

SUBJECT: Nonprofit qualifications for property tax exemptions

COMMITTEE: Ways and Means — favorable, with amendment

VOTE: 7 ayes — Craddick, Ramsay, Heflin, Holzheuser, Horn, Oliveira, Stiles
0 nays
4 absent— Grusendorf, Telford, Thompson, Williamson

WITNESSES: For— Charles Fenn; Jim Robinson
Against — None

BACKGROUND : To qualify for property tax exemption under the Texas Tax Code, a nonprofit organization must meet certain conditions, including pledging to use its assets in performing its charitable functions and to transfer its assets to the state or a similar nonprofit upon its dissolution.

DIGEST: HB 2823, as amended, would delete the requirement that an organization *pledge* its assets and specify that the organization must *use* its assets in performing its charitable functions or the functions of another charitable organization. The bill also would specify that religious or youth development organizations and schools be organized and operated primarily for their stated purpose.

The bill would allow nonprofits to transfer their assets to the federal government upon their dissolution and would specify that compliance with provisions of a contract with the federal government would not affect the nonprofits' eligibility for property tax exemption.

If a chief appraiser determined that a nonprofit's property tax exemption application was invalid due to certain deficiencies in documentation, the appraiser would have to allow the organization 60 days to remedy the deficiency. Once the deficiency was remedied, the organization would be eligible for the tax exemption.

HB 2383 would take immediate effect if finally approved by a record two-thirds vote of the membership in each house.

**SUPPORTERS
SAY:**

HB 2823 would correct a technical difficulty in the Texas Tax Code that could prevent some nonprofit churches and other religious organizations from receiving property tax exemptions. The Tax Code requires that, to qualify for tax exemption, an organization has to pledge its assets for use in performing its charitable functions. Though nonprofits' assets are by definition pledged to performing such functions, their charters may not expressly state this pledge. This has endangered the tax exempt status of certain organizations that, though in spirit meet all requirements for tax exemption, could be interpreted as violating the law.

In addition, many nonprofit organizations receive some federal funds, which are required by federal law to be returned to Washington upon the organization's dissolution. State law requires, however, that tax-exempt nonprofits return assets to the state or to a similar nonprofit upon dissolution. HB 2823 would allow nonprofits to adhere to federal law and still receive a property tax exemption.

The Texas Tax Code has become so intricate and cumbersome that in order to comply with its provisions, many nonprofits must hire lawyers and tax consultants. Many churches and small nonprofits, however, cannot afford such professional assistance. Texas' tax law should not be so complicated that even when they try, law-abiding individuals are unable to comply. For this reason, the bill would allow certain nonprofits extra opportunity to remedy any paperwork irregularities that might jeopardize their tax exemptions. HB 2328 would simplify the Tax Code and ensure all Texas' many worthy nonprofits equal treatment under the law.

**OPPONENTS
SAY:**

No apparent opposition.

NOTES:

The committee amendment would allow nonprofits 60, rather than 30, days to remedy a document deficiency in a property tax exemption application.