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Clients of the Firm

RE: New Exemption of "Goods-in-Transit" — Local Option to Tax

Dear Client:

In the 2007 session, the Texas Legislature passed Tax Code Section 11.253 or the "Goods-in-Transit" exemption as it is more commonly known. This legislation implemented a constitutional amendment that was passed several years before. This legislation was very similar to the "Freeport exemption" passed many years ago, but it had a potentially larger impact as time passed. At that time, we wrote you and advised you of your option to tax "goods-in-transit" and most of you did.

During the 2011 special session, the legislature acted to significantly limit the applicability of section 11.253. This exemption now applies only to goods that are stored in a public warehouse owned by someone other than the owner of the goods. The law no longer exempts goods that are in a location for assembly, manufacturing, fabrication or processing, as was the case under the law passed in 2007. The legislature revised and narrowed the law to address the author's issue: competition between Texas and New Mexico warehouse facilities. New Mexico does not tax such goods at all, so New Mexico warehouse owners had a competitive advantage.

This update to the law requires that you act within a narrow window of time if you want to continue to tax these goods for 2012. The update provides that **you must take action after October 1, 2011 but before December 31, 2011**, if you want to continue to tax such goods in 2012. You may later elect to tax such goods for subsequent years if you fail to act this year.

What is Exempted?

This law exempts goods, principally inventory, that are stored under a contract of bailment by a public warehouse operator at a public warehouse facility, that is in no way owned or controlled by the owner of the goods, provided such property is moved to another location in this state or out of state within 175 days after the goods were acquired in Texas or imported into Texas. The movement requirement could be satisfied by simply moving the goods to another warehouse across the street.

Certain specific types of goods are presently excluded from this exemption: oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory. Petroleum products are defined to be only the immediate derivatives of oil and natural gas, so some goods that you might think of as petroleum products may actually be exempted from taxation by this new law.

What is the Impact on Your Tax Base?

At present, this new law will probably have a limited impact because most goods are kept in facilities owned by the owners of the goods. However, this may change. Some owners of goods that presently store them may move their goods into a public warehouse in order to obtain the tax exemption. It should be noted, however, that this pared down exemption has much less potential to reduce your tax base than the original statute.

What Can You Do?

The governing body of each taxing unit in the state may act to tax these goods in the year following the year in which the governing body takes action. These goods will first become exempt in 2012. So if you wish to continue to tax these types of goods in 2012, you must act to tax the goods after October 1, 2011 and before December 31, 2011. You must inform all the appraisal districts in which your local government is located that you have acted to tax these goods. A copy of a resolution, order, or ordinance is the best way to document your decision to your appraisal district.

Before you act to tax these goods, you must hold a public hearing on the question of whether to tax them or whether to let them become exempt. The legislature has prescribed no special procedures for this hearing, so it may be held at a meeting of the governing body called for other purposes. The item must be listed on the agenda for that meeting as an action item in compliance with the Open Meetings Act, but there is no additional public notice required.

The legislature required that each taxing unit act in the manner required for official action by the governing body of the taxing unit. For counties, this means that action should be taken by an order of the commissioner's court. For cities, this means that action should be taken by an ordinance. For school districts and other taxing units, this means that action should be taken by resolution. A sample order, ordinance and resolution form is attached to this letter.

Special Note for School Districts

The wealth lost to this exemption will be deducted from the taxable wealth of the school district as determined by the Comptroller for purposes of calculating state aid. Until the hold harmless provisions of House Bill 1 are removed, this will have little impact on the amount of state aid your school district receives. At present, the Comptroller's wealth estimate affects only the additional four cents that a school district may impose and the amount of certain types of facilities aid the district receives from the state (existing debt allotment and instructional facilities allotment).

We hope that this letter and the attached forms will help you make an informed decision on behalf of the taxpayers that you represent. If you should have any questions concerning this matter, please feel free to call your attorney at your local office or call me in Houston.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert Mott", with a large, stylized initial "R" and a long horizontal flourish extending to the right.

Robert Mott

Forms

[CLICK HERE](#) for the Word Document of the Resolution Form

[CLICK HERE](#) for the Word Document of the Order Form

[CLICK HERE](#) for the Word Document of the Ordinance Form

RESOLUTION NO. _____

**A RESOLUTION OF THE _____ [name of taxing unit] TO TAX
TANGIBLE PERSONAL PROPERTY IN TRANSIT WHICH WOULD
OTHERWISE BE EXEMPT PURSUANT TO TEXAS TAX CODE, SECTION
11.253**

WHEREAS, the 82nd Texas Legislature in Special Session, enacted Senate Bill 1, to take effect on September 1, 2011, which would require a taxing unit to take action, in the required manner, after October 1, 2011, to provide for the taxation of goods-in-transit; and

WHEREAS, Tex. Tax Code §11.253(j-1) as amended allows the governing body of a taxing unit, after conducting a public hearing, to provide for the continued taxation of such goods-in-transit; and

WHEREAS, the _____ [name of governing body] of the _____ [name of taxing unit], having conducted a public hearing as required by Section 1-n (d), Article VIII, Texas Constitution, and Tex. Tax Code §11.253(j-1) is of the opinion that it is in the best interests of the District to continue to tax such goods-in-transit;

NOW THEREFORE, BE IT RESOLVED BY _____ [name of governing body] **FOR THE** _____ [name of taxing unit] **THAT:** The goods-in-transit, as defined Texas Tax Code Section 11.253(a)(2), as amended by Senate Bill 1, enacted by the 82th Texas Legislature in Special Session, shall remain subject to taxation by the _____ [name of taxing unit].

Dated this ____ day of _____, 2011.

(title of presiding officer)

Attested:

Secretary

ORDER NO. _____

**AN ORDER OF _____ COUNTY TO TAX TANGIBLE PERSONAL
PROPERTY IN TRANSIT WHICH WOULD OTHERWISE BE EXEMPT
PURSUANT TO TEXAS TAX CODE, SECTION 11.253**

WHEREAS, the 82nd Texas Legislature in Special Session, enacted Senate Bill 1, to take effect on September 1, 2011, which would require a taxing unit to take action, in the required manner, after October 1, 2011, to provide for the taxation of goods-in-transit; and

WHEREAS, Tex. Tax Code §11.253(j-1) as amended allows the governing body of a taxing unit, after conducting a public hearing, to provide for the continued taxation of such goods-in-transit; and

WHEREAS, the _____ [name of governing body] of the _____ [name of taxing unit], having conducted a public hearing as required by Section 1-n (d), Article VIII, Texas Constitution, and Tex. Tax Code §11.253(j-1) is of the opinion that it is in the best interests of the County to continue to tax such goods-in-transit;

NOW THEREFORE, BE IT ORDERED BY THE COMMISSIONERS COURT FOR _____ COUNTY THAT: The goods-in-transit, as defined Texas Tax Code Section 11.253(a)(2), as amended by Senate Bill 1, enacted by the 82th Texas Legislature in Special Session, shall remain subject to taxation by _____ County, Texas.

Dated this ____ day of _____, 2011.

County Judge

Attested:

ORDINANCE NO. _____

**AN ORDINANCE OF THE CITY OF _____ TO TAX TANGIBLE
PERSONAL PROPERTY IN TRANSIT WHICH WOULD OTHERWISE BE
EXEMPT PURSUANT TO TEXAS TAX CODE, SECTION 11.253**

WHEREAS, the 82nd Texas Legislature in Special Session, enacted Senate Bill 1, to take effect on September 1, 2011, which would require a taxing unit to take action, in the required manner, after October 1, 2011, to provide for the taxation of goods-in-transit; and

WHEREAS, Tex. Tax Code §11.253(j-1) as amended allows the governing body of a taxing unit, after conducting a public hearing, to provide for the continued taxation of such goods-in-transit; and

WHEREAS, the City Council (or Commission) of the City of _____, having conducted a public hearing as required by Section 1-n (d), Article VIII, Texas Constitution, and Tex. Tax Code §11.253(j-1) is of the opinion that it is in the best interests of the City to continue to tax such goods-in-transit;

**NOW THEREFORE, BE IT ENACTED BY THE CITY COUNCIL (OR COMMISSION)
OF THE CITY OF _____ THAT:** The goods-in-transit, as defined Texas Tax Code Section 11.253(a)(2), as amended by Senate Bill 1, enacted by the 82th Texas Legislature in Special Session, shall remain subject to taxation by the City of _____, Texas.

Dated this ____ day of _____, 2011.

Mayor

Attested:

City Secretary