

BILL ANALYSIS

C.S.H.B. 705
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Ways & Means
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Concerns have been raised about rising property taxes in Texas. While these taxes are an important component of funding schools, hospitals, and other government services, it has been suggested that the growing reliance on property owners to fund these services has made home ownership increasingly difficult. C.S.H.B. 705 seeks to address this issue by giving municipalities and counties the ability to offset property tax collections with a supplemental local sales and use tax.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 705 amends the Tax Code to authorize a municipality or county, by adoption of an ordinance or order, to adopt, increase, reduce, or abolish a supplemental sales and use tax. The bill establishes that the tax is in addition to any other sales and use tax authorized by law but that the tax may be imposed only during a period during which such a local government does not impose a property tax for purposes of funding the local government's maintenance and operations expenditures. The bill establishes that a local government is not required to call an election to adopt, increase, reduce, or abolish the supplemental sales and use tax unless an election is called by petition, as provided by the bill.

C.S.H.B. 705 caps the rate of the supplemental sales and use tax authorized by the bill at two percent and requires the rate, in the first year in which a local government imposes the supplemental sales and use tax, to be equal to a rate that, when applied to the estimated cumulative sales price of the sale, use, storage, or other consumption of taxable items within the local government during that year, would produce an amount equal to the local government's lost property tax revenue. The bill requires the ordinance or order authorizing the tax to specify the tax rate.

C.S.H.B. 705 authorizes a local government that imposes the supplemental sales and use tax, by adoption of an ordinance or order, to increase or reduce the rate of the tax annually. The bill subjects such an increase to the two percent cap and prohibits a reduction in the rate of the tax from impairing any outstanding debt or other obligation payable from the tax. The bill authorizes a local government that imposes the tax, by adoption of an ordinance or order, to abolish the tax if there is no outstanding debt secured by the tax. The bill requires a certified copy of any such

ordinance or order to be forwarded to the comptroller of public accounts before June 30 of the year preceding the January 1 on which the action approved in the ordinance or order is to take effect. The bill establishes that the adoption, increase, reduction, or abolition of a tax authorized by the bill takes effect on the next January 1 that is at least six months after the date the local government forwards to the comptroller the copy of the ordinance or order adopting, increasing, reducing, or abolishing the tax, as applicable.

C.S.H.B. 705 authorizes a municipality or county, in 2019, to adopt an ordinance or order adopting a supplemental sales and use tax and to forward a certified copy of the ordinance or order to the comptroller before December 1, 2019. The bill establishes that a supplemental sales and use tax adopted by a municipality or county in 2019 takes effect January 1, 2020.

C.S.H.B. 705 authorizes the registered voters of a municipality or county to petition the applicable governing body to call an election on the question of adoption by the municipality or county of a supplemental sales and use tax and requires the applicable governing body, on receipt of a valid petition, to adopt an ordinance or order calling an election on the adoption of such a tax. The bill sets out requirements regarding the petition process and a resulting election.

C.S.H.B. 705 establishes that revenue from a supplemental sales and use tax authorized by the bill is for the use and benefit of the local government imposing the tax and may be used for any purpose for which the general funds of the local government may be used. The bill prohibits the rate of the supplemental sales and use tax from being considered for the purposes of determining the combined local tax rate in any area, provides for the applicability of other law, with certain exceptions, to a supplemental sales and use tax authorized by the bill, and establishes that such a tax is not an additional sales and use tax for purposes of the Municipal Sales and Use Tax Act or any other law.

C.S.H.B. 705 requires the officer or employee designated by the governing body of a municipality or a county that imposes a supplemental sales and use tax authorized by the bill to calculate only the municipality's or county's current debt rate for the purposes of determining effective and rollback tax rates. The bill establishes that, for purposes of property tax assessment and the calculation of such taxes, the tax rate of a municipality or county that imposes the supplemental sales and use tax authorized by the bill is the municipality's or county's current debt rate.

C.S.H.B. 705 requires a municipality or county that imposes a supplemental sales and use tax authorized by the bill to provide notice of the municipality's or county's tax rate in the manner provided for notice of a proposed tax rate in provisions relating to the simplified tax rate for taxing units with low tax levies. The bill establishes that the municipality or county is exempt from certain notice and publication requirements and is not subject to an injunction to the same extent as provided by those simplified tax rate provisions for failure to comply with those requirements.

EFFECTIVE DATE

On passage, or, if the bill does not receive the necessary vote, September 1, 2019.

COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.H.B. 705 may differ from the original in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

The substitute includes an authorization for a municipality to impose the tax.

The substitute includes an authorization for a municipality or county to use the tax to replace property taxes for the purpose of funding maintenance and operations expenditures and includes provisions defining lost property tax revenue.

The substitute includes an authorization for a county and municipality to increase or reduce the tax but includes provisions prohibiting the reduction of the tax to a rate that would impair certain obligations.

The substitute increases the cap on the tax to two percent.

The substitute does not include the mandatory election provisions but includes provisions that authorize an election to be called on petition in a county or municipality that has not adopted the tax.

The substitute changes the effective date provision and includes a provision authorizing, in 2019, the adoption of an ordinance or order and establishing that the applicably adopted tax takes effect January 1, 2020.