

- SUBJECT:** Flat-dollar-amount exemption alternative for residence homesteads
- COMMITTEE:** Ways and Means — favorable, without amendment
- VOTE:** 7 ayes — Hilderbran, Otto, Bohac, Button, N. Gonzalez, Ritter, Strama
0 nays
2 absent — Eiland, Martinez Fischer
- WITNESSES:** For — Deece Eckstein, Travis County Commissioners Court; Dick Lavine, Center for Public Priorities; (*Registered, but did not testify:* Hugh Brady, City of Austin; Donald Lee, Texas Conference of Urban Counties; Mark Mendez, Tarrant County Commissioners Court)

Against — (*Registered, but did not testify:* Brent Connett, Texas Conservative Coalition)
- BACKGROUND:** Tax Code, sec. 11.13(n) entitles individuals to an exemption on the appraised value of a residence homestead. Regardless of the percentage of the exemption, an owner is entitled to a minimum exemption of \$5,000. The percentage adopted by the taxing unit may not exceed 20 percent.

In addition, school districts are required to provide an across-the-board tax exemption of \$15,000 on the appraised value of a residence homestead, as well as a \$10,000 school property tax exemption for those who are disabled or age 65 or older.
- DIGEST:** HB 3348 would amend Tax Code, sec. 11.13(n) to allow the governing body of a taxing unit to adopt an exemption from taxation for a residence homestead that was either a percentage of the appraised value or a dollar amount of appraised value, but not both. The exemption would have to be adopted by the governing body before July 1 of the tax year in which the exemption applied. A dollar-amount exemption could be no less than \$5,000.

The bill would take effect January 1, 2014, but only upon the enactment of the corresponding constitutional amendment, HJR 138 by E. Rodriguez. Otherwise, the bill would have no effect.

SUPPORTERS
SAY:

HB 3348 would provide the statutory authorization necessary to give governing bodies of local entities (municipalities, counties, hospital districts, community colleges) the option of choosing between a homestead exemption based on a percentage or a dollar-amount. The bill would increase local control and flexibility to make informed decisions on how to administer the optional residential homestead exemption.

Under current law, local entities may adopt a percent exemption, capped at 20 percent, for residential homesteads. The exemption, if granted, must be no less than \$5,000. Many local entities, however, opt against offering this exemption, as it often has a significant fiscal impact that increases each year with rising property values. As a result, many homeowners receive no homestead exemption from taxing jurisdictions, except the one that state law requires. School districts are mandated to provide a \$15,000 across-the-board homestead exemption, plus a \$10,000 exemption to homeowners who are disabled or 65 or older. On top of that, school districts have the option of providing a percentage exemption up to 20 percent.

Providing the option to choose a dollar-amount or percentage exemption would allow local entities to tailor local tax policies to suit the unique needs of their communities. Allowing this option would allow local entities more flexibility to control the amount of property value subject to taxation. Revenue tied up with a fixed, dollar-amount exemption would increase with the number of residence homesteads, contributing to the steadiness and predictability of tax revenue. In contrast, the revenue lost due to a percent exemption would increase with the overall value of homesteads, magnifying the potential scope of the exemptions' fiscal impact and reducing predictability.

A dollar-amount exemption would be more effective in providing property tax relief for targeted homeowners. Local entities could set these exemptions to alleviate the tax burden on vulnerable populations.

The flexibility of greater taxing options afforded by the bill would be naturally constrained by powerful checks in the form of local elections. Governing bodies that adopt tax exemptions are subject to popular elections. These elections provide important checks on any tendency to raise taxes or to disproportionately shift the tax burden from some groups onto others. If citizens are unhappy about changes to a tax exemption, they

can vote for change at the ballot box.

**OPPONENTS
SAY:**

HB 3348 would sanction local decisions that could lead to shifting the property tax burden from some taxpayers onto others. Providing for a fixed dollar-amount exemption would disproportionately punish those with homes of higher value. For instance, a \$500,000 home with a 20 percent exemption would yield a \$100,000 homestead exemption. On the other hand, if the local entity adopted a fixed amount, say \$50,000, then the homeowner would be subject to a tax increase corresponding to \$50,000 of appraised value.

Under the bill, some homeowners could be completely exempt from paying any tax to certain entities, and this tax burden would be shifted to others who would see a (potentially very significant) tax increase. Moving the tax burden from one class of taxpayers to another creates issues of equity and uniformity of taxation. A simple percentage exemption for all homeowners is the best approach, since all homeowners enjoy an equal share in the benefits of the public services provided through property tax collections.

**OTHER
OPPONENTS
SAY:**

Local entities should not be forced to choose between adopting a percent or dollar-amount exemption for residential homesteads. The bill should make allowances for those jurisdictions who would like use a combination of dollar-amount and percentage exemptions for homeowners.