
Testimony before the Senate Committee on Education

Optional Homestead Exemption

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Committee Charge

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.

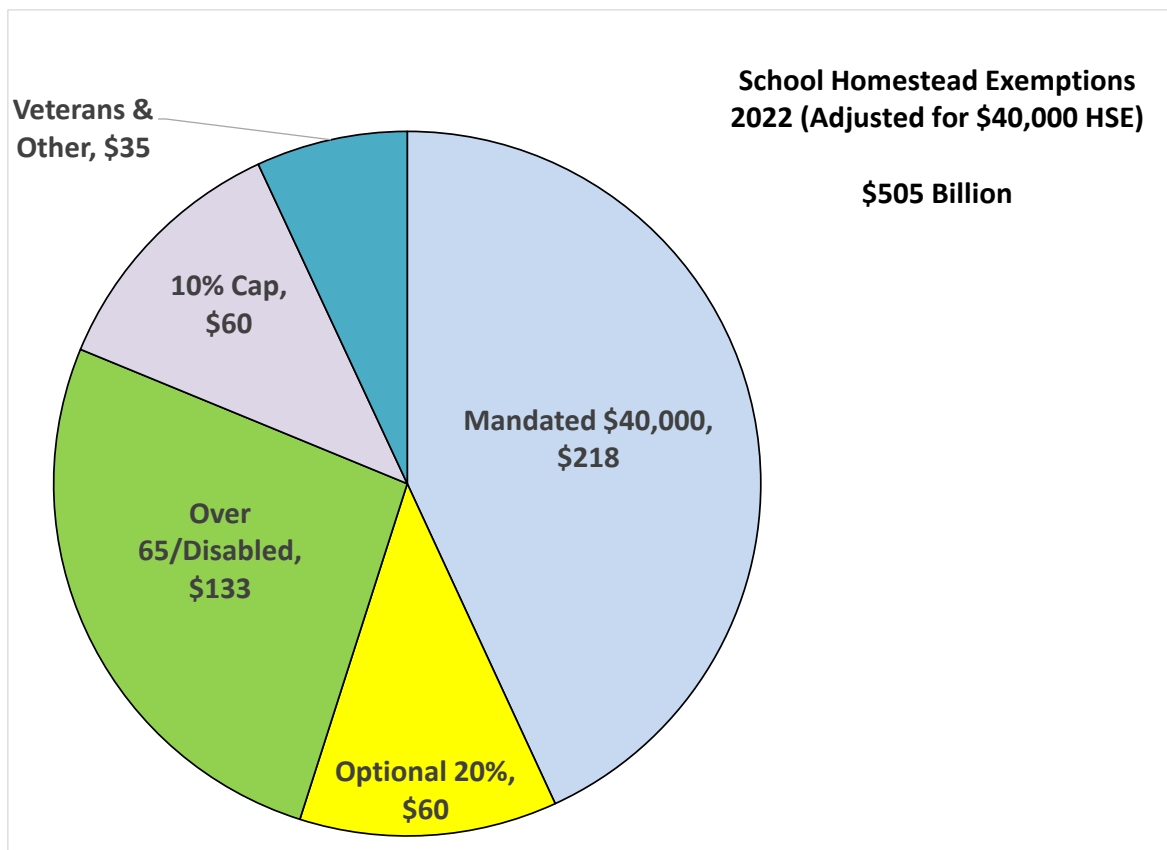
Current Homestead Exemptions from Property Tax

	School District	County	City	Special Districts
All Homeowners				
10% Appraisal Cap	The taxable value of a property, before other exemptions, may not increase in value by more than 10%, provided the owner was the same in the current and prior tax years - Tax Code §23.23			
Optional Homestead	Governing board may approve a percentage exemption up to 20% of the value of a property, but not less than \$5,000 - Tax Code §11.13(n)			
Mandatory Homestead	\$40,000 (effective 2022; \$25,000 in prior years) - Tax Code §11.13(b)	\$3,000 ¹ - Tax Code §11.13(a)		
Select Homeowners				
Mandatory 65 or Older or Disabled	\$10,000 - Tax Code §11.13(c)			
Mandatory Disabled Veterans²	Percentage exemption, determined by the percentage impairment of the disability – Tax Code §11.22 and Tax Code §11.132 (for homes donated by a charitable organization). Totally disabled veterans receive a 100% exemption – Tax Code §11.131.			
Optional 65 or Older or Disabled	Amount set by taxing unit, but not less than \$3,000 - Tax Code §11.13(d) and §11.13(e). Exemption may transfer to surviving spouse - Tax Code §11.13(q)			
Over 65 and/or Disabled	School property taxes in a given year may not exceed the amount levied on that property when the owner turned 65 or became disabled - Tax Code §11.26.			
Surviving Spouse of US Armed Services Member Killed in Action	100% of value – Tax Code §11.113.			
Surviving Spouse of a First Responder Killed or Fatally Injured in Line of Duty	100% of value – Tax Code §11.134			

¹ Applies to Farm to Market Road Tax only.

² A separate statute (Tax Code 11.132) provides the same exemption for homes donated to disabled veterans by a charitable organization. Tax Code 11.131 provides a 100% exemption to those with a 100% disability.

Value of School Homestead Exemptions



Note: Amounts are in billions of dollars for 2021 tax year, adjusted to include the basic homestead exemption at \$40,000.

School homestead exemptions total \$505 billion (adjusted for the new \$40,000 homestead exemption approved by voters in May 2022).

With the increase to \$40,000, the basic homestead exemption accounts for 43% of the value of all homeowner school property tax exemptions.

The next largest category of exemption available to homeowners are the mandatory and local option over 65/disabled exemptions.

The 10% appraisal cap exempted \$60 billion in homeowner value from the tax rolls in 2021; however, that figure is likely to be much higher in 2022.

Roughly one in four of all Texas school districts offer an optional percentage exemption of up to 20%, removing \$60 billion from Texas tax rolls in those districts. "Property-wealthy" districts are more likely to offer this exemption. If all districts offered a full 20% exemption, including for homeowners over 65 years of age, the tax base loss could exceed \$325 billion with a revenue loss near \$4 billion.

Statutory Provisions on the Optional Homestead Exemption

Tax Code §11.13 (n) In addition to any other exemptions provided by this section, an individual is entitled to an exemption from taxation by a taxing unit of a percentage of the appraised value of his residence homestead if the exemption is adopted by the governing body of the taxing unit before July 1 in the manner provided by law for official action by the body. If the percentage set by the taxing unit produces an exemption in a tax year of less than \$5,000 when applied to a particular residence homestead, the individual is entitled to an exemption of \$5,000 of the appraised value. The percentage adopted by the taxing unit may not exceed 20 percent.

Government Code §403.302 (d) For the purposes of this section, "taxable value" means the market value of all taxable property less:

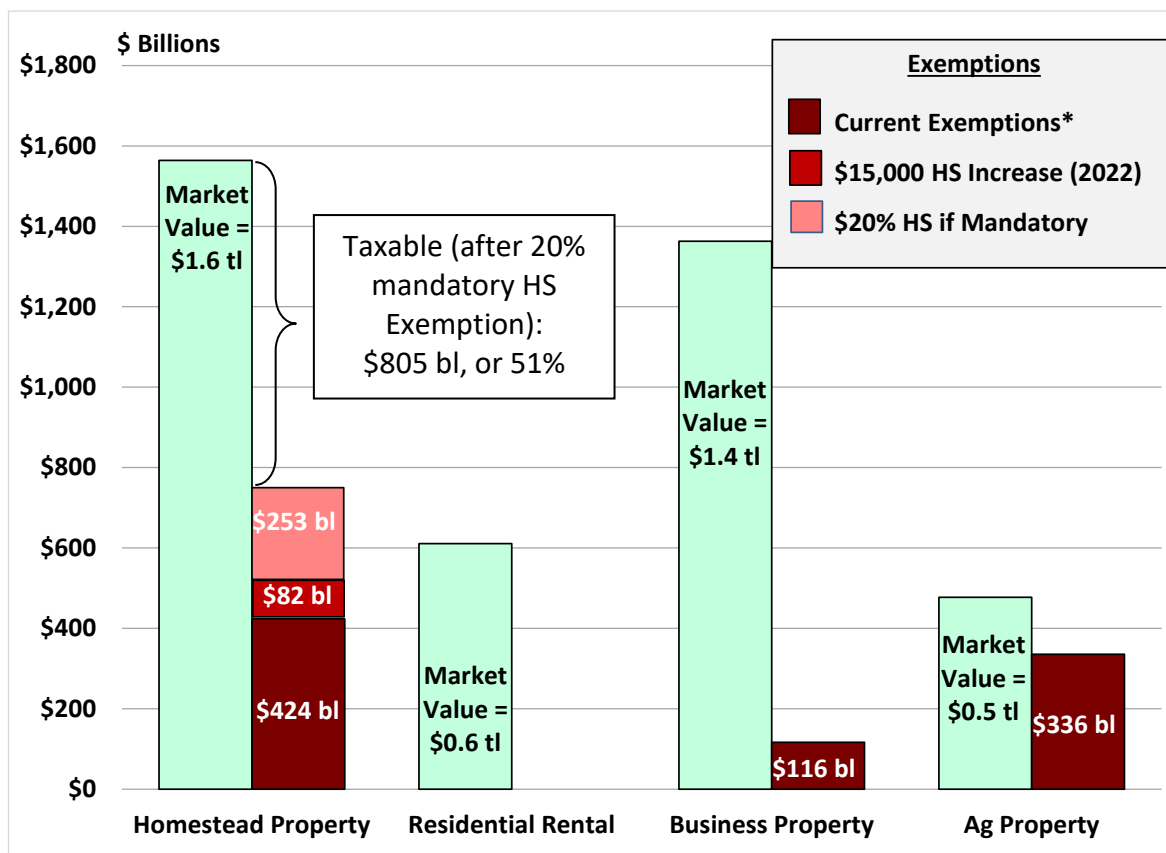
- 1) the total dollar amount of any residence homestead exemptions lawfully granted under Section [11.13](#)(b) or (c), Tax Code, in the year that is the subject of the study for each school district;
- 2) one-half of the total dollar amount of any residence homestead exemptions granted under Section [11.13](#)(n), Tax Code, in the year that is the subject of the study for each school district;

Education Code §Sec. 48.259. ADJUSTMENT FOR OPTIONAL HOMESTEAD EXEMPTION. (a) In any school year, the commissioner may not provide funding under this chapter or Chapter [46](#) based on a school district's taxable value of property computed in accordance with Section [403.302](#)(d)(2), Government Code, unless:

- 1) funds are specifically appropriated for purposes of this section; or
- 2) the commissioner determines that the total amount of state funds appropriated for purposes of the Foundation School Program for the school year exceeds the amount of state funds distributed to school districts in accordance with Section [48.266](#) based on the taxable values of property in school districts computed in accordance with Section [403.302](#)(d), Government Code, without any deduction for residence homestead exemptions granted under Section [11.13](#)(n), Tax Code.

(b) – (e) *additional sections on procedure.*

School Taxable Market Value and Exemptions by Type of Property



Data is from 2021 Tax Year as compiled by the Texas Comptroller. The split between residential homestead and rental is estimated by TTARA, as is the amount of the \$15,000 increase in the homestead exemption and the additional value that would be exempt by mandating the 20% homestead exemption.

With the new \$40,000 exemption, 32% of the value of homestead property is now exempted from school property tax. Mandating a 20% exemption would bring the total exemptions of homestead property to 49% of market value. By comparison, rental property enjoys no significant school tax exemption. Business property exemptions removed 9% of value (mostly

Chapter 313 and Freeport). Agricultural land is valued and taxed based on its productive value – generally about 5% of market value (the above chart adds improvements)

Exemptions as Percent of Market Value

Homestead (current @ 25k)	27 %
Homestead (@ 40k)	32 %
Homestead (20% mandatory)	49 %
Residential Rental	0 %
Business	9 %
Agricultural (includes impvts)	70 %