

Texas Tax Update

May 17, 2022

TEXAS TAXPAYERS
TTARA
AND RESEARCH ASSOCIATION

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Property Tax Equation - Taxpayer

$$\text{Value} \times \text{Tax Rate} = \text{Tax}$$



Forgotten Half of the Equation

- Focus always seems to be on Value.
 - Why? Value is personal and it is the one thing a taxpayer feels they can control.
 - Market is the Market
 - Increasing Value or Wealth in an asset should always be a good thing, right?

Property Tax Equation – Taxing Unit

$$\text{Tax Rate} = \text{Levy} / \text{Tax Roll}$$

- Levy = Revenue needed to fund a budget that is adopted each year.
- Tax Rate is adopted from year to year and moves based on value or the *desired level of revenue* of the taxing unit
- Value and Rates should have an inverse relationship.

Value  Rates 

Who determines your Tax?



Dustin Burrows

@Burrows4TX



Words from a true property tax expert: "Until the tax rate is adopted, your tax is... ZERO"

11:50 AM · May 5, 2020 · [Twitter for iPhone](#)



Sticker Shock Valuation Headlines

AUSTIN

‘Never
this’
dram
new

Lubbock County h

Property values to s

Growth and market are projected to push Comal’s taxable values up by 30-50%

residential property value, taxes increasing

Property taxes are expected to rise as well.

Travis County median home value jumps to \$632,000 — a \$200,000 increase over 2021

KTRH Local Houston and Texas News

Property Owners Getting A Shock From The Latest Appraisals

Governor Abbott's Taxpayer Bill of Rights

REDUCE SCHOOL PROPERTY TAX RATES

- 1. Reduce the school district property tax rates across the state every year.*

LOCAL GOVERNMENT DEBT

- 1. Require local government debt be passed by a two-thirds supermajority of the local governing body, and local bond issues not included on the November ballot to pass by a two-thirds supermajority of voters.*

EMPOWER HOMEOWNERS AND PROPERTY OWNERS TO REDUCE THEIR TAXES

- 1. Offer taxpayers a discount for paying their property taxes in full early or allow the payments to be split either quarterly or semiannually without penalty.*
- 2. Give new homeowners an automatic reduction in the taxable value of their property if the purchase price of their home is lower than the value of the tax rolls.*
- 3. Provide real appraisal reform to make the system more transparent and taxpayer friendly. Homeowners will have their rights restored in the property tax protest process and stop the appraisers from endlessly dragging out property tax disputes.*
- 4. Provide a property tax exemption on small business equipment.*

Key House Interim Charges - Property Tax Relief

- Ways and Means Committee
 - Consider methods of providing additional property tax relief, including using remaining federal pandemic relief funds, as well as reducing business property tax burdens and limiting the growth of property tax bills. **Hearing on April 21st**
 - Study Texas property tax appraisal system, including
 - Assessing appraisal accuracy and the operational efficiency of appraisal districts
 - Evaluating the method of selecting chief appraisers, appraisal review boards, and appraisal district boards of directors
 - Evaluate existing appraisal protections for taxpayers

Key Senate Interim Charges - Property Tax Relief

- Senate Education Committee
 - **Homestead Exemption:** Study the use and effect of the optional homestead exemption available to independent school districts. Examine and report on costs to the state if school districts receive incentives to increase the optional percentage exemption
- Senate Finance Committee
 - **Property Tax Relief:** Examine and recommend ways to reduce Texans' property tax burden. Review and report on proposals to use or dedicate state revenues in excess of the state spending limit to eliminate the school district maintenance and operations property tax. **Hearing scheduled for May 17th**
 - **Inflation:** Review and report on the impact of inflation on units of local governments' revenue collections and property taxpayers' tax bills, including the homestead exemption. **Hearing on May 4th**

Key Senate Interim Charges - Property Tax Relief

- Senate Local Government Committee
 - **Property Tax Reform:** Review the effect of Senate Bill 2 (86th Legislature), the Texas Property Tax Reform and Transparency Act of 2019, and related legislation passed by the 87th Legislature. Make recommendations for further property tax reform and relief.
 - **Appraisal Reform:** Review the implementation of Senate Bill 63, House Bill 988, and other related legislation passed by 87th Legislature. Make recommendations to ensure appraisal guidelines are effective and taxpayers have enforcement mechanisms.
 - **Bond Elections:** Review and report on voter participation and bond election result differences between November and May elections. Make recommendations for improved voter turnout, increased election efficiencies, and better accountability of local debt. **Hearing on April 20th**
 - **Efficiency Audits:** Study the concept of efficiency audits for cities, counties and special purpose districts and under what circumstances they should be performed.

Go back in time - 2019 Property Tax Reforms



HB 3 and SB 2 – Property Tax Relief Elements

- 86th Regular Session
- HB 3 by Rep. Huberty (R-Humble) & Senator Taylor (R-Friendswood)
 - School Finance Focused
 - Key Relief Elements:
 - Sets in statute M&O rate compression based on school district valuation growth.
 - Increases the state share of public education funding.
 - Requires tax ratification election for rates limiting school tax growth to 2.5%.
- SB 2 by Senator Bettencourt (R-Houston) & Rep. Burrows (R-Lubbock)
 - Local Government Focused
 - Key Relief Elements:
 - Limited county and city tax or revenue increase to 3.5% from 8% without voter approval.
 - Any tax or revenue increase above 3.5% requires voter approval.
 - Created the real-time tax notice website

Real-time Tax Notice Website

- [Texas.gov/PropertyTaxes](https://www.texas.gov/PropertyTaxes)
- Find information on the rate calculation, budget adoption hearings, and rate adoption hearings specific to each taxing unit that a property resides in.

Property Tax Transparency in Texas

The budgets adopted by taxing units and the tax rates they set to fund those budgets play a significant role in determining the amount of taxes each property owner pays. In 2019, the Texas Legislature passed legislation to help Texans better understand tax rates in their home county. You can access timely information about how local tax rate decisions affect your tax bill on your county's Truth in Taxation website.

[Find your county's website](#)

TTARA Research Report on 2019 Reforms



Research Report

April 2022

Relief from Rising Values

2019 Property Tax Reforms Cutting Tax Rates at a Record Pace

Appraisal notices will be in the mail soon, and Texas property owners need to be prepared for the sticker shock that home shoppers have been experiencing the past year. BUT, unlike years past, rising appraisals aren't likely to drive tax bills through the stratosphere. The massive property tax reforms of 2019 are protecting property owners from their appraisals.

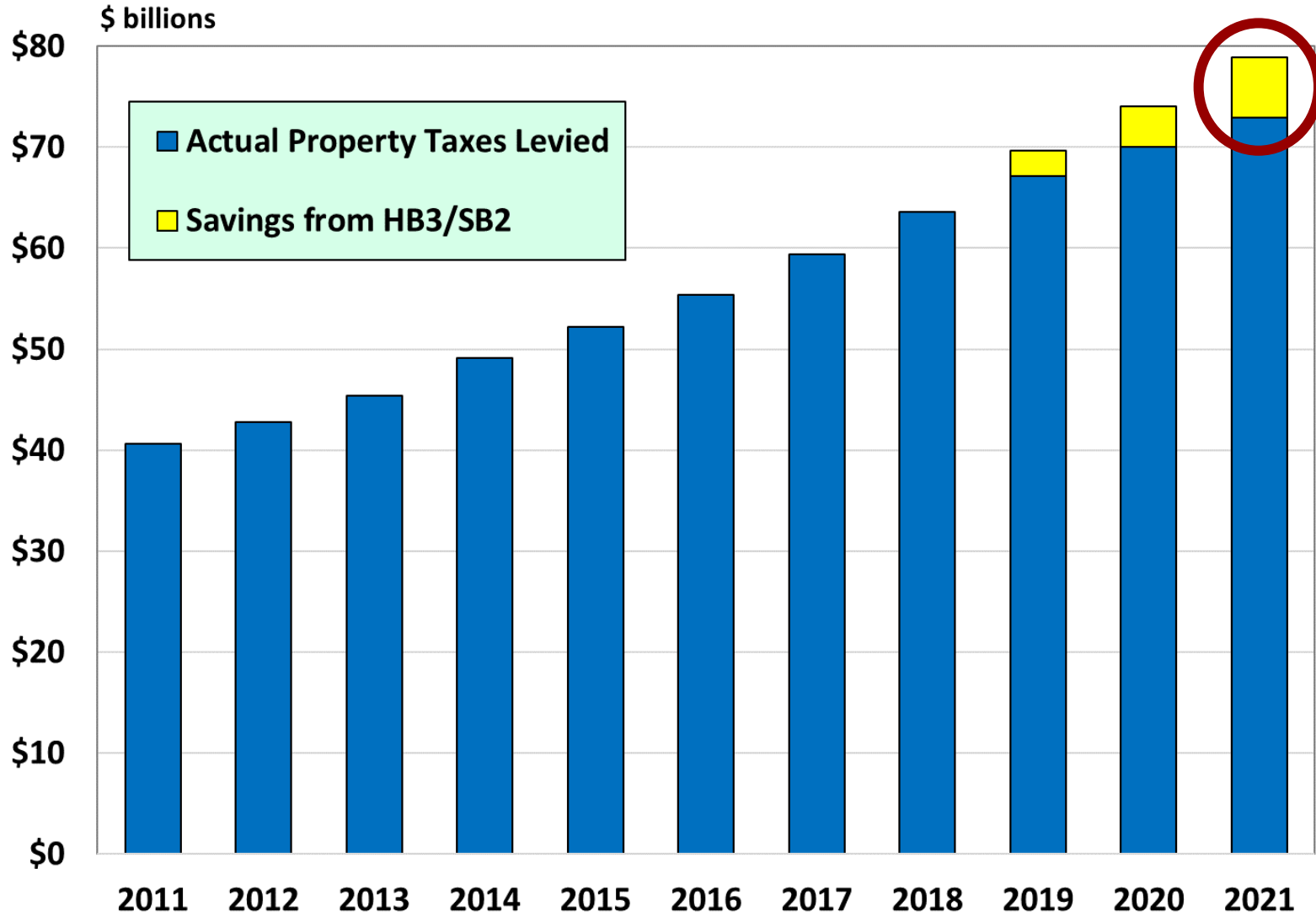
Texas' hot real estate market is driving up property values, and the truth is, many of those sky-high appraisals simply reflect the current market; however,

Texas property tax bills would have been \$6 billion, or 8%, higher in 2021 had it not been for property tax reforms lawmakers enacted recently (Figure 1).

HB 3 and SB 2 constrained the ability of taxing jurisdictions to raise the amount of property taxes they collect without the approval of their voters. HB 3 essentially limits school tax growth to 2.5%, while SB 2 limits most other large taxing units to increases of 3.5% before voters must approve. And the timing couldn't be any better, as the housing market in Texas

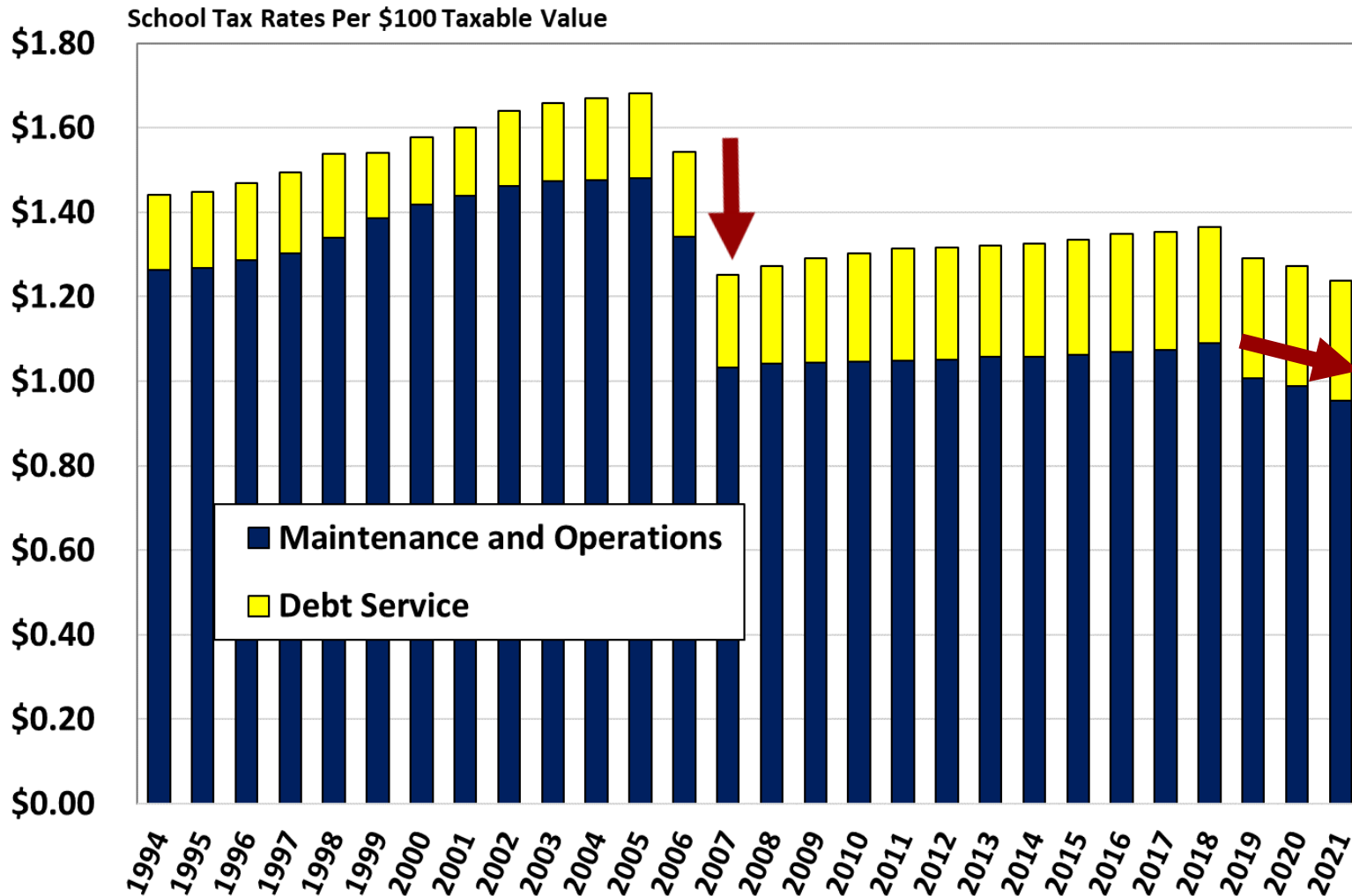


The Impact of HB 3 and SB 2 – Tax Bills



- Tax bills would have been an estimated ***\$6 Billion*** higher in 2021.
- A 10% valuation increase no longer means a 10% increase to the tax bill, but rather only a 3-5% increase in overall tax bill.

HB 3 – School District M&O Rate Compression



- 2007 – M&O Tax rates compressed by 50 cents - \$1.50 to \$1.00. Cities and Counties filled the void
- School district rates since 2019 are on the decline.
- Statewide property value growth above 2.5% is used to compress school M&O tax rates down as values rise.

School District M&O Rate Compression 2022-23 School Year

2022 Tax Year School District Tier 1 Maximum Compressed Rate (MCR)

Lower of two calculations:

Statewide Value Growth = 4.36%

2022-23 Statewide Compression

$$\text{MCR} = \$0.9134 \times 1.025 / 1.0436$$

$$\text{MCR} = \$0.9134 \times 0.9822$$

$$\text{MCR} = \$0.8971 - \$0.003 *$$

$$\text{MCR} = \underline{\$0.8941}$$

District Value Growth = 18%

2022-23 District Compression

$$\text{MCR} = \$0.8697 \times 1.025 / 1.18$$

$$\text{MCR} = \$0.8697 \times 0.8686$$

$$\text{MCR} = \cancel{\$0.7554}$$

$$\text{MCR} = \$0.8046$$

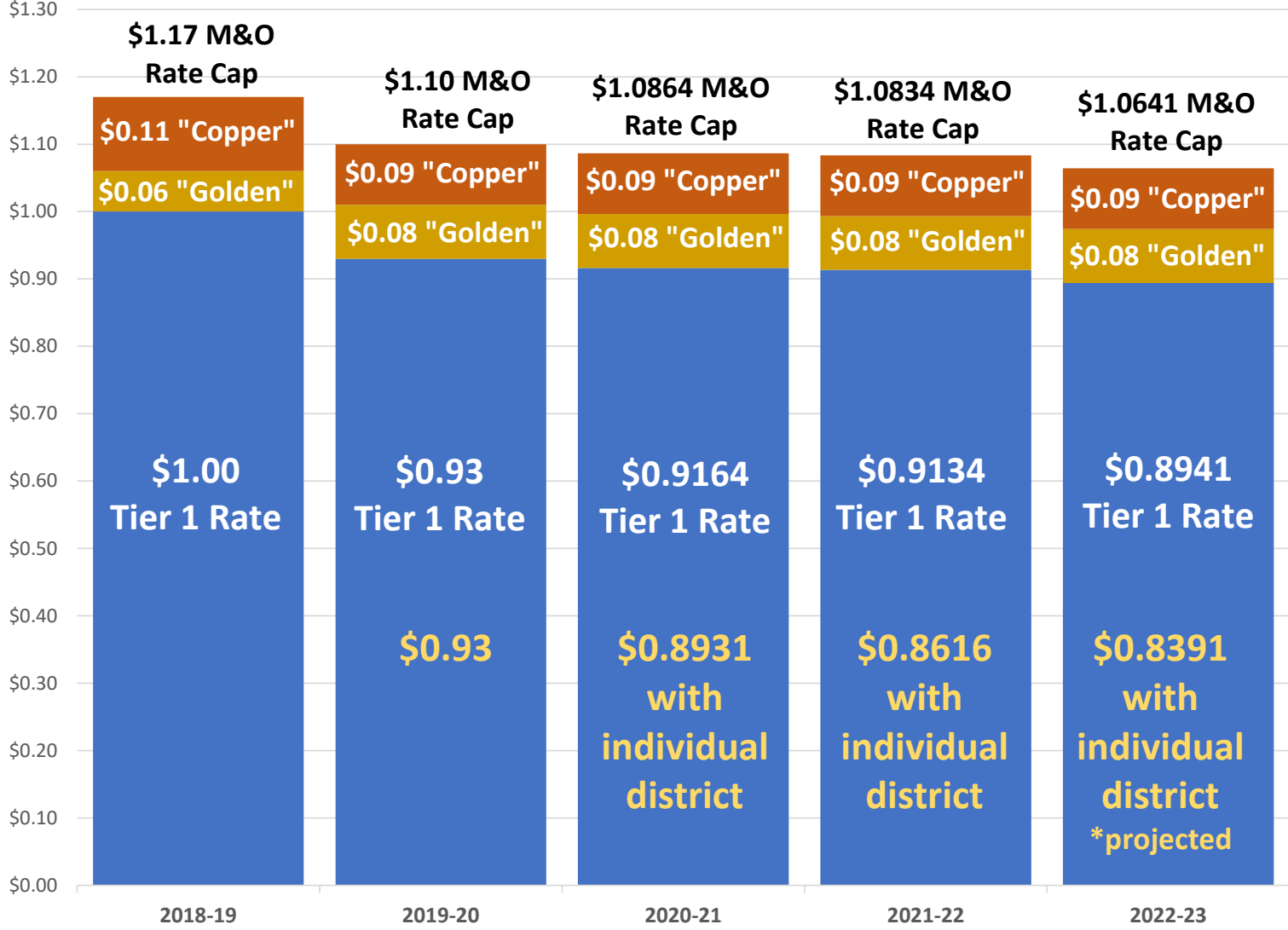
4.36% is the estimated statewide value growth in the appropriations bill for 2022 tax year

\$0.8046 is the lowest Tier 1 rate allowable in 2022 to receive full state entitlement due to 90% "equity limit" in HB 3

* State revenue not expended to compress rates due to equity limit is applied to the following year statewide MCR

Calculation results are truncated to four decimals rather than rounded

School Dist. M&O Rate Compression 2018-22 Tax Years



(\$0.1059) state compression

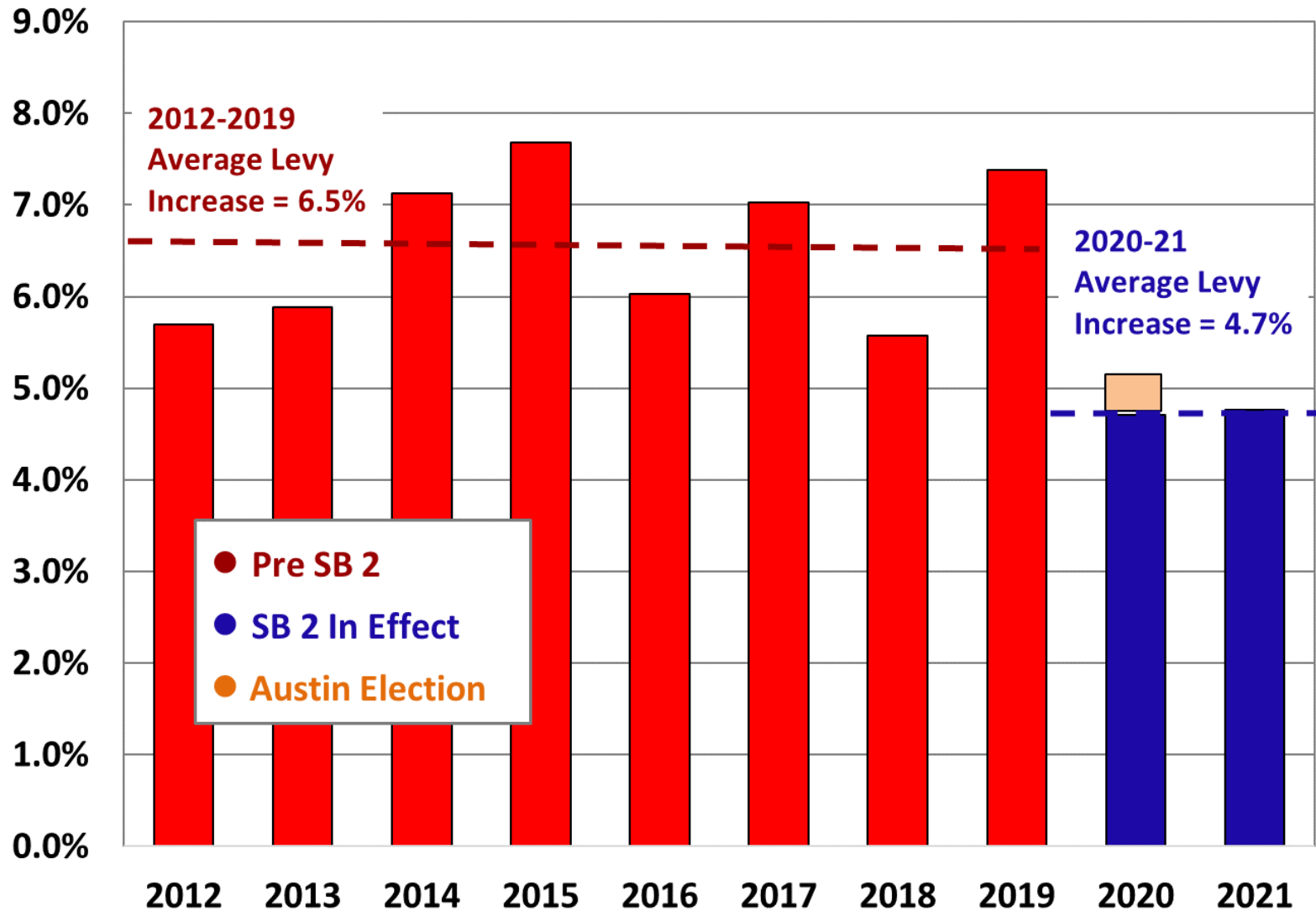
(\$0.1609) rate reduction

Calculation results are truncated to four decimals rather than rounded

Statewide Proposition 1

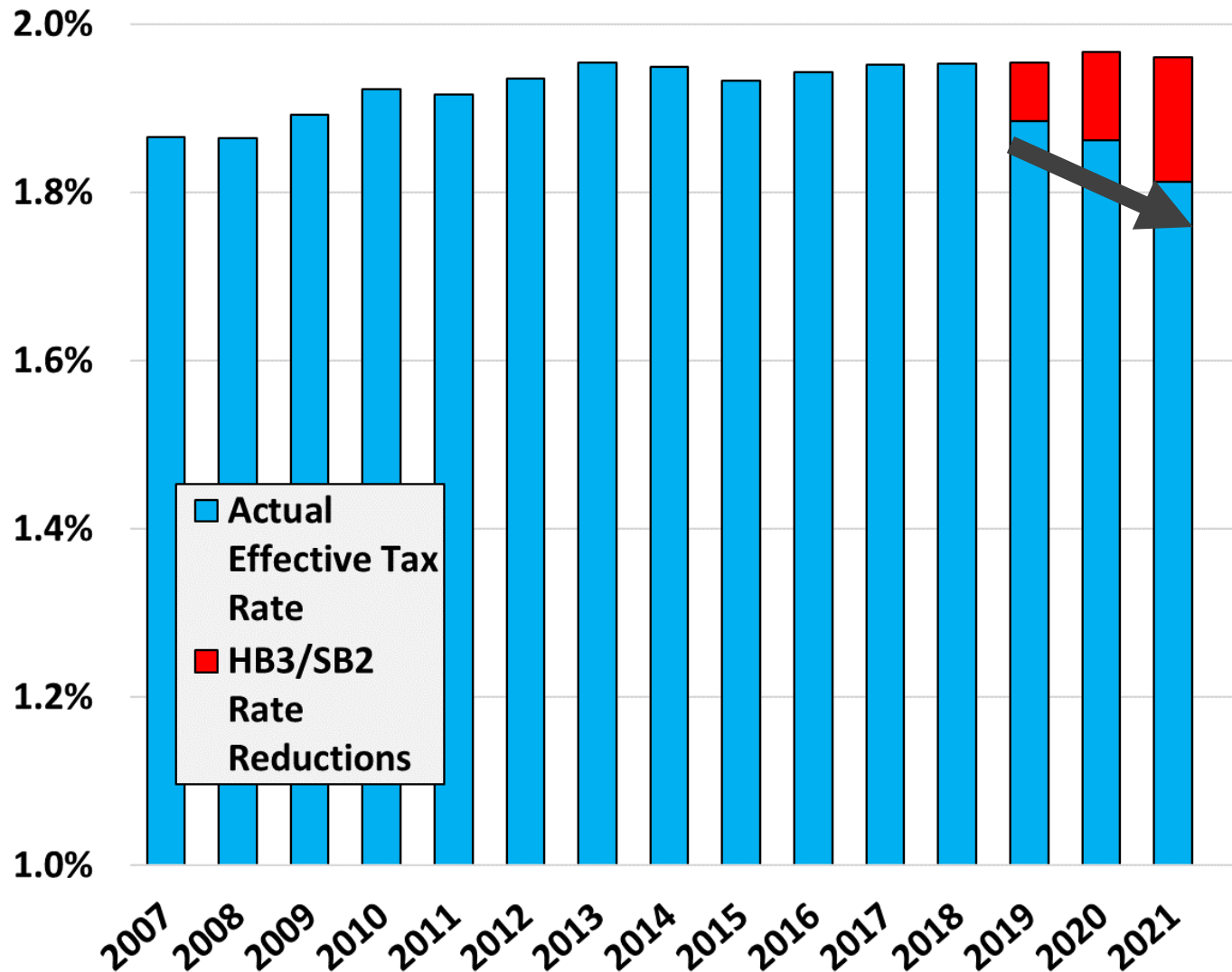
- Provides an adjustment to the ISD tax limitation for the elderly and disabled homeowners to account for school district tax rate compression provided by HB 3.
 - Passed – 86.91%
 - Homeowners who qualify will see reductions in 2023.

SB 2 – City, County, & Special District Increases



- Limited tax revenue growth from 8% to 3.5% for Cities and Counties.
- Special District remain at the 8% limitation.
- Any increase above the limitation requires voter-approval.
- Lowered the overall increase in taxes to 4.7% down from 6.5%
- Note the Austin Impact: Voter approved tax increase.

The Impact of HB 3 and SB 2 – Tax Rates



- Total effective property tax rates are declining from around 1.95% to 1.81%.
- With the monumental rise in valuations in 2022 the downward trend should continue.

Bond Elections

- Bond Election Quote from an Austin American Stateman Article, circa 2014

“I have voted for every park, every library, all the school improvements, for the light rail, for anything that will make this city better. But now I can’t afford to live here anymore.”

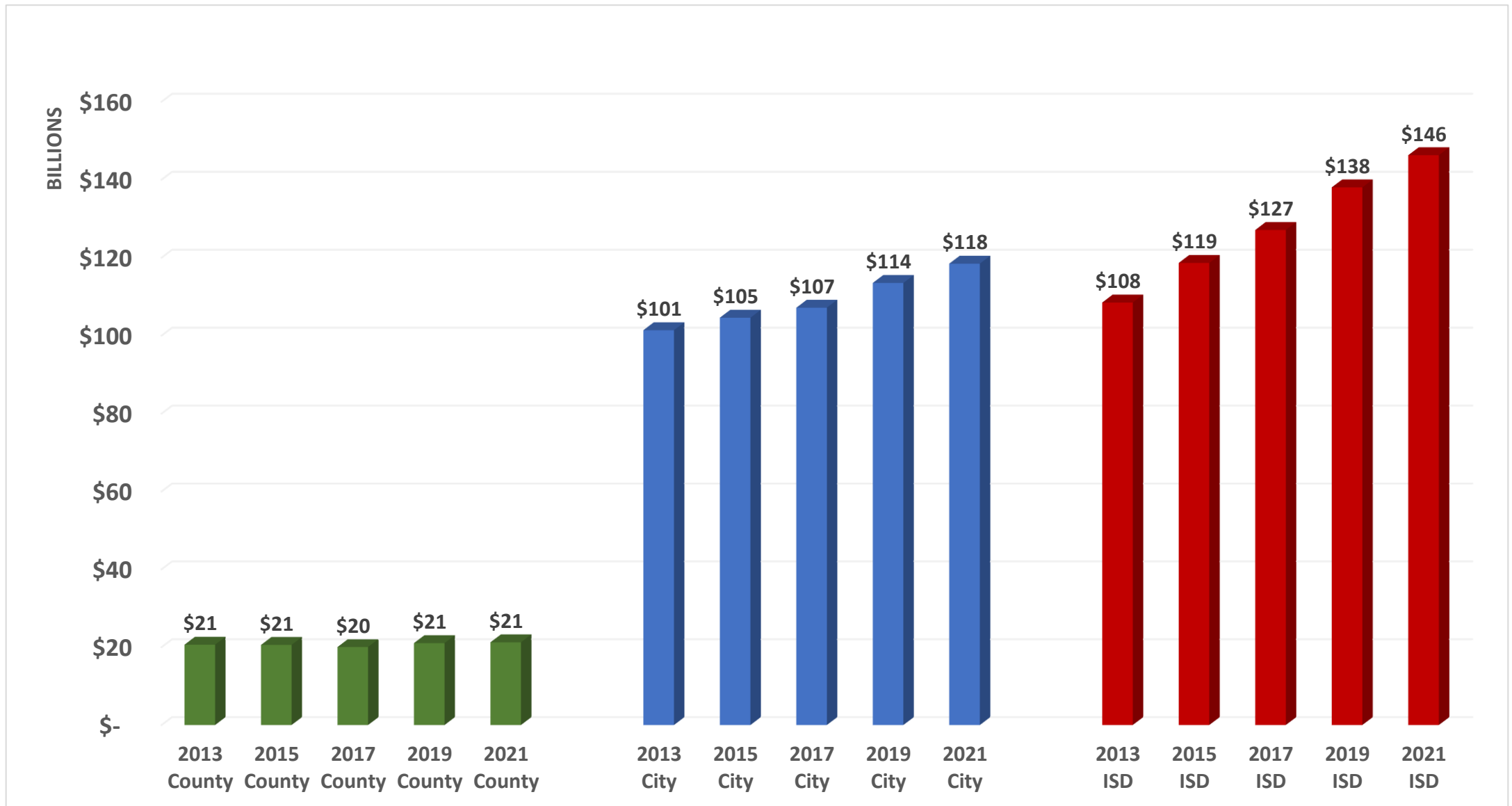
Bond Elections

- Every bond election is a vote for or against a **TAX INCREASE**.
- Disclaimer: Not all bond elections are wasteful tax increases, some capital projects financed by the bond election are very much needed in the community.
- Debt Service is the cumulative annual payment of all approved bond elections plus some nonvoter-approved debt.

$$\text{Debt Rate} = \text{Debt Service} / \text{Tax Roll}$$

- As debt service decreases the debt rate decreases.
- As taxable value increase the debt rate decreases.
- **DON'T BE FOOLED** by a taxing unit saying a bond election will not increase your taxes.

Statewide Local Debt Outstanding



Additional Property Tax Relief



ISD Homestead Exemption

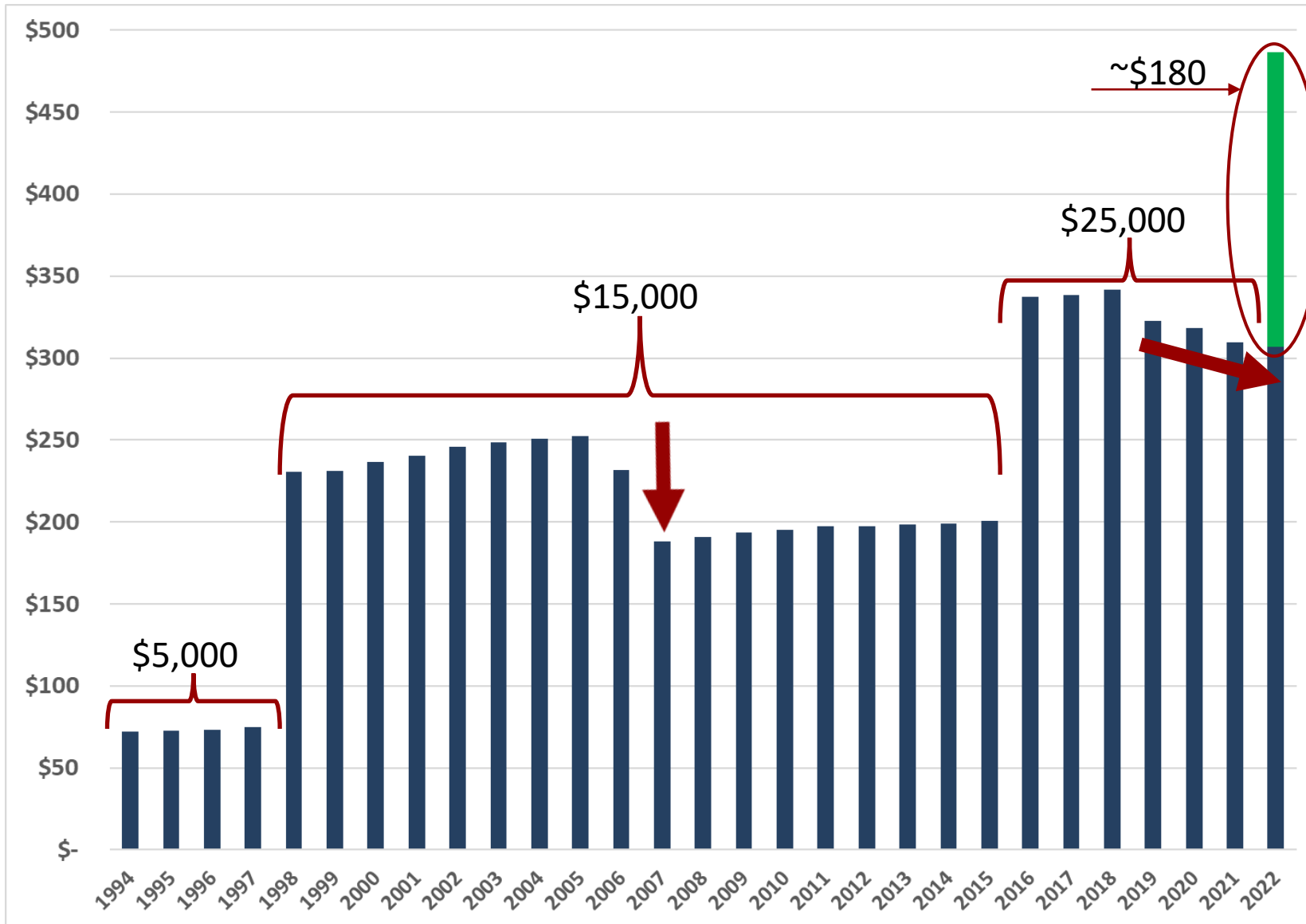
- A homestead exemption removes value from the tax roll.
- Allows the Legislature to pick winners and losers across categories or properties.
 - Geared only towards the homeowners at the expense of business.
 - Creates a split tax roll.
 - Shifts of tax burden from one set of taxpayers to another.
- History has shown the Legislature will lean towards an ISD homestead exemption when faced with a last-minute property tax relief decision.
 - 1997: 75th Legislature – Increased ISD homestead exemption by \$10,000 (to \$15,000)
 - 2015: 84th Legislature – Increased ISD homestead exemption by \$10,000 (to \$25,000)
 - 2021: 87th Legislature – Increased ISD homestead exemption by \$15,000 (to \$40,000)
 - May 7th Ballot – Proposition 2 -PASSED 84.82%- (~\$180 Average Homeowner Savings)
 - Effective 2022 tax year

ISD Homestead Exemption – How did we get here?

- 87th Legislature 3rd Called Special Session
- SB 1 by Senator Bettencourt and House Sponsor Chairman Meyer

Senate Version	House Version	Conference Committee
<p><u>General revenue dollars</u> used to provide a one-time reduction in school tax rates by roughly \$0.066 per \$100 of value, benefitting all property owners; could grow to \$0.13 if revenue available.</p>	<p><u>Federal pandemic relief money</u> used to provide a one-time \$525 check to homeowners.</p>	<p>A <u>combination of general revenue dollars and less tax rate compression</u> to permanently increase the homestead exemption against school taxes by \$15,000 (subject to voter approval).</p>
<p>Business Relief: \$1.0 bl Homeowner Relief: <u>\$1.0 bl</u> Total \$2.0 bl</p>	<p>Business Relief: \$0.0 bl Homeowner Relief: <u>\$3.0 bl</u> Total \$3.0 bl</p>	<p>Business “Relief:” (\$0.1 bl.) Homeowner Relief: <u>\$0.5 bl.</u> Total \$0.4 bl.</p>
<p>Avg Homeowner Savings = ~\$175</p>	<p>Avg Homeowner Check = \$525</p>	<p>Avg Homeowner Savings = ~\$180</p>

ISD Homestead Exemption Est. Tax Savings



- 2007 – M&O Tax rates compressed by 50 cents - \$1.50 to \$1.00
- School district rates since 2019 are on the decline due to HB 3
- 2022 - \$40,000 Total Exemption
- 2022 currently an estimate due tax rolls not certified

Other Homestead Exemption

- Optional Homestead Exemption
 - Any jurisdiction may offer a percentage homestead exemption up to 20% of a home's value.
 - Exemption cannot be less than \$5,000
- 65 or Older and Disabled Exemption
 - Additional \$10,000 ISD Exemption
 - Any jurisdiction may offer an optional exemption of at least \$3,000
- Farm-to-market road or flood control \$3,000 exemption on county taxes

Appraisal Caps

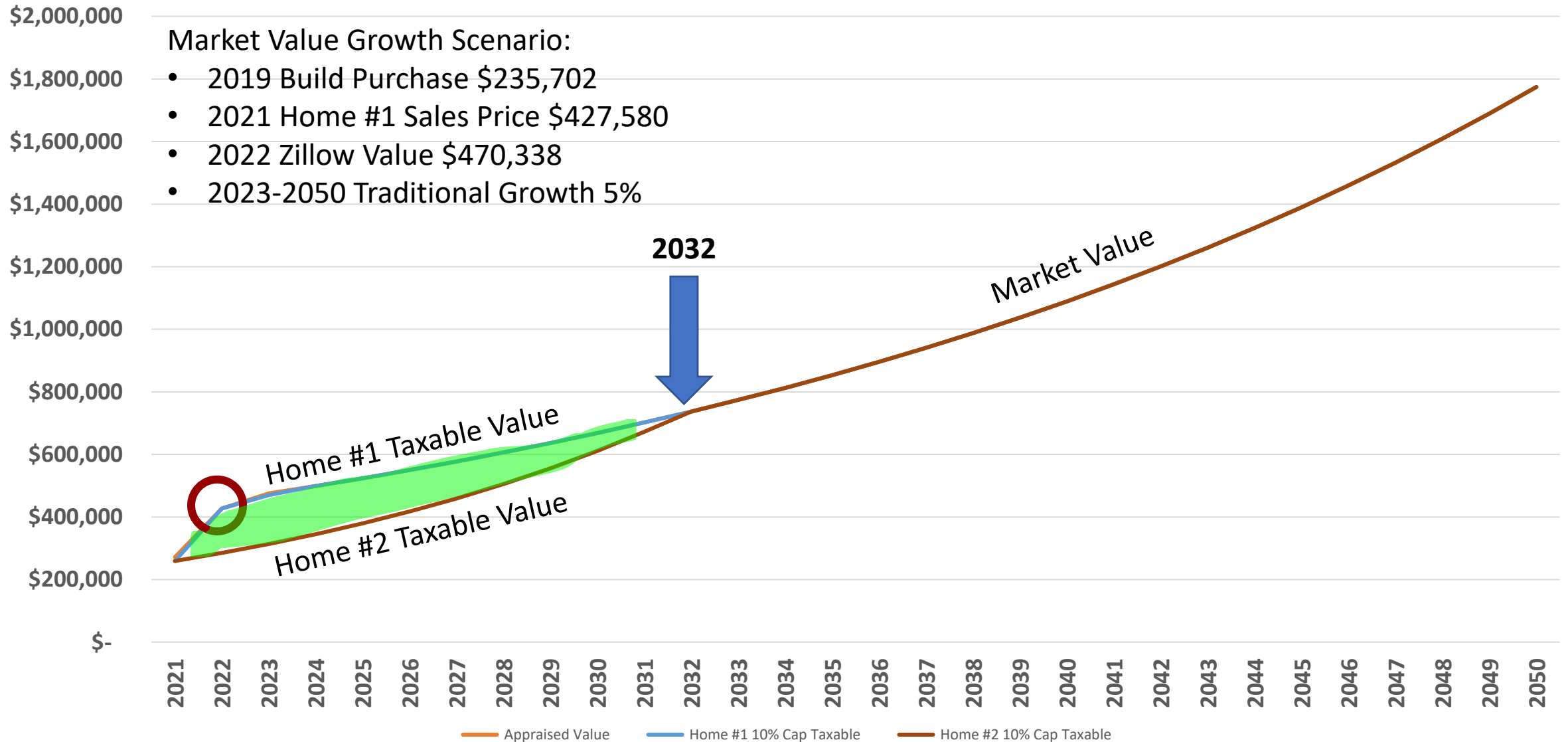
- Appraisal Caps = Value Limitations = Value Freezes
- Allows the Legislature to pick winners and losers across categories or properties.
 - Geared only towards the homeowners at the expense of business.
 - Creates a split tax roll.
 - Shifts of tax burden from one set of taxpayers to another.
- Appraisal caps do not cap tax rates.
- Last Session Bills
 - Several bills filed last session to lower the homestead appraisal cap
 1. From 10% to 5%
 2. From 10% to 3.5%

Appraisal Cap Example

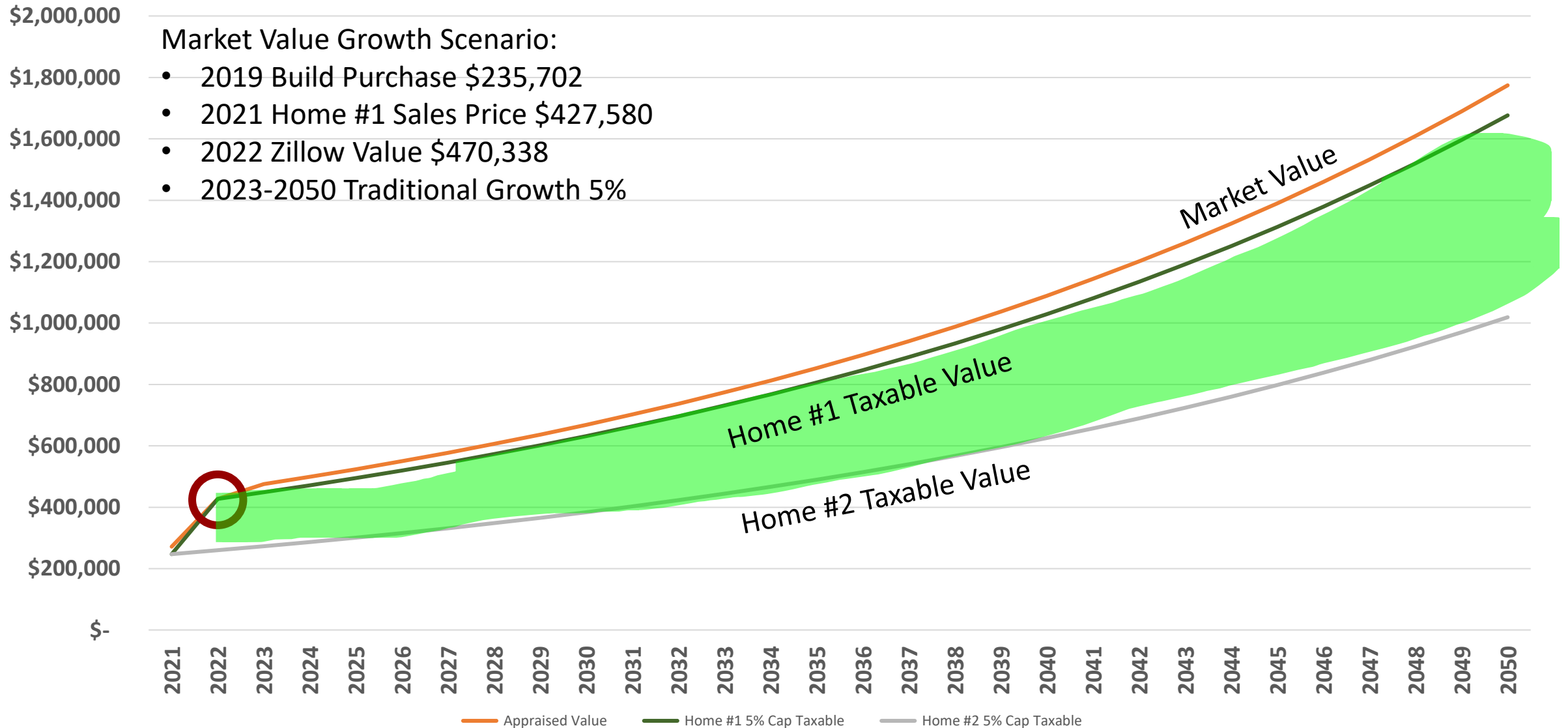
- Example Parameters:
 - 2 identical homes
 - 1,800 square feet; 4 bedroom
 - Both homes were built in 2019 and sold for \$235,702
 - Both owners have been granted homesteads
 - Home #1 sold in 4th quarter of 2021 for \$427,580
 - New owner was granted a homestead.



Appraisal Cap Example – 10% Cap



Appraisal Cap Example – 5% Cap



Home Appraisals Up, Tax Bills Down?

A Look at Travis County

	<u>2021</u>	<u>2022</u>	<u>% Chg</u>
Med Homestead (Mkt)	\$411,658	\$632,208	54%
County Taxable Value	\$239 bl	308 bl	29%

Home Appraisals Up, Tax Bills Down?

A Look at Travis County

	<u>2021</u>	<u>2022</u>	<u>% Chg</u>
Med Homestead (Mkt)	\$411,658	\$632,208	54%
County Taxable Value	\$239 bl	\$287 bl	20%
M&O Tax Revenue	\$703 ml	\$727 ml	3.5%
M&O Tax Rate	\$0.307	\$0.253	-18%

Home Appraisals Up, Tax Bills Down?

A Look at Travis County

	<u>2021</u>	<u>2022</u>	<u>% Chg</u>
Med Homestead	\$411,658	\$632,208	54%
10% Appraisal Cap	<u>NA</u>	<u>-\$179,384</u>	na
Capped Value	\$411,658	\$452,824	10%
20% HS Exemption	<u>-\$82,332</u>	<u>-\$90,565</u>	10%
Net Taxable Value	\$329,326	\$362,259	10%
M&O Tax Rate (/ \$100)	<u>\$0.307</u>	<u>\$0.253</u>	-18%
M&O Tax Bill	\$1,011	\$917	- 9%

Additional School M&O Rate Compression

- Decision Point: Temporary vs. Permanent Compression
- Where do the funds come from?

General Revenue Surplus

From Comptroller's Certification Estimate

\$12.0 billion

Economic Stabilization Fund Balance

Entering 2023

\$12.6* billion

Federal Pandemic Relief Aid Yet-to-be-spent

\$3.0 billion

Grand Total

\$27.6 billion

Note: An additional \$4.2 billion will be transferred to the Economic Stabilization Fund in early 2024

How Are Revenues Compared to Expectations?

Dollars are in Billions

- As of April 2022, the state is one-third of the way through the 2022-23 Biennium.
- Biennial tax revenues are growing three times faster than official projections in the Comptroller's Certification Revenue Estimate.

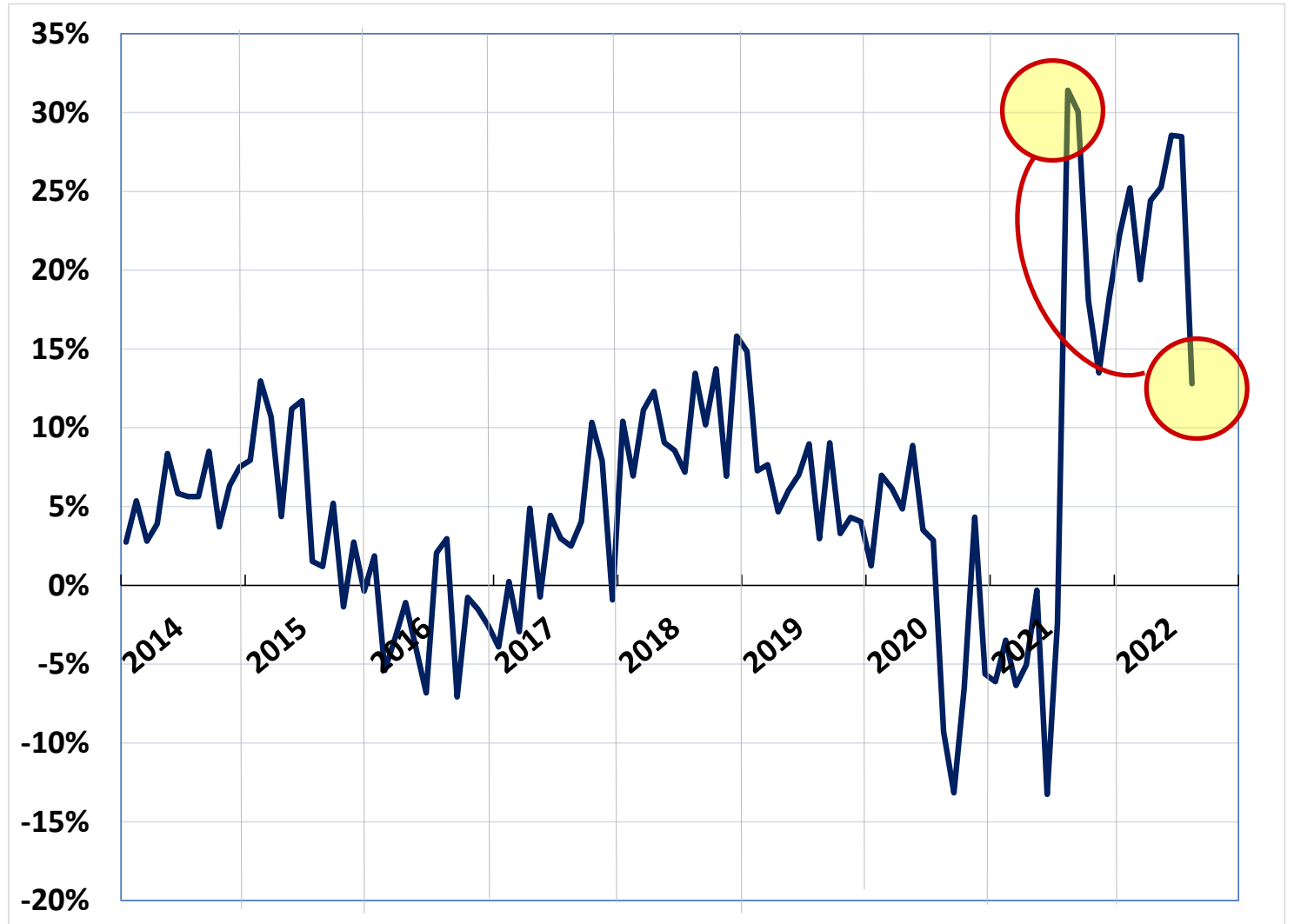
YTD (thru April)	2021	2022	Actual Pct Chg	CRE Pct Chg
Sales Tax	\$22.7	\$28.0	23%	7.2%
MV Sales	\$3.4	\$4.0	18%	2.1%
Oil & Gas	\$2.8	\$6.3	125%	51.5%
Alcohol & Tobacco	\$1.6	\$1.8	13%	5.0%
All Other	<u>\$5.1</u>	<u>\$6.1</u>	<u>19%</u>	<u>4.4%</u>
Total	\$35.7	\$46.3	30%	9.7%

Note: The state fiscal year runs from September 1 through August 31.

Texas State Sales Tax Growth

Percent Change in Sales Tax Revenue Compared to Same Month in Prior Year

- Texas is experiencing a sales tax rebound unlike any seen in recent memory.
- Sales tax receipts dropped dramatically at the start of the pandemic, but recent gains have overwhelmingly offset pandemic losses.

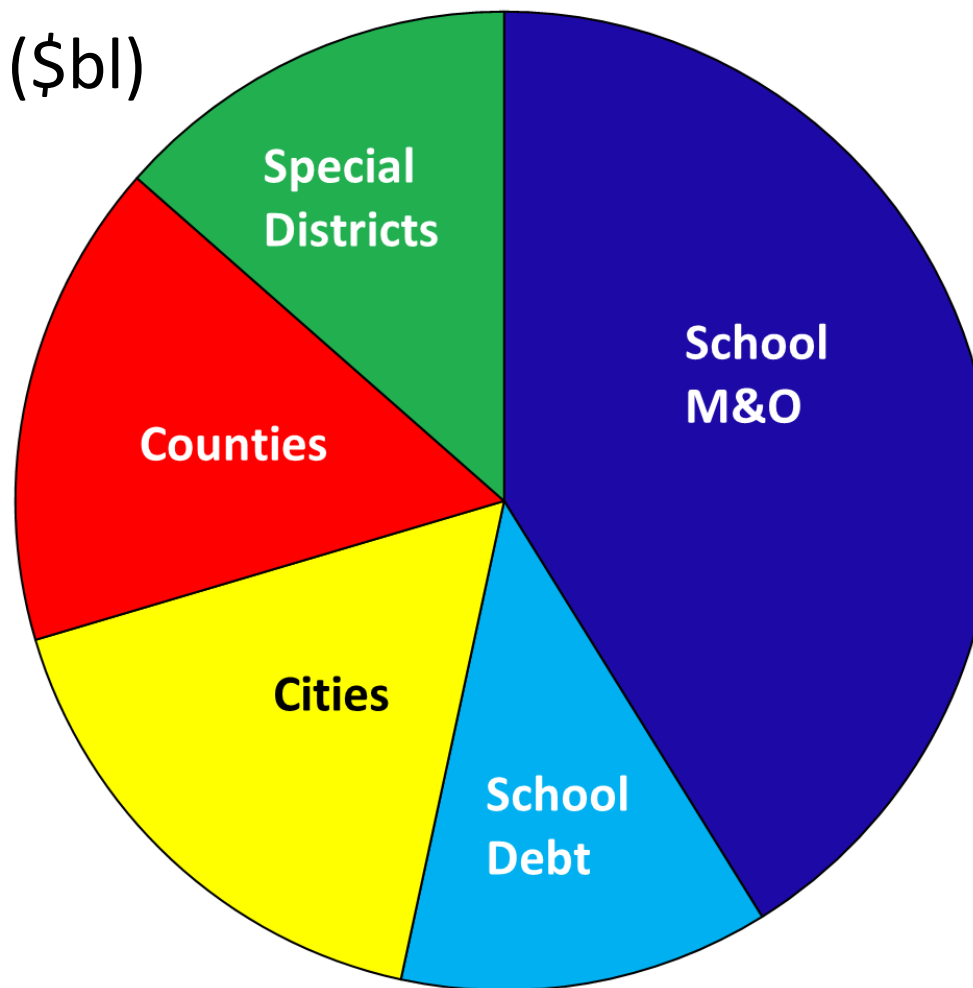


Tax Swaps

- Calls to ***“Eliminate the Property Tax”***
- Fiscal 2021 State Tax Collections (\$bl)

State Sales Tax	\$36.0
Motor Vehicle Tax	\$5.7
Franchise Tax	\$4.5
Motor Fuels Tax	\$3.6
Oil & Gas Production Tax	\$5.0
All Other Taxes	\$6.6

Total \$61.4



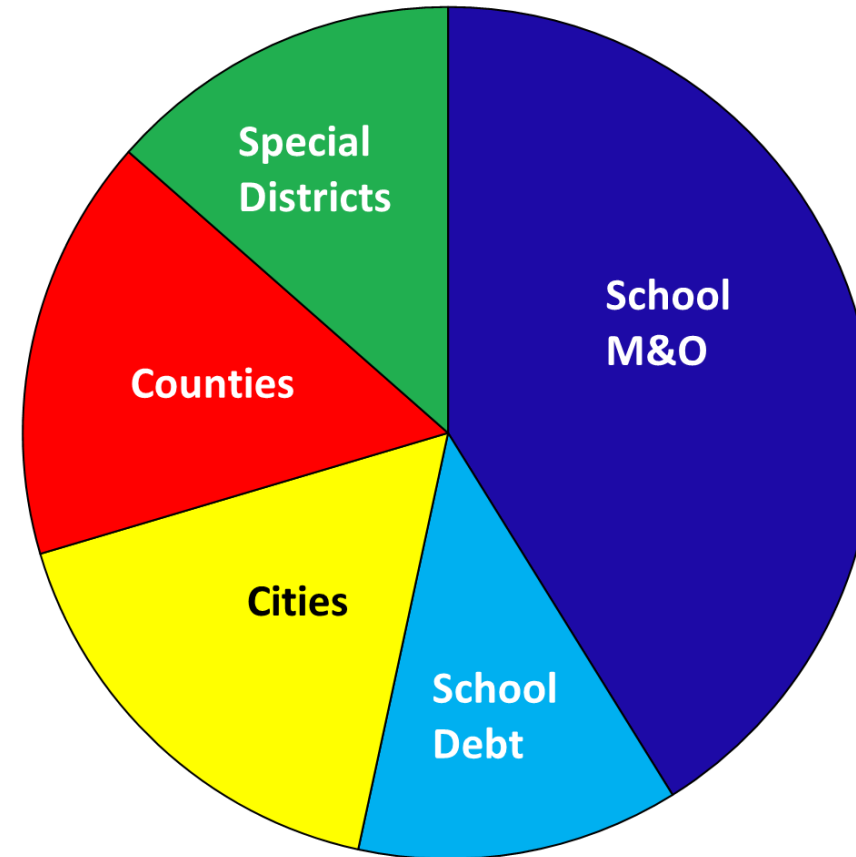
2021 Tax Levy (\$bl)

School M&O	\$30.1
School Debt	\$8.9
Cities	\$12.5
Counties	\$11.7
Spec Dists	<u>\$9.9</u>
Total	\$73.1

Tax Swaps - Value of Sales Tax Exemptions

Tax Exemptions and Tax Incidence (December 2020)

- Sales Tax Exemption Total 2022 Est. (\$bl)- \$33.9
- Consumer items - \$6 - 17.7%
 - Groceries - \$3.4
 - Residential utilities - \$1
 - Drugs - \$1.1
- Manufacturing - \$9.6 - 23.8%
 - Raw materials - \$7.9
 - Machinery & equipment - \$1
 - Manufacturing utilities - \$0.5
- Agricultural - \$0.5 - 1.5%
- Taxed by other law - \$15.8 - 46.6%
 - Insurance Premiums - \$7.8
 - Motor Vehicles - \$4.6
 - Motor Fuels - \$2.6
- Governments & Non-profits - \$0.5 - 1.5%
- Everything else - \$1.5 - 4.4%

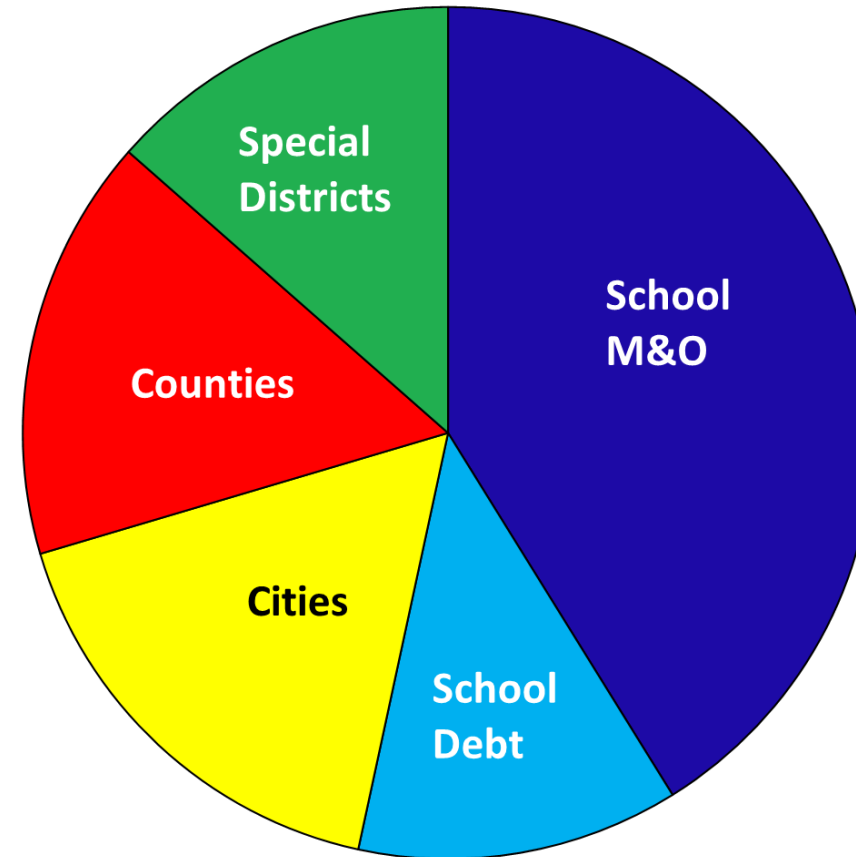


<u>2021 Tax Levy (\$bl)</u>	
School M&O	\$30.1
School Debt	\$8.9
Cities	\$12.5
Counties	\$11.7
Spec Dists	<u>\$9.9</u>
Total	\$73.1

Tax Swaps - Value of Service Exclusions from Sales Tax

Tax Exemptions and Tax Incidence (December 2020)

- **Service Exclusions Total 2022 Est. (\$bl)- \$10.8**
- **Construction Labor - \$0.8 - 7.8%**
 - New residential const. - \$0.2
 - New non-residential const. - \$0.5
 - Residential repair and remodeling - \$0.1
- **Personal Services - \$0.5 - 4.5%**
 - Child day care - \$0.2
 - Hair, nail, and skin care services - \$0.1
- **Professional Services - \$8.5 - 78.9%**
 - Physician services - \$1.4
 - Dental services - \$0.6
 - Legal services - \$0.6
 - Accounting & auditing services - \$0.4
- **Other Services - \$1 - 8.8%**
 - Automotive maintenance & repair - \$0.7



<u>2021 Tax Levy (\$bl)</u>	
School M&O	\$30.1
School Debt	\$8.9
Counties	\$12.5
Counties	\$11.7
Spec Dists	<u>\$9.9</u>
Total	\$73.1

Other Items of Concern



Property Tax: Court of Appeals Opinions

- ***Travis CAD v. Texas Disposal Systems Landfill Inc. (Case No. 03-20-00122-CV)***

3rd Court of Appeals, Austin, Opinion 2/18/22

- CAD may obtain market value information in its district court appeal of ARB ruling on property owner's equal and uniform valuation protest

- ***Iraan-Sheffield ISD v. Pecos CAD & Kinder Morgan Production Co. Case No. 08-20-00122-CV)***

8th Court of Appeals, El Paso, Opinion 4/08/22

Pecos CAD & Kinder Morgan Production Co. v. Iraan-Sheffield ISD (Case No. 22-0313)

Texas Supreme Court, Review Petition 4/22/22

- Court of Appeals approved contingent fee “tax ferret” contract with attorney to pursue tax on “omitted” property due to alleged undervaluation

- ***Falls CAD v. Wally and Voncyle Burns (Case No. 10-21-00119-CV)***

10th Court of Appeals, Waco, Opinion 3/23/22

- Chief appraiser's valuation methodology was beyond scope of statutory authority – *ultra vires*

Sales Tax: Origin vs. Destination Sourcing

- **Ways and Means Interim Charge:** Evaluate the impact of shifting to destination sourcing for local sales and use tax purposes, including the benefits of reduced taxpayer confusion. Monitor the implementation of the Comptroller's amendments to 34 Tx. Admin. Code §3.334, relating to local sales and use taxes, and the Comptroller's Sales Tax Rate Locator. Make recommendations for legislation to improve Texas' local sales and use tax sourcing. **Hearing on April 21st**
- Issues to consider:
 - Compliance costs with a shift
 - Phasing in of any potential implemented changes
 - Chapter 380 agreements

Research and Development

- Texas offers businesses a choice between claiming either a:
 - Sales tax exemption for equipment and supplies used in research and development
 - Franchise tax credit for expenditures for research and development
- R&D incentive is based on 2011 federal law
- In October 2021 Comptroller adopted amended rules to disregard certain post-2011 IRS regulations applying to the 2011 law
- Internal use software is a particular concern
- Ryan, LLC has filed suit in Travis County District Court arguing:
 - New rules conflict with statute (applicability of post-2011 federal regulations)
 - Texas' administrative definition of "Qualified Research" and Qualified Research Expenses" differ from that required in statute
 - Comptroller rules adopt a higher burden of proof on the taxpayer than applies under general rules
- Motion for summary judgment will be taken up July 2022

Franchise Tax Apportionment

- In January 2021, Comptroller adopted amendments to 34 TAC § 3.591 dealing with franchise tax apportionment (applied retroactively)
- Among other provisions, Comptroller attempted to reconcile differences between an old decision in *Westcott Communications* and a pending case with *SiriusXM* on the sourcing of certain services
- March 2022: Texas Supreme Court ruled in favor of the taxpayer in the *SiriusXM* case, holding that the services provided were broadcasting content and occurred outside Texas
- Comptroller is re-evaluating policy and rule in light of *SiriusXM* decision
- *SiriusXM* decision could result in some services now being source TO Texas that weren't previously
- CITGO Petroleum Company has appealed a decision to the Texas Supreme Court on whether its apportionment should include receipts from the sale of securities not held in inventory. Court has not yet decided to consider the case.

Thank you!

If you have any questions or comments, please feel free to contact TTARA staff.

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