Truth-in-Taxation: Tax Rate Adoption

Truth-in-taxation is a concept embodied in the Texas Constitution that requires local taxing units to make taxpayers aware of tax rate proposals and to afford taxpayers the opportunity to limit tax increases. [1] Property owners have the right to know about increases in their properties' appraised value and to be notified of the estimated taxes that could result from the new value. [2]

Creating a budget and adopting a property tax rate to support that budget are major functions of a taxing unit's governing body. This is accomplished by following truth-in-taxation requirements to ensure the public is informed of any increases. The type of taxing unit determines its applicable truth-in-taxation requirements.

Appraisal districts and local taxing units must publish detailed information at Texas.gov/PropertyTaxes to assist residents with understanding proposed budgets and tax rates. [3]

If certain taxing units fail to comply with the hearing, notice or tax rate adopting process in good faith, a property owner in the taxing unit may seek an injunction to stop the taxing unit from sending tax bills until it convinces the district court that it has complied with the law. [4] A property owner must act to enjoin collections before the taxing unit delivers substantially all of its tax bills. [5] This injunction process does not apply to taxing units with low levies or water districts. [6]

By providing the following information, the Comptroller's office provides technical assistance and not legal advice. Taxing units should consult legal counsel for questions about the meaning of statutes, notice and hearing requirements and other matters that are unclear in the law.

Generally, the governing body must take the following actions:

▼ Draft a Budget

The taxing unit must identify its needs and draft a budget to meet those needs. [7] To assist the taxing unit in this process, the chief appraiser prepares and certifies an estimate of the taxable value of property in that taxing unit to the tax assessor by April 30 (unless the date falls on a weekend or holiday). [8] To determine the amount of property taxes necessary to fund that budget, the taxing unit must decide:

- the maintenance and operations (M&O) rate necessary for the general operating expenses (based on current year's values);
- the payments for debt service; and
- the amount of surplus funds, if any, it plans to expend to reduce its M&O or debt levies.

▼ Calculate the Tax Rate

Truth-in-taxation requires most taxing units to calculate two rates after receiving a certified appraisal roll or certified estimate of taxable value from the chief appraiser - the no-new-revenue tax rate and the voter-approval tax rate. [9] The type of taxing unit determines which truth-in-taxation steps apply.

No-New-Revenue Tax Rate

The no-new-revenue tax rate enables the public to evaluate the relationship between taxes for the prior year and for the current year, based on a tax rate that would produce the same amount of taxes if applied to the same properties taxed in both years. [10]

Although the actual calculation is more complicated, a taxing unit's no-new-revenue tax rate generally equal to the last year's taxes divided by the current taxable value of properties that were also on the tax roll last year. [11] The resulting tax rate, used for comparison only, shows the relation between the last year's revenue and the current year's values.

Voter-Approval Tax Rate

The voter-approval tax rate is a calculated maximum rate allowed by law without voter approval. [12] Most taxing units calculate a voter-approval tax rate that divides the overall property taxes into two categories - M&O and debt service. [13]

The voter-approval tax rate provides cities and counties with about the same amount of tax revenue it spent the previous year for day-to-day operations plus an extra three and a half percent for operations and sufficient funds to pay debts in the coming year. For special taxing units, junior college districts and hospital districts, the voter-approval tax rate provides an extra eight percent increase for operations and sufficient funds to pay debts in the coming year. [14]

School districts voter-approval rate is equal to the district's maximum compressed rate plus the greater of the previous year's enrichment rate or five cents per $100 of taxable value. They then add the debt rate to get the final voter-approval tax rate. [15] School districts should consult the Texas Education Agency for guidance on compression rates.

For all taxing units, the debt rate portion of the voter-approval tax rate is the current year's debt payments divided by the current year's property values. [16] The debt rate may rise as high as necessary to cover debt expenses.

▼ Publish Notices

Most taxing units are required to publish their calculated no-new-revenue and voter-approval tax rates on the home page of the taxing unit's website. Most taxing units are required to file one notice before adoption of a tax rate in compliance with Tax Code requirements. [17] School districts must comply with notice requirements in the Education Code, [18] local government taxing units and special districts must comply with notice requirements in the Property Tax Code, [19] and water districts must comply with requirements defined in the Water Code. [20] All notices provide details on the no-new-revenue tax rate, voter-approval tax rate and proposed tax rate. The notice includes the date and time of the meeting to adopt a tax rate. [21] Generally, if the proposed rate is higher than the voter-approval rate, the notice will also include information about the next uniform election date when voters would have to vote on the tax rate.

▼ Hold Public Hearings

After the taxing unit publishes the required notice, taxpayers must have the opportunity to express their views on tax increases at hearings. [22] The type of taxing unit determines the hearing requirements.

Small taxing units have no public hearing requirement. [23] All other taxing units hold one public hearing. [24] A quorum of the governing body must be present at all hearings. [25] All public hearings and public meetings must be open to the public and follow Texas Open Meetings Act requirements. [26]

▼ Adopt a Tax Rate

A taxing unit other than a water district must adopt its tax rate before Sept. 30 or by the 60th day after the taxing unit receives the certified appraisal roll. The taxing unit is required to hold an election to approve the tax rate on the next uniform election date if it adopts a tax rate that exceeds the voter-approval rate. In this case,Tax Code requires the governing body to adopt the tax rate no later than the 71st day before the next uniform election date. [27]

If a taxing unit misses the deadline, the governing body must ratify either the no-new-revenue tax rate or last year's tax rate, whichever is lower, as the adopted tax rate before the fifth day after establishing that tax rate. [28]

▼ Hold Automatic Elections to Approve Tax Rate, if Necessary

In most cases, if a taxing unit adopts a tax rate that exceeds the voter-approval tax rate, the taxing unit must hold an election on the next uniform election date. To do this, the taxing unit must order the election no later than the 78th day before election day.

If a taxing unit calculates a de minimis rate and it adopts a tax rate greater than its voter-approval rate but less than its de minimis rate, the voters in the taxing unit may petition for an election on the tax increase.

If the taxing unit is in an area declared a disaster by the Governor and increased revenue is needed to respond to the disaster, the taxing unit is not required to hold an election to approve the tax rate in the year following the year in which a disaster occurs. [29]

A school district must automatically hold a tax rate ratification election (TRE) if the trustees vote to adopt a tax rate that exceeds the voter-approval tax rate. [30]

In all cases, if the majority of ballots are cast in favor of the proposition, the tax rate for the current year is the rate that was adopted by the governing body. [31]

If the proposition fails, the taxing unit may not adopt a tax rate that exceeds the voter-approval tax rate. [32]

- [1]Tex. Const. art VIII §21(a)
- [2]Tex. Tax Code §25.19(a)
- [3]Tex. Tax Code §26.17
- [4]Tex. Tax Code §§26.04(g) and 26.05(e)
- [5]Tex. Tax Code §26.05(e)
- [6]Tex. Tax Code §26.052(b) and (d) and Tex. Water Code §§49.107(g) and 49.108(f)
- [7]Tex. Loc. Gov't Code §§102.002 and 103.003, Tex. Educ. Code §44.002(a) and Tex. Water Code §49.057(b)
- [8]Tex. Tax Code §§1.06 and 26.01(e)
- [9]Tex. Tax Code §26.04(c)
- [10]Tex. Tax Code §26.05(a)(2)

- [11]Tex. Tax Code §26.04(c)(1)
- [12]Tex. Tax Code §§26.07(a) and 26.08(a) and Tex. Water Code §49.236(d)
- [13]Tex. Tax Code §26.04(c)(2)
- [14]Tex. Tax Code §26.04(c)(2)
- [15]Tex. Tax Code §26.08(n)
- [16]Tex. Tax Code §26.012(4)
- [17]Tex. Local Gov't Code §140.010(b) and Tex. Tax Code §26.052(e)
- [18]Tex. Educ. Code §44.004(b)
- [19]Tex. Local Gov't Code §140.010(d), (e) and (f)

- [20]Tex. Water Code §49.236
- [21]Tex. Tax Code §26.04(e)

- [22]Tex. Tax Code §26.06(a)
- [23]Tex. Tax Code §26.052
- [24]Tex. Tax Code §26.05(d)
- [25]Tex. Gov't Code §551.001(4)
- [26]Tex. Gov't Code §551.002
- [27]Tex. Tax Code §26.05(a)
- [28]Tex. Tax Code §26.05(c)
- [29]Tex. Tax Code §§26.07(a) and 26.08(a-1)
- [30]Tex. Tax Code §26.08(a)
- [31]Tex. Tax Code §§26.07(d) and 26.08(c)
- [32]Tex. Tax Code §§26.07(e) and 26.08(d)