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Testimony to Senate Local Government Committee on Homestead Exemptions

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Every Texan is a research and advocacy organization that for 40 years has worked for public policies that expand equity and opportunity for all Texans.

The Legislature has chosen to dramatically increase the mandatory school district homestead exemption several times in recent years – particularly in the 2023 and 2025 legislative sessions. Just $15,000 in 2015, the homestead exemption now stands at $140,000. While this has helped reduce housing costs for certain homeowners, it leaves many Texans out.

Every Texan recognizes that property taxes are high in Texas, and that millions of Texans are struggling with housing affordability.[1] For us, the operative question is: **How do we efficiently lower property taxes for Texans who need it the most – while ensuring Texas provides crucial infrastructure and education services for its residents?**

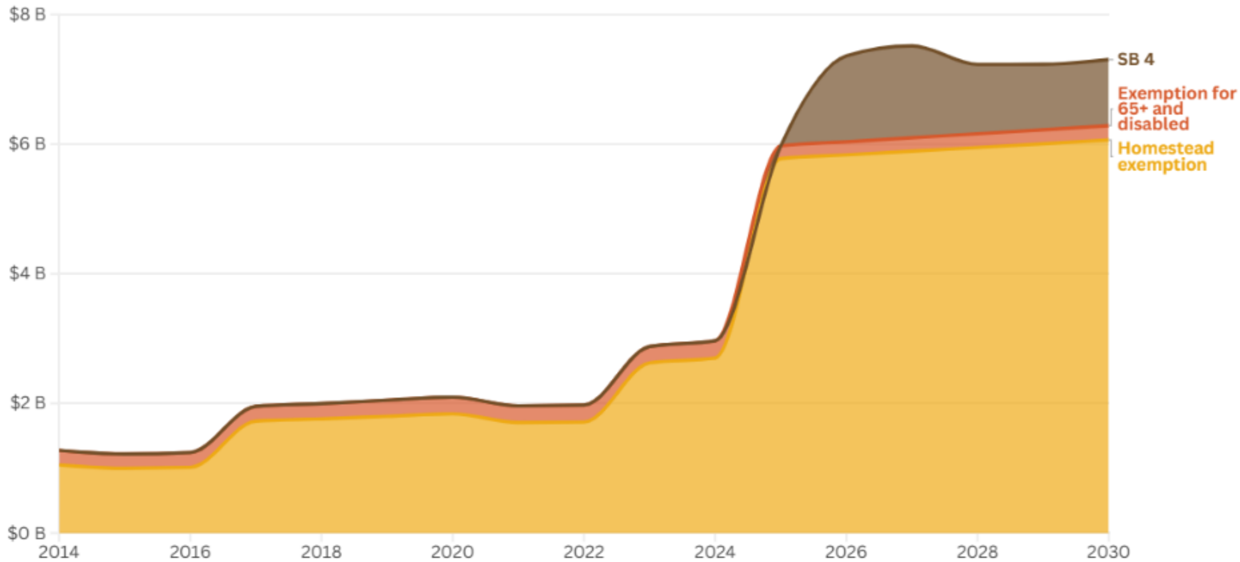
Every Texan has pointed out many times over the years that, as far as they go, **homestead exemptions are the fairest, most equitable way to reduce property taxes for homeowners.** This has been repeatedly shown in the Comptroller's Exemptions and Incidence reports. The benefits of the flat-dollar homestead exemption are much more equitably distributed among household income quintiles than other methods of cutting property taxes such as tax rate compression, appraisal caps, and percentage exemptions.

So why not keep increasing the homestead exemption?

Local property tax cuts cost the state money. The school finance formulas ensure that reductions in ISD property tax revenue are made up by the state. Yet that requires state lawmakers to balance the state budget with proportionally less revenue. And when our large carryover balances are over and state lawmakers are facing the next shortfall, they may be tempted to cut school funding as they did in 2011. As such, it is vital to keep a strong local tax base.

Texas State Cost of Homestead Exemptions

Lost revenue from mandatory homestead exemptions is now over $7 billion a year.



Sources: Comptroller of Public Accounts, Legislative Budget Board • Homestead exemption values are projected estimates taken from the Comptroller's biennial Tax Exemption and Tax Incidence reports, 2014-2025. Cost of SB 4 (89(R)) depicts the projected impact of the bill on general revenue-related funds through 2030, as found in the LBB fiscal note for the bill.

Repeated increases to the homestead exemption produce diminishing returns, especially for homeowners with lower-value homes. Already, our $140,000 homestead exemption alone, not including other property tax breaks, means that at least 1.2 million homeowners statewide pay nothing in school property taxes, or about 17% of households – and likely quite a bit more. The $140,000 exemption also means that in the 84 Texas counties with a median home value at or below that amount, half the homeowners pay no school property taxes.[2] Continuing to increase homestead exemptions does nothing for them. Rather, we are extending tax breaks to increasingly wealthier homeowners. Plus, removing those homeowners from the tax rolls disconnects them from the responsibilities of supporting schools in their communities.

Incremental and arbitrary increases in the homestead exemption pale in comparison to big increases in cost of living. Continuing to provide meaningful across-the-board tax cuts gets more expensive over time. For every $40,000 increase in the homestead exemption, an example $1/$100 school tax rate – close to the 2025 state median rate[3] – means a $400 annual savings on property taxes. By contrast, according to EPI's Family Budget Calculator, a two-adult, two-child family in the Houston MSA needs $18,348 for housing, $11,127 for food, $19,649 for child care, and $17,478 for health care.[4] Median homeowners insurance has also increased dramatically, now almost $3,000 a year in 2024 and consuming 4.7% of a median family's income.[5]

Renters are not helped at all by homestead exemptions. Thirty-eight percent of Texas households are renters, and according to the Texas Affiliation of Affordable Housing Providers, 45% of Texas renters are housing-cost-burdened.[6] They get nothing from increases to the homestead exemption. Supporting low-income renters should be a higher priority than supporting wealthy homeowners. Even other forms of property tax cuts, such as rate compression, do not require landlords pass those cuts along to tenants. Indeed, landlords often have no incentive to do so unless a community has a well-functioning, competitive rental market.

Local property tax cuts shift burden onto sales taxpayers. Because the sales tax, 60% of state-source revenue, is more regressive than property taxes, shifting more responsibility to the state effectively makes lower-income Texans pay disproportionately to fund our schools.

For governments, property taxes reduce volatility of state and local revenue. Increases in property values aside, property taxes are fairly stable year-to-year. During periods of high sales tax revenue, it is easy to think those conditions are permanent. But the next time the economy takes a downturn – which it inevitably will – sales tax revenue will likely plummet. Without more stable components of revenue, policymakers may face sudden and difficult choices.

Taxes are the price we pay to maintain our democracy. Like voting and jury service, paying taxes is a responsibility all of us share. School taxes are not simply a fee that parents pay to send their children to school; they are the price we all pay to fund public education. In turn, public education, guaranteed to all Texas children by our constitution, helps ensure a well-educated, healthy workforce, a strong middle class, and opportunities for economic mobility. Our economy rests on a strong system of public education and we all must pay our fair share to support it.

Alternatives

There are ways to help Texans most in need without providing costly, across-the-board tax cuts to all property owners.

Local option flat homestead exemptions. Currently, local governments are permitted to offer a percentage-based homestead exemption. As a rule, however, percentage-based exemptions are more costly, less economically efficient, and less fair than flat-dollar exemptions. The Legislature could allow local governments to offer flat-dollar exemptions, better targeting property tax breaks and likely being less costly to local governments if the existing exemptions are eliminated.

Index school homestead exemption to inflation. While this option does automatically decrease tax revenue, it may be a more predictable, regular way to ensure the existing mandatory school homestead exemption keeps its value to homeowners over time. This policy would be better if it were linked to automatic inflation adjustments in the basic allotment. On the one hand, the Legislature would be mandating a reduction in local property tax revenue. But at the same time, the Legislature would be reaffirming its commitment to our public schools.

Property tax refund. Income is a better indicator of housing-cost burden than home values (see Appendix). Texas is one of only five states that does not have any sort of income-driven property tax break.[7] This is an excellent way to target property tax cuts to those who need it the most – renters and/or homeowners. Those states set a property tax payment threshold determined by a household's income and mortgage (or rent) payment.

Income-based property tax refunds have a number of variables that can be tuned to control who benefits from the policy, how much they benefit, and the overall cost. Every Texan has calculated that a meaningful program for renters could be implemented at a cost starting at only about $40 million a year.

Those variables include:

- Percent of rent assumed to be property taxes (e.g., 10, 15, or 20%)
- Percent of income above which the refund operates (e.g., 3, 5, or 7%)
- Maximum benefit
- Maximum household income for eligibility

Minnesota and Michigan are good examples. Both states offer tax breaks to homeowners and renters based on income. Michigan's maximum credit is $1,700, while Minnesota's is $3,310, with an average credit of $1,129 in 2021. Minnesota's program is particularly noteworthy for its contribution to making the state tax code far less regressive.[8] New Hampshire, meanwhile, operates a property tax refund program even though it does not have a state income tax.

One cost-effective way to pilot such a program might be to extend it to seniors who rent. Though most seniors own their home, about 457,000 renter households are headed by seniors. Every Texan analysis of 2023 ACS microdata found that 65% (about 300,000) of 65-and-up renter households were housing-cost-burdened.[9]

Renter's refund. Simpler but potentially more costly than an income-based property tax refund, a refund to renters would provide immediate help to cost-burdened renters. One House proposal from 2023 would have given a 10% refund on rent paid that year.

Temporary exemption or other tax break for first time homebuyers. While it is important to ensure older homeowners can stay in their homes, the next generation of homeowners is struggling to get on the property ladder. Though Texans 65 and over make up about 15% of state population, about 30% of owner-occupied homes are 65+. The state of Texas has an interest in ensuring that we don't increasingly become a state of renters. To ensure stable homeownership across the generations and for the future, the state could invest in a tax break for first-time buyers.

Maximize takeup of the existing homestead exemption. Research by the Child Poverty Action Lab has shown that homestead exemption takeup rates tend to be lower in lower-income tracts in Dallas County.[10] Homeowners should be getting the exemptions they are already due under existing law. The Legislature could provide additional funding for appraisal districts to conduct outreach and engagement to ensure more homeowners are aware of and are claiming the exemptions to which they are entitled.

There are other ways to address affordability.

Housing is only a piece of the affordability crisis, and property taxes are only a piece of housing costs. The Legislature must think bigger than repeated property tax cuts for homeowners and address other issues.

Editor's Notes:

Every Texan works in an ecosystem of evolving policy work. As conditions and factors change, research and analysis may be updated and republished to respond appropriately.
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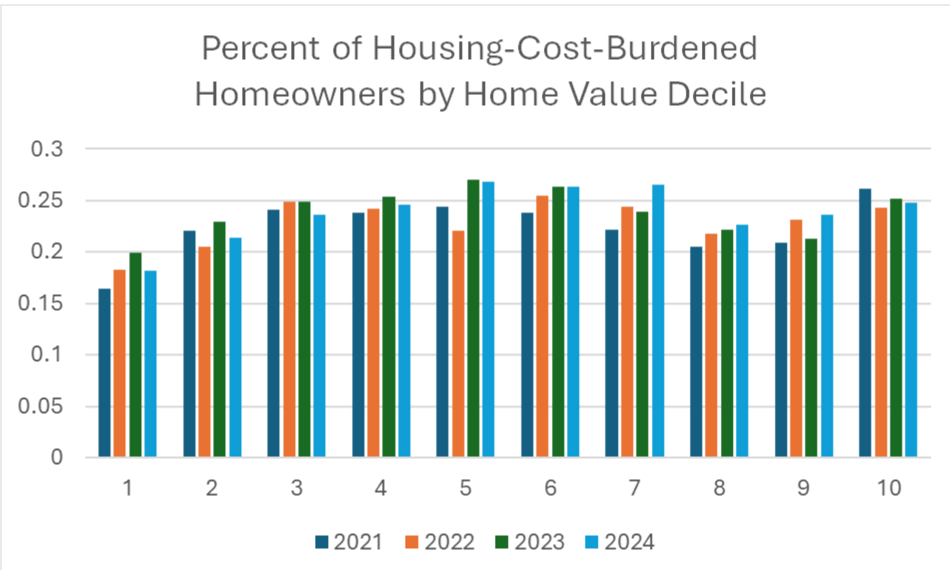
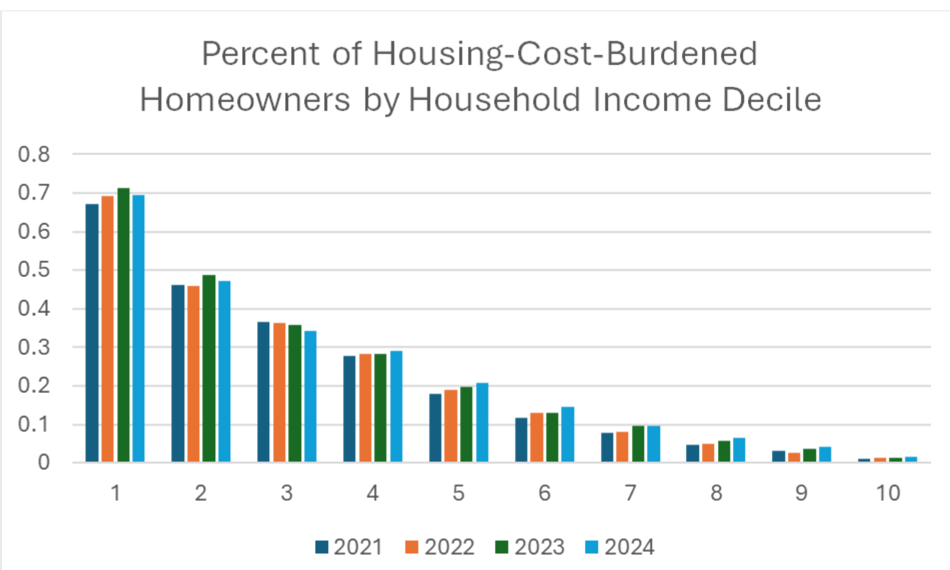
Appendix

The charts below show the approximately 7 million owner-occupied households in Texas, split two ways. In the first chart, households are split into deciles – ten roughly equal groups of about 700,000 households – by home value; in the second, by household income. The four bars represent the percentage of households in each decile that are housing-cost-burdened for the years 2021 - 2024.

Income appears to be a better indicator of housing cost burden than home values, and **if we want to cut taxes for people who need it the most, we should be incorporating income in the calculations.**





Source: Every Texan analysis of American Community Survey 1-year public use microdata sample, 2021 through 2024.