

SUBJECT: Increasing the homestead exemption

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 10 ayes — D. Bonnen, Y. Davis, Bohac, Button, Darby, Martinez Fischer, Murphy, Parker, Springer, C. Turner

0 nays

1 absent — Wray

SENATE VOTE: On final passage, March 25 — 26-5 (Ellis, Eltife, Rodriguez, Whitmire, Zaffirini)

WITNESSES: For — Michael Openshaw, North Texas Tea Party (*Registered, but did not testify*: Dustin Matocha, Empower Texans; Julie McCarty, NE Tarrant Tea Party; Dean Wright, New Revolution Now; Mark Ramsey, Republican Party of Texas; Daniel Gonzalez and Steven Garza, Texas Association of Realtors; Ned Munoz, Texas Association of Builders; Talmadge Heflin, Texas Public Policy Foundation; and nine individuals)

Against — Chris Frandsen, League of Women Voters of Texas (*Registered, but did not testify*: James LeBas, AECT, TXOGA; Adrian Acevedo, Anadarko Petroleum Corp.; Tom Sellers, ConocoPhillips; Kinnan Golemon, Devon Energy, Shell Oil Company; Martin Allday, Enbridge Energy; Amy Maxwell, Marathon Oil Corporation; Richard A. (Tony) Bennett, Texas Association of Manufacturers; Bill Hammond, Texas Association of Business; Hector Rivero, Texas Chemical Council; Mari Ruckel, Texas Oil and Gas Association; Thure Cannon, Texas Pipeline Association; Richie Jackson, Texas Restaurant Association; Ronnie Volkening, Texas Retailers Association; Dale Craymer, Texas Taxpayers and Research Association; John W. Fainter Jr., The Association of Electric Companies of Texas, Inc.)

On — Dick Lavine, Center for Public Policy Priorities; Ro'Vin Garrett, Tax Assessor Collectors Association of Texas; Karey Barton, Texas

Comptroller of Public Accounts; Wayne Pulver, Texas Legislative Budget Board; Christy Rome, Texas School Coalition

**BACKGROUND:** Texas Constitution, Art. 8, sec. 1-b(c) requires a school district to exempt \$15,000 of the value of a residence homestead from taxation. A school district must grant an additional \$10,000 exemption from the appraised value of a residence homestead for adults who are disabled or more than 65 years old.

Texas Constitution, Art. 8, sec. 1-b(d) prohibits certain increases in the total amount of property tax levied for general elementary and secondary public school purposes on a homestead of a person or the spouse of a person who is 65 or older or disabled.

Tax Code, sec. 11.13 allows the governing body of a taxing unit to grant an additional exemption of up to 20 percent of the appraised value of a residence homestead, as long as that exemption is at least \$5,000.

**DIGEST:** CSSB 1 would increase the mandatory homestead exemption from \$15,000 to \$25,000. The taxable value of homesteads owned by the elderly or people who are disabled also would be correspondingly reduced. A school district would be entitled to certain additional state aid via the Foundation School Fund to make up for the lost maintenance and operations tax revenue and tax revenue used to service eligible debt.

This bill would require school district tax assessors to prepare taxes as though the bill and CSSJR 1 took effect. This bill would then require the assessor of a school district to calculate and publish on a provisional tax bill a statement of the amount saved from the pending increase to the homestead exemption. That provisional tax bill would assume the higher homestead exemption. If CSSJR 1 was not approved by the voters, the bill would require the assessor for each school district to prepare and mail a supplemental tax bill accounting for the difference.

The bill would provide that the taxes for which a supplemental tax bill is mailed under the provisions in the bill were due on receipt of the tax bill

and were delinquent if not paid before March 1 of the year following the year in which they were imposed.

The bill would require a school district to waive penalties and interest on a delinquent tax for which a supplemental tax bill is mailed under the provisions of the bill.

The bill has various transitional provisions for the 2015-2016 tax year. Specifically, the bill would require a school district's wealth per student, local share of program cost, enrichment tax rate, local revenue, bond tax rate, existing debt rate, and taxable value of property for the 2015-2016 school year to be calculated assuming a \$25,000 homestead exemption.

Certain school districts would be able to delay an election on possible actions to achieve the equalized wealth level for the 2015-2016 tax year. Such a district also would be able to adopt a tax rate before its equalized wealth level was certified by the commissioner of education. A district which fails to hold the election or does not receive voter approval at the election would be subject to detachment and annexation of property as necessary to achieve the equalized wealth level as soon as is practicable after CSSJR 1 was approved.

This bill would apply beginning with the 2015 tax year but would have no effect if CSSJR 1 was not approved at a statewide election.

**SUPPORTERS  
SAY:**

CSSB 1 would cut property taxes by increasing the homestead exemption, which is the best possible use of state funds. It would stimulate real economic growth and provide tax relief that voters have asked for and to those who need it most.

**Aggregate impacts.** This tax cut would result in a broad reduction in the effective tax burden borne by Texans. In so doing, it could stimulate consumption, which drives job growth. Job growth, in turn, stimulates more consumption. The consumer, not the government, is the most economically efficient agent. Increasing the homestead exemption would put more money in consumers' pockets, allowing more money to be used

more efficiently in the economy.

Because the property tax is imposed on living spaces, virtually everyone in the state pays the property tax in some manner. Homeowners pay directly, and renters pay it through higher prices as landlords pass on the cost. Although the homestead exemption would not directly benefit renters, it would drive down the cost of owning a home, which could reduce demand for rental property and reduce rents overall. This means that all tax relief delivered by this bill would go directly to a broad range of individuals. Cutting property taxes would put money in the hands of people, whereas the entirety of a franchise tax cut and more than 40 percent of a sales tax cut would go to businesses.

**Tax cut alternatives.** The Legislature should cut the property tax because it is by far the most onerous and noticeable tax. It is a tax upon the ownership of property, one of the most fundamental rights that people have. Voters frequently ask for property tax cuts, but rarely are overly burdened by the sales tax and only see the secondary effects of the franchise tax. The Legislature should do what the voters elected lawmakers to do.

If the Legislature were to enact a homestead exemption linked to the median value of a home in the state, the tax base would gradually shift onto businesses. Businesses already pay property taxes, sales taxes, and franchise taxes. The Legislature should avoid tax reforms that shift the tax burden from one side of the economy to the other.

**Microeconomic impacts.** The property tax is not related to income or consumption, so it can have an intensely negative impact on those with fixed incomes. If appraisal values rise significantly and tax rates are not adjusted downward, people on a fixed income could find themselves priced out of their own homes. This phenomenon is particularly common in areas with strong economic growth, where demand for housing is strong.

Data from the comptroller's *Tax Exemptions and Tax Incidence* report

indicate that homestead exemptions particularly benefit low-income individuals. This is because a homestead exemption exempts a higher percentage of the total value of a less expensive house.

**Local control.** These tax cuts would have a significant benefit to taxpayers that would not be taken away by local governments. Increases in property taxes can happen in two ways: rate increases and appraisal increases. Rate increases are unlikely to happen, since most school districts are required to gain voter approval for increases in property tax rates. Increases in appraisals are a good thing, since they demonstrate that demand for housing in Texas is growing and home values are rising. Although the tax imposed on a property could go up due to rising appraisal values even with this bill, the bill would significantly reduce the size of the increase, delivering needed tax relief to Texans who might otherwise be slowly priced out of their homes.

**Education.** Increasing the homestead exemption would increase the state share of education funding. The Legislature should strive to fulfill its obligations and fully and completely fund public education instead of relying on local funding, which has caused the problem of skyrocketing property taxes. Pending litigation may result in the state being required to increase its contribution. This bill would be one step toward that goal.

**Spending alternatives.** Current versions of the state budget include increases to funding in many areas of vital state services. It is likely that both public education and transportation will receive additional funding. The state already is set to invest more, and the revenue lost under this bill would not be needed.

This bill could decrease the footprint of the government and allow Texans to make decisions about how they want to spend the money that are best for themselves and the economy. There always will be another government program to fund, and the state should adopt tax policies that allow it to focus on the programs and services that provide the greatest return on investment.

**Revenue stability.** Even with the property tax cut, the state would have sufficient revenue to meet its obligations in future biennia. The budget surplus in this biennium is likely to continue. Although oil prices and severance tax revenue are low, oil probably will not stay at its current price. If it does, the state is estimated to have about \$11 billion in the rainy day fund at the beginning of the next biennium. The state still would have a fiscal cushion to rely on in the event of an unexpected decrease in tax revenue.

OPPONENTS  
SAY:

CSSB 1 would increase the homestead exemption at a time when that would not be the best use of state funds. The Legislature should instead cut other state taxes or appropriate the money to infrastructure, education, or other critical needs.

**Aggregate impacts.** Cutting property taxes would not directly benefit a large number of people. Renters — a sizable proportion of the low-income population — do not benefit from an increase in the homestead exemption. Other uses of these funds would provide more benefits to more Texans.

**Microeconomic impacts.** The Texas Constitution already prohibits increases to the total amount of property tax levied for general elementary and secondary public school purposes on a homestead of a person who is age 65 or older or disabled. A large population of those with fixed incomes are therefore protected from being taxed out of their homes.

**Tax cut alternatives.** A sales tax cut would be better for the Texas economy than an increase in the homestead exemption. Studies consistently show that sales taxes have a greater negative effect on economic activity than property taxes. The Legislative Budget Board estimates that over five years, a sales tax cut could create more than 42,000 more jobs and spark \$5.2 billion more in GDP growth than an equivalent increase in the homestead exemption.

Cutting the franchise tax also would do more for the Texas economy than increasing the homestead exemption. Analysis from the Legislative

Budget Board shows that a franchise tax cut would return nearly 40,000 more jobs and \$5.7 billion more GDP over five years than an equivalent increase in the homestead exemption.

**Local control.** This bill would be tantamount to the Legislature taking ownership of what is essentially a local issue. The property tax is a fundamentally local tax necessitated by the fact that the state does not provide sufficient funding toward the state share of education. Voters are feeling pressured by rising property taxes driven by higher appraisals. But this should not be the case, since the cost to run the government is the same. For instance, if appraisals double, then revenue correspondingly increases. Local governments, instead of pocketing this revenue increase, should decrease the effective tax rate. This bill would set a precedent for the state's responsibility in limiting what should be handled at the local level.

Because property taxes are fundamentally controlled by local governments, it is entirely possible that this tax cut could never reach the taxpayers. If appraisals go up as expected, it is likely that some taxpayers would not see their tax bills decline at all.

**Education.** This bill would increase the state share of education funding but would not actually increase school funding. The Legislature should implement school finance reforms that achieve both goals.

**Spending alternatives.** The bill could cost the state more than \$1.2 billion in tax revenue during the 2016-17 biennium. This money can and should be spent elsewhere. The state has an obligation to adequately fund basic services that help protect Texas' future.

There are many ways to invest tax revenue that would save the state billions in future biennia. Studies show that every dollar spent on prekindergarten education saves the state anywhere from \$3.50 to \$7. This is because pre-kindergarten education decreases the likelihood of reliance on special education and social services in later years. Investments in this area also lead to increased high school graduation rates, leaving the state's

economy more competitive and its workforce more educated. Funding for public education in general is still not back to pre-2011 levels, when the state cut a significant amount from school budgets. The state needs to fund this obligation before considering a tax cut.

Investing in transportation also would pay more dividends in the long run than a tax cut. The Texas A&M Transportation Institute found that delays and fuel costs as a result of congestion cost the state \$10.1 billion and more than 472 million hours of travel time. TRIP, a national transportation research group, found that an inadequate transportation system costs Texas more than \$23 billion per year, which includes costs from congestion, air pollution, and public safety. In other words, billions of dollars are lost every year because Texas does not properly fund its transportation infrastructure

**Revenue stability.** This tax cut may not be sustainable. Severance tax revenue from oil and gas sales has increased significantly because of the shale oil boom. However, these severance taxes, as well as the state's revenue estimates, are heavily reliant on the price of oil rising. There is no guarantee of this happening, and numerous unpredictable geopolitical factors could affect the price of oil.

Some of the current surplus was left over from last session. The state has no guarantee of such a luxury in the 2018-19 biennium. Making tax cuts from a one-time influx of money would not be the most responsible approach because revenue is variable and tax cuts are permanent. The political climate of the state would not allow a tax hike, and this could leave the state in a difficult fiscal situation in future biennia, which might have to be solved by cutting vital state services.

OTHER  
OPPONENTS  
SAY:

Increasing the homestead exemption would be a positive step, but the bill should instead link the value of the exemption to the median value of a house in the state. This would allow the homestead exemption to absorb a portion of an increase in appraisal valuations, providing additional tax relief in future biennia.



NOTES:

According to the Legislative Budget Board, CSSB 1, if enacted in conjunction with CSSJR 1, would have a negative impact of more than \$1.2 billion through fiscal 2016-17.

CSSB 1 differs from the engrossed Senate version in several ways. The bill would increase the homestead exemption to \$25,000 instead of 25 percent of the median value of all homesteads in the state. It would not prohibit a taxing unit from reducing or repealing an optional homestead exemption for the next ten years, nor would it require a taxing unit to adopt a tax rate for the 2015 tax year by a certain date.

The committee substitute would require the assessor of a school district to calculate and publish on the tax bill a statement of the amount saved from the pending increase to the homestead exemption. The committee substitute also would provide that the taxes for which a supplemental tax bill would be mailed under the provisions in the committee substitute would be due on receipt of the tax bill and would be delinquent if not paid before March 1 of the year following the year in which they were imposed. Finally, the bill would require a school district to waive penalties and interest on a delinquent tax for which a supplemental tax bill was mailed under the provisions of the committee substitute.