Understanding Property Taxes

Property taxes in Texas are local taxes that provide the largest source of money for local governments to pay for schools, streets, roads, police, fire protection and many other services. Texas law establishes the process followed by local officials in determining the value for property, ensuring that values are equal and uniform, setting tax rates and collecting taxes. The State Legislature has authorized local governments to collect the tax. The state does not set tax rates, collect taxes or settle disputes between you and your local governments. **Texas has no state property tax.**

Path of a Property Tax Dollar

1. You pay your property taxes to the local tax collector.
2. The tax collector distributes funds to schools, cities and other local governments.
3. Local governments spend funds on: Schools, Roads, Hospitals, Fire Departments, and Other Programs

The Texas local property tax is just that—a local tax, assessed locally, collected locally and used locally**.** More than 3,700 local governments in Texas—school districts, cities, counties and various special districts collect and spend these taxes.

In many counties, local governments contract with the Tax Assessor/Collector to collect all property taxes due in that county. The assessor/collector then transfers the appropriate amounts to each governmental unit. Although some taxing units may contract with an appraisal district to collect their taxes, the appraisal district does not levy a property tax.

Several types of local governments may tax your property. Texas counties and local school districts tax all nonexempt property within their jurisdictions. You also may pay property taxes to a city and to special districts such as hospital, junior college or water districts.

The Texas constitution requires that taxation be equal and uniform and that property owners pay a fair share of the property burden in proportion to their property's value. Ensuring this fairness and determining the fair market value of property is the role of the appraisal district. The appraisal district determines the market value, what a property would sell for, as of January 1st of each tax year. For example, a mobile home is worth less than a mansion, so a mobile home should pay less tax than a mansion ("in proportion to value"). Appraisal districts collect relevant characteristics data for each property it appraises. Construction cost and recent sales data are used to build mass appraisal models to determine the fair market value of each property based on its characteristics.

Appraisals are just the first step in the property tax equation. Texas law sets a limit on the amount of annual increase to the appraised value of a residence homestead to not exceed the lesser of:

- The market value of the property; or
- The sum of:
  - 10 percent of the appraised value of the property for last year;
  - The appraised value of the property for last year; and
  - The market value of all new improvements to the property

After the appraised value is determined, any applicable exemptions are subtracted from the appraised value to determine the final taxable value of the property. The governing bodies of entities that tax property have the authority to adopt exemptions, including: residence homestead, over-65 and disabled persons. They also determine the amount of each exemption that is granted. Disabled veteran exemptions are mandatory for all taxing jurisdictions at the amounts prescribed by the State Legislature. In addition to exemptions, the governing bodies of cities, counties and junior colleges have the option to adopt a tax ceiling or tax freeze for properties with over-65 and disabled person exemptions.

The next step in the equation is the tax rates that are determined by the taxing units. If government spending does not change, then as appraised values go up, the tax rate goes down, so that the total amount of tax revenue collected stays the same as the previous year. This is known as the effective tax rate. Any tax rate above the effective tax rate increases the property tax burden.

As a taxpayer, it is important for a property owner to understand how government spending affects the size of a tax bill. Changes in property values may affect a tax bill, but do not necessarily increase or decrease the total amount of taxes paid to a taxing unit; that is determined by the taxing unit's budget. The effective tax rate is the rate the taxing unit (city, county, school district, etc.) needs to generate about the same amount of revenue it received in the year before on properties taxed in both years. If property values rise, the effective tax rate may go down and vice versa. The actual tax rate depends on the budget adopted by the governing body. If a taxing unit adopts a tax rate higher than the rollback rate, taxpayers may petition for an election to reduce the tax rate to the rollback rate. If a school district adopts a tax rate above the rollback rate, taxpayers do not have to petition for an election because the law requires the school district to automatically hold an election to ratify the adopted rate. For all other taxing jurisdictions, the election only occurs if a petition for an election is signed by 7% of eligible voters in the jurisdiction and submitted to the governing body.

Some Important Terms

Taxing Units—decide which services to provide and how much money they must spend to provide those public services. Property tax rates are then set to generate enough revenue to meet the budgetary needs. Some taxing units have access to other revenue sources, such as a local sales tax. School districts must rely on the local property tax, in addition to state and federal funds.

Changes in property values do not increase or decrease the total amount of taxes paid to a taxing unit; that is determined by the taxing unit's budget and the tax rate they set. Total taxes collected increase only when government spending increases.

Effective Tax Rate—a calculated rate that would provide the taxing unit with approximately the same amount of revenue it received in the previous year on properties taxed in both years. This rate calculation does not include the impact of additional tax revenue resulting from new construction.

Rollback Tax Rate—the tax rate level that allows the taxing jurisdiction to collect 8% more tax revenue, not including debt repayment, than the previous year. This is the maximum tax increase allowed by law without triggering an election to approve the new rate or "rollback" the tax rate.

School Funding

In Texas, Schools are financed almost completely by local property taxes. State tax policy regarding the funding of public schools has been a complicated and divisive issue in Texas since 1993 when the Texas Legislature adopted a school funding law to "recapture" property tax revenue from property-wealthy school districts and distribute it to property-poor districts, in an effort to equalize the financing of all school districts throughout Texas.

In recent years law-suits claiming inequities in the tax recapture funding plan (euphemistically called the "Robin Hood" plan) were filed against the state by a host of school districts, but the Texas Supreme Court ruled in 2016 that the existing state school funding system, which historically has been one of the country's most controversial, to be constitutional.

The Comptroller of the State of Texas conducts an annual property value study for each school district in the state, to measure whether their appraisal districts are appraising property at market value and thus ensuring appropriate school funding. The Comptroller's study, however, does not directly affect local values or tax collections.