

SUBJECT: Motor vehicle sales-tax exemption for disaster relief organizations

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 6 ayes — Wilson, McCall, Pitts, Hilderbran, Paxton, Ritter
0 nays
3 absent — Keffer, Luna, Woolley

WITNESSES: For — None
Against — None
On — John Heleman, Comptroller’s Office

BACKGROUND: Tax Code, ch. 152 imposes a state tax on retail sales and use of motor vehicles. Subchapter E sets forth several exemptions. Sec. 152.001 defines “nonprofit” organizations for tax purposes.

DIGEST: CSHB 202 would exempt from the sales tax a motor vehicle purchased or used by a federally tax-exempt, nonprofit organization, as defined by the federal Internal Revenue Code of 1986 (which includes charities under sec. 501(c)(3)), that uses the vehicle primarily for disaster relief.

The bill would take effect September 1, 2003, and would apply only to vehicles purchased or used on or after that date.

SUPPORTERS SAY: Texas exempts many vehicles from the sales tax, both by type and usage, but not disaster relief vehicles. This bill would follow well-established precedent in state tax policy recognizing the charitable nature of vehicles used by various nonprofit organizations. For example, exemptions are granted for fire trucks and emergency vehicles used by volunteer fire departments and nonprofit emergency medical service providers, and for vehicles purchased or used by licensed residential child-care facilities. Exempting vehicles used by disaster relief organizations would be a logical extension of this policy.

Nonprofit disaster relief organizations perform a valuable service by augmenting the response of public agencies during crises and emergencies, both natural and manmade. Exempting vehicle purchases and usage from sales taxes would help reduce one of the major costs of these organizations. It would allow these organizations to allocate their scarce financial resources more efficiently. Texans in dire need would be the ultimate beneficiaries, an investment well worth the relatively small cost, even during difficult fiscal conditions and uncertain economic times.

The more than 36,000 nonprofit organizations in Texas pay about 10 percent of the state's annual motor-vehicle sales taxes, which the comptroller has estimated will exceed \$1 billion in fiscal 2004. Only a few of these organizations operate disaster relief vehicles, so the actual cost to the state could be lower than the projected in the bill's fiscal note.

**OPPONENTS
SAY:**

Many, if not most, nonprofit organizations provide valuable services to needy Texans, some of whom cannot obtain them elsewhere. While it would be laudable to exempt all of them from state taxes, that is not feasible. Like businesses, nonprofit organizations benefit from state programs and services such as highways, law enforcement, and the courts. They should have to bear some portion of the costs of the services they use.

Exempting one group of worthy activities inevitably would lead to more exemptions. The current fiscal situation illustrates that Texas' tax structure and policy sorely need an overhaul. Currently, the state sales tax is the object of a massive nationwide streamlining and uniformity project. This effort, along with overall reform of the Tax Code, should be completed before any new exemptions are added.

At least for the coming biennium, Texas cannot afford to forego more than \$20 million in general revenue. Some of that money could be used to serve other needy Texans who face crises virtually on a daily basis. The current fiscal situation and uncertain economic times dictate that new tax exemptions be postponed indefinitely.

NOTES:

The fiscal note estimates that CSHB 202 would cost the state \$21.5 million in general revenue during fiscal 2004-05 and more than \$57 million through fiscal 2008.

As filed, HB 202 would have exempted vehicles used for other humanitarian purposes as well.

The companion bill, SB 926 by Deuell, has been referred to the Senate Finance Committee.