

- SUBJECT:** Exempting nonprofit chambers of commerce from property taxation
- COMMITTEE:** Ways and Means — Reported favorably as substituted
- VOTE:** 11 ayes — Oliveira, Otto, Bohac, Hartnett, Hilderbran, C. Howard, P. King, Paxton, Peña, Taylor, Villarreal
- 0 nays
- WITNESSES:** For — Brian Bondy, Kerrville Area Chamber of Commerce; Lisa Ferrell, McKinney Chamber; Kelly Hall, Brownsville Chamber, Longview Partnership/Chamber of Commerce; Jimmy Hayley, Texas City - La Marque Chamber; Bruce Hillegeist, Texas Chamber of Commerce Executives and Greater Tomball Area Chamber of Commerce; Matt McCormick, Lewisville Area Chamber of Commerce; (*Registered, but did not testify:* Linda Beasley, Greater Waco Chamber; Harold Dean, Cedar Park Chamber of Commerce; Connie Elies, Alvin-Manvel Area Chamber of Commerce; Liza Gonzalez, Greater San Antonio Chamber of Commerce; Courtney Hayden; Ken Higdon, Temple Chamber of Commerce; Beth Journeay, Greater Angleton Chamber of Commerce; Terrie Keith, McKinney Chamber of Commerce; Melissa Malechek, West Chambers County Chamber of Commerce; Lucretia Mills, Mansfield Area Chamber of Commerce; Jenny Senter, Texas City - La Marque Chamber of Commerce; Sandra Shaw, Brazosport Area Chamber of Commerce; Rita Terrell, West Columbia Chamber of Commerce; Jerry Valdez, Greater Houston Partnership; James Vaughan, Greater Waco Chamber; Susan Weems Wendel, Bastrop Chamber of Commerce)
- Against — None
- DIGEST:** CSHB 831 would amend Tax Code, ch.11, subch. B to add a property-tax exemption for nonprofit community business organizations that provided economic development services to the local community. To qualify, a “nonprofit community business organization” would have to:
- be in existence for at least the five preceding years;
  - be organized as a nonprofit corporation under state law (under the Texas Non-Profit Corporation Act or Texas Non-Profit Corporation Law) and federal law (under U.S. I.R.C. sec. 501(c)(6));

- be a local, not a statewide, organization;
- maintain a dues-paying membership of at least 50 for the preceding three years;
- have a board of directors elected by its members who are not compensated for their service on the board; and
- be supported by membership dues and income related to its primary functions.

In addition, the organization in its local community would have to be engaged primarily in:

- promoting the common economic interests of businesses;
- improving business conditions; or
- providing economic development services.

CSHB 831 specifically would define the types of buildings and personal property owned by nonprofit community business organizations that would be exempt from taxation under the bill. The type of property owned would include a building or tangible personal property owned by the organization that exclusively was used by the organization to perform its primary functions. A “building” would include land necessary for the use of, access to, or ornamentation of the building. An organization could allow people to use property exempted from taxation under CSHB 831 and retain the exemption only if the use was identical to use by the organization and if the use was limited to activities benefitting the beneficiaries of the organization.

Certain types of improvements owned by nonprofit community business organizations also would be exempt from taxation under the bill. These would include real property that was:

- an incomplete improvement that was under active construction or physical preparation and was to be used exclusively by the organization; and
- the land on which that improvement was located.

An incomplete improvement would be considered to be under “physical preparation” if a nonprofit community business organization had:

- engaged in architectural or engineering work, soil testing, land clearing activities, or site improvement work that was necessary for the construction of the improvement; or

- conducted an environmental or land use study related to the construction of the improvement.

An incomplete improvement or the land on which an incomplete improvement was located could not be exempt from property taxes for longer than three years.

Standard rules regarding property-tax exemptions for charitable or youth organizations would apply under Tax Code, sec. 11.43(c).

The bill would take effect January 1, 2010.

**SUPPORTERS  
SAY:**

CSHB 831 would provide a narrow exemption from property taxation for chambers of commerce, defined in the bill as “nonprofit community business organizations.” This exemption would allow a local chamber of commerce to direct money that the organization otherwise would have to spend on property taxes to its primary goal of improving the business climate and recruiting companies to the community.

Because the role of a chamber of commerce or similar organization is to support the activities of local businesses and to increase property values and tax revenue in local communities, it is appropriate to grant these organizations this tax exemption. Further, because businesses that fund chambers of commerce already pay state and local taxes, including property taxes, taxing chambers of commerce amounts to a form of double taxation. Chambers of commerce already are exempted from federal and state taxes and CSHB 831 simply would extend this policy to local taxes.

The bill includes stringent criteria that would prevent non-legitimate groups from abusing the exemption and to ensure that only chambers of commerce or similar organizations were eligible. In addition, the criteria set forth in the bill also would allow a nonprofit community business organization providing economic development services in its community that did not refer to itself as a “chamber of commerce” to be eligible for property tax exemption.

Providing a chamber of commerce a three-year window on property tax exemption on an incomplete improvement would allow it to purchase and develop property for use by the organization for a limited time. This window would be limited to three years to prevent an organization from simply purchasing a property and sitting on it for decades without actively

developing it and using it for the organization's interests. When the improvement was complete, the property would be exempted, as long it was used by the nonprofit community business organization.

It is unlikely that a chamber of commerce would purchase directly or try to include a convention center or hotel in the exemption provided under this bill, as the bill specifies that only purposes related to economic development would be eligible. The safeguards and requirements laid out under CSHB 831 would be sufficient to discourage an application of this exemption to projects that were unrelated to the direct economic development services that chambers of commerce provide in their communities. If a chamber of commerce leased part of its property to an organization that was not engaged in the chamber of commerce's primary function of economic development services, that portion of the property would lose its tax-exempt status.

OPPONENTS  
SAY:

Providing a property tax exemption for real and personal property of chambers of commerce would reduce taxable property values, shifting the tax burden to other taxpayers and requiring the state to make up the difference for school-tax purposes. According to the Legislative Budget Board fiscal note, CSHB 831 would cost local and state governments millions of dollars. Local government entities, such as school districts and cities, would lose property-tax revenue. CSHB 831 would raise state costs for the Foundation School Fund to offset lower taxable property values per student in school districts where this exemption was used. The bill would result in a shift of the state and local tax burden from chambers of commerce to other taxpayers across the state.

The property-tax exemptions in Tax Code, ch. 11 should be reserved for churches, shelters, and other nonprofit charitable organizations that serve the community. A chamber of commerce is a voluntary organization supported by its members that engages in advocacy for their benefit. As such, it would be inappropriate for the state to grant tax exemptions to these organizations without extending the exemption to other voluntary organizations. For example, labor unions provide support for members and work to improve the lives of working people in local communities. However, under CSHB 831 unions still would have to pay ad valorem taxes. If a chamber of commerce was exempted from property taxes under this bill, it only would be fair to provide a similar exemption to unions and other voluntary organizations that also benefitted the community.

NOTES:

The substitute differs from the bill as filed by deleting a provision that would have allowed the tax exemption to apply to property once it had been awarded until the property changed ownership or the qualification for the exemption changed. The substitute also deleted a provision that would have allowed a chief appraiser to require a new application be filed in order to confirm eligibility for the exemption.

During the 2007 regular session, a similar bill, HB 1837 by Taylor, passed the House, but died in the Senate Finance Committee.