

## **BILL ANALYSIS**

Senate Research Center  
83R20620 TJB-D

H.B. 3121  
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Finance  
5/10/2013  
Engrossed

### **AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

According to a recent report, Texas is one of the most important locations for the global aerospace and aviation industry. However, interested parties assert that the state's property tax structure, and specifically the freeport goods exemption, does not recognize the importance of this industry to the state. To qualify for the exemption, goods may be in the state for a maximum of 175 days, and the parties contend that this limited window has unintentionally put key parts of the Texas aerospace sector at a competitive disadvantage. The parties note that, because of the complexity of today's high-tech manufacturing processes and the fact that aerospace suppliers require inventory to be onsite for much longer periods of time, companies must sometimes consider using out-of-state options for the storage of inventory, outsourcing some parts of their manufacturing processes, or relocating their entire operation to another state, which may result in the inefficiency of moving inventory and maintaining multiple locations or the loss of jobs to other states.

H.B. 3121 provides tax relief to these manufacturers who must hold inventory for extended periods of time to support the design, assembly, completion, and shipment of complex goods.

H.B. 3121 amends current law relating to the qualifications for the exemption from ad valorem taxation for aircraft parts located in this state for a limited time.

### **RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

### **SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Section 11.251, Tax Code, by amending Subsections (b), (c), (e), (g), and (k) and adding Subsection (l), as follows:

(b) Entitles a person to an exemption from taxation by a taxing unit of the appraised value of that portion of the person's inventory or property consisting of freeport goods as determined under this section for the taxing unit.

(c) Provides that the exemption provided by Subsection (b) is subtracted from the market value of the inventory or property determined under Section 23.12 (Inventory) to determine the taxable value of the inventory or property for the taxing unit.

(e) Requires the chief appraiser, in determining the market value of freeport goods that in the preceding year were assembled, manufactured, repaired, maintained, processed, or fabricated in this state or used by the person who acquired or imported the property in the repair or maintenance of aircraft operated by a certificated air carrier, to exclude the cost of equipment, machinery, or materials that entered into and became component parts of the freeport goods but were not themselves freeport goods or that were not transported outside the state before the expiration of 175 days, or, if applicable, the greater number of days adopted by the taxing unit as authorized by Subsection (l), after they were brought into this state by the property owner or acquired by the property owner in this state. Authorizes the chief appraiser, for component parts held in bulk, to use the average

length of time a component part was held in this state by the property owner during the preceding year in determining whether the component parts were transported out of this state before the expiration of 175 days or, if applicable, the greater number of days adopted by the taxing unit as authorized by Subsection (l).

(g) Requires the chief appraiser, if the property owner or the chief appraiser demonstrates that the method provided by Subsection (d) significantly understates or overstates the market value of the property qualified for an exemption under Subsection (b) in the current year, to determine the market value of the freeport goods to be exempt by determining, according to the property owner's records and any other available information, the market value of those freeport goods owned by the property owner on January 1 of the current year, excluding the cost of equipment, machinery, or materials that entered into and became component parts of the freeport goods but were not themselves freeport goods or that were not transported outside the state before the expiration of 175 days, or, if applicable, the greater number of days adopted by the taxing unit as authorized by Subsection (l), after they were brought into this state by the property owner or acquired by the property owner in this state.

(k) Provides that property that meets the requirements of Sections 1-j(a)(1) (relating to providing that certain property is exempt from ad valorem taxation if the property is acquired in or imported into this State to be forwarded outside this State, whether or not the intention to forward the property outside this State is formed or the destination to which the property is forwarded is specified when the property is acquired in or imported into this State) and (2) (relating to providing that certain property is exempt from ad valorem taxation if the property is detained in this State for assembling, storing, manufacturing, processing, or fabricating purposes by the person who acquired or imported the property), Article VIII, of the Texas Constitution and that is transported outside of this state not later than 175 days, or, if applicable, the greater number of days adopted by the taxing unit as authorized by Subsection (l), after the date the person who owns it on January 1 acquired it or imported it into this state is freeport goods regardless of whether the person who owns it on January 1 is the person who transports it outside of this state.

(l) Authorizes the governing body of a taxing unit, in the manner provided by law for official action, to extend the date by which freeport goods that are aircraft parts are required to be transported outside the state to a date not later than the 730th day after the date the person acquired or imported the property in this state. Provides that an extension adopted by official action under this subsection applies only to the exemption from ad valorem taxation by the taxing unit adopting the extension and applies to:

- (1) the tax year in which the extension is adopted if officially adopted before June 1 of a tax year, or immediately following the tax year in which the extension is adopted if officially adopted on or after June 1 of a tax year; and
- (2) each tax year following the year of adoption of the extension.

SECTION 2. Provides that this Act applies only to a tax year beginning on or after the effective date of this Act.

SECTION 3. Effective date: January 1, 2014, contingent upon passage of the constitutional amendment proposed by the 83rd Legislature, Regular Session, 2013, to authorize a political subdivision of this state to extend the number of days that aircraft parts that are exempt from ad valorem taxation due to their location in this state for a temporary period are authorized to be located in this state for purposes of qualifying for the tax exemption.