

**SUBJECT:** Extending tax exemption for nonprofit organizations building a school

**COMMITTEE:** Ways and Means — favorable, without amendment

**VOTE:** 6 ayes — J. Keffer, Edwards, Paxton, Ritter, Smithee, Woolley  
0 nays  
3 absent — Villarreal, Grusendorf, Luna

**WITNESSES:** None

**BACKGROUND:** Tax Code, sec. 11.21(a)(2) exempts from taxation property that is under active construction or is designed and intended to be used for a school that meets certain requirements. The school must be organized and operated primarily for the purpose of engaging in educational functions, maintain a regular faculty and curriculum, have a regularly organized student body at the place where its educational functions are carried out, and operate in a way that does not result in accrual of distributable profits.

The 78th Legislature in 2003 enacted HB 2416 by Hochberg, which allows property on which a nonprofit is building or planning to build a school to be exempted from taxation for five years until January 1, 2006, after which time the exemption will apply for three years.

**DIGEST:** HB 1185 would extend the exemption from taxation for property on which a nonprofit organization is building a school to seven years.

The bill would take effect January 1, 2006, and would apply only to taxes imposed for a tax year beginning on or after that date.

**SUPPORTERS SAY:** HB 1185 would give nonprofit organizations additional time to undertake the planning, fundraising, and other efforts involved in building a school before they are required to begin paying taxes on the school property. Sometimes, a church or other nonprofit organization receives an unexpected donation or bequest for land on which to build a school, and three years is not long enough to complete the school and begin collecting tuition that can be used to pay property taxes. An organization that wants

to build a school may not be able to afford to pay thousands of dollars in property taxes without any source of income to offset this expense. The bill would have a minimal financial impact on local taxing authorities and would allow these nonprofits the time they need to become fully operational, taxpaying entities.

**OPPONENTS  
SAY:**

HB 1185 would go too far in granting nonprofit organizations a seven-year exemption from property taxes. While three years may not be enough time to plan and build a school, seven years is excessive. Local taxing authorities should not be denied property tax revenue, which may be significant on a sizable property, for an additional two years.