

- SUBJECT:** Allowing taxing units to opt out of split payment of ad valorem taxes
- COMMITTEE:** Ways and Means — favorable, as substituted
- VOTE:** 7 ayes — Keffer, Ritter, Bonnen, Y. Davis, Paxton, Peña, Pitts
0 nays
2 absent — Otto, Flores
- WITNESSES:** For —(*Registered, but did not testify*: Michael Pichinson, Texas Conference of Urban Counties; Ken Clark, Galveston County)
Against — None
On — Buddy Winn
- BACKGROUND:** Under Tax Code, sec. 31.03, the governing body of a taxing unit that collects its own taxes may allow a person without penalty or interest to pay one-half of the taxes owed to that district before December 1 and the other half before July 1 of the following year. This “split-payment” option applies to taxes for all units for which the adopting taxing unit collects taxes.

Tax Code, sec. 6.22 allows the governing body of a taxing unit that is authorized to have its own assessor collector to require the county to assess and collect the taxes imposed by the taxing unit. Sec. 6.23 also requires a county assessor-collector to collect taxes for another taxing unit if the law creating the taxing unit requires the unit to use the county tax assessor collector, the law creating the taxing unit does not mention who assesses and collects the unit’s taxes, or the county tax assessor collector is required to collect the taxing unit’s taxes if required by an intergovernmental contract.
- DIGEST:** CSHB 1976 would allow the governing body of a taxing unit that had its taxes collected by another taxing unit that had adopted the split-payment option to decide that the split-payment option did not apply to its own taxes.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2007.

**SUPPORTERS
SAY:**

By allowing a local entity to opt out of split payment of property taxes, CSHB 1976 would allow a taxing unit that did not benefit from the split-payment option to choose what was best for that entity. Currently, some taxing entities subject to split payment have difficulty managing cash flow because taxpayers — particularly large, commercial interests — choose to pay only half their tax bill at a time. The law as currently written is all-or-nothing, requiring all taxing jurisdictions to allow for split payment when the county allows for split payment to its tax assessor-collector. This arrangement is a poor fit for many entities, and CSHB 1976 would allow for more flexibility, potentially eliminating an impediment that has prevented more taxing entities from allowing the split-payment option.

CSHB 1976 is drafted so that a taxing unit could provide that the split-payment option did not apply to its taxes. There is no provision in the bill requiring the assessor-collector to continue collecting the taxes of a taxing unit that had abandoned the split-payment option. For this reason, the bill would enable a local taxing unit to decide for itself whether or not to allow for split-payment if such a decision meant that the entity would have to collect its own taxes. This would facilitate a fair compromise between a taxing unit that did not desire the split-payment option and the county tax assessor-collector.

Any costs associated with updating a county tax assessor-collector's software programs would be minor and short-lived. Once the assessor-collector had made the necessary changes in its computer program, that change would not be an ongoing cost. It is unlikely that any taxing jurisdiction would go back and forth between allowing split-payment and not allowing the option for its taxpayers. Any significant additional expenditures accrued by an assessor-collector due to a entity opting out could be passed on to that entity and would further factor into the entity's decision to opt out.

CSHB 1976 would not add information to a taxpayer's tax notice that was any more complicated than information the taxpayer already must understand. While it is true that some taxpayers may be frustrated if their taxing unit chose to opt out of split payment, any voter dissatisfaction would have to be dealt with by the taxing unit that chose to opt out. These

challenges and additional costs would have to be considered by the local jurisdiction choosing to opt out, and CSHB 1976 would be consistent with the goals of local control and accountability.

OPPONENTS
SAY:

CSHB 1976 could lead to confusion among taxpayers living in a taxing jurisdiction that opted out of split-payment. An individual taxpayer might not understand which entities allowed split-payment and which entities required full payment once a year. For example, a taxpayer's school district could choose to opt out of split payment, while the city and county continued to allow the option. A taxpayer would have to determine which entities did and did not allow split payment. Such confusion could lead to penalties for underpayment of taxes that could be avoided by retaining the existing system.

The bill could encourage individual taxing jurisdictions to choose against the split-payment option, potentially undermining an important benefit extended to taxpayers who need that option to help them cope with unexpected financial hardships. The split-tax option was created so that an individual who had a hard time affording his or her entire tax bill up front could pay half the bill before December 1 and half before July 1. Allowing an opt-out might encourage some entities to deny this option to their taxpayers. Further, the benefit of split-payment from the taxpayer's perspective would be greatly reduced if a school district — the entity whose taxes constitute the majority of a property tax bill — chose to opt out.

CSHB 1976 would be difficult to implement for tax assessor-collectors that currently allow split-payment tax collection. Currently, a tax assessor-collector that allows split-payment taxes provides the option of a taxpayer to send in two payments for all of the entities for which that taxpayer owes taxes. However, under CSHB 1976, a tax assessor-collector would have to send out individual notices for every taxing jurisdiction that did not elect the split-payment option, while other taxing jurisdictions still might allow the option.

It is likely that an assessor-collector would have to adjust its computer software to account for the changes in CSHB 1976, a problematic proposition that could lead to additional costs for local assessor-collectors. In addition, because an entity could choose split-payment one year and then opt out the following year, assessor-collectors might be faced with

the scenario of having to update these programs regularly, perhaps as often as every year.

NOTES:

The original version of HB 1976 would have applied only to Galveston County. The bill as introduced would have allowed Galveston County to allow the split-payment option to apply only to taxes collected by the county that were imposed on residence homesteads.

The companion bill, SB 930 by Jackson, has been referred to the Senate Finance Committee.