



What's New at the Texas Taxpayers and Research Association

September 19, 2023

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Texas Taxpayers and Research Association
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Today's Agenda

- Changes at TTARA
- Brief State Tax Update on Key Topics
- The Saga of Property Tax Relief
- Constitutional Amendments
- Jobs, Energy, Technology & Innovation (JETI) Act

John Kennedy

1942-2023

- Joined TTARA over 52 years ago as staff to one of TTARA's predecessor organizations, the Texas Research League
- He was one of the state's foremost experts on property tax
- Led TTARA's work on sales and excise taxes and state tax administration.
- *Our respected colleague remembered for his deep knowledge and colorful wit*



Dale Craymer

Retired

- 25 years with TTARA, 14 as president
- *“I am honored to have been able to lead the best state tax policy shop in the nation, but after 40 years in the policy arena it is time I move on to leisure and other pursuits.”*



Jennifer Rabb

President

- New President of TTARA.
- Fellow at the Baker Institute for Public Policy
- Previously served as tax policy advisor to the Lt. Governor of Texas, clerk of the Texas House Ways and Means Committee, and tax policy director for the Texas Comptroller of Public Accounts.
- Holds a J.D. from The University of Texas School of Law and an LL.M. in Taxation from Southern Methodist University's Dedman School of Law.
- As an attorney in private practice, she represented taxpayers on state and local tax matters for more than 15 years.





Recent Staff Additions

- Alexandra Bello
 - Director of Operations
 - Handles finance and operations for TTARA
 - Served as Research Manager at Rice University's Baker Institute for Public Policy
- Helen Brantley
 - Law Clerk, State Tax & Property Tax
 - Conducts legal research on both state tax and property tax issues
 - Previously clerked at a Colorado law firm and at Rice University's Baker Institute for Public Policy





Existing TTARA Staff

- Sheryl Pace, Senior Analyst, School Finance
- Carl Walker, Senior Analyst, Property Tax
- Ryan Ash, Communications Director
- Angela Dowell, Director Membership & Marketing

State Tax

Franchise Tax

SB 3 (88th-2nd C.S.): Small business tax reduction

- Increases the no-tax-due threshold for franchise tax from \$1 million to \$2.47 million in total revenue (indexed for inflation).
- Eliminates the annual filing requirement for taxable entities that owe no franchise tax.
- Applies for a report originally due on or after January 1, 2024.

State Tax Administration/Comptroller Bills

HB 2691 (88R) allows the comptroller to issue a payment to a person indebted to the state. Effective 9/1/2023.

Bills that Failed

HB 5089 (88R): Uniform destination-sourcing for local sales tax.

- Existing economic development agreements
 - Comptroller, City of Round Rock and Dell
 - What is a location of a seller?
- Issues with the bill
 - Shift local revenue
 - Transition time for sellers
 - Additional compliance burden
 - Delivery services (groceries, pizza, Uber Eats)
 - Small businesses

Bills that Failed

HB 5070 (88R): Exclude the services of a marketplace seller from the definition of data processing

- Aggressive position by the state
 - Superseded 2012 STAR letter
 - Audits
- Mixed response from marketplace providers
- Litigation likely over Comptroller's authority to change policy
- Big picture: 1987 definitions and 2023 technology

The Saga of Property Tax Relief



Property Tax Relief, 88th Regular Session

Senate:

- SB 3 - ISD Homestead Exemption Increase
 - Over-65 or Disabled Increase
- SB 4 - ISD M&O Rate Compression - \$0.07
 - Expansion of the Equity Band - 20%
- SB 5 - Tangible Personal Property Exemption & Inventory Franchise Tax Credit

House:

- HB 2 - 5% Value Cap
 - ISD M&O Rate Compression - \$0.15
- House CSSB 3 - 5% Value Cap
 - ISD M&O Rate Compression - \$0.15
 - ISD Homestead Exemption
 - No Over-65 or Disabled Incr.

Conference:

- Go Straight to Special Session and do not Pass Go!



Key Bills Caught up in the Saga

Key Debt Related Bills

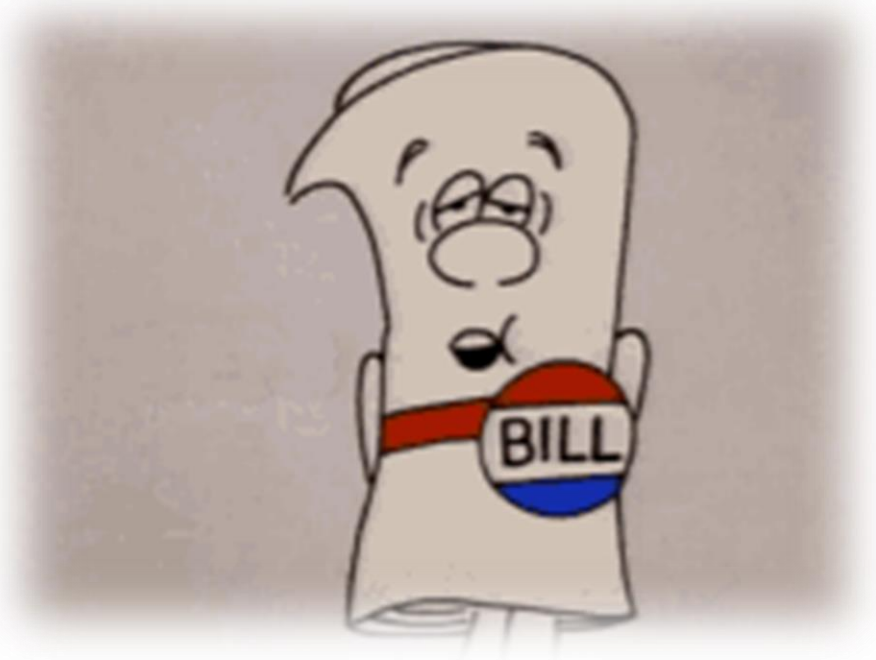
- **SB 1252 by Bettencourt** - *Relating to the text of ballot propositions that increase taxes.*
 - Pronounced dead by procedural action in House – 05/22/23
- **SB 1814 by Bettencourt** - *Relating to the definition of current debt service for the purpose of calculating the current debt rate of a taxing unit for ad valorem tax purposes.*
 - Reported from House Ways & Means – 05/22/23



Key Bills Caught up in the Saga

Key Debt Related Bills

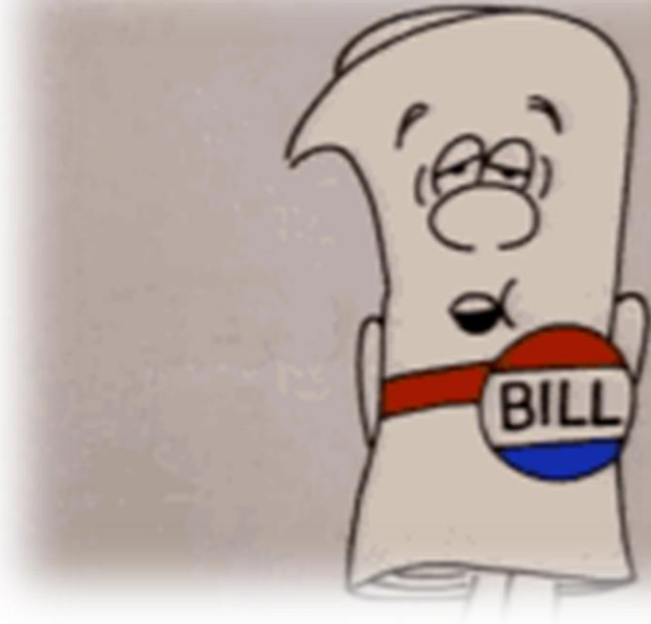
- **SB 2035 by Bettencourt** - *Relating to the issuance of anticipation notes and certificates of obligation.*
 - Vetoed by the Governor – 06/13/23
 - “Senate Bill 2035 has too many loopholes. This bill can be reconsidered at a future special session only after property tax relief is passed.”



Key Bills Caught up in the Saga

Key Truth in Taxation Bill

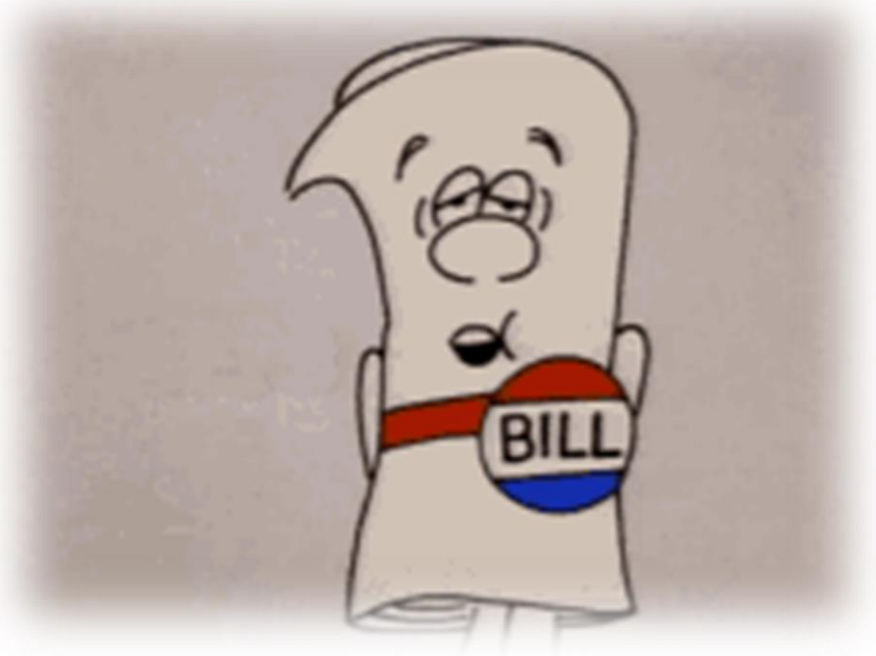
- **SB 1998 by Bettencourt** - *Relating to the calculation of certain ad valorem tax rates.*
 - TNT Hyperlinks
 - Vetoed by the Governor – 06/15/23
 - “Senate Bill No. 1998 requires data reporting on property taxes, but does nothing to cut property taxes. This bill can be reconsidered at a future special session only after property tax relief is passed.”



Key Bills Caught up in the Saga

Key Appraisal Review Board Bills

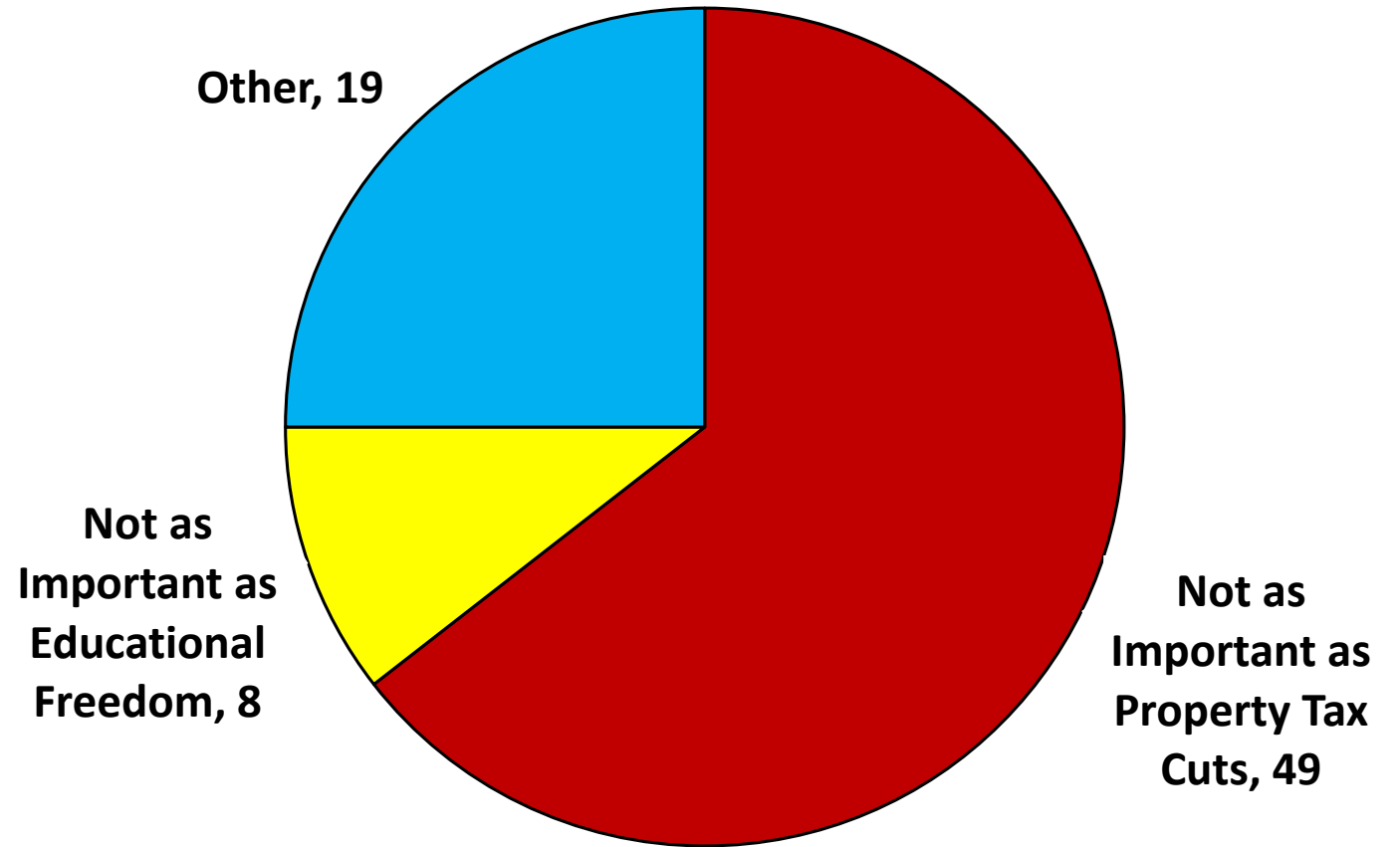
- **SB 361 by Eckhardt** - *Relating to the eligibility of a person employed by a school district as a teacher to serve on the appraisal review board of an appraisal district.*
 - *Vetoed by the Governor – 06/16/23*
 - *“While Senate Bill No. 361 is important, it simply **not as important as cutting property taxes.** At this time, the legislature must concentrate on delivering tax cuts to Texans. This bill can be reconsidered at a future special session **only after property tax relief is passed.**”*



Governor Abbott's Vetoes of the 88th

VETO!

76 Total Vetoes



1st Called Session – Governor Proclamation

- *Legislation to cut property-tax rates solely by reducing the school district compressed tax rate in order to provide lasting property-tax relief for Texas Taxpayers.*



PROCLAMATION BY THE Governor of the State of Texas

TO ALL TO WHOM THESE PRESENTS SHALL COME:

I, GREG ABBOTT, Governor of the State of Texas, by the authority vested in me by Article III, Sections 5 and 40, and Article IV, Section 8 of the Texas Constitution, do hereby call extraordinary session #1 of the 88th Legislature, to convene in the City of Austin, commencing at 9:00 P.M. on Monday, May 29, 2023, for the following purposes:

To consider and act upon the following:


Legislation to cut property-tax rates solely by reducing the school district maximum compressed tax rate in order to provide lasting property-tax relief for Texas taxpayers.

Legislation solely for the purpose of increasing or enhancing the penalties for certain criminal conduct involving the smuggling of persons or the operation of a stash house.

The Secretary of State will take notice of this action and will notify the members of the legislature of my action.



IN TESTIMONY WHEREOF, I have hereunto signed my name and have officially caused the Seal of State to be affixed at my office in the City of Austin, Texas, this the 29th day of May, 2023.


GREG ABBOTT
Governor

Attested by:


JANE NELSON
Secretary of State

2nd Called Session – Governor Proclamation

- *Legislation to cut property-tax rates solely by reducing the school district compressed tax rate in order to provide lasting property-tax relief for Texas Taxpayers.*
- *Legislation to put Texas on a pathway to eliminating school district maintenance and operations property taxes.*



PROCLAMATION BY THE Governor of the State of Texas

TO ALL TO WHOM THESE PRESENTS SHALL COME:

I, GREG ABBOTT, Governor of the State of Texas, by the authority vested in me by Article III, Sections 5 and 40, and Article IV, Section 8 of the Texas Constitution, do hereby call extraordinary session #2 of the 88th Legislature, to convene in the City of Austin, commencing at 3 p.m. on Tuesday, June 27, 2023, for the following purposes:

To consider and act upon the following:

Legislation to cut property-tax rates solely by reducing the school district maximum compressed tax rate in order to provide lasting property-tax relief for Texas taxpayers.

Legislation to put Texas on a pathway to eliminating school district maintenance and operations property taxes.

The Secretary of State will take notice of this action and will notify the members of the legislature of my action.



IN TESTIMONY WHEREOF, I have hereunto signed my name and have officially caused the Seal of State to be affixed at my office in the City of Austin, Texas, this the 27th day of June, 2023.


GREG ABBOTT
Governor

Attested by:


JANE NELSON
Secretary of State

Property Tax Relief Package – SB2

Four Key Elements

Compress
ISD M&O tax rate
\$0.107 cents

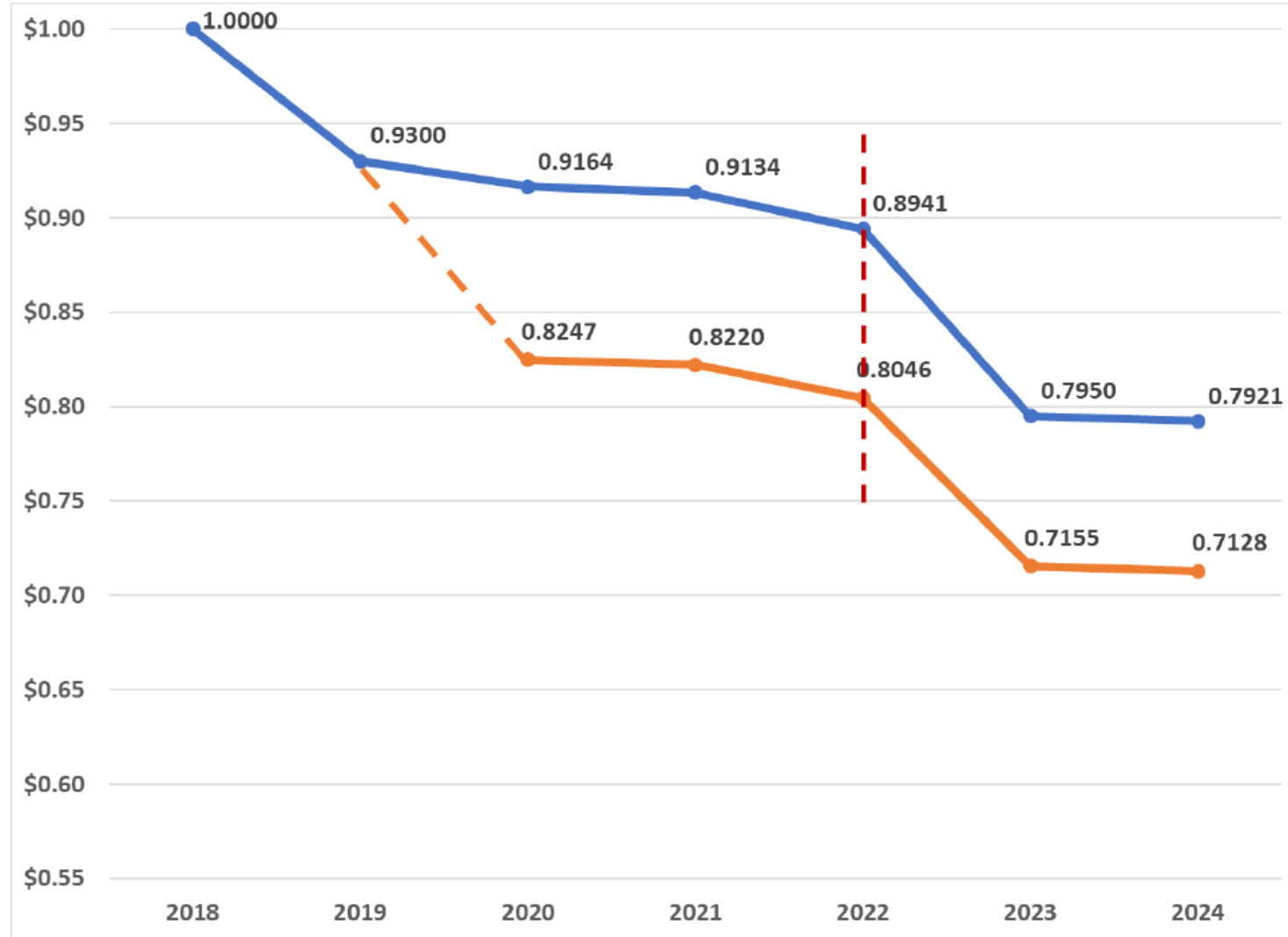
Increase ISD
Homestead
Exemption from
\$40k to \$100K

Creates 3-year
“Circuit Breaker”
(Appraisal Cap) Pilot
Program

Expands Appraisal
District Board of
Directors from 6 to
9 members

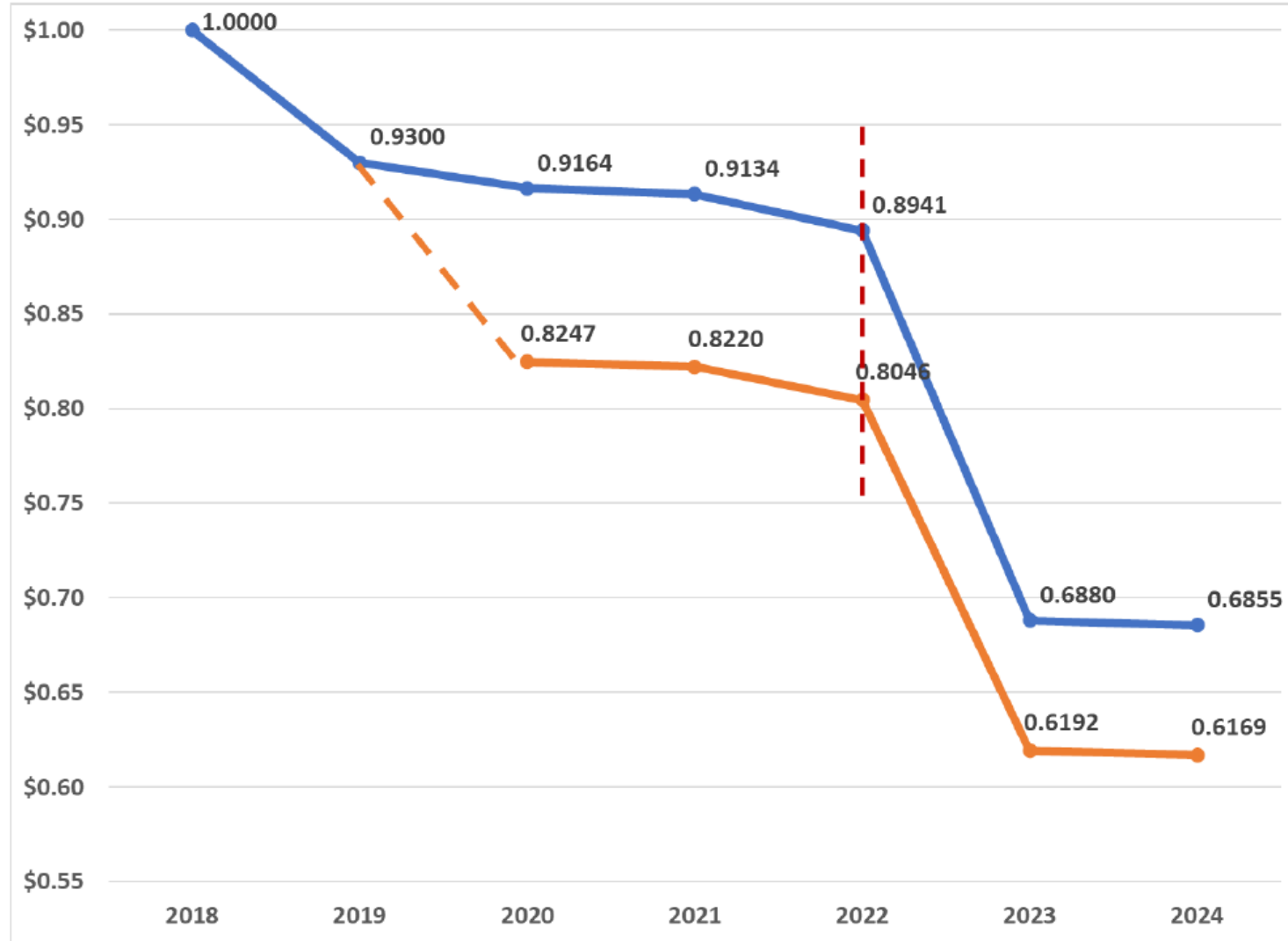
School District M&O Tax Rate Compression

Maximum Compressed Rate (MCR) Under Current Law



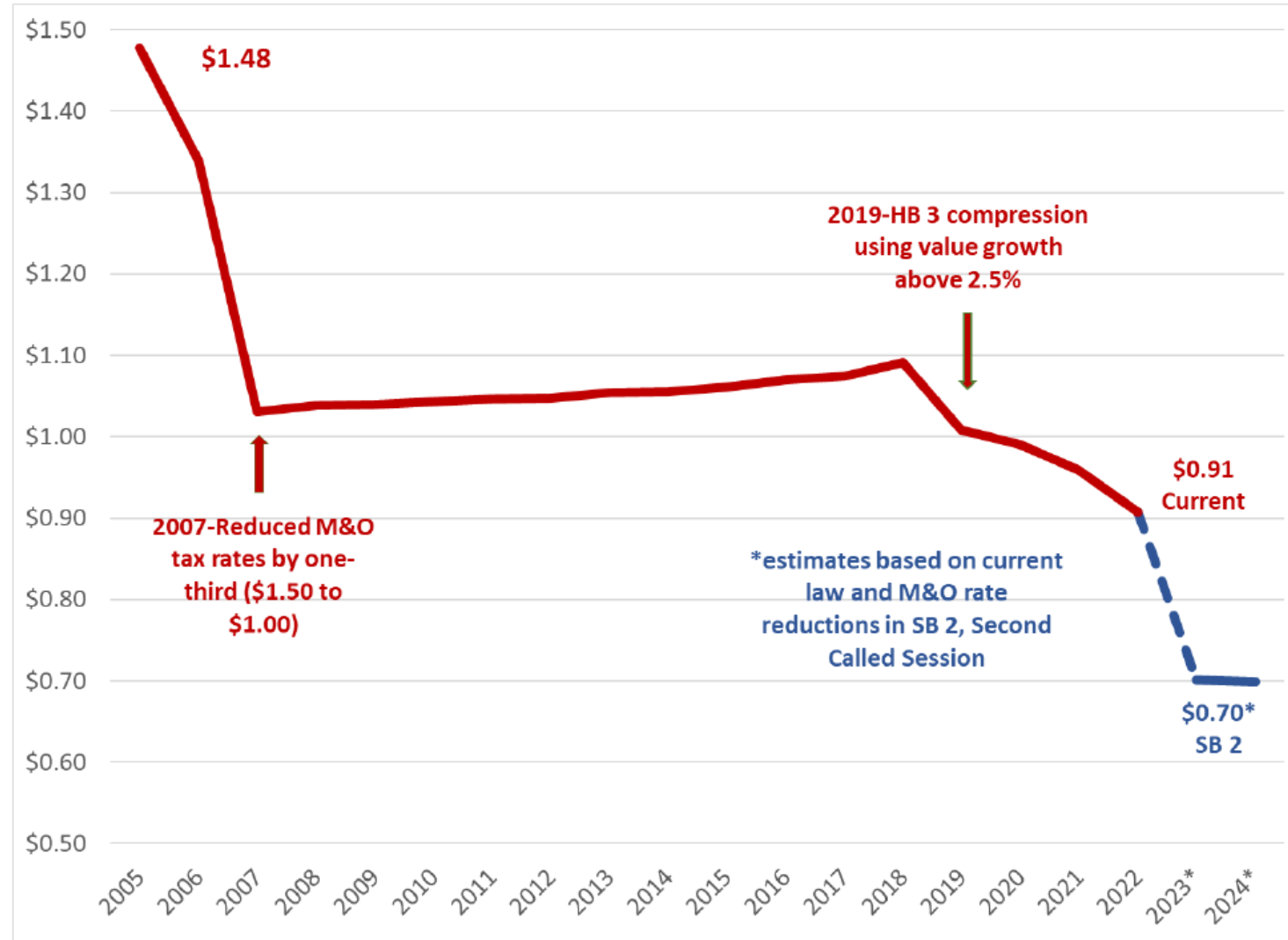
School District M&O Tax Rate Compression

Maximum Compressed Rate (MCR) Under SB 2



School District M&O Tax Rate Compression

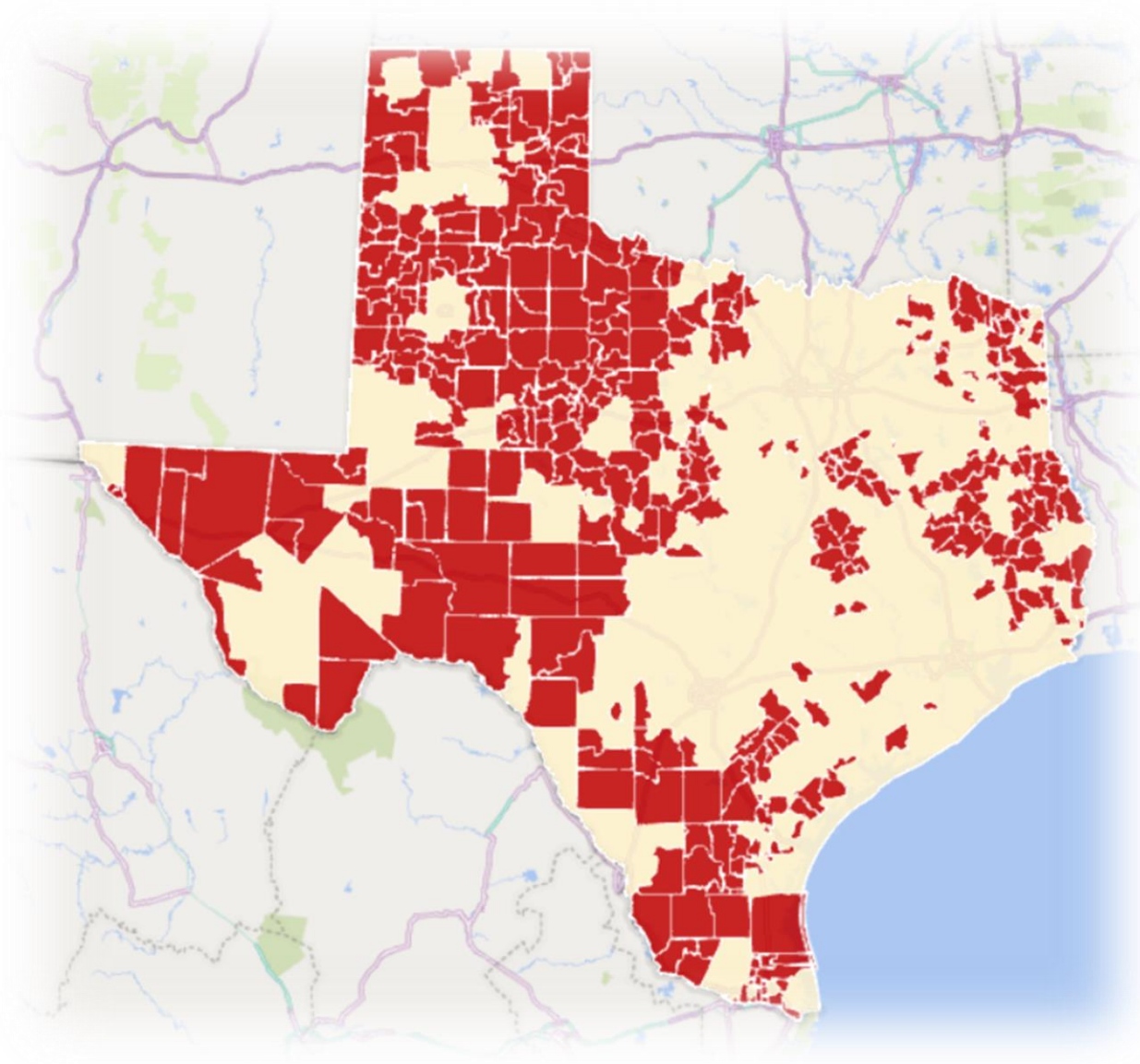
Average School M&O Tax Rate 2005 - 2024



Homestead Exemption In Perspective

	Homestead Exemption	Median Home Price	Exemption as % of Median Home Price
1978	\$5,000	\$47,989	10.4%
1997	\$15,000	\$85,706	17.5%
2015	\$25,000	\$177,500	14.1%
2021	\$40,000	\$262,000	15.3%
2023	\$100,000	\$319,000	31.3%

Homestead Exemption In Perspective



Raises homestead exemption from \$40k to \$100k



1,014 School Districts in Texas.



397 ISDs have average home value less than \$100,000.



Those ISDs are mostly rural.

Tax Relief Package In Perspective

Incidence of School Property Tax after Tax Relief

	Total Tax Burden		Business Share		Consumer Share	
		%		%		%
FY25 School Property Tax	\$48.33	100.0%	\$25.11	52.0%	\$23.22	48.0%

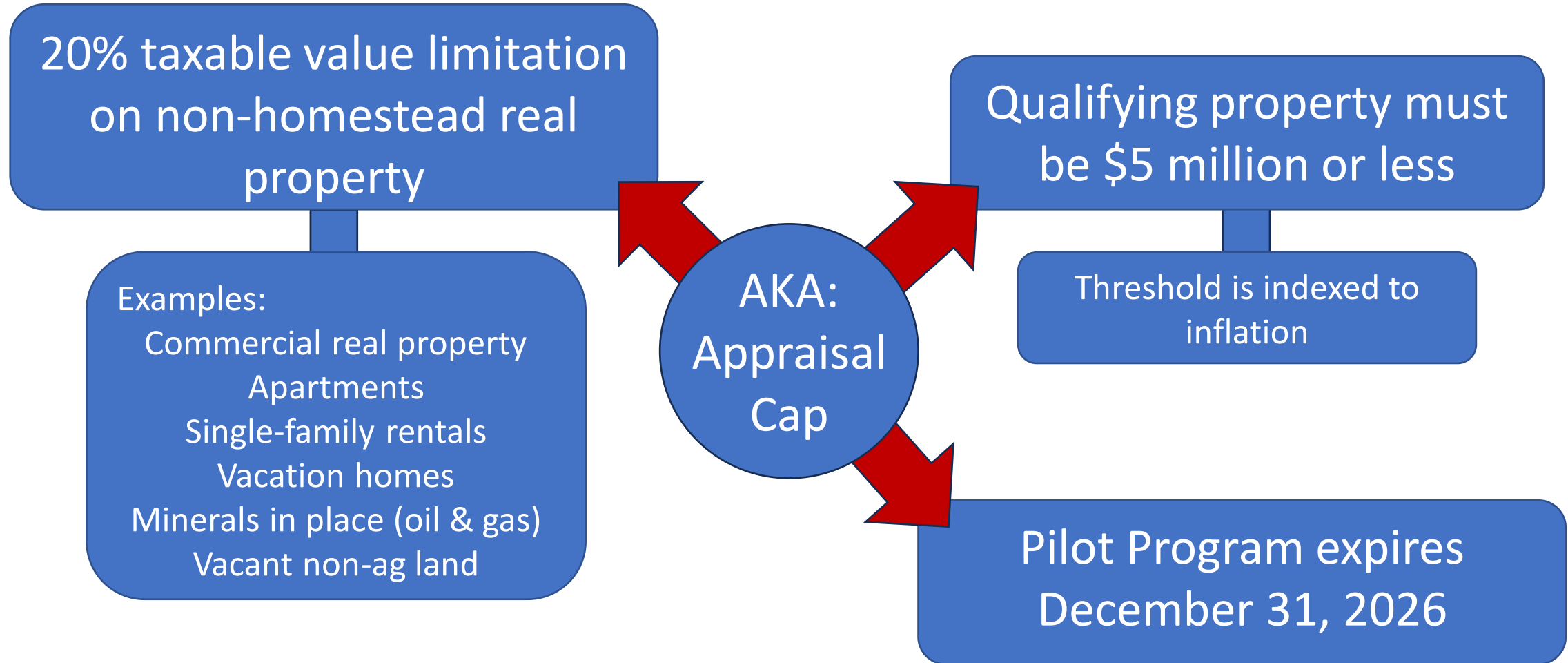
Source: Texas Comptroller of Public Accounts, Tax Exemptions and Tax Incidence (February 2023), p. 71, Table 33.

Tax Relief Package In Perspective

Incidence of School Property Tax after Tax Relief

	Total Tax Burden	%	Business Share	%	Consumer Share	%
FY25 School Property Tax	\$48.33	100.0%	\$25.11	52.0%	\$23.22	48.0%
Rate Compression (10.7 cents)	-\$3.70	100.0%	-\$1.92	51.9%	-\$1.78	48.1%
Homestead Exemption (\$100,000)	-\$2.65	100.0%	\$0.00	0.0%	-\$2.65	100.0%
Proposed FY25 Tax	\$41.98	100.0%	\$23.19	55.2%	\$18.79	44.8%

3-Year “Circuit Breaker” Pilot Program



3-Year “Circuit Breaker” Pilot Program

Shifting of taxes through
higher tax rates

What is a New
Improvement?

Negates the massive
reforms of 2019
SB 2 and HB 3

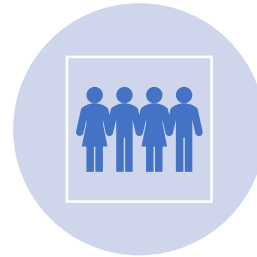
Appraisal Cap Issues

Real vs. Tangible
Personal Property within
a unit appraisal

Sale of Business
vs.
Sale of Property

Subdividing
property

Appraisal District Board of Directors Expansion



Expands appraisal district board of directors from 6 to 9 in populous counties (Pop: 75,000 or more)



Three new directors are elected at the general election.



Newly expanded board will appoint the appraisal review board.

Appraisal District Board of Directors Expansion



Questions & Concerns:

1. What to do with CAD boards that are already greater than 5 members?
 - i. What is the process to remove “excess” members?
2. Who makes the January 1, 2024 ARB appointments since elections are not until May?
3. Law dictates 2 of the 3 elected members must be in the majority when appointing ARB members.
 - i. Result could be 7 of the 9 vote in favor but if the two voting against the ARB member are newly elected directors the vote fails.
 - ii. Creates two classes of ARB members across the State.
4. Qualifications for potential candidates?
5. Is the tax assessor-collector now a voting member of the BOD?
 - i. Removal on non-voting language from statute.
6. Election Cost of newly elected BOD positions.
 - i. CAD budgets for 2024 have already been adopted.
 - ii. May require budget amendments with ISD’s bearing to most cost.

Key Appraisal Review Board Bill, 88th Regular Session

- **HB 796 by Button** - Requires a chief appraiser to create and maintain a public database of appraisal review board (ARB) protest hearings:
 - ARB members who attended
 - Date and time of hearing
 - Account number and category of property
 - Appraised value according to appraisal district
 - Appraised value asserted by property owner
 - Appraised value determined by ARB
- “What gets measured gets fixed.”



Constitutional Amendments on the November 7 Ballot

Constitutional Amendments on November 7 Ballot



Property Tax Relief Package

Exempt state spending for school property tax relief from state spending limit

Increase homestead exemption to \$100,000

20% appraisal cap pilot project

4-year term limit for members of an appraisal district's board of directors in counties with population of 75,000 or more



Fund-Related Topics on The Ballot:

Teacher Retirement System Benefit Enhancements

Broadband Infrastructure Fund

Creation of the Centennial Parks Conservation Fund

Creation of the Texas Water Fund

Creation of the Texas Energy Fund

Renaming the Texas University Fund and Providing Appropriations of Investment Income



Other Tax-Related Topics on The Ballot:

Prohibition of Individual Net Worth Tax

Exemption of Ad Valorem Taxes for Child-Care Facilities

Exemption of Ad Valorem Taxes for Tangible Personal Property of Manufactures of Medical and Biomedical Products

Allowance of Bond Issuance for Conservation & Reclamation Districts in El Paso County



Misc. Topics on The Ballot:

Increase Mandatory Retirement Age of State Justices and Judges

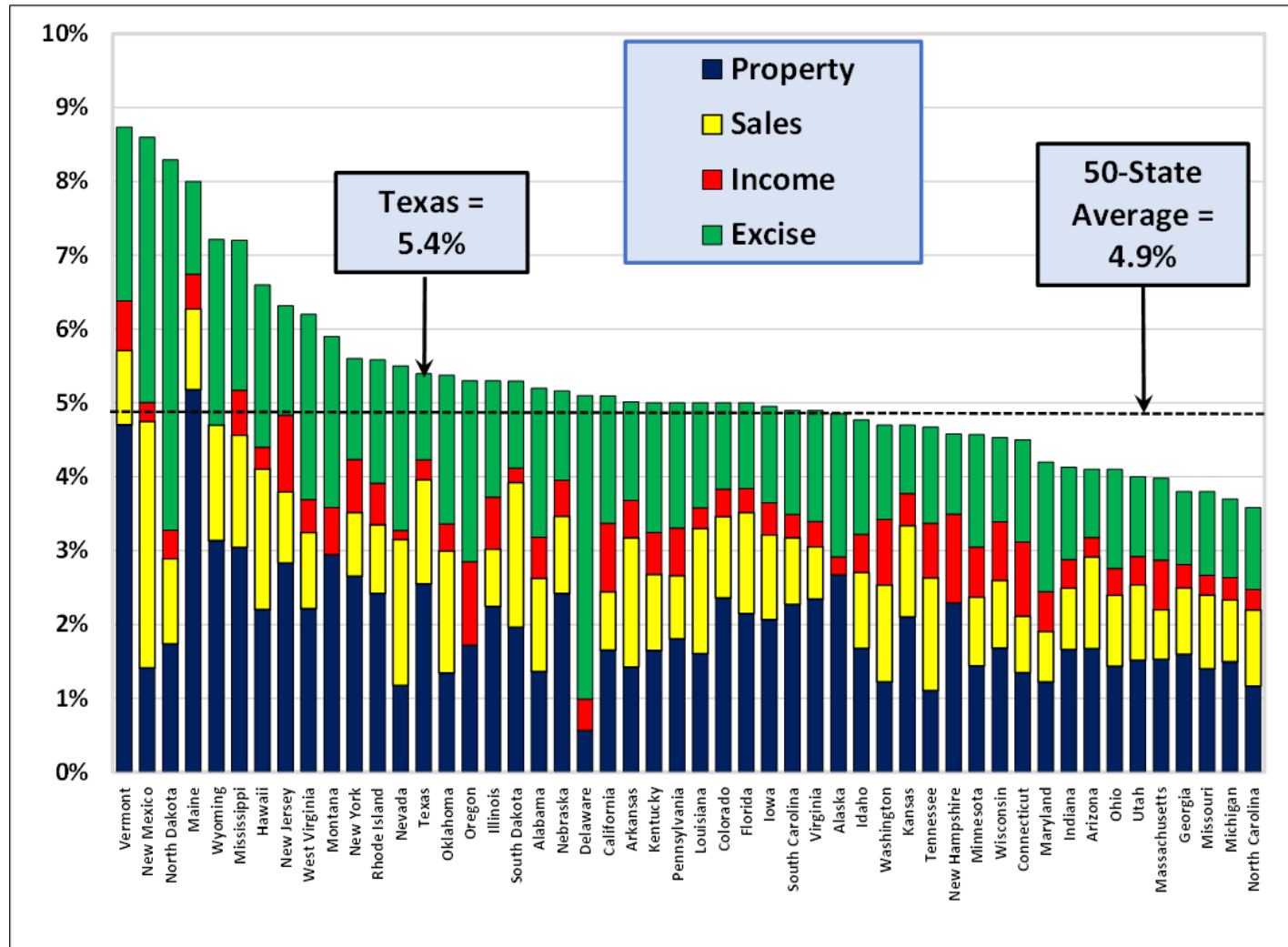
Protection of Farming, Ranching, Timber Production, and Wildlife Management

Abolish the office of County Treasurer of Galveston County

Texas Jobs, Energy, Technology and Innovation(JETI) Act HB 5 [88(R)]

State & Local Taxes On Business

Taxes Paid as a Percentage of Economic Output



Chapter 313 Expired

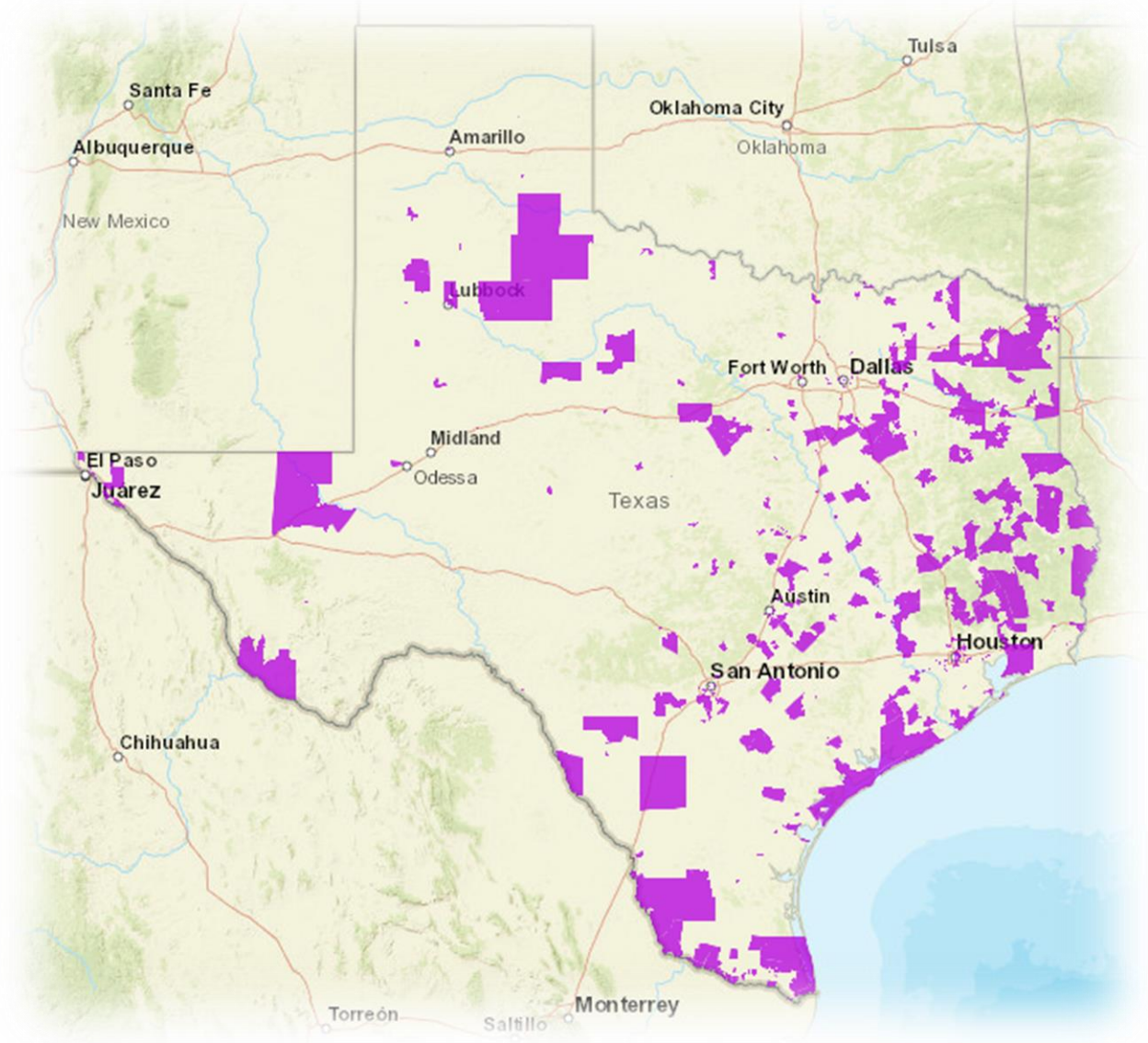
- Chapter 313 of the Tax Code allowed school districts to offer temporary property tax discounts.
- Took effect January 1, 2002.
- Expired 12/31/2022.
 - Approx. 100 applications remained pending upon expiration.
 - Texas Supreme Court refused mandamus relief to force processing of pending applications.



Program Benefits

- Taxable value of improvements and TPP other than inventory:
 - 50% of market value
 - 25% of market value if in a Qualified Opportunity Zone*
- 100% exemption for Construction Work in Progress (CWIP)

* Qualified Opportunity Zones were created by the federal Tax Cuts and Jobs Act of 2017. See www.irs.gov/credits-deductions/businesses/opportunity-zones.



Four Phases of the JETI Program (HB 5 - 88(R))

- Qualifying Phase
- Application Phase
- Agreement Phase
- Reporting Phase

Qualifying Phase

Qualifying
Projects

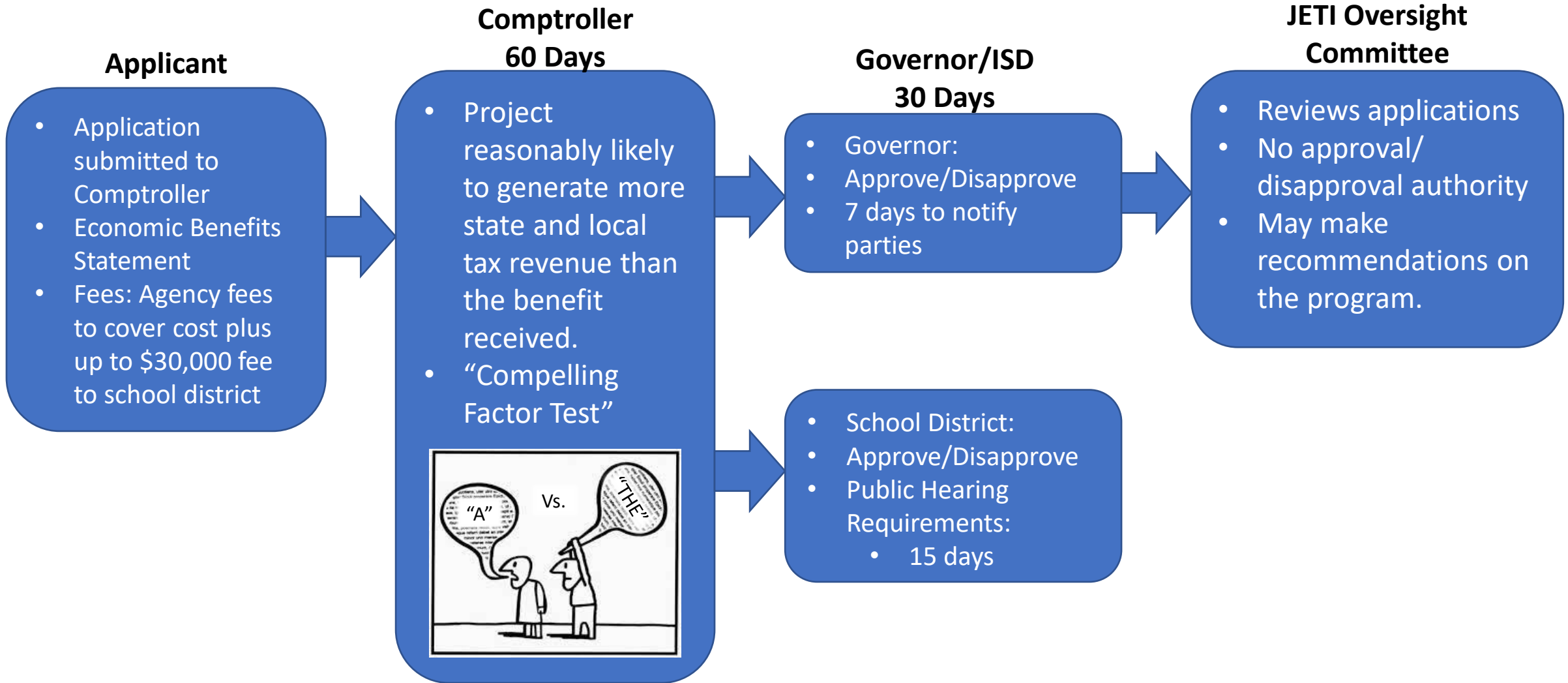
Prohibited
Companies

Population
Brackets

Required
Investment

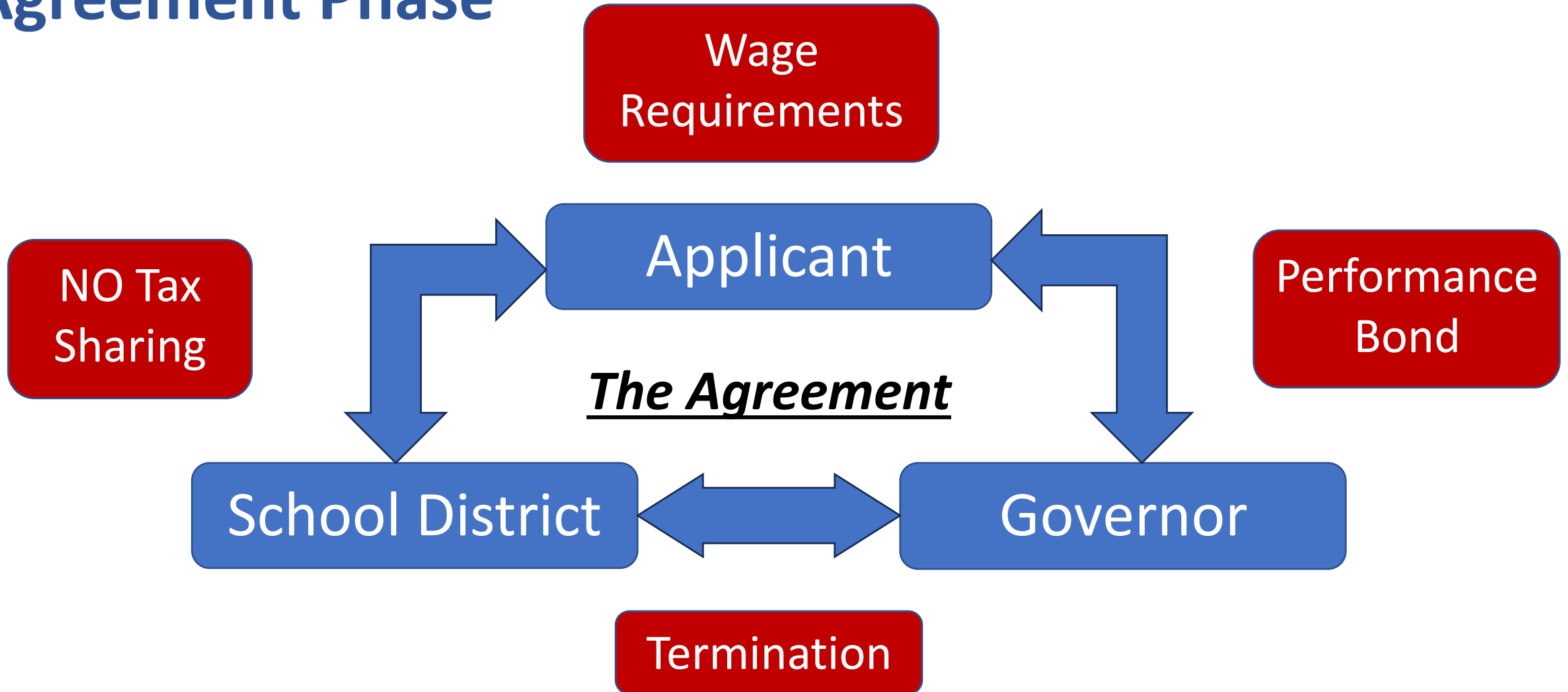
Required
Jobs

Application Phase



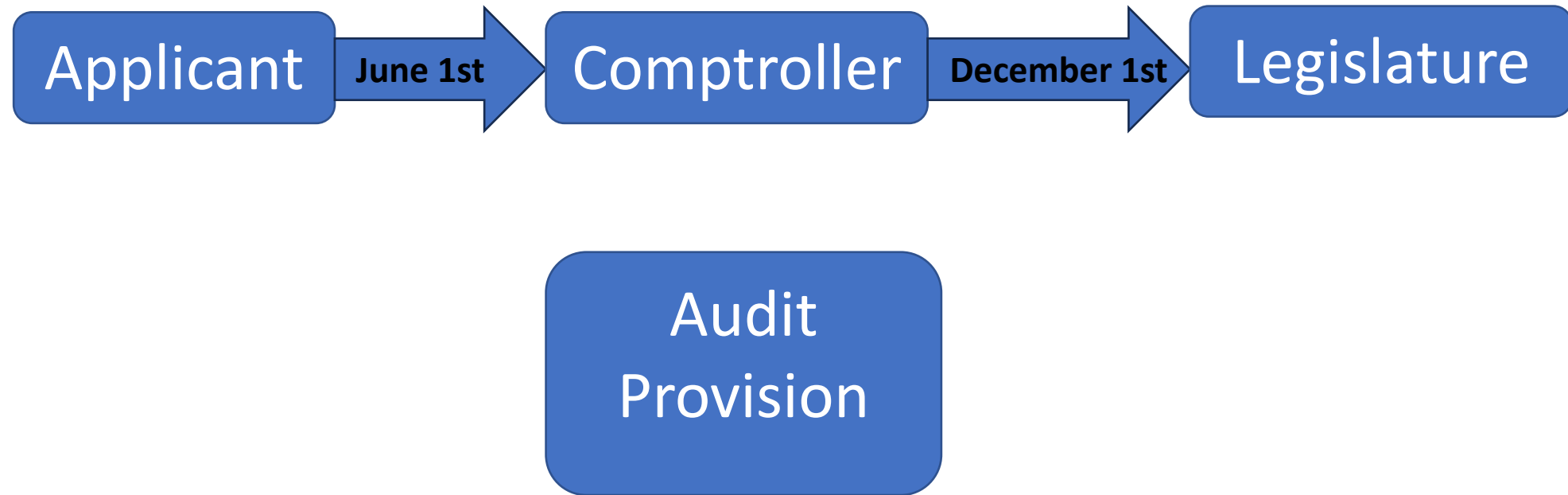
JETI Act

Agreement Phase



Reporting Phase

Biennial Compliance Reporting



Questions ?





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