

SUBJECT: Property tax appraisal and payments for heavy equipment dealers

COMMITTEE: Ways and Means — favorable, without amendment

VOTE: 6 ayes — Craddick, Ramsay, Grusendorf, Heflin, Horn, Telford

0 nays

5 absent — Holzheuser, Oliveira, Stiles, Thompson, Williamson

SENATE VOTE: On final passage, Local and Uncontested Calendar, April 10 — 31-0

WITNESSES: For — Robert Spellings, Group of Heavy Equipment Dealers

Against — None

BACKGROUND : Under the Tax Code, most businesses determine their property tax liability for inventory based on the market value as of January 1. During the last two sessions, the Legislature has changed the way inventories of automobile and boat dealers are valued, basing inventory valuations on total annual sales, less sales to dealers, subsequent sales, and fleet transactions for the previous year, and dividing that number by 12.

DIGEST: SB 759 would change the method for assessing and paying property tax on inventories of self-propelled, self-powered, or pull-type machinery, including farm equipment or a diesel engine, weighing at least 3,000 pounds and used for agricultural, construction, industrial, maritime, mining, or forestry purposes.

**Inventory value.** The bill would apply the same method of inventory valuation used for automobile and boat dealers to the inventory of heavy equipment dealers. The chief appraiser would estimate the market value of the inventory, using available sales data, for taxpayers who were not heavy equipment dealers on January 1 of the preceding year.

The comptroller would adopt a dealer's heavy equipment inventory declaration form filed with the chief appraiser and tax collector by February 1 of each year. The declaration form would specify the market value of the

declarant's inventory for the current tax year. The declarations would not be open to public inspection.

If a dealer failed to file a declaration or declared the sale of fewer than five items of heavy equipment, the chief appraiser would report the information to the comptroller. Failure to file a declaration would be a misdemeanor with a maximum fine of \$500 per day of violation. Failure to file also would incur an administrative penalty of \$1,000 for each month or part of a month in which a declaration was past due. This penalty could be attached as a lien to the dealer's business personal property.

The chief appraiser could examine the books and records of a dealer necessary to ascertain the applicability of the inventory valuation and to substantiate information declared by the dealer.

**Prepayment of taxes.** Dealers would assign a unit of property tax to each item of heavy equipment sold from inventory and remit the tax collected on a monthly basis. The unit of tax assigned each item would be the sales price of the item multiplied by the unit property tax factor, which would be one-twelfth of the previous year's aggregate property tax rate on the inventory.

The comptroller also would adopt a dealer's heavy equipment inventory tax statement form describing the equipment sold and its sales price. The form also would have to specify a reason if no unit property tax was assigned. Dealers would file the statements monthly with the collector and chief appraiser. The statements would not be open to public inspection.

Failure to file a statement would be a misdemeanor with a maximum fine of \$100 for each day of violation. The civil penalty for failure to file would be \$500 for each month or part of a month in which a declaration was past due. This penalty would be assessed in addition to other penalties and attached as a lien to the dealer's business personal property.

Tax collectors would deposit the payments to the credit of the owner's escrow account for property tax prepayment held in the county depository. Owners could not withdraw funds once they were deposited in the escrow account. Collectors would have the option of segregating or mixing

accounts of owners. Interest from the account would be used to defray administrative costs of the prepayment procedure.

**Annual reconciliation.** When tax bills were prepared for owners, the collector would apply the money in the escrow account to the taxes imposed and deliver a tax receipt to the owner. By February 15, the collector would remit funds from the escrow account to each taxing unit owed money by an owner. If the amount in the escrow account was not enough to cover the taxes owed, the collector would deliver a bill for the amount of the deficiency.

Taxes would become delinquent on January 31 of each year. Failure to remit unit property taxes would result in a penalty of five percent of the amount due. If that amount was not paid within 10 days, an additional penalty of five percent would be due.

SB 759 would take effect January 1, 1998.

**SUPPORTERS  
SAY:**

SB 759 would provide a more fair and accurate method of valuing the inventory of heavy equipment dealers. The Legislature established this method of inventory valuation for automobile dealers in 1993 and extended it to boat dealers in 1995. This bill would merely extend the valuation method to heavy machinery dealers.

As with the inventory of automobile and boat dealers, heavy machinery inventory is large and expensive and turns over frequently. A property tax appraisal valuation of the inventory on any given day may not be an accurate representation of the inventory's value. Averaging the inventory's value over the preceding year would provide a much more accurate picture of its worth, thereby improving the precision of the appraisal process.

Dealers would charge a unit of tax and submit a statement each time they sold a piece of machinery, which would make their information easier to verify. This would reduce the possibility of error or fraud both in the reporting process and in taxation of heavy machinery inventory.

Penalties for failure to file declarations and statements of inventory and taxes collected would ensure that more dealers filed more complete tax information. They are currently required to render statements regarding

their inventories, but because no penalties are allowed, many do not do so. SB 759 would allow more thorough, efficient, and fair documentation and collection of property taxes on heavy machinery.

OPPONENTS  
SAY:

The Tax Code stipulates that most business inventory be taxed according to the market value on January 1 of the tax year. Many kinds of business inventory besides heavy equipment also fluctuate in size and value throughout the year but receive no special exemption from the January 1 requirement.

Furthermore, the application of a unit property tax to each piece of machinery sold would make it easier for dealers to pass property tax costs on to consumers. Since automobile dealers were allowed this method of tax valuation, their property tax burden has shifted increasingly to the car buyers themselves. This procedure begins to blur the line between property tax and sales tax, which is unfair to all taxpayers.

OTHER  
OPPONENTS  
SAY:

SB 759 represents a piecemeal approach to property tax appraisals and payment for inventories. The alternative method of valuation is now being sought by several industries, including the manufactured housing industry this session. If industries with inventories similar to those of automobile and boat dealers would be better served by a different method of valuation, then a comprehensive change in the Tax Code should be made.