

A Better Way to Help Texas Homeowners: The Flat-dollar Homestead Exemption

Dick Lavine lavine@cPPP.org

CPPP supports a flat-dollar homestead exemption.

A proposal that the Texas Legislature should act on in 2017 would create a new option for property tax reductions in a way that would benefit middle-class Texas households.

If you own a home in Texas, you pay property taxes – but not on the full value of the home. Appraisal districts estimate the market value of all homes, usually every year. This is each home’s “appraised value.” The appraisal district then makes any applicable reductions for which that taxpayer qualifies, resulting in the “taxable value.” One type of reduction in the value subject to taxation is called a “homestead exemption.”

The tax rate set by each local taxing authority – a school district, city, county, community college, hospital district, or other special district – is then applied against the taxable value to determine the property taxes owed.

The Texas Constitution sets certain mandatory homestead exemptions that local taxing authorities must give. In addition, these local governments can set an additional exemption, which further lowers a homeowner’s property tax bill.

Making the mandatory school tax exemption an option available to cities and counties

Texas school districts are already required to grant a \$25,000 homestead exemption. The exemption is what’s called a “flat-dollar exemption,” as it reduces the taxable value of all homes by the same dollar amount – \$25,000. This means that if you are a Texan with a \$300,000 home, its taxable value is reduced by \$25,000. If your home is worth \$900,000 or \$150,000, the reduction in taxable value is the same – \$25,000. In most school districts, this exemption reduces the school property taxes that homeowners pay by more than \$300 a year.

But when cities, counties, community colleges, and hospital districts grant a homestead exemption, they can’t use the flat-dollar method. Their only option is to reduce a home’s value by a percentage that can range up to 20 percent. Local entities should have the ability to choose to offer a flat-dollar exemption similar to the one the state requires school districts to adopt.

What’s the difference between flat-dollar and percentage exemptions?

A flat-dollar-amount exemption gives its biggest boost to middle-class homeowners. So people who have the most trouble paying property taxes get the most help.

According to the Comptroller’s *Tax Exemptions & Incidence* study, only 38 percent of the benefit of the optional percentage exemption goes to the Texas families making between \$34,100 and \$147,400 a year – the middle income group. But 56 percent of the benefits of a flat-dollar exemption go to that same

income range— one-and-a-half times as much. For this reason, cities ranging from San Antonio and Laredo to Lubbock and Amarillo, and counties as different as Tarrant, Bexar, Hidalgo, and Denton, have chosen to give no homestead exemption, rather than accept the distorted distribution of benefits of a percentage exemption.

In the 2015 session, legislators considered a promising proposed constitutional amendment to give cities, counties, and other local taxing units the option of lowering property taxes through a flat-dollar homestead exemption. The measure passed the Senate, 31-0. It then passed the House Ways & Means Committee by an 8-2 vote but failed to come up for a full House vote before the final bill-passage deadline.

The flat-dollar homestead exemption option deserves another chance in the next legislative session. It offers a more equitable way to support the services Texans value while keeping local control over which option to choose.

For more information or to request an interview, please contact Oliver Bernstein at bernstein@cphp.org or 512.823.2875.

About CPPP

The Center for Public Policy Priorities is an independent public policy organization that uses research, analysis and advocacy to promote solutions that enable Texans of all backgrounds to reach their full potential. Learn more at CPPP.org.

Join us across the Web

Twitter: [@CPPP_TX](https://twitter.com/CPPP_TX)

Facebook: [Facebook.com/bettertexas](https://www.facebook.com/bettertexas)