

Texas

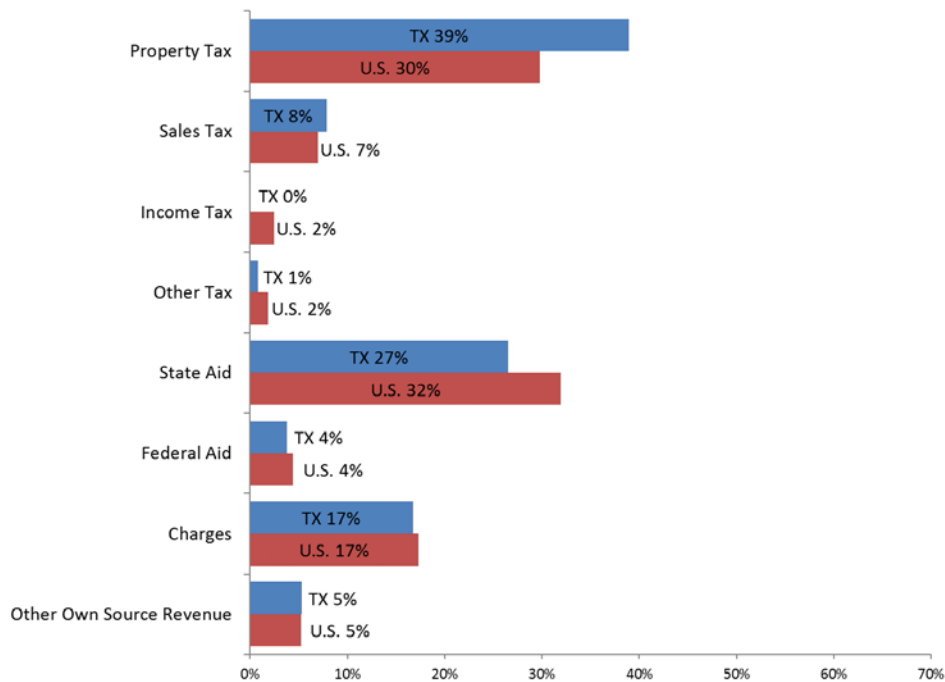
Highlights

Texas property tax rates are more akin to those in New England or the Midwest than to rates for other states in the South census region. Effective property tax rates on owner-occupied housing in Texas are the sixth highest in the United States and well above the median rate for all states. Some of Texas’s high reliance on the property tax is due to the fact that the state does not have 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 based on the assertion that the state’s system of school finance has created a de facto state property tax, which is in violation of the state’s constitution.

Figure TX-1
Sources of Local General Revenue, Texas and U.S., 2014



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

Property Tax Reliance

In 2014, the average effective property tax on the median value owner-occupied home was sixth highest in the U.S. (table TX-1).

Table TX-1
Selected Texas Property Tax Statistics, 2014¹

	Texas	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$1,637	\$1,464	15
Property tax percentage of personal income	3.6%	3.2%	16
Total property tax as percentage of state-local revenue	21.7%	16.9%	8
Median owner-occupied home value ²	\$136,000	\$178,600	39
Median real estate taxes paid for owner-occupied home ²	\$2,578	\$2,149	15
Effective tax rate, median owner-occupied home ³	1.9%	1.2%	6

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

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

² 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 2011-2015.

³ 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.

Texas does tax personal property and is one of the few states that taxes business inventories.

Assessment is done by Central Appraisal Districts, sometimes called County Appraisal Districts (CAD). Each CAD is governed by a board of directors appointed by the local governments. 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 a number of 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. For example, the total property tax rate for counties may total no more than 1.25 percent of assessed values, provided that no more than 0.3 percent is used for farm-to-market roads or flood control, no more than 0.8 percent is used for “general fund, permanent improvement fund, road and bridge fund and jury fund,” and, with approval from the state legislature, no more than 0.15 percent is used for the maintenance of public roads (Texas Comptroller of Public Accounts 2016).

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 new improvements to the property) (table TX-2).

Property Tax Relief and Incentives

With respect to real property, the state imposes a number of mandatory exemptions and tax caps while also permitting taxing units to enact others (Texas Comptroller of Public Accounts 2016). For residential homesteads, the state imposes a \$25,000 exemption against taxes levied by school districts. State residents who are over age 65 or disabled are entitled to an additional \$10,000 exemption, and all taxing units are required to offer partially disabled veterans further exemptions. 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. 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 (TTARA 2012).

School districts must freeze property taxes for those taxpayers over 65 or disabled who are receiving exemptions. The freeze limits tax liabilities 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.

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, 2015

Feature	Texas	Count for 50 states plus DC
Statewide classification of real property	No	25
Assessment of property primarily by county	No	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	Yes	19
Circuit breaker property tax relief program	No	34

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. 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 has since been eliminated and folded into 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*, which is still ongoing. Several court challenges have alleged that the school finance system has created a de facto state property tax, which is 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).

Recent Developments

In 2014, District Court Judge Dietz ruled that the Texas school finance system violated the Texas Constitution on issues of equity, adequacy, and a state property tax (TTRA 2014). In May 2016, the Texas Supreme Court unanimously reversed the trial court's ruling in *Morath v. The Texas Taxpayer and Student Fairness Coalition* (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).

Big-box retailers in Texas have pushed the dark store theory of property valuation, resulting in several lawsuits. "In Texas, the main proponent of the theory has been Lowe's Home Improvement, which has 141 stores in the state" (Jauer, Garza, and Wright 2017).

The level of Texas property taxes engenders animosity among many in the state. Proposals are regularly put forth that would increase exemptions or place stricter limits on taxing units. The most dramatic proposal is a recurring one that seeks to do away with property taxes and increase sales taxes to make up for the loss in revenue (Hamilton 2012).

More modest measures have recently been enacted. In 2015, voters approved by an overwhelming margin (86 percent voted in favor) an amendment to the Texas Constitution that raises the exemption level for school district taxes from \$15,000 to \$25,000. Lost revenues are to be made up from the Foundation School Fund, which is funded from taxes on various sources, including oil and natural gas production.

In 2017, Governor Greg Abbott (R) called a special session of the legislature to consider property tax relief, which he stated was a top priority. One of the chief measures debated was a lowering of the so-called rollback rate. Currently, Texas jurisdictions can increase property taxes by up to 8 percent per year, but if public officials propose a rate greater than 8 percent, voters can petition to roll back the increase to 8 percent. Legislators debated a rollback rate as low as 4 percent. However, legislators adjourned the special session without enacting significant changes in the property tax (Loricchio 2017a, Loricchio 2017b).

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