

SUBJECT: No interest on taxes for agricultural land sold or diverted to a different use

COMMITTEE: Agriculture and Livestock — favorable, without amendment

VOTE: 4 ayes — T. King, Kacal, Kleinschmidt, Springer

0 nays

3 absent — Anderson, M. González, White

WITNESSES: For — (*Registered, but did not testify*: Marida Favia del Core Borromeo, Exotic Wildlife Association; Jon Fisher, Associated Builders and Contractors of Texas; Daniel Gonzalez, Texas Association of Realtors; Ken Hodges, Texas Farm Bureau; David Mintz, Texas Apartment Association; Ned Munoz, Texas Association of Builders; Chelsey Thomas, Texas Association of Realtors)

Against — (*Registered, but did not testify*: Leonardo Coelho, Travis County Commissioners Court)

BACKGROUND: Under Tax Code, sec. 23.46, the difference in the amount of tax imposed on land designated for agricultural use and the amount of tax that would have been imposed if the land had not been designated for agricultural use is the amount of the additional tax for that year.

If land that has been designated for agricultural use is sold or diverted to nonagricultural use, the total amount of additional taxes for the preceding three years plus interest at the rate provided for delinquent taxes becomes due.

Under Tax Code, sec. 23.55, if the use of land changes, an additional tax is imposed on the land that is equal to the difference between the taxes imposed on the land for each of the five years preceding the year the change of use occurs, and the tax that would have been imposed had the land been taxed on the market value in each of those years, plus interest, at an annual rate of 7 percent calculated from the dates on which the differences would have come due.

DIGEST: Under HB 1208, land that was designated for agricultural use that

underwent a sale or a diversion to nonagricultural use on or after September 1, 2013, and before January 1, 2024, would not incur interest on additional taxes for the land.

Land that had a change of use that occurred on or after September 1, 2013, and before January 1, 2024, would not incur interest on additional taxes for the land.

The bill would not affect liability for interest that would become due on the additional taxes if those taxes became delinquent.

The provisions of the bill would expire January 1, 2026.

The bill would take effect September 1, 2013.

**SUPPORTERS
SAY:**

HB 1208 would offer immediate help to the building industries that continue to struggle in Texas. The interest charged on sales and diversions of agricultural land stifles development and discourages commercial and residential projects that would bring jobs, capital, and more property tax revenue to local governments in Texas.

The bill would remove outdated financial barriers to land development, which would help to strengthen state and local economies. Declining property values have contributed to local school finance crises throughout the state. Every acre of agricultural land that could be repurposed could significantly increase the taxable value of that acre, even before that acre was developed.

HB 1208 would aid local governmental taxing entities, as well as the construction industry, and the state's overall economy. By making land development more affordable, HB 1208 would spur new home construction, which generates local revenue and creates jobs.

The bill also would positively affect homeownership. The current interest penalties drive up the cost of land, which increases the cost of homes. HB 1208 would decrease the cost of development, which would decrease the cost of homes, making them more affordable for Texans.

The bill's Sunset date would be appropriate so that lawmakers could study the effects of this change and future legislatures could decide whether to extend the bill's provisions or let them expire.

**OPPONENTS
SAY:**

HB 1208 would further erode funding to school districts at a time when Texas public schools continue to be critically underfunded. According to the fiscal note, the bill would cost school districts about \$7.4 million during fiscal 2014-15 in interest no longer collected on agricultural productivity value rollbacks. In addition, no state revenue would compensate districts for these losses because the interest is not included in school funding formulas.

Texas cities, counties, and other local entities dependent on property tax revenue also would be negatively affected. This would not be the right time to pursue policies that reduce local tax revenues and funding for local units of government.

If someone takes advantage of the lower tax rates for agricultural land, knowing that the land will be developed in the next few years, this person should still have to pay his or her fair share when the use of the land is diverted.

Current law encourages the continued use of property for agricultural production, which is beneficial to the state. HB 1208 would take away the incentives to keep agricultural land in place and encourage development, which could encourage urban sprawl and increase transportation costs.

NOTES:

According to the fiscal note, the interest no longer collected on agricultural productivity value rollbacks during fiscal 2014-15 would cost school districts \$7.4 million and counties \$2.2 million.