

- SUBJECT:** Revising procedures for appraising heavy equipment rentals
- COMMITTEE:** Ways and Means — committee substitute recommended
- VOTE:** 8 ayes — Hilderbran, Otto, Elkins, Gonzalez, Martinez Fischer, Murphy, Ritter, Woolley
- 0 nays
- 3 absent — Christian, Lyne, Villarreal
- WITNESSES:** For — Steve Mize, TKO Equipment; Jim Robinson, Texas Association of Appraisal Districts; (*Registered, but did not testify:* Chuck Bailey, American Rental Association; James Clark, Hertz; Carl Isett, RSC Equipment Rental; Jay Propes, Southwestern Association; Rob Johnson, United Rentals, Inc.; Ed Noonan, United Rentals)
- Against — None
- BACKGROUND:** Under Tax Code, sec. 23.1241, the taxable market value of a dealer's heavy equipment inventory is the total annual sales, less sales to dealers, fleet transactions, and subsequent sales, for the 12-month period corresponding to the preceding tax year, divided by 12.
- A dealer is presumed to be an owner of a dealer's heavy equipment inventory on January 1, the day property tax is assessed, if, in the 12-month period ending on December 31 of the preceding year, the dealer sold an item of heavy equipment.
- Tax Code, sec. 23.1241, defines heavy equipment as self-propelled, self-powered, or pull-type equipment, including farm equipment or a diesel engine, that weighs at least 3,000 pounds and is intended to be used for agricultural, construction, industrial, maritime, mining, or forestry uses. The definition does not include motor vehicles driven on the public roads of the state that are licensed under Transportation Code, secs. 501 and 502.
- DIGEST:** CSHB 2476 would change the way a dealer's heavy equipment inventory was appraised for property-tax purposes. Under the bill, the sales price of an item of heavy equipment that was sold during the preceding tax year

after being leased or rented for a portion of that same tax year would be considered to be the sum of the sales price of the item plus the total lease and rental payments received for the item in the preceding tax year.

The bill would require a dealer to collect the applicable property tax from the renter.

CSHB 2476 would allow the chief appraiser to collect any penalties or tax liens attached to property on which a heavy equipment dealer failed to file a timely report. A court could award attorney's fees.

The bill would take effect on January 1, 2012.

SUPPORTERS
SAY:

CSHB 2476 would implement a simple method for the appraising of heavy equipment inventory for tax purposes. While existing law works well for *sales* of heavy equipment, the question of how to value *rentals* of heavy equipment has been the subject of extended litigation and multiple interpretations by different appraisal offices.

Heavy equipment dealers pay property taxes on their inventory. The taxable value of a piece of heavy equipment is based on its market price. Market price is most reliably determined by the sales price between two parties in an arm's length transaction. Primarily, there are three different kinds of heavy equipment dealers: those who sell; those who sell and rent out equipment to customers; and those who rent. Even the rented equipment eventually is sold through purchase options in a lease agreement or it is replaced with newer pieces of heavy equipment.

Under CSHB 2476, the sales price of an item of heavy equipment that was sold after being rented would be considered to be the sum of the sales price of the item plus the total rental payments received for the item in the preceding tax year.

CSHB 2476 would impose a single appraisal standard, creating consistent valuation of a dealer's equipment across Texas. This predictability would facilitate both small and large business growth. It would make the assessment and collection of property taxes on heavy equipment rental companies more uniform and efficient and would increase compliance on the part of dealers.

The bill is the result of years of careful negotiations between appraisal districts, the comptroller, and heavy equipment dealers. They have carefully worked on and agreed to issues of applicability and calculation.

According to the corrected fiscal note, the bill is revenue neutral. The bill would neither raise nor lower taxes.

**OPPONENTS
SAY:**

No apparent opposition.

NOTES:

The substitute differs from the bill as filed in that it does not contain a requirement that heavy equipment dealers register with the comptroller.