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How to Improve Texas' Property Tax System — Update

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Property tax cut bills in the 2021 special sessions

In his priority lists for last year's special sessions, Gov. Abbott included the topic of "property tax relief." In response, the Legislature proposed a constitutional amendment to raise the school homestead exemption from \$25,000 to \$40,000. Another proposed constitutional amendment and a bill approved by the Legislature will tweak minor aspects of the property tax system. None of these changes make the fundamental reforms that would allow local governments to grant progressive homestead exemptions or improve the accuracy and efficiency of property tax appraisals and appeals.

Increase in the school homestead exemption

All school districts are currently required to grant a homestead exemption of \$25,000. This reduces the taxable value of all homes by \$25,000. The Legislature proposed a constitutional amendment in the third called session that would raise this statewide exemption to \$40,000, subject to voter approval in the May 7, 2022 election.

This means that if you are a Texan with a \$300,000 home, its taxable value would be reduced by \$40,000. If your home is worth \$900,000 or \$1,500,000, the reduction in taxable value is the same – \$40,000. In most school districts, this exemption would reduce the school property taxes that homeowners pay by roughly \$400 a year, compared to \$250 a year for the current exemption.

A flat-dollar-amount exemption gives a bigger boost to middle-class homeowners. A \$400 tax break, for example, is a larger share of a middle-class homeowner's income than the same \$400 would be for someone with a million-dollar home. A homestead exemption does not benefit renters, whose rent includes property taxes passed on by their landlord, or businesses.

The Legislative Budget Board estimates that the increased exemption would cost the state \$439 million in fiscal 2023, and \$983 million in the 2024-25 budget, to replace school property tax revenue lost due to the increase via the school finance system.

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 House Bill 3. The Legislature proposed a constitutional amendment in the second called session 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. School districts will 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 currently receive a \$25,000 exemption from school property taxes. (This exemption will increase to \$40,000 if a proposed constitutional amendment is approved by the voters in May — see above.) Under current law, a homestead exemption takes effect on January 1 of the year after the homeowner purchases the home. During the second special session the Legislature passed a bill to allow 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 of 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. The supplemental appropriations bill sets aside \$50 million annually to cover the potential cost to the state of this change 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](#)