

SUBJECT: Increasing residence homestead exemption and adjusting school tax freeze

COMMITTEE: Ways and Means — favorable, without amendment

VOTE: 6 ayes — J. Keffer, Edwards, Grusendorf, Luna, Ritter, Woolley

0 nays

3 absent — Villarreal, Paxton, Smithee

SENATE VOTE: On final passage, July 18 — 29-0

WITNESSES: No public hearing

BACKGROUND: Under Texas Constitution, Art. 8, sec. 1- b, part of the taxable value of residential homesteads is exempt from ad valorem taxation. All residence homestead property has a \$15,000 exemption for public school taxation purposes. The Legislature may authorize an additional exemption of up to \$10,000 for property owned by people who are disabled or age 65 and older.

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 school tax freeze 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:

SJR 13 would amend the Texas Constitution, Art. 8, sec. 1-b, to increase the homestead exemption for public school taxation purposes for residential property from the current \$15,000 to \$22,500, beginning January 1, 2006. For homesteads subject to the limitation on school district taxes because the owner is over 65 or disabled in the 2005 tax year or earlier, the Legislature would be required to reduce the tax limitation amounts for 2006 and subsequent tax years. The reduction would be calculated by multiplying the 2006 school tax rate by \$7,500.

SJR 13 also would amend Art. 8, sec. 1-b(d) to specify, for elderly or disabled homeowners who received a limitation on school property taxes in the tax year preceding a reduction or increase in school district tax rates, that the limitation amount would have to be reduced or increased for the current and subsequent tax years in proportion to the reduction or increase in the school tax rate. The total amount of school property taxes imposed during a tax year on a person qualifying for the limitation could not exceed the tax amount imposed for the tax year when the limitation took effect.

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 submitted to the voters at an election on Tuesday, November 8, 2005, only if HB 3 by J. Keffer, state revenue restructuring and school property tax reduction, is enacted and becomes law. The ballot proposal would read: "The constitutional amendment increasing the amount of the residence homestead exemption from ad valorem taxation for public school purposes from \$15,000 to \$22,500 and providing for an adjustment of the limitation on the amount of ad valorem taxes that may be imposed for those purposes on the homestead of a disabled person, an elderly person, or an elderly person's surviving spouse to reflect the increased exemption amount and increasing or reducing, as applicable, the amount of the limitation on the total amount of ad valorem taxes that may be imposed by a school district on the residence homestead of an elderly or disabled person in proportion to any increase or reduction in the tax rate of the school district but not to exceed the amount of the limitation for the tax year in which the limitation took effect."

**SUPPORTERS
SAY:**

SJR 13 would provide more equitable property tax relief that particularly would benefit low- and middle-income homeowners. A 50 percent increase in the property tax exemption, from \$15,000 to \$22,500, would be the equivalent of a property tax rate cut of about 5 cents per \$100 of

valuation. The proposed amendment would result in a proportionately larger tax cut for people who own less valuable homes and who thus would be less likely to receive significant savings from any school tax rate reductions. In this way, HJR 25 would help offset increases in sales and other consumer taxes in HB 3 that disproportionately would affect low- and middle- income Texans.

While the homestead exemption increase would be similar to the increase approved by the Legislature and the voters in 1997, the exemption increase in HJR 25 would be less likely to be offset by increases in local school tax rates than the 1997 increase. This exemption increase would be accompanied by a reduction in and limitation on increases in school tax rates in HB 2 and HB 3 that would help ensure real and lasting tax relief.

HJR 25 also would extend this tax relief to senior citizens and those who are totally disabled under federal law by ensuring that these citizens' tax bills were adjusted proportionally to reflect the increase in the homestead exemption and any decrease in school tax rates for 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 first became eligible for the tax limitation, an increase in the homestead exemption or reduction in school tax rates may not result in a reduction in their property tax bill below the original 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 school tax freeze amount would be adjusted up or down depending on whether the school tax rate increased or decreased from one year to the next, but it would never be higher than the amount frozen in the tax year in which the limitation originally had taken effect.

**OPPONENTS
SAY:**

Increasing the homestead exemption from \$15,000 to \$22,500 per year would cost the state more than \$625 million starting in fiscal 2008 and an increasing amount in subsequent years to make up for the revenue loss, according to the Legislative Budget Board (LBB). At least a portion of this cost likely would be shifted to businesses, which could have a negative effect on the state's business climate. It would be better to spread tax relief among all taxpayers by lowering school tax rates further rather than increasing an exemption that benefits only owners of residential homesteads.

When the homestead exemption was increased in 1997, homeowners barely noticed the change because any benefits from the increased exemption quickly were offset by rising appraised values and increased taxes. As appraised values continue to increase, most homeowners would be unlikely to experience any long-term tax savings from this homestead exemption increase.

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, often for many years and regardless of their income or ability to pay local school district taxes. These individuals already have received significant tax relief, especially if the value of their residence homestead has increased substantially since their tax bill was frozen. There is no need to provide additional tax relief to these individuals by reducing their taxes even more by adjusting their school tax freeze amounts to reflect the increased homestead exemption or any reduction in school tax rates.

OTHER
OPPONENTS
SAY:

The homestead tax exemption should be increased even more to ensure that property tax relief is spread more evenly and equitably to benefit low and middle income Texans as well as those who live in more expensive homes. If the goal is to provide broad-based tax relief, the homestead exemption should be increased to at least \$30,000. If necessary, the cost could be offset by a smaller reduction in property tax rates. This is particularly important because low- and middle-income homeowners are expected to be hardest hit by increases in sales and other consumption taxes that are being considered as the primary alternatives to property taxes.

NOTES:

According to the fiscal note, SJR 13 would result in a loss to school districts of \$625.7 million in fiscal 2007, \$52.8 million in fiscal 2008, and \$48.3 million in fiscal 2009. The projected cost to the state through the Foundation School Program would be \$625.7 million in fiscal 2008, \$678.5 million in fiscal 2009, and \$726.8 million in fiscal 2010.

As filed, SJR 13 included only the increase to \$22,500 in the residence homestead exemption. The Senate adopted a floor amendment by Sen. Staples to add provisions identical to HJR 24 by Berman, requiring a

proportionate adjustment in the school tax freeze amount to reflect changes in the school tax rate, which the House approved on July 17.