

SUBJECT: School tax freeze reduction proportionate to tax rate reduction

COMMITTEE: Ways and Means — favorable, without amendment

VOTE: 5 ayes — J. Keffer, Edwards, Luna, Ritter, Smithee

0 nays

4 absent — Villarreal, Grusendorf, Paxton, Woolley

WITNESSES: No public hearing

BACKGROUND: Under Texas Constitution, Art. 8, sec. 1- b(d), the amount of property taxes imposed by a school district on the residence homestead of a person who is age 65 or older or disabled may not be increased while the property remains the residence homestead of the person or the person's spouse. If the person age 65 or older who qualifies for the limitation dies, the limitation remains in place for a spouse who was age 55 or older at the time of the person's death.

The limitation does not apply to most improvements that increase the value of the property. The Legislature may provide for transfer of all or a proportionate amount of the tax freeze amount for a qualifying person who establishes a different residence homestead. When the Legislature increased the homestead exemption by \$10,000 in 1997, it also amended Art. 8, sec. 1-b(d) to require a reduction in the tax freeze amount for those who previously had received it to reflect the higher homestead exemption.

DIGEST: HJR 24 would amend Texas Constitution, Art. 8, sec. 1-b(d) to specify, for homeowners who are age 65 or older or disabled and received a limitation on school property taxes in the tax year preceding a reduction in school district tax rates, that the limitation amount would have to be reduced for the current and subsequent tax years in proportion to the reduction in the tax rate.

The amendment would take effect January 1, 2006, and would apply only to a tax year beginning on or after that date.

The proposal would be presented to the voters at an election on Tuesday, November 8, 2005. The ballot proposal would read: "The constitutional amendment to reduce the total amount of ad valorem taxes that may be imposed by a school district on the resident homestead of an elderly or disabled person in proportion to any reduction in the tax rate of the school district."

**SUPPORTERS
SAY:**

HJR 24 would provide tax relief to senior citizens and to those who are totally disabled under federal law by ensuring that taxes that had been frozen for these citizens were reduced proportionally to reflect any tax reduction enacted by the Legislature for all other Texans. Without this amendment, many homeowners who have had their school district taxes frozen for a number of years would be unlikely to benefit from school finance reforms aimed at providing property tax relief.

For property owners whose appraised value has increased significantly since the owner became eligible for the limitation on taxes, even a significant reduction in tax rates would not lead to a reduction in their property taxes below the tax freeze amount. Many of these homeowners live on fixed incomes and should be assured of the benefit of any overall reduction in property taxes. The Legislature made a similar adjustment in the tax freeze amount in 1997 when it increased the homestead exemption amount so that everyone would receive tax relief from the change.

**OPPONENTS
SAY:**

Property tax reductions enacted as part of overall school finance reform are intended to provide tax relief to those Texans whose tax bills have soared in recent years as a result of rising property values and increases in local school property tax rates. Senior citizens and disabled homeowners generally have been shielded from these increases by having their property taxes frozen, regardless of their income or ability to pay local school district taxes. These individuals already have received significant tax relief, especially if their residence homestead has increased substantially in value since their tax bill was frozen, and there is no need to provide additional benefit to these individuals by reducing their taxes even more.

NOTES:

HB 115 by Berman, which would amend the Tax Code to implement the proportionate reduction in the school tax freeze amount, contingent on approval of HJR 24, is pending in the House Ways and Means Committee.