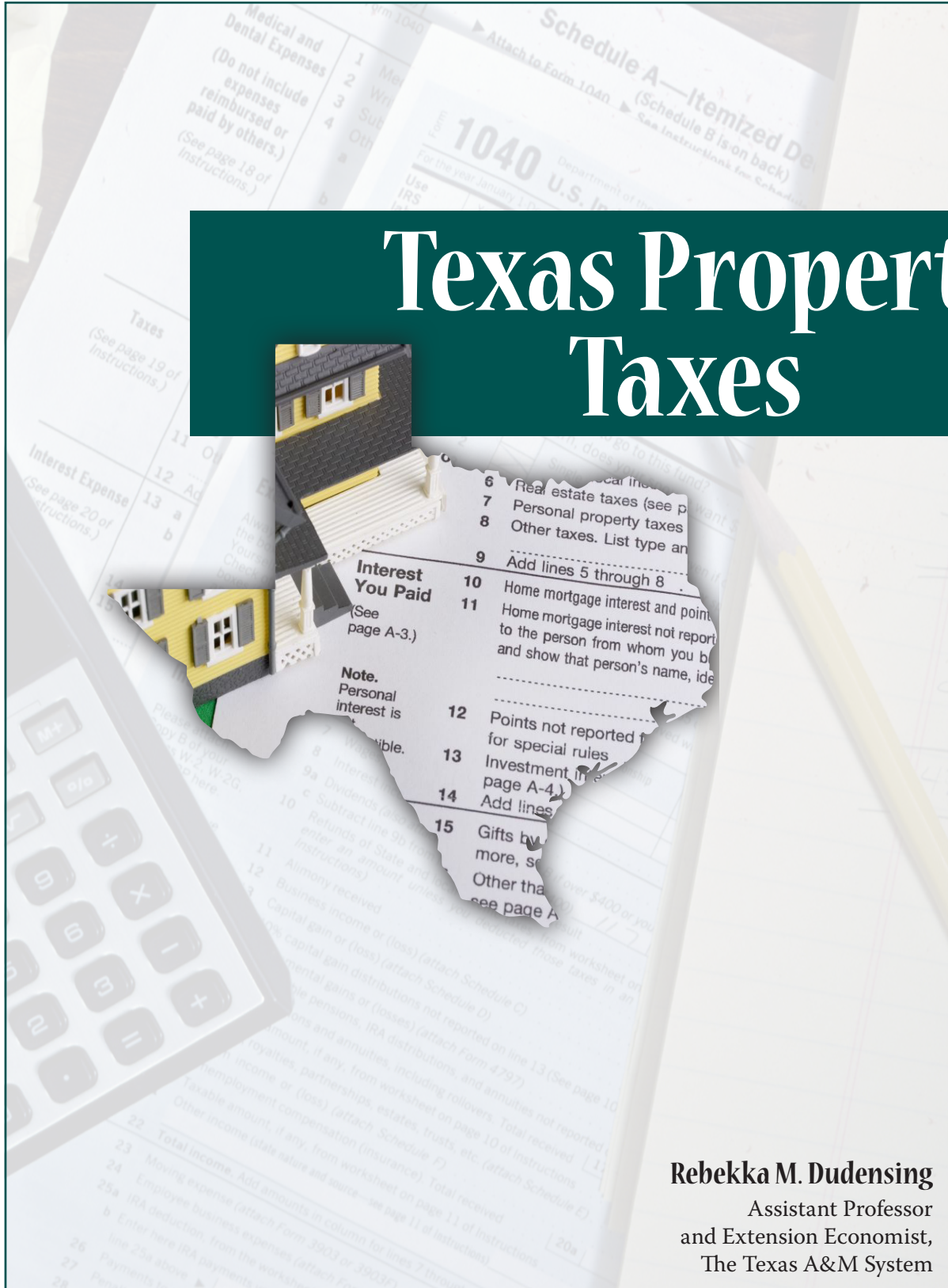


Texas Property Taxes



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Property taxes are an important part of the local tax structure in Texas. There is no state property tax. All property taxes are assessed and collected at the local level to support local entities such as county and municipal governments, schools, and special taxing units such as hospitals and underground water districts. Property taxes make up the largest portion (33 percent) of all local revenue (Fig. 1).

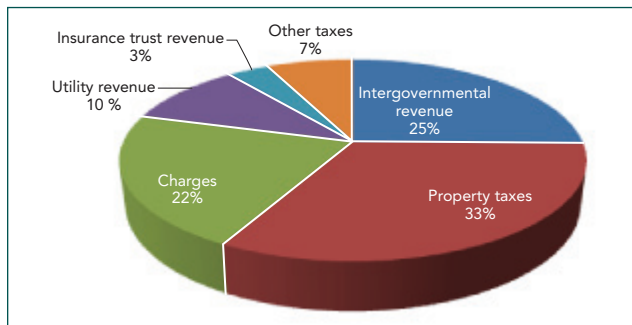


Figure 1. Sources of local government revenue, 2006-2007. (Source: Census Bureau, 2009)

Property taxes are the main source of income for public schools. In fact, 64 percent of property taxes collected go to support schools, while county governments receive 18 percent of property taxes, municipal governments receive 15 percent, and special districts receive 3 percent (Fig. 2)

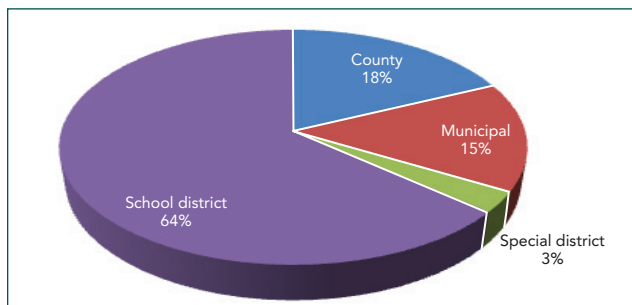


Figure 2. Recipients of Texas property taxes, 2006-2007. (Source: Census Bureau, 2009)

Although property taxes are higher in Texas than in the United States as a whole (Table 1), Texans do not pay a state or local income tax. So when the overall tax burden is considered, the average Texan pays 19 percent less than the average American in state and local taxes. Furthermore, taxes consume a smaller percentage of income in Texas than in the U.S. as a whole.

Table 1. Average Texas and U.S. tax burdens, 2007.

Type of tax	Texas	United States
All taxes		
Tax per capita	\$3,441.49	\$4,229.40
Tax as share of per capita income	14.39%	15.85%
Tax per household	\$9,951.11	\$11,350.11
Tax as share of household income	14.99%	16.40%
Property tax		
Tax per capita	\$1,434.44	\$1,270.31
Tax as share of per capita income	6.00%	4.76%
Tax per household	\$4,147.71	\$3,409.04
Tax as share of household income	6.25%	4.93%

Calculated from Census Bureau Data (2007, 2008, 2009).

Local Use of Property Tax Receipts

Figure 3 shows the various ways local governments spend their revenue from taxes and other sources. Almost half (43 percent) of the revenue funds education. Other significant expenditures are 8 percent for social services (hospitals and public welfare) and 8 percent for public safety (police and fire departments). Local governments spend 16 percent of their budgets on utilities, but utilities are largely paid from user fees, not taxes.

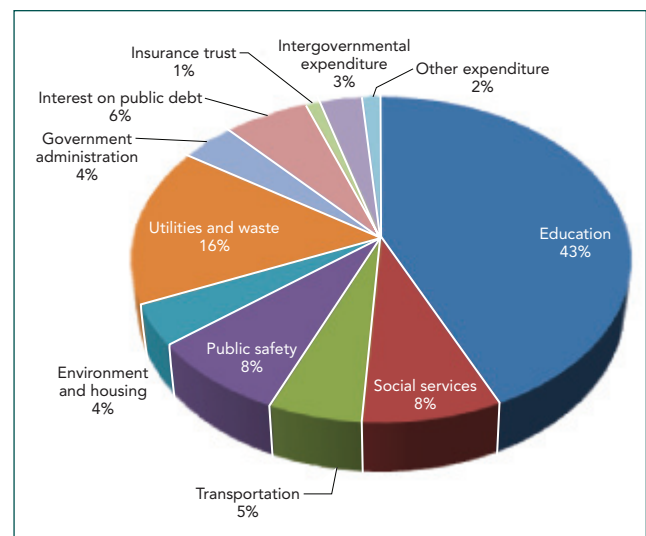


Figure 3. Texas local government expenditures, 2006-2007. (Source: Census Bureau, 2009)

Taxable Property

Property taxes are levied on real property and tangible personal property that is located in or used continually in Texas.

Real property includes land, improvements (buildings or other structures affixed to the land), mines and quarries, minerals in place, standing timber, and estates—or interests in such properties.

Tangible personal property can be seen, weighed, measured, felt, or otherwise perceived by the senses. Examples of tangible personal property that is taxed are manufactured homes and certain items used for business such as fixtures, equipment and automobiles. Taxes usually are not assessed on tangible personal property such as art or furniture because it would be difficult to do so.

For the most part, intangible personal property is not taxed. Intangible property includes items that may be documented but that do not have a physical existence, such as stocks, bonds, certificates of deposit, share accounts, insurance policies and pensions. Some intangible property owned by insurance companies and savings and loans companies may be taxed. Some intangible property is exempted by law, but some is exempted as a matter of practicality because it would be difficult and expensive to collect tax on it.

Property Appraisal

Property taxes are appraised, assessed and collected at the local level, but the Texas Legislature establishes the property tax code, and the Texas Comptroller of Public Accounts oversees and audits the property tax system.

Appraisal districts are county-wide, with a central office and sometimes branch offices. (An exception is the combined district consisting of both Potter and Randall Counties.) The district is responsible for appraising the value of all the taxable property within the county. An appraisal district may contract appraisal services from an adjacent district. The district also processes applications for tax exemptions.

The appraisal district works on behalf of all the taxing units that assess property tax. A taxing unit with property in more than one appraisal district receives appraisal information from each district.

The Texas Legislature has separated the appraisal of property values from the assessment and collection of taxes based on those values. Thus,

the appraisers' compensation cannot be linked to increases in property values, and taxing units may not employ appraisers except through contract with an appraisal district.

To ensure that property taxes are equitable, the property tax code stipulates that the appraiser must use the same or similar methods in appraising similar properties. The most common method of appraising property is to determine its market value (other methods apply for specific types of property such as agricultural land). The same tax rate must be applied to similar types of properties (properties with similar uses). A 2009 constitutional amendment calls for uniform standards and procedures to be used across the state. The comptroller's office reviews the appraisal standards of each district every 2 years to ensure that they are uniform.

The chief appraiser in a district, with the consent of the district appraisal board, can appoint an agricultural appraisal advisory board to advise on the valuation of agricultural and open space land. The district appraisal board also appoints a review board to review any valuations protested by property owners.

Property Tax Rates and Assessment

After the appraisal district submits its report on appraised values and tax exemptions, each taxing unit (county, municipal, school, and special taxing unit) then sets its tax rate and assesses and collects taxes from property owners. The county tax assessor-collector (an elected official who serves a 4-year term) is in charge of this function for county units. In counties with fewer than 10,000 residents, the sheriff serves as the tax assessor-collector unless voters approve the election of a separate tax assessor-collector. The county tax assessor-collector may, by contract, assess and collect taxes for non-county taxing units.

By law, counties can assess only \$0.80 per \$100 of taxable valuation for general operations, \$0.15 for special roads and bridges, and \$0.30 for optimal road and flood control.

Cities with populations up to 5,000 can assess only \$1.50 per \$100 of taxable valuation; cities with more than 5,000 residents can assess only \$2.50 per \$100.

School districts can collect up to \$1.17 per \$100 in taxable valuation for maintenance and operations (M&O). The base rate for M&O is \$1.00, but schools can increase the rate by \$0.04 without

a vote and by a maximum of \$0.13 with voter approval. The 2008 average M&O tax rate for all school districts in Texas was \$1.052194. This is much less than the average of \$1.478997 in 2005, before the rate was lowered to provide property tax relief. School districts are allowed to assess an additional amount of tax for interest and sinking fund debt service (I&S) on building projects. The average I&S rate rose 39 percent from 2005 to 2008, when it was \$0.157313.

Tax rates for special purpose districts vary and are usually set by the laws that authorized the districts. Community colleges may collect up to \$1.00 per \$100. Hospitals and airports may collect up to \$0.75 per \$100. Rural fire prevention districts may collect \$0.30 per \$100. The average tax rate for special purpose districts in 2008 was \$0.404223.

Most taxing districts do not tax at the maximum rate allowed. Tax rates for individual taxing units (including counties, cities, schools, and special districts) are published by the Texas Comptroller of Public Accounts at <http://www.window.state.tx.us/taxinfo/proptax/09taxrates/>.

The property tax owed is calculated by multiplying the assessed value, less exemptions, by the tax rate. For example, if a person's home is valued at \$100,000 and the school tax rate is \$1.05 per \$100 of valuation, the tax owed would be:

$$(100,000 \div 100) \times 1.05 = \$1,050.00$$

Tax Exemptions

Exemptions decrease the taxable value of property and, thus, the amount of tax owed. If a property with an assessed value of \$100,000 qualifies for a \$15,000 exemption, the taxable value of the property is \$85,000. If the school tax rate is 1.05, the tax is:

$$(85,000 \div 100) \times 1.05 = \$892.50$$

Table 2 lists common residence, personal property, and agricultural exemptions, along with the dates by which property owners must apply for them. Property owners must apply for most of these exemptions only once unless the tax assessor-collector requests a new application. Applications are made to the appraisal district office.

Generally, property owners must qualify for an exemption by January 1, although exemptions for the disabled and elderly apply to the full calendar

year in which the owner becomes eligible (the owner need not be disabled or age 65 as of January 1).

The most common exemption is the residence homestead exemption. The Texas Constitution grants homeowners a \$15,000 exemption from school property taxes. Homeowners are also granted a \$3,000 exemption from county taxes if the county collects a special tax for farm-to-market roads or flood control. A residence homestead exemption applies to no more than 20 acres. Taxing units may also adopt a residence exemption of up to 20 percent of taxable value, with a minimum of \$5,000. Homeowners must apply to receive a residence homestead exemption.

Disabled persons and persons who are 65 or older are eligible for a \$10,000 exemption from school property taxes in addition to the general residence homestead exemption. An eligible property owner may take either the disabled or elderly exemption, but not both.

Any taxing unit (not just school districts) may also adopt an optional exemption of at least \$3,000 for disabled and elderly persons. However, this exemption may not be combined with the \$3,000 county residence homestead exemption; the property owner must choose which exemption to use.

Disabled veterans qualify for an exemption of \$5,000 to \$12,000 on a single property. A minimum disability rating of 10 percent qualifies a veteran for a \$5,000 exemption; a disability rating of 70 percent or more qualifies for a \$12,000 exemption. The \$12,000 exemption also applies to veterans who are blind in at least one eye, missing one or more limbs, or over age 65 with at least a 10 percent disability rating. Veterans with a 100 percent disability rating also receive a total exemption from property taxes on their residence homesteads.

As Table 2 shows, there are also exemptions for tangible personal property that does not produce income or produces less than \$500 in income, as well as for mineral interests less than \$500 and for home and farm supplies and equipment.

For details about these and other exemptions, see the Texas property tax code (<http://www.window.state.tx.us/>).

Besides exemptions, another benefit for homeowners is the limit on increases in the appraised value of their homes. Appraised taxable values cannot increase more than 10 percent (plus the market value of new improvements) from one year to another. This limitation helps people in fast-growing areas with increasing demand for housing.

Table 2. Residential tax exemptions.

Exemption	Taxing unit	Amount of exemption	Application date*	Notes
Residence homestead	School	\$15,000	Jan. 1 – Apr. 30	Applies to no more than 20 acres; exceptions apply in some taxing units
	County	\$3,000 if county collects special tax for FM roads or flood control	Jan. 1 – Apr. 30	
Optional residence exemption	Any	Up to 20% of appraised value, \$5,000 minimum	Automatic upon qualification for disabled or elderly exemption	In addition to the exemption above
Homestead exemption for disabled or elderly (65+)	School	\$10,000 in addition to residence homestead exemption	Jan. 1 – April 30	Surviving spouse over age 55 may claim exemption
Optional exemption for disabled or elderly (65+)	Any	\$3,000 unless larger amount specified by taxing unit	Automatic upon qualification for disabled or elderly exemption	May not be combined with county resident homestead exemption
Disabled veteran's exemption	Any	\$5,000 to \$12,000 depending on disability rating; 100% disability qualifies for 100% exemption on residence homestead	Jan. 1 – Apr. 30	Applies to only one property; surviving spouse or minor children may claim a portion of the exemption
Tangible property not producing income	Any	Value of property (total exemption)	N/A	Does not include manufactured homes or structures affixed to the land and used as residences; does not apply to all taxing units
Tangible personal property producing less than \$500 in revenue	Any	Value of property (total exemption)	N/A	
Mineral interest less than \$500	Any	Value of interest	N/A	
Farm family supplies	Any	Value of supplies	N/A	Supplies for home or farm use
Farm products	Any	Value of products	N/A	
Instruments of husbandry	Any	Value of instruments	N/A	Farm or ranch machinery and equipment

*Late applications are generally accepted and may be filed up to 1 year after the delinquency date (usually February 1). Consult your appraisal district or the comptroller's website. Property owners may apply for the exemptions with a January 1–April 30 due date on the same form. Property owners who no longer qualify for an exemption must contact their appraisal office (usually in writing and before May 1).

(Source: Texas Property Tax Code, 2009)

It combats gentrification—the displacement of low-income households and small businesses as middle- and upper-income property owners renovate homes and businesses in deteriorated neighborhoods. Even with this limitation, however, property taxes can increase substantially over just a few years' time.

There is also a ceiling on the amount of tax disabled and elderly persons pay to school districts and, if adopted, to other taxing units. If the property owner modifies his or her residence or moves, the ceiling is adjusted proportionally.

Agricultural Land Valuation

Open space land is appraised according to its agricultural productivity value rather than its market value. The use-value appraisal reduces the tax burden on land investments, while the exemption for intangible property exempts financial investments such as stock and bonds.

To be designated as open space, land must be used for the production of crops, livestock, timber, nursery crops, and related products; or, it must be used for conservation or wildlife management. Agricultural activities must have occurred on the land in 5 of the preceding 7 years. When such land is in a taxing unit that crosses multiple districts, an application for the open space appraisal must be filed in each district. If the land use changes, the property owner must pay the difference between the taxes paid and the taxes that would have been owed if the land had been appraised on market value for each of the past 5 years, plus 7 percent interest.

Property Tax Relief

Protesting appraisal value

Texas law allows property owners to protest the amount of tax levied on their property if they believe

- ▶ the appraised value of their property is too high or is unequal relative to comparable properties,
- ▶ an exemption or special appraisal was incorrectly denied,
- ▶ the district failed to provide required notices, or
- ▶ other conditions exist as specified in the tax code.

To file a protest, a property owner should submit a letter (or Property Tax Form 50-132, Notice of Protest) to the appraisal district. The letter should identify the owner, the property, and the reason for the protest. Such matters are often resolved informally, but a formal notice must still be filed before the deadline (which is usually May 31). For more information about filing a protest, see <http://www.window.state.tx.us/taxinfo/proptax/remedy10/index.html>.

Rollback election

Each year, taxing units calculate their effective and rollback tax rates. The effective tax rate is the rate that would provide the same amount of revenue as the previous year on properties taxed in both the previous and current years. The rollback rate provides the same amount of revenue for operations plus an additional 8 percent cushion and funds to pay debts in the current year. The effective and rollback rates are the sums of the respective rates calculated for each type of tax (e.g., property tax and sales tax) the county levies.

If the taxing unit then proposes a tax rate for the current year that is higher than the rollback rate, residents can petition within 90 days to limit the size of the tax rate increase. In taxing units with less than \$5 million in tax collections for maintenance and operations, at least 7 percent of registered voters must petition in order for a rollback election to be called. In larger taxing units, at least 10 percent of voters must petition.

For school districts, the rollback rate is calculated by adding only \$0.08 per \$100 valuation, not 8 percent. There is no need to petition to limit increases in school tax rates because school boards must call elections to ratify proposed rate increases that exceed the rollback rate.

When voting on tax rate increases, voters should consider whether changes in economic conditions, property conditions, or property values might make a rate increase necessary.

County and city sales tax

County and city sales taxes were authorized by the Texas Legislature as a measure of property tax relief. County governments may enact a sales tax of up to 1.5 percent, and municipal governments may enact a sales tax of up to 2 percent. However, the combined state and local sales tax rate cannot exceed 8.25 percent, and the state rate is 6.25 per-

cent. That means the local rate (including special purpose districts) cannot exceed 2 percent. There are only 18 counties in which the local taxing units do not use the full 2 percent allowed. Thus, without changes to the rules, sales tax cannot be used to further reduce property taxes in most places.

Property Tax Equity

Property taxes are considered equitable because they are less regressive than many other taxes. Although poorer households do pay a larger share of their incomes in property taxes than wealthier households, and even though wealthier households may be able to shift a greater share of their

property to non-taxable, intangible assets, still, most exemptions and special appraisals benefit lower income households more than wealthier ones (Table 3). For example, the school tax ceiling for disabled and elderly property owners is at least five times more beneficial to lower income households in terms of the percent of income saved.

Even within the same income class, property taxes can vary significantly depending on the property values and the exemptions and special appraisals for which owners are eligible. For example, the residence household exemption is available to homeowners but not to renters. Among property owners, a residence homestead receives more favor-

Table 3. Estimated average school tax burden and relative burden by household income of property tax and selected exemptions, tax year 2011 estimates.

Type of tax	Household income by quintile				
	Less than \$27,088	\$27,088 to \$49,112	\$49,112 to \$75,402	\$75,402 to \$117,899	More than \$117,899
School property tax					
Average \$ paid	\$1,333	\$1,943	\$2,751	\$4,206	\$9,188
% of income	4.8%	2.8%	2.4%	2.4%	2.3%
Relative burden*	2.09	1.22	1.04	1.04	1.00
\$15,000 general homestead exemption					
Average \$ value	\$83	\$112	\$140	\$200	\$280
% of income	0.3%	0.2%	0.1%	0.1%	0.1%
Relative burden*	3.00	2.00	1.00	1.00	1.00
Optional percentage homestead exemption					
Average \$ value	\$29	\$36	\$47	\$72	\$209
% of income	0.1%	0.1%	~0.0%	~0.0%	0.1%
Relative burden*	1.00	1.00	0.00	0.00	1.00
Tax ceiling for disabled & elderly					
Average \$ value	\$123	\$133	\$113	\$100	\$94
% of income	0.4%	0.2%	0.1%	0.1%	~0.0%
Relative burden [†]	5.02	2.51	1.25	1.25	1.00
Limit on appraised value of homestead					
Average \$ value	\$20	\$28	\$38	\$57	\$105
% of income	0.1%	~0.0%	~0.0%	~0.0%	~0.0%
Relative burden [†]	1.12	1.00	1.00	1.00	1.00
Ag and open space special appraisal					
Average \$ value	\$111	\$181	\$264	\$394	\$742
% of income	0.4%	0.3%	0.2%	0.2%	0.2%
Relative burden*	2.00	1.50	1.00	1.00	1.00

Adapted from Tax Exemptions & Tax Incidence (Combs, 2009).

*Relative burden expresses the percentage of income paid for the tax by each household income quintile as a ratio to the percentage of the income paid for the tax by the highest income quintile. For example, property tax as a share of income for low-income households is 2.09 times (more than twice) that for upper-income households (4.8 percent versus 2.3 percent of income).

[†]The relative burden for the tax ceiling and appraisal limit is based on the average tax burden as a share of the \$117,899 quintile floor and thus underestimates the relative burden.

able tax treatment than an identical vacation home in the same neighborhood.

The largest portion of local property tax goes to schools. So people with children in public schools receive the most benefit from property tax revenue, although a well-educated population benefits society in general. Property taxes paid to cities and counties usually enter the general fund, so it's not possible to analyze the benefits to particular citizen groups. People who use the services of special districts (such as hospitals, fire prevention districts, and community colleges) benefit most from the taxes that support those districts, but the general public also benefits from the services those districts provide.

Conclusion

The Texas property tax system is a complex code of rules and laws. In recent years, tax rates have increased in many places to keep up with local governments' expenditures. There are several reasons tax rates might need to increase.

- ▶ Exemptions and special assessments may encourage property owners to invest in non-taxable or partially exempt property.
- ▶ The economy is becoming more service based rather than capital (and tax) intensive.
- ▶ The property tax system can be slow to reflect changes in the values of real estate, oil, and other property, thus creating an inadequate tax base.

However, tax rate increases might also reflect the spending decisions of government officials.

The average Texan does pay more in property taxes than does the average American, but overall the tax burden in Texas is relatively low. This encourages individuals and businesses to relocate to or remain in the state. Property owners can reduce their property tax levy by taking advantage of the exemptions and special appraisals for which they qualify.

For more information on the Texas tax system, visit these sites:

Window on State Government/Office of the Texas Comptroller of Public Accounts
<http://www.window.state.tx.us>

Community Economic Development/Texas AgriLife Extension Service
<http://communities.tamu.edu>

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