



EVERY TEXAN

Formerly Center for Public Policy Priorities

How to Improve Texas' Property Tax System

Dick Lavine, Senior Fiscal Analyst, Every Texan

September 2, 2021

Property tax cut bills in the special sessions

In his priority lists for both the first and second special sessions, Gov. Abbott included the topic of “property tax relief.” In response, the Legislature has passed two changes to tweak minor aspects of the property tax system. In addition, the Senate on September 1 passed a cut in school property tax rates that could cost the state up to \$4 billion in 2023, but not increase net revenue to our schools. None of these changes would make the fundamental changes that would allow local governments to grant progressive homestead exemptions or improve the accuracy and efficiency of property tax appraisals and appeals.

Proposed across-the-board reduction in school property tax rates

The school finance bill passed in 2019, HB 3, created a system for “tax rate compression” by which state revenue is used to supplant local school property taxes, forcing down school tax rates for annual spending on maintenance and operations – “M&O.”

On September 1, the Senate passed SB 91, committing the state to spend at least \$2 billion and up to \$4 billion in 2023 – if the Comptroller certifies there is sufficient revenue – to replace the same amount of school property taxes for just one year. School districts would see no net gain in revenue, just a replacement of local property taxes with state tax revenue. Ignoring political reality, the bill and fiscal note assume that the 2023 Legislature will take no action to prevent the temporarily reduced tax rates from returning to prior levels. Maintaining the lower rates would commit the state to up to \$8 billion in additional school finance costs in the 2024-2025 budget. Every Texan’s Chandra Villanueva testified against SB 91; see her testimony for more information.

Reduction in school taxes for seniors and Texans with a disability

The school property tax bill for homeowners who are at least 65 years old or who are disabled is capped (“frozen”) at the amount owed in the year they qualify. Because of this “freeze,” these homeowners did not see a decrease in their tax bills when school districts started to reduce their tax rates as required by 2019’s HB 3. The Legislature in the second special session passed SB 12 and sent to voters a proposed constitutional amendment, SJR 2, to reduce the capped amount by the same proportion as the reduction in a school district’s tax rate, starting in the 2023 tax year. If necessary, school districts would receive additional state aid to reimburse them for any tax revenue loss.

The fiscal note estimates that this change would cost the state \$467.5 million in the 2024-2025 budget to replace property tax revenue lost by the school districts. The proposed constitutional amendment to permit this change will be on the May 7, 2022 ballot.

Property tax reduction for home buyers

Texan homeowners receive homestead exemptions from cities, counties, schools, and special districts that reduce the taxable value of their homes. For instance, all homesteads receive a \$25,000 exemption from school property taxes. Under current law, a homestead exemption takes effect on January 1 of the year after the homeowner purchases the home. SB 8, which passed the Legislature in the second special session, allows a homeowner to benefit from homestead exemptions whenever they qualify, with the benefit prorated in the first year. The fiscal note did not estimate the cost to the state covering the slight reduction in property taxes collected by school districts. According to testimony at the public hearing on this proposal, the effect on other local taxing units is expected to be minimal. SB 11 and HB 5, the supplemental appropriations bills filed in this special session, would set aside \$50 million annually to cover the potential cost to the state of SB 8 in 2022-2023.

Regular session bills

Flat-dollar homestead exemption

Other more equitable methods for reducing property taxes are not currently being considered by the Legislature. For instance, local taxing entities should have the ability to choose to offer a homestead exemption similar to the one the state requires school districts to adopt.

The \$25,000 homestead exemption granted by all school districts – known as “flat-dollar exemption” – reduces the taxable value of all homes by the same dollar amount of \$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 \$250 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 of up to 20 percent.

A flat-dollar-amount exemption gives a bigger boost to middle-class homeowners. A \$250 tax break, for example, is a larger share of a middle-class homeowner's income than that same \$250 would be for someone with a million-dollar home. In contrast, a percentage exemption is of greatest value to those with the most expensive homes. According to the Comptroller's Tax Exemptions & Tax Incidence study, more than half of the benefit of the optional percentage

exemption goes to the top one-fifth of Texas families (those with incomes over \$156,700) while just over one-quarter of the benefits of a flat-dollar exemption go to the same income group.

Bills to permit local taxing units to grant a flat-dollar exemption, HB 1858/HJR 91 by Rep. Rodriguez, HB 3260/HJR 129 by Rep. Thierry, and SB 887/SJR 42 by Sen. Eckhardt, were filed in the regular session but did not receive committee hearings.

Sales price disclosure

Property taxes are based on the value of each property. To ensure that property owners are paying their fair share of taxes, based on accurate valuation of their property, Texas lawmakers must reform our appraisal process to accurately determine the new values of the pandemic-affected real estate market.

Property tax appraisals are intended to reflect the “market value” of the property – what that property would sell for in a competitive market.

In most states, the appraisal process is based on “sales price disclosure,” a requirement that the price at which any property changes hands is publicly reported. This information is the best basis for determining the true market value of a property. Then, based on this information, the current value of similar properties can be determined, with appropriate adjustments for differences in age, condition, location, and other factors.

Unlike most other states, Texas is one of a dozen that does not require buyers or sellers to report sales price information to local authorities. Therefore, Texas appraisal districts lack the most complete and accurate basis for determining property values. This is like making a store clerk guess the correct sales tax on an item, while you cover up the bar code and hide the price.

The result is that difficult-to-assess commercial properties and high-end homes tend to be undervalued. Owners of these properties thus pay less than their fair share in taxes that support public services, which then shifts the financial burden onto less well-off homeowners. Requiring reporting of all real estate transactions will be essential in correcting this imbalance and recognizing the changed values of property.

A bill to institute disclosure, HB 1101 by Rep. Beckley, received a public hearing during the regular session but was not voted out of committee. The bill received support from the Texas Association of School Boards, the Conference of Urban Counties, and several individual cities and counties.

In the first special session, HB 105 by Rep. Bernal would have required the state comptroller to report on the feasibility of requiring sales price disclosure, but it died in the House chamber.

“Equal and Uniform” appeals

Property owners have the right to protest the tax appraisal of their property if they believe the appraisal district has set the appraisal above market value, or if they believe their appraisal is not equal to a similar property.

The most common approach to an equity appeal is to compare the appraisal being protested to other appraised values. Property owners can argue that their appraisal is greater than “the median appraised value of a reasonable number of comparable properties appropriately adjusted” (Tax Code, sections 41.43(b)(3) and 42.25(a)(3)). Property owners do not have to allege that their tax appraisal is greater than the market value of a property, just that its appraisal is higher than the appraisal of certain other properties. Appeals on this basis are called “equal and uniform” appeals.

The key characteristic of equal and uniform appeals is that the appraised values of comparable properties may have been lowered during prior protests. This creates an incentive for owners to file protests as close to the deadline as possible so that other properties are adjusted and their values are lowered before owners’ protests are heard. This lowers the median value against which their property’s appraisal is compared and creates a race to the bottom as successive protests push down the median value. It also creates an administrative burden on appraisal districts.

Another problem is that a “comparable property” is not defined. Property owners can compare their property to a property in another county, for which the appraisal district is not responsible and does not have information. Other less common equity-related appeals are based on comparisons to appraisals within the same appraisal district.

An additional advantage for large property owners is the requirement that an appraisal district that loses a lawsuit must pay the property owner’s attorney fees, up to \$100,000 per property per year (suits often involve related parcels over more than one tax year). But this responsibility is not reciprocal – a losing property owner does not owe the appraisal district its attorney fees.

This disparity creates an obvious incentive to sue, particularly for owners of large properties, when the potential tax savings are greater than the potential cost of losing. Appraisal districts have a strong incentive to settle cases for lower appraisals than they might be able to defend in court, to avoid the risk of being ordered to pay the property owner’s attorney fees. The Legislature should apply the same requirement to both sides of a suit so that each would bear similar risks in litigation.

Several bills to reform equal and uniform appeals were filed during the regular session – HB 1099 by Rep. Beckley, HB 3260 by Rep. Thierry, and SB 134 by Sen. Johnson – but none received a committee hearing.

More on Every Texan's proposals for improving Texas' property tax system:

- [How to Make Appraisals More Equitable](#)
- [Reforming Real Estate due to COVID-19's New Reality](#)
- [The Flat-Dollar Homestead Exemption: A Better Way to Help Texas Homeowners](#)