

Texas Tax Legislative Updates

2024 TXCPA Houston Tax Expo



Senate Bill 2

Property Tax Relief



Scope of S.B. 2

- School District Homestead Tax Exemption
 - Increased from \$40,000 to \$100,000
 - Percentage portion of Homestead Exemption under Section 11.13(n) cannot be reduced until 2028.
 - Districts entitled to state aid.
- Maximum Compressed Tax Rate “MCR” for School Districts
 - Reduced by lessor of \$0.107 or
 - To 90% of State MCR
 - Entitles districts to additional state aid
- Proposition 4 – Property tax cuts approved by voters.

Tax Rate Guidance for Tax Year 2023 issued by TEA

Step 2: Tax Compression Interaction with SB 2 (88-2) and Preliminary MCR determinations

SB 2 of the 88th Texas Legislature, Second Called Session (contingent on the passage of HJR 2), increases the state mandatory homestead exemption applicable to school districts from \$40,000 to \$100,000 per eligible homestead and creates additional state aid to hold districts harmless for the decrease in local tax revenue. SB 2 (88-2) also directs the TEA to reduce districts' MCRs by an additional \$0.107, after determining districts MCRs under §§48.2551 and 48.2552(b), if applicable, and subject to the limit on local compression (90% equity floor), as follows:

TY 2023 State MCR¹: $0.8941 \times (1.025 \div 1.0443) - 0.0825 = \$0.7950 - \$0.1070 = \mathbf{\$0.6880}$

Where:

- 0.8941 = TY 2022 State MCR
- 1.025 = Value growth permitted by TEC, §48.255
- 1.0443 = Comptroller projection of statewide value growth for TY 2023 per the General Appropriations Act (GAA)²
- 0.0825 = Additional reduction for savings from the 90% equity floor from the prior biennium per the GAA³
- 0.7950 = State MCR before SB 2
- 0.1070 = Additional compression from SB 2
- 0.6880 = TY 2023 State MCR

SB 2 (88-2) was signed by the Governor and if enacted, local district MCRs for TY 2023 will range from \$0.6880 to \$0.6192.

<https://tea.texas.gov/about-tea/news-and-multimedia/correspondence/taa-letters/preliminary-maximum-compressed-tax-rates-mcr-and-adoption-of-tax-rate-for-tax-year-2023>



| Cypress-Fairbanks ISD | 2022-2023 | 2023-2024 |
|--------------------------|-----------|-----------|
| Maintenance & Operations | 0.8948 | 0.6811 |
| Interest & Sinking | 0.40 | 0.40 |
| Total Rate | 1.2948 | 1.0811 |

LPVS “Local Property Value Survey”

Texas Education Agency
 Tax Year 2023 (School Year 2023-2024)
Final Maximum Compressed Tax Rates (MCR)
 August 31, 2023

| District ID | District Name | LPVS MCR (88-R) | SB 2 Reduction (88-2) | Tax Year 2023 MCR |
|-------------|-------------------------------|-----------------|-----------------------|-------------------|
| 053001 | CROCKETT COUNTY CONSOLIDATED | 0.7767 | -0.1070 | 0.6697 |
| 113901 | CROCKETT ISD | 0.7155 | -0.0963 | 0.6192 |
| 101906 | CROSBY ISD | 0.7155 | -0.0963 | 0.6192 |
| 054901 | CROSBYTON CISD | 0.7950 | -0.1070 | 0.6880 |
| 030901 | CROSS PLAINS ISD | 0.7155 | -0.0963 | 0.6192 |
| 107904 | CROSS ROADS ISD | 0.7223 | -0.1031 | 0.6192 |
| 078901 | CROWELL ISD | 0.7950 | -0.1070 | 0.6880 |
| 220912 | CROWLEY ISD | 0.7155 | -0.0963 | 0.6192 |
| 254901 | CRYSTAL CITY ISD | 0.7323 | -0.1070 | 0.6253 |
| 062901 | CUERO ISD | 0.7155 | -0.0963 | 0.6192 |
| 055901 | CULBERSON COUNTY-ALLAMOORE IS | 0.7460 | -0.1070 | 0.6390 |
| 112905 | CUMBY COLLEGIATE ISD | 0.7155 | -0.0963 | 0.6192 |
| 174902 | CUSHING ISD | 0.7394 | -0.1070 | 0.6324 |
| 101907 | CYPRESS-FAIRBANKS ISD | 0.7381 | -0.1070 | 0.6311 |
| 173003 | DALLASFIELD LONGSTAR ISD | 0.7381 | -0.1070 | 0.6311 |

| | |
|---------------------------------------|---------------|
| TY 2023 State MCR | 0.6880 |
| Limit on Local MCR (90% equity floor) | 0.6192 |
| Districts at floor | 550 |



Cy-Fair ISD Adopted Budget 2023-2024 Form 50-859

SECTION 2: Voter-Approval Tax Rate

The voter-approval tax rate is the highest tax rate that a taxing unit may adopt without holding an election to seek voter approval of the rate. Most school districts calculate a voter-approval tax rate that is split into three separate rates.¹⁸

- Maximum Compressed Tax Rate (MCR):** A district's maximum compressed tax rate is defined as the tax rate for the current tax year per \$100 of valuation of taxable property at which the district must levy a maintenance and operations tax to receive the full amount of the tier one allotment.¹⁹
- Enrichment Tax Rate:**²⁰ A district's enrichment tax rate is defined as any tax effort in excess of the district's MCR and less than \$0.17. The enrichment tax rate is divided into golden pennies and copper pennies. School districts can claim up to 8 golden pennies, not subject to compression, and 9 copper pennies which are subject to compression with any increases in the guaranteed yield.²¹
- Debt Rate:** The debt rate includes the debt service necessary to pay the school district's debt payments in the coming year. This rate accounts for principal and interest on bonds and other debt secured by property tax revenue.

The MCR and Enrichment Tax Rate added together make up the school district's maintenance and operations (M&O) tax rate. Districts cannot increase the district's M&O tax rate to create a surplus in M&O tax revenue for the purpose of paying the district's debt service.²²

If a school district adopted a tax rate that exceeded its voter-approval tax rate without holding an election to respond to a disaster in the prior year, as allowed by Tax Code Section 26.042(e), the school district may not consider the amount by which it exceeded its voter-approval tax rate (disaster pennies) in the calculation this year. This adjustment will be made in Section 4 of this worksheet.

A district must complete an efficiency audit before seeking voter approval to adopt a M&O tax rate higher than the calculated M&O tax rate, hold an open meeting to discuss the results of the audit, and post the results of the audit on the district's website 30 days prior to the election.²³ Additionally, a school district located in an area declared a disaster by the governor may adopt a M&O tax rate higher than the calculated M&O tax rate during the two-year period following the date of the *declaration without conducting an efficiency audit*.²⁴

Districts should review information from TEA when calculating their voter-approval tax rate.

| Line | Voter-Approval Tax Rate Worksheet | Amount/Rate |
|------|--|---------------------------------------|
| 26. | 2023 maximum compressed tax rate (MCR). TEA will publish compression rates based on district and statewide property value growth. Enter the school districts' maximum compressed rate based on guidance from TEA. ²⁵ | \$ <u>0.631100</u> /\$100 |
| 27. | 2023 enrichment tax rate. Enter the greater of A and B. ²⁶ | \$ <u>0.050000</u> /\$100 |
| | A. Enter the district's 2022 enrichment tax rate, minus any required reduction under Education Code Section 48.202(f) | 0.000000 \$ <u>0.050000</u> /\$100 |
| | B. \$0.05 per \$100 of taxable value | \$ <u>0.050000</u> /\$100 |
| 28. | 2023 maintenance and operations (M&O) tax rate. Add Lines 26 and 27. Note: M&O tax rate may not exceed the sum of \$0.17 and the district's maximum compressed rate. ²⁷ | \$ <u>0.681100</u> /\$100 |



Scope of S.B. 2 Cont.

- Circuit Breaker Limitation for Non-Homestead Property
 - Applies to real property appraised at \$5 million or less. Limit can be changed for tax years based on consumer price index.
 - Appraisal district can increase appraised value of property each year. Amount cannot exceed lesser of:
 - Market value of property determined by appraisal district.
 - Or sum of:
 - Appraised property value for the previous tax year
 - Market value of new property improvements
 - 20% of the appraised property value for the previous tax year
 - Appraisal District required to issue statement whether property qualifies provided by Sec. 23.231.
 - Expires 12/31/2026

Senate Bill 3

Changes to Franchise Tax Reporting Requirements



Scope of S.B. 3

- 2024 - No tax due revenue threshold increased to \$2.47 million
 - Compared to 2023 at \$1.23 million
 - Entities below threshold no longer required to file Form 05-163 No Tax Due Report.
- For all Franchise Reports due on or after January 1, 2024.
- Drafted to be contingent on passage of SB 2.
- Entities requiring use of Long Form or EZ Computation Form that previously used No Tax Due Report
 - Passive Entities
 - Qualifying REITS
 - Entities with Revenue over the No Tax Due Threshold but No Texas Receipts

House Bill 2691

Updates to Comptroller Treatment of Outstanding Debts and Taxes



Scope of H.B. 2691

- Section 403.055 states that the comptroller is not permitted to issue a warrant or electronic funds transfer to a person that has been reported by state agency as being indebted to the state or having a tax delinquency.
 - Exceptions
 - Compensation owed to state officers and employees
 - Payments to individuals from a private party through state agency.
- Bill adds paragraph (e-1) which limits the comptroller from issuing payments only to the extent of outstanding indebtedness.
- Bill adds paragraph (g-1) which requires state agency to provide notice to person with delinquency.
 - Name of the indebted or delinquent person
 - Amount Owed
 - Agency's contact information
 - Any options to eliminate balance owed

Senate Bill 1381

Surviving Spouse Homestead Exemptions



Scope of S.B. 1381

- Allows surviving spouses of people over age of 65 to:
 - Continue receiving property tax exemption, and
 - Continue without applying for the exemption again
- Not applicable if spouse determined to no longer be entitled
- Spouse is entitled to exemption in the next tax year if:
 - Appraisal district learns of the person's death (any source)
 - Surviving spouse is eligible by:
 - Information provided to appraisal district in initial application; or
 - Information provided to appraisal district by Texas DPS
- HB 4077 - Now requires appraisal districts to apply 65 or older exemption without the taxpayer needing to apply.

Other Property Tax Legislation

- SB 2355 – Requires for taxpayers to submit requests for an appeal through binding arbitration with the comptroller, instead of the appraisal district. Also, requires the payment of the arbitration deposit through electronic means. Effective January 1, 2024.
- HB 1228 – Permits the use of electronic communications between taxing authority and taxpayer. Effective January 1, 2024, for counties with populations on 120,000 or more. Effective January 1, 2025, for counties with less than 120,000 residents.
- HB 2121 – Removes notarization requirement for rendition statements filed on behalf of property owners when the good faith estimate market value of property rendered is \$150,000 or less. Effective January 1, 2024.
- HB 2354 – “Ownership of land is not is not considered to have changed if ownership of the land is transferred from the former owner to the surviving spouse of the former owner.” Effective January 1, 2024.
- SB 1801 – Requires appraisal districts to develop a program to review each residential homestead exemption every five years to confirm the property still qualifies for exemption. Five-year period begins January 1, 2024.

House Joint Resolution 132

Proposed constitutional amendment regarding taxes on wealth



House Joint Resolution 132

Article VIII, Texas Constitution, is amended by adding Section 25 to read as follows:

“The legislature may not impose a tax based on the wealth or net worth of an individual or family, including a tax based on the difference between the assets and liabilities of an individual or family.”

Texas Proposition 3, approved by voters on November 7, 2023.



Senate Bill 1145

Tax Exemption for Child-Care Facilities



Scope of S.B. 1145

- “Child-care facility”
 - Facility licensed by the Health and Human Services Commission to provide assessment, care, training, education, custody, treatment, or supervision for a child who is not related by blood, marriage, or adoption to the owner or operator of the facility, for all or part of the 24-hour day, whether or not the facility is operated for profit or charges for the services it offers.
- “Qualifying child-care facility”
 - Participates in Texas Workforce Commission’s Texas Rising Star Program
 - At least 20 percent of children enrolled receive subsidized child-care services
- Taxing authority may adopt exemption of at least 50 percent of appraised value.
- For landlords to qualify for exemption, it is required they disclose and lower rent by the amount of property tax reduction.
- Effective January 1, 2024.

Senate Joint Resolution 64

- Amends Texas Constitution to allow legislature to exempt Child-Care Facilities from real property tax by cities and counties.
- Approved by voters in November 2023 via Proposition 2.

Senate Bill 2289

Tax Exemption for Manufacturer of medical and biomedical products



Scope of S.B. 2289

- Exempts Medical or Biomedical Property from personal property tax.
- “Medical or Biomedical Property” defined:
 - Tangible personal property that is stored, used or consumed in the manufacturing or processing of medical or biomedical products.
 - Intended for use in the diagnosis, cure, mitigation, treatment or prevention of a condition or disease or in medical research.
 - Devices
 - Therapeutics
 - Pharmaceuticals
 - PPE
 - Tools, apparatuses, instruments.
 - Manufacturing Inventories

Senate Joint Resolution 87

- Amends Texas Constitution to allow legislature to exempt Medical and Biomedical Property from personal property tax.
- Approved by voters in November 2023 via Proposition 10.

Senate Bill 7

COVID-19 Vaccine mandates for private employers



Scope of S.B. 7

- Forbids a private employer from taking an adverse action against an employee for failure to adhere to a policy requiring vaccination against COVID-19.
- Adverse action defined “an action taken by an employer that a reasonable person would consider was for the purpose of punishing, alienating, or otherwise adversely affecting an employee, contractor, applicant for employment, or applicant for a contract position.”
- Exception noted for health care providers that establish and enforce reasonable policy the requires use of protective medical equipment.
- Employee can file complaint with Texas Workforce Commission
- Administrative Penalty - \$50,000 per violation
- SB 29 – Relates to restrictions on governmental entities.

Senate Bill 159

Texas CPA Exam Testing Requirements



Scope of S.B. 159

- Allows Texas CPA applicants to sit for exam while only having completed 120 semester hours of college course, 24 semester hours in accounting.
- Still required to have 150 hours to obtain license.

SB 951 – Allows scholarship fund belonging to Texas State Board of Public Accountancy to award scholarships to students with at least 15 hours of upper-level accounting coursework. Previously these scholarships were designated for fifth-year accounting students.

House Bill 1058

Tax Credits for Low-Income Housing Developments



Scope of H.B. 1058

- Credit to offset Franchise Tax and Insurance Premium Tax.
- Qualified developments as defined:
 - Receives federal tax credit awarded by Texas Department of Housing and Community Affairs.
 - Has not had a federal tax credit allocation terminated by the department
 - Bound by restrictive covenant to be maintained as qualified development
 - Must not be terminated or subject to termination other than covenant's period
 - Meets qualified allocation requirements per Sec. 2306.6702 (a) (9):
 - Complies with all requirements for federal tax credit; and
 - Title 8 of the Civil Rights Act of 1968 (Fair Housing Act)
 - Total credits limited to \$25 million each year

Scope of H.B. 1058 Cont.

- Must own interest in qualified development to receive credit
- Issuance of allocation certificates based on:
 - Approval of application
 - Requirements met to be a qualified development
 - Department awards credit based on Sec. 171.554

Scope of H.B. 1058 Cont.

- Section 171.554, Methods of Awards includes:
 - Total credits financed through tax exempt bonds cannot exceed sum of:
 - Credit award limited to 50% of state ceiling
 - Any part of credit ceiling for the previous year not awarded; and
 - Any recaptured credits for the year originally awarded
 - Total credits **not** financed through tax exempt bonds cannot exceed sum of:
 - Credit award limited to 50% of state ceiling
 - Any part of credit ceiling for the previous year not awarded; and
 - Any recaptured credits for the year originally awarded

Scope of H.B. 1058 Cont.

- Length of credit limitation
 - Credit must be claimed in equal installments for each year of credit period
- Carry Forward or Backward
 - May carry unused credit if limitations exceeded under Sec. 171.556
 - Carryforward limited to 10 consecutive reports
 - Carry backward used after any other franchise tax applied
 - Unused credits cannot be refunded
 - Cannot carry backward on reports before 1/1/2026

Scope of H.B. 1058 Cont.

- If qualified development is subject to recapture:
 - Each credit claiming entity subject to state premium tax is also subject to recapture
- Amount originally awarded is subject to recapture
 - Same percentage of federal credit originally awarded
- If subject to recapture, entities must report within 30 days:
 - Amount of credit originally awarded to development
 - Amount subject to recapture
 - All development owners subject to state premium tax

Scope of H.B. 1058 Cont.

- Pass-through entity treatment of the credit
 - Can be allocated to partners or shareholders in any manner
 - Must certify allocation with Comptroller
 - Entity receiving allocation required to submit allocation certificate with applicable tax report.

House Bill 4645

Tax exemption for low-income housing improvements located on leased land.



Scope of H.B. 4645

- Amends Section 11.1825 to expand property tax exemption eligibility to include improvements used to provide housing to individuals and families meeting the income eligibility requirements owned by an organization that leases land under a ground lease.

Senate Bill 604

Relating to Land Services Performed by a Landman



Background of Land Services for Franchise Tax

- Section 171.1011(g-11) provides that a taxable entity shall exclude from total revenue amounts paid by the entity to subcontractors for performance of land services.
 - Must be payments that were to nonemployees, i.e., receives a 1099-NEC
 - Excludable amount is limited to the amount such payment was included in gross revenue.
 - Land Services defined:
 - Performance of title searches
 - Negotiating the acquisition or divestiture of energy property.
 - Negotiating contracts or other agreements pertaining to ownership of energy property.

Property Interests Defined under Land Services

- Mineral Interests related to production of oil & gas.
- S.B. 604 Adds “Other Energy Sources”
 - Mineral Interests pertaining to coal & lignite, uranium and other industrial and precious minerals.
 - Natural Resources other than a mineral interest that are necessary to produce energy
 - Geothermal
 - Hydroelectric
 - Nuclear
 - Solar
 - Wind

Senate Bill 379

Sales and Use Tax Exemptions for Family Care Items



Scope of S.B. 379

- Amended existing Sec. 151.313 to include:
 - Wound care dressings
 - Baby wipes
 - Children's or adult diapers
- All items listed in Sec. 151.313 are exempt from sales tax
 - Items range from medical drugs and products to products that aid or assist physical disability
- Effective as of September 1, 2023

New Sections Under Subchapter H

- New sections listing tax exempt care products:
 - Sec. 151.3132 – Feminine Hygiene Products
 - Sec. 151.3133 – Maternity Clothing
 - Sec. 151.3134 – Breast Milk Pumping Products
 - Sec. 151.3135 – Baby Bottles
- All items are tax exempt from any consumption, storage, or sale
- Any accrued tax liability before 9/1/23 is treated as if act has not been enacted

House Bill 9

Relating to the Development and Funding of Broadband and telecommunication services.



Scope of H.B. 9

- Establishes “Texas Broadband Infrastructure Fund” under Chapter 403 subchapter T.
- Funds may only be used for
 - Purpose under Chapter 490I – Broadband Development Office.
 - Internet Speed of at least 25 megabit download/3 megabit upload.
 - Office under direction and control of the comptroller.
 - Awards grants, low-interest loans and other financial incentives.
 - Next-generation 911 Service
 - Texas Broadband Pole Replacement Program
 - Will reimburse lesser of \$5,000 or 50% of the cost of each pole replaced to deploy broadband service.
 - Expansion of broadband to economically distressed areas

House Joint Resolution 125

- Amends Texas Constitution to include the Texas Broadband Infrastructure Fund as a fund separate from the General Fund.
- Approved by Voters in November 2023 via Proposition 8.

Senate Bill 1243

Franchise Tax Exclusions for Broadband Grants



Scope of S.B. 1243

- Aims to increase broadband deployment throughout the state
- Excludes broadband grant proceeds from revenue applicable to franchise tax
- Includes using grant proceeds for broadband deployment expenses applicable to franchise tax
 - Included as cost of goods sold – Sec. 171.1012
 - Included as compensation – Sec. 171.1013
- Applies to franchise tax reports on or after 1/1/2023

Qualifying Broadband Grants

- Qualifying broadband grants are received from:
 - Broadband Equity, Access, and Development Program
 - State Digital Equity Capacity Grant Program
 - Middle mile grants under 47 U.S.C. Sec. 1741
 - Digital Equity Competitive Grant Program
 - Broadband Loan and Grant Pilot Program
 - Sec. 905, division N of Consolidated Appropriations Act – 2021
 - Any other grant received from state, local, or other government
 - Must be funded through 42 U.S.C. Sec. 802, 803, 804, and
 - Granted for broadband infrastructure investments

