

SUBJECT: Increasing residence homestead exemption and adjusting school tax freeze

COMMITTEE: Select Committee on Property Tax Relief — favorable, without amendment

VOTE: 5 ayes — J. Keffer, Chisum, Geren, Otto, Swinford  
0 nays

WITNESSES: No public hearing

BACKGROUND: Texas Constitution, Art. 8, sec. 1- b, exempts a part of the taxable value of residential homesteads 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 as long as the property remains the residence homestead of the person or the person's spouse. If the person 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 allow a 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 adjust the tax freeze amount to reflect the higher exemption, permanently lowering the freeze amount for people who had been receiving it.

DIGEST: HJR 12 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. If approved, the amendment would take effect January 1, 2006, and apply beginning with the 2006 tax year.

The proposed amendment also would require the Legislature to adjust the tax freeze amount for elderly or disabled homeowners in the 2005 tax year to reflect the additional homestead exemption in the 2006 tax year. Also, in subsequent years, the limitation would be reduced or increased proportionately to reflect changes in the school district tax rates compared to the preceding rate, although the amount of taxes imposed could not exceed the 2005 tax year amount or the amount for a later tax year in which the limitation took effect, adjusted for improvements.

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, second called session, 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, 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 an elderly or disabled person 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 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 later of the 2005 tax year or the tax year in which the limitation took effect, subject to increases for improvements."

**SUPPORTERS  
SAY:**

HJR 12 would provide 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 would be less likely to receive significant savings from any school tax rate reductions. In this way, HJR 12 would help offset increases in sales and other consumer taxes in HB 3.

An increased homestead exemption would offer lasting property tax relief because it would be accompanied by limitations on future increases in school tax rates through HB 2 by Grusendorf and HB 3 by J. Keffer. Because HJR 12 is contingent on enactment of HB 3, taxpayers would be protected from higher school tax rates eclipsing the relief offered by an

increased homestead exemption because HB 3 would dedicate 15 percent of any surplus in available state revenue each biennium to reducing school tax rates ultimately to 75 cents per \$100 of taxable value. In addition, HB 2 would offer immediate tax relief in the form of lower property tax rates in 2006.

HJR 12 also would ensure that senior citizens and the disabled benefited from the increased homestead exemption by resetting their tax freeze amount to reflect the new exemption. Including these individuals in the property tax relief effort would ameliorate their share of any increase in sales taxes that might result from the enactment of HB 3.

HJR 12 also would extend 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 decrease in school tax rates for other Texans. For property owners whose appraised value has increased significantly since the owner first became eligible for the tax limitation, a 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. Even if school tax rates increased, the tax bill for the elderly and disabled would never be higher than the amount frozen in the 2005 tax year or a later year in which the limitation originally had taken effect, adjusted for any improvements that may increase the value of the property.

There is no need to permanently lower the school tax freeze amounts below what senior citizens and the elderly receive today. Those who benefit from the freeze today already have been shielded from the rising taxes that have made property tax relief an important issue, and they would be assured to pay no more than their 2005 levy, assuming no improvements were made to their homes. Their tax freeze amount would be adjusted annually based on increases or decreases in the school tax rate, but they would never pay more than what they are paying today. This certainty about their tax bill would ensure that people living on fixed incomes could continue to afford their taxes.

The elderly and disabled would continue to receive the benefit of the higher homestead exemption because the cap on future payments at the

2005 tax level only would be relevant to the fluctuations caused by school tax rates. The proposed language in HB 3, which would implement HJR 12, would ensure that the value of the higher homestead exemption would be subtracted from any future tax bill for homeowners whose taxes are frozen, thereby reducing their tax bill before the 2005 cap would be applied.

OPPONENTS  
SAY:

Increasing the homestead exemption would benefit only a limited group of property tax payers. Businesses, which shoulder more than 40 percent of property tax payments in Texas, would receive no benefit from HJR 12 because it would apply only to homestead residences. With only a limited pool of funds available for property tax relief, the state should ensure that all taxpayers receive the same benefit, a goal that can be achieved by further lowering the school property tax rate.

Under HJR 21, businesses could be forced to carry a larger portion of the tax burden than they do today. According to the Legislative Budget Board (LBB), increasing the homestead exemption by \$7,500 per year would cost the state more than \$625 million beginning in fiscal 2008. At least a portion of this cost likely would be shifted to businesses even though they would receive none of the benefit of a higher homestead exemption.

HJR 21 would result in a short-term gain for homeowners who, in a few years, could see any reduction eclipsed by rising appraisals. 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. Also, the amount of sales and other taxes that would need to be increased to pay for property tax relief could be lowered if senior citizens and the disabled who have not been faced with rising property taxes were ineligible for further property tax relief.

OTHER  
OPPONENTS  
SAY:

The homestead 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 \$45,000. If necessary, the cost could be offset by a smaller overall 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 in HB 3 as the primary alternatives to property taxes.

Some senior citizens would fare significantly better than others under this proposal. Seniors who qualified for the freeze in a year when school taxes were at the lower rates authorized by HB 3 would realize a much greater benefit than those whose taxes were frozen just before the lower rates took effect. Those whose tax bill was frozen only recently, based on the current higher rates, be faced with a much higher ceiling.

The language in HB 3 implementing HJR 12 should more explicitly ensure that homeowners whose taxes are frozen would continue to receive the benefit of the increased homestead exemption beyond the 2006 tax year. As there are two ways that property tax relief would be implemented — through a rate reduction and a homestead exemption — both should be reflected in the adjusted freeze amount. Also, a reduction, or a subsequent increase, in school property tax rates would cause homeowners' actual tax payments to proportionately fluctuate, but never rise above the 2005 levy, and this 2005 cap should be adjusted to reflect the new homestead exemption, which will take effect for the 2006 tax year.

NOTES:

According to the fiscal note, HJR 12 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.

HB 3 by J. Keffer, on today's Major State Calendar, includes a provision that would amend the Tax Code to implement HJR 12 if both were approved by the Legislature and the constitutional amendment also were approved by the voters. It would entitle school districts to additional state aid to compensate for revenue lost due to the higher homestead exemption.

HJR 14 and HB 14 by Hopson, also filed during the second called session and referred to the Select Committee on Property Tax Relief, would increase the residence homestead exemption to \$45,000.

During the first called session, SJR 13 by Wentworth, which as passed by the House on second reading was very similar to HJR 12, died in the House when the session ended without a vote on third reading. HJR 24 by Berman, which included only the provision for proportionately adjusting the tax freeze amount for the elderly and disabled to reflect annual changes in the school property tax rate, passed the House, but died in the Senate.