HOUSE
RESEARCH
ORGANIZATION bill analysis 4/10/2003

HB 216
Hamric, et al.

SUBJECT: Accelerating homestead property tax exemptions for the disabled.

COMMITTEE: Local Government Ways and Means — favorable, without amendment

VOTE: 6 ayes — Hill, Hegar, Laubenberg, McReynolds, Mowery, Quintanilla

0 nays

1 absent — Puente

WITNESSES: For — Paul Bettencourt, Harris County Tax Assessor-Collector; George Hammerlein, Harris County Tax Office; Dan Hart, Taxpayers for Equal Appraisal; Donald Lee, Texas Conference of Urban Counties; Johnnie Morales; Jim Robinson, Harris County chief appraiser; Jonas Schwartz, Advocacy, Inc.

Against — None

On — Lee Flowers; Susan Maxwell, Texas Council for Developmental Disabilities

BACKGROUND: Title 1 of the Tax Code governs property taxes. Chapter 11 sets forth various exemptions from the market value of taxable property, including state-mandated ($10,000) and local-option exemptions ($3,000 minimum, no maximum) for homeowners who are disabled or elderly (age 65 or older).

Property Tax Code sec. 11.42(c) sets the effective date for the elderly exemption as January 1 of the year in which the homeowner qualifies, i.e. turns 65. Sec. 11.43(k) sets the application deadline for the elderly exemption at one year from the date of qualification. Sec. 26.10(b) prescribes the proration calculation for elderly-exemption-holders who sell and buy qualified homes during the same tax year. Sec. 26.112 prescribes the full-year-credit calculations for elderly-exemption-holders who own qualified homes for only part of a tax year.

DIGEST: HB 216 would amend the Property Tax Code to include persons applying for the disability exemption under the same application deadline and proration and full-credit calculations as those applying for the elderly exemption. The disability exemption would take effect for the same tax year in which the homeowner qualified for it.

The bill would take effect January 1, 2004, and would apply only to property tax years beginning on or after that date.

SUPPORTERS SAY: Current state law allows homeowners age 65 and older to claim the elderly state and local residence homestead property tax exemptions as of January 1 of the tax year in which they qualify (turn 65). The exemptions' values are not prorated but apply as if they were in effect the entire tax year. Disabled homeowners, however, do not enjoy this privilege. They must wait until January 1 of the tax year following the year in which they qualify for the exemption — either by becoming disabled or, if already disabled, buying a home — to claim disability property tax exemptions for their residence homesteads. HB 216 would correct this inequity.

There is no valid reason why disabled persons should not benefit from property tax exemptions on their residence homesteads as soon as they are eligible. Disability reduces income and increases expenses. In Texas, homeowners must be totally disabled as defined by federal law and unable to perform any work to be eligible for the disability exemption, making them the least able to pay taxes. The sooner these taxpayers can receive some financial relief, the sooner they can stabilize their economic situations. Doing so increases their chances of staying in their homes, which helps both them and the taxing entities they help support. Making these taxpayers wait months for an exemption to which they legally are entitled is needlessly punitive, patently unfair, and effectively discriminatory.

Making this change would affect only a few property owners. Nationally, less than 5 percent of homeowners are disabled, and the market value of their homes typically is less than those owned by elderly or other taxpayers. Accelerating qualification will not adversely impact taxing entities or appraisal districts. In fact, bringing the two exemptions into parity would simplify administration and allow some counties, such as Harris, to fully exempt homes owned by some disabled taxpayers. The state would not lose revenue during the 2004-05 biennium, and the eventual losses to public education would be minuscule relative to the benefits received.

OPPONENTS SAY:

Texans cannot afford even a small loss of funding to public education given the current fiscal situation. Financially-strapped local school districts would bear the brunt of the bill's costs, especially fast-growing districts that have based their bonded indebtedness on the current property tax base.

NOTES:

The fiscal note shows no general revenue cost for fiscal 2004-05, but annual costs to the Foundation School Fund ranging from $685,000 in fiscal 2006 to $755,000 in fiscal 2008. School districts would lose $1.17 million in fiscal 2005; annual losses would increase to $1.35 million by fiscal 2008. Costs were derived from school finance formulas requiring reimbursement from general revenue to school districts when state action diminishes property tax revenue.

The comptroller's biennial report on tax exemptions and incidence estimates the value of exemptions to the school property tax. The 2003 report values the state-mandated elderly/disabled exemptions at $185.2 million in fiscal 2003; $194.1 million in FY 04; and $203.3 million in FY 05. The estimated values for the local-option elderly/disabled exemptions are $93.4 million in fiscal 2003; $100.2 million in fiscal 2004; and $107.6 million in fiscal 2005. According to the Legislative Budget Board, between 1997 and 2002 school districts reported an average annual increase of 6,900 exemptions (4,200 state-mandated, 2,700 local-option) worth an average of $11,000 each.

The Local Government Ways and Means Committee on April 8 reported favorably HB 837 by Hilderbran, which would repeal sec. 26.10(b). The bill would eliminate proration of the exemption in tax calculations by requiring elderly-exemption-holders owning more than one home during any part of a tax year to claim the exemption on only one property for the entire tax year.