,760,000 | Yes | No |
| Vermont | 1.59% | 21 | 15,860,000 | Yes | Yes |
| Virginia | 0.55% | 50 | 5,490,000 | Yes* | Yes |
| Washington | 0.72% | 45 | 7,170,000 | Yes | No |
| West Virginia | 1.65% | 19 | 16,500,000 | Yes* | Yes |
| Wisconsin | 1.57% | 22 | 15,700,000 | Yes | No |
| Wyoming | 0.66% | 47 | 6,640,000 | Yes | No |
| 50 States | 1.56% | n.a. | 15,600,000 | Exempt: 8 Ratio: 13 Taxable: 29 | Exempt 36: Partial: 4 Taxable: 10 |

* Taxable, but state uses a different assessment ratio than for real property..

School Property Taxes by Type of Property

Dollars are in Billions

| Type of Property | Market Value | Taxable Value | Percent Taxed | School Taxes Due |
|----------------------------|--------------|---------------|---------------|------------------|
| Single Family | \$1,399.8 | \$1,082.7 | 77.3% | \$14.7 |
| Multi Family | \$158.1 | \$158.1 | 100.0% | \$2.1 |
| Business Real Estate | \$743.5 | \$722.8 | 97.2% | \$9.7 |
| Business Personal Property | \$278.5 | \$231.7 | 83.2% | \$3.1 |
| Agricultural | \$268.2 | \$17.1 | 6.4% | \$0.2 |
| Total | \$2,848.0 | \$2,212.4 | 77.7% | \$29.9 |

Business personal property accounts for 9.8 percent of the total market value of all property in the state, and 10.5 percent of all school taxable property in the state.

Business personal property can benefit from certain exemptions, subject to the approval of local taxing authorities:

- Property tax abatements under Chapter 312 of the Tax Code (except that inventories are not eligible)
- Taxable value limitations under Chapter 313 of the Tax Code (except that inventories are not eligible)
- Certain inventories of products may be eligible for a “*goods in transit*,” or “*freeport*” exemption if they are in the state on a temporary basis.

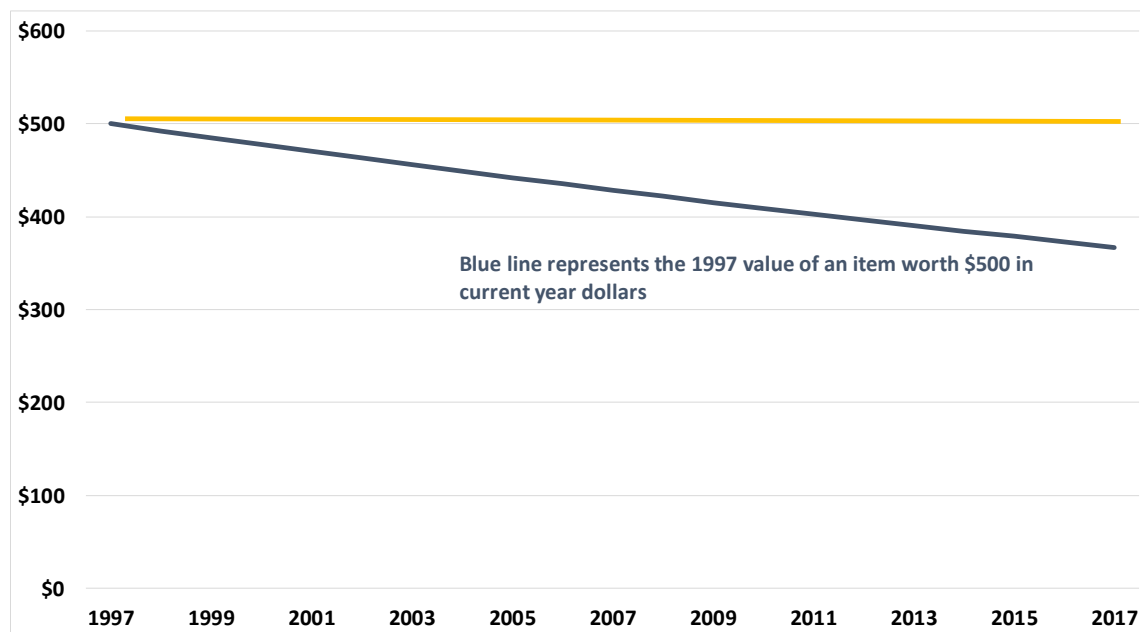
School taxes paid on business personal property totaled \$3.1 billion in Tax Year 2016.

Inventories may perhaps account for roughly half of the total value of business personal property in the state.

Rendition Forms

| Form | |
|----------------------|---|
| <u>Number</u> | <u>Title</u> |
| 50-127 | Report of Decreased Value |
| 50-141 | General Real Property Rendition of Taxable Property (sample at back) |
| 50-142 | General Personal Property Rendition of Taxable Property |
| 50-143 | Rendition of Residential Real Property Inventory |
| 50-144 | Business Personal Property Rendition of Taxable Property |
| 50-145 | Rendition of Property Qualified for Allocation of Value |
| 50-148 | Report of Leased Space for Storage of Personal Property |
| 50-149 | Industrial Real Property Rendition of Taxable Property |
| 50-150 | Oil and Gas Property Rendition of Taxable Property |
| 50-151 | Mine and Quarry Rendition of Taxable Property |
| 50-152 | Telephone Company Rendition of Taxable Property |
| 50-153 | REA-Financed Telephone Company Rendition of Taxable Property |
| 50-154 | Electric Company and Electrical Cooperative Rendition of Taxable Property |
| 50-155 | Gas Distribution Utility Rendition of Taxable Property |
| 50-156 | Railroad Rendition of Taxable Property |
| 50-157 | Pipeline and Right of Way Rendition of Taxable Property |
| 50-158 | Watercraft Rendition of Taxable Property |
| 50-159 | Aircraft Rendition of Taxable Property |
| 50-164 | Application for September 1 Inventory Appraisal |
| 50-288 | Lessor's Rendition or Property Report for Leased Automobiles |

\$500 Exemption for Business Personal Property and for Minerals Interests



In 1995 voters approved an amendment to Art. VIII, Section 1 of the Texas Constitution, to allow the legislature to exempt:

- *tangible personal property that is held or used for the production of income that has a taxable value of less than the minimum amount sufficient to recover the costs of the administration of the taxes on the property, and*
- *a mineral interest that has a taxable value of less than the minimum amount sufficient to recover the costs of the administration of the taxes on the interest.*

The Legislature enacted HB 366 in 1995 with an effective date of January 1, 1997 to provide an exemption of \$500 for both categories of property.

A \$500 value generates about \$13 in total property taxes. While it does not cost that much to send a bill, the cost of collecting delinquent taxes and locating owners of BPP and mineral interests exceeds that amount.

The exemption has not been adjusted for inflation--\$500 in today's dollars are the equivalent of \$367 in 1997.

Recommendations

1. Texas should place a priority on exempting business personal property from the property tax, as revenues become available. Doing so will yield a positive economic response for business investment.
2. A first step in exempting business personal property, would be to exempt business inventories from the school property tax, with an eye to extending the exemption to other local property taxes. With the fiscal implications likely high, the state could consider phasing in the exemption.
3. Texas should increase the amount of the \$500 exemption for both business personal property and for mineral interests to an appropriate level commensurate with the cost of administering the tax.