

# Texas

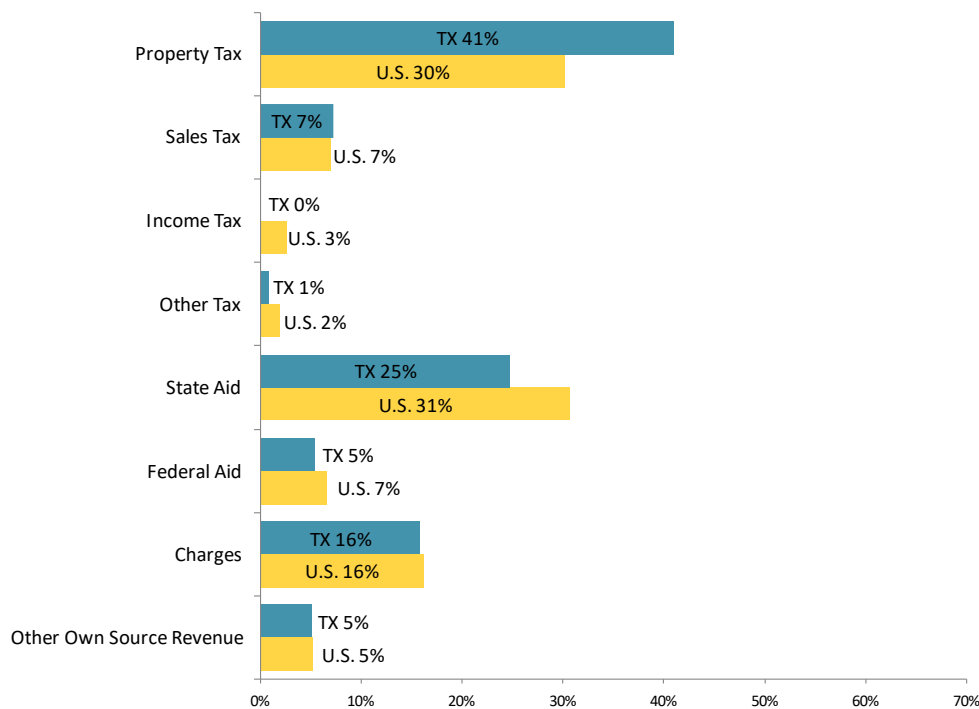
## Highlights

Texas property tax rates are more akin to those in New England or the Midwest than to rates for other states in the South. Effective property tax rates on owner-occupied housing in Texas are the seventh highest in the United States and well above the median rate for all states. Texas’s high reliance on the property tax partly results from the state not having a personal income tax (figure TX-1).

The Texas state constitution prohibits state-level property taxation. Despite not taxing property itself, the state does play a large role in overseeing the practices of local taxing entities, for example, by setting caps on local tax rates, minimum exemption levels, special preferences, and caps on increases in assessed values.

The majority of Texas property tax revenues support public education. The state has a long history of court challenges to its school finance system, some of them contending that the state’s system of school finance has created a de facto state property tax in violation of the state’s constitution.

**Figure TX-1**  
**Sources of Local General Revenue, Texas and U.S., 2021**



Source: U.S. Census via Significant Features of the Property Tax

## Property Tax Reliance

In 2021, the effective property tax on the median value owner-occupied home was sixth highest in the United States (table TX-1). Texas ranked sixth highest for share of state and local revenue from the property tax.

**Table TX-1**  
**Selected Texas Property Tax Statistics, 2021<sup>1</sup>**

|  | Texas     | U.S. Average | Rank (of 51)<br><i>1 is highest</i> |
|--|-----------|--------------|-------------------------------------|
| Per capita property tax  | \$2,218   | \$1,898      | 12                                  |
| Property tax percentage of personal income                         | 4.0%      | 3.1%         | 9                                   |
| Total property tax as percentage of state-local revenue            | 21.1%     | 15.5%        | 6                                   |
| Median owner-occupied home value <sup>2</sup>                      | \$202,600 | \$244,900    | 30                                  |
| Median real estate taxes paid for owner-occupied home <sup>2</sup> | \$3,520   | \$2,690      | 13                                  |
| Effective tax rate, median owner-occupied home <sup>3</sup>        | 1.7%      | 1.1%         | 6                                   |

Sources: [U.S. Census via Significant Features of the Property Tax](#), American Community Survey

<sup>1</sup> All revenue numbers in this table include the state government as well as local governments.

<sup>2</sup> The statistics for [median owner-occupied home value](#) and [median real estate taxes paid for owner-occupied home](#) are five-year average statistics for years 2017–2021.

<sup>3</sup> Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

## Administration and Assessment

Cities, counties, independent school districts (ISDs), and special districts (such as hospital or mosquito control districts) all levy property taxes. Property is assessed at 100 percent of market value and is revalued at least once every three years. The state does not require physical re-inspection.

Local governments within Texas do tax some types of personal property and Texas is one of nine states that tax business inventories. The Texas Supreme Court has held that taxing inventories does not violate the prohibition on state property taxes.

Assessment is carried out by county appraisal districts (CADs). Each CAD is governed by a board of directors appointed by the local governments. The office of the Texas Comptroller provides guidance to the appraisal districts and conducts performance audits to ensure compliance with state laws and regulations. CADs have the same borders as counties except in one instance where two counties share a combined district. Each CAD also establishes an appraisal review board to adjudicate disputes between property owners and the CAD as well as objections or queries raised by the taxing units.

## Limits on Property Taxation

The Texas Constitution sets limits on levels of property taxation, including rate limits, levy limits, full disclosure and truth in taxation requirements, and an assessment limit. The limits are complex, sometimes depending on the use of the revenues and sometimes on antiquated distinctions between how cities were incorporated (Significant Features of the Property Tax).

The state also caps the increase in assessed values for a homeowner's primary residence. Assessed values are not permitted to increase by more than 10 percent since the previous assessment (not counting the value of improvements to the property) and may not exceed market value if market value is lower than the allowable assessed value (table TX-2).

## Property Tax Relief and Incentives

With respect to real property, the state imposes mandatory exemptions and tax caps while also permitting taxing units to enact others (Texas Comptroller of Public Accounts). For residential homesteads, the state imposes a \$40,000 exemption against taxes levied by school districts. All taxing units have the option of offering an exemption equal to as much as 20 percent of a property's value but not less than \$5,000. More than 20 percent of the state's school districts offer an optional homestead exemption (Significant Features of the Property Tax). State residents over age 65 or disabled are entitled to an additional \$10,000 exemption for school taxes, and city and county governments have the option of exempting \$3,000 or more for seniors and disabled taxpayers. Additionally, the state mandates a \$3,000 exemption for primary residences in counties that raise revenue from farm-to-market roads or flood control taxes.

School districts must freeze property taxes for taxpayers who are over 65 or disabled who are receiving exemptions. The freeze limits tax liabilities (for the portion of the property tax allocated to schools) to taxes owed for the year the taxpayer first received the exemption. Taxpayers who change residences are entitled to an exemption equal to the percentage of tax savings that they were receiving prior to the move. The over 65 exemption and tax cap is transferable to surviving spouses who are at least 55 years of age when widowed.

U.S. military veterans with 100 percent disability ratings from the Department of Veterans Affairs are completely exempted from all property taxes on their primary residence, as are un-remarried spouses of veterans or first responders killed in the line of duty. Jurisdictions are required to offer partially disabled veterans and their spouses partial exemptions. Despite its high effective property tax rates, Texas does not have a property tax circuit breaker.

Texas employs several property tax exemptions for economic development, including enterprise zone tax abatements and tax increment financing for reinvestment zones.

**Table TX-2**  
**Property Tax Features of State Governments, United States, 2022**

| Feature  | Texas | Count for 50 states plus DC |
|--|-------|-----------------------------|
| <a href="#">Statewide classification of real property</a>      | No    | 25                          |
| <a href="#">Assessment of property primarily by county</a>     | No    | 31                          |
| <a href="#">Limits on property tax rates or levies</a>         | Yes   | 45                          |
| <a href="#">Limits on the rate of growth of assessed value</a> | Yes   | 18                          |
| <a href="#">Circuit breaker property tax relief program</a>    | No    | 31                          |

Sources: Significant Features of the Property Tax

## Key Property Tax History

The current Texas property tax system owes its structure to the 1979 “Peveto Bill,” named after its sponsor, former state representative Wayne Peveto.

Prior to 1979, taxing units had great autonomy, little coordination with overlapping taxing units, and virtually no overarching superstructure—with what did exist usually emanating from court rulings. The same property might be appraised at vastly different values by each of its jurisdictional taxing units. Furthermore, properties of equal market value might have vastly different assessed values depending on how recently they were last sold. The lack of formal rules for appraisals or schedules for reappraisal led to complaints and lawsuits questioning the system’s fairness. Rapid increases in house prices during the 1970s exacerbated these problems, as did state aid for education formulas, which were based partly on the assessed value of each district’s tax base.

The Peveto Bill accomplished several things. It separated appraisals from tax collection by creating the central appraisal districts, required assessment at full market value, mandated reassessment at least once every three years, and improved state oversight and guidance by creating the State Property Tax Board (which was eliminated in 1982, with many of its responsibilities transferred to the Comptroller’s Office) (Haney 2015).

Texas has had a long series of court challenges to its school finance system, starting in 1973 with *San Antonio Independent School District v. Rodriguez*, with many challenges still ongoing. Court challenges have alleged that the Texas school finance system has created a de facto state property tax in violation of the state constitution. The logic is as follows: State law puts a cap on local property tax rates for school districts. At some points, the majority of school districts have been at the cap, without the ability to lower tax rates because of their revenue needs or to raise tax rates. This leads to the argument that the school property tax had been converted into a state property tax (TTARA 2012).

In the 2014 case *Morath v. The Texas Taxpayer and Student Fairness Coalition*, District Court Judge Dietz ruled that the Texas school finance system violated the Texas Constitution on issues of equity and adequacy, and that it employed a de facto state property tax (TTRA 2014). In May 2016, the Texas Supreme Court unanimously reversed the trial court’s ruling in the case (SchoolFunding.Info). In their ruling, the “justices noted that the school funding system is ‘undeniably imperfect with immense room for improvement. But it satisfies minimum constitutional requirements. Accordingly, we decline to usurp legislative authority’” (Parsons 2016).

Texas enacted major reforms to its school finance system again in 2019, this time without the prompting of the courts. Rising home values between 2012 and 2019 shifted a larger share of the burden of school funding to local governments and away from the state. In response to increasing residential property taxes, the state enacted House Bill 3 in 2019. This increased the per-pupil allotment—that is, the amount of money that a state government provides each school district for each student enrolled—for the first time since 2016. It also increased student weights (for students with disabilities, English language learners, and who are economically disadvantaged), and added funding for full-time pre-K. In companion legislation, Texas Senate Bill 2 (also 2019) aimed to moderate growth in property tax revenues, capping year-over-year growth in property tax revenues at 2.5 percent for general purpose taxing units, 4 percent for the portion of the property tax used to fund the maintenance and operations of school districts, and 8 percent for special districts (Kenyon, Paquin, and Reschovsky 2022). There are exceptions to these rules and the caps can be exceeded if approved in a local referendum (Roldan and Najmabadi 2019).

The property tax for Texas ISDs includes a maintenance and operations (M&O) component and an interest and sinking (I&S) component. The M&O component is used to fund the day-to-day operations of school districts (including teacher salaries, school supplies, and building maintenance). The I&S component is used to pay debt, such as bonds that were issued to build new schools or renovate existing schools. The M&O tax accounts for roughly 80 percent of property tax revenue for schools in Texas.

## Recent Developments

In 2022, a federal district court upheld the state’s use of federal Covid-19 aid for property tax relief. Texas, Louisiana, and Mississippi challenged an American Rescue Plan Act (ARPA) restriction against using funds to reduce taxes. Texas appropriated \$3 billion of its \$16 billion in ARPA aid for property tax relief (Johnson 2022).

Samsung won \$1.2 billion in federal, state, and local tax incentives, including property tax incentives, in the state’s largest ever corporate incentive package. The Korean tech giant is building a \$17 billion semiconductor factory in Taylor, Texas. The deal included \$468 million in property abatements and was one of the last incentives awarded under the state’s Chapter 313 property tax incentive before the legislature let the controversial program expire (Good Jobs First; Wire Services 2022).

Governor Greg Abbott signed legislation dubbed “Back the Blue” in 2022 that required counties with population over 1 million to get voter approval for law enforcement budget cuts. Under the law, the state can freeze county property tax revenue if jurisdictions cut police budgets without voter support (House Bill 1900 of 2022). In October 2022, the Texas Comptroller notified Harris County (which includes most of Houston) that its proposed budget would reduce funding for police and thereby would require voter approval. The county commissioners voted to sue the state over the law (Miller 2022). The Harris County Commissioners Court was unable to adopt the proposed budget after two conservative commissioners boycotted meetings through the October 28 deadline, effectively preventing its passage (Murney 2022). The county’s overall no-new-revenue property tax rate was \$0.53 per \$100 valuation compared to a proposed rate of \$0.57 cents—the difference was \$101 dollars on a \$300,000-value home with a 20 percent local homestead exemption (Carlton 2022).

Voters passed two constitutional amendments to increase exemptions from the property tax in May 2022. Proposition 1 increased the homestead exemption for disabled and elderly Texans from \$25,000 to \$40,000. Benefits to most elderly and disabled residents from the tax compression legislation in 2019 were limited because their school property tax liabilities were already capped. The other amendment, Proposition 2, increased the mandatory homestead exemption for the school district portion of the property tax from \$25,000 to \$40,000 (Lindell 2023).

The Texas Supreme Court ruled in May 2023 that the Iraan-Sheffield Independent School District erred when it contracted an attorney to bring litigation against taxpayers to recover property tax revenue on a contingency basis—the attorney was to be paid 20 percent of the taxes recovered. The court remanded the case to district court and directed that the school district should alter its agreement or hire new counsel to comply with the law (*Pecos Cty. Appraisal Dist. v. Iraan-Sheffield Indep. Sch. Dist.*, Tex., No. 22-0313, 4/28/23) (Hamilton 2023b).

A year after letting the expansive Chapter 313 business property tax incentive expire, Texas enacted a new business property tax incentive in 2023. Under Chapter 403 (enacted by House Bill 5 of 2023), qualifying businesses may receive up to a 50 percent reduction in school district maintenance and operations property taxes for 10 years. To qualify for the state-funded incentive, a business must demonstrate that the development would not occur in Texas without the incentive, and must fulfill investment, wage, and hiring requirements laid out in an agreement approved both by the state comptroller and the school district. The new incentive is more restrictive than its predecessor and does not permit payments to school districts from developers, an oft criticized feature of the expired Chapter 313 incentives (Jones 2023b).

Flush with budget surpluses, Governor Greg Abbott made cutting property taxes a priority for the 2023 legislative session. While property tax relief was not enacted during Texas’s 2023 regular legislative session, Governor Abbott called for two special sessions to address this issue (Hamilton 2023a). On July 22, 2023, Governor Abbot signed into law a tax reduction package that also cut franchise taxes (Senate Bills 2 and 3). He boasted that the “largest property tax cut in Texas history, and likely the world” would return \$18 billion of the state’s record surplus to taxpayers in the form of tax relief. But voters must pass a constitutional amendment (HJR 2) at the ballot in November 2024 in order to for the cuts to take

effect. SB 2 reduces school district property tax rates by 10.7 cents per \$100 of assessed value and raises the homestead exemption from \$40,000 to \$100,000 of assessed value, and to \$110,000 for seniors. The legislation temporarily caps increases in appraisals for non-homestead property valued under \$5 million, limiting increases to 20 percent per year for three years. The state is supposed to reimburse local governments for the projected \$12.7 billion property tax loss (Harper 2023; Jones 2023a).

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