

SUBJECT: Property tax exemptions for organizations engaged in charitable functions

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 7 ayes — Keffer, Ritter, Otto, Bonnen, Paxton, Peña, Pitts

0 nays

2 absent — Y. Davis, Flores

WITNESSES: For — Bill Elliott, Marshall Knights of Columbus 1422

Against — None

On — John Helemen, Texas Comptroller of Public Accounts

BACKGROUND: Tax Code, sec. 11.184 outlines property tax exemptions for charitable organizations. The exemption must be approved by local taxing authorities. After such an approval, an exemption from taxation is granted on buildings and other property owned and used by the organization.

To qualify for this exemption, the charitable organization must apply to the comptroller for a determination letter. The comptroller uses several factors to determine the charitable organization's eligibility for a determination letter, including:

- status as a tax-exempt organization under the Internal Revenue Code;
- status of exemption from taxable items sold, leased, or rented to, or stored, used, or consumed by the organization;
- charter or bylaws requiring charitable work;
- amount of charitable work or monetary support distributed in proportion to the organization's operating expenses, dues received, and property taxes imposed; and
- other relevant factors.

In the Internal Revenue Code of 1986, certain organizations are exempt from federal taxation. Under section 502 (c), a corporation organized for the exclusive purpose of holding the title to a property, collecting income

from the property, and turning over the entire amount, minus expenses, to an exempt organization also is exempt from federal taxation.

DIGEST:

HB 2496 would permit local taxing authorities to approve a property tax exemption for a corporation that was not a qualified charitable organization if:

- the corporation was exempt from federal income taxation by being listed as an exempt entity under section 501(c)(2) of the Internal Revenue Code;
- the corporation performed duties for a charitable organization, including holding a property title and collecting income from the property for the charitable organization; and
- the charitable organization would qualify for a property tax exemption if it owned the property.

Before qualifying for a property tax exemption, the corporation would have to submit an application to the comptroller for a determination letter stating that the corporation met the stated qualifications. The charitable organization for which the corporation held the property title also would have to obtain a determination letter from the comptroller. If the comptroller decided the corporation met the requirements, the chief appraiser would accept the determination letter as evidence that the corporation qualified for the property tax exemption.

After five years, the charitable organization for which the corporation held property and the corporation would be required to reapply for this exemption.

The bill would take effect on January 1, 2008, and would apply to relevant taxes imposed on or after its effective date.