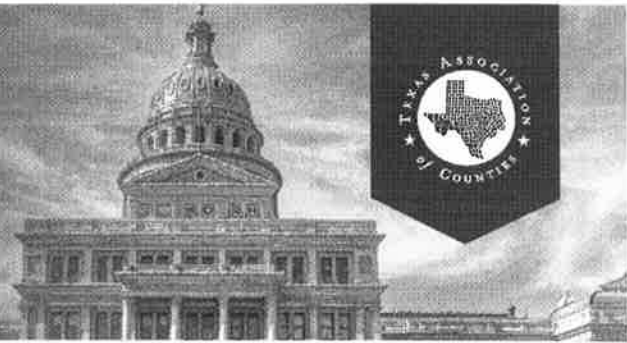


Legislative Brief

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APPRAISAL CAPS CREATE INEQUITIES

The local property tax is the primary method Texas counties use to finance local services. Counties, cities, schools and special districts set their ad valorem rates (property tax rates) so that the levy brings in enough revenue to meet their required expenditures given the available taxable value within their jurisdictions.

Property taxes are then levied on the individual property owners after the amount owed is calculated based on both the tax rates applicable to their properties and the appraised value of those properties as determined by the local appraisal district.

The appraisal districts, not the counties, cities, schools or special districts, determine the market value of each taxable property (what it would be worth if sold). Furthermore, they are required to do so in a fair and uniform manner.

Once the market value is determined, partial exemptions, such as homestead exemptions, are subtracted leaving the taxable value. After adjusting for all of the partial exemptions, and then making sure the result is below the current appraisal cap, the actual taxable value is determined.

Thus, each exemption, which reduces the total taxable value in the jurisdiction, causes the tax rate to increase. As a result, the other property owners are subsidizing those who receive exemptions or who benefitted from an appraisal cap.

Texas currently has a 10 percent cap on homesteads. The present cap is a reasonable compromise that benefits some individuals without unduly burdening others. However, it does reduce the fairness and uniformity of the property tax.

A lower appraisal cap, such as a 5 percent cap, would make the property tax even less fair and less uniform. It would increase the burden on the majority of taxpayers, including businesses, while benefiting a few. *Appraisal caps harm more taxpayers than they help.*

What is an "appraisal cap"?

An appraisal cap is a means to limit how quickly the taxable value of a property may increase. It does not necessarily keep the property taxes from increasing since the taxable value is only one of the two factors used to determine the levy on each individual property.

Why county governments are opposed to legislation that seeks to lower the current appraisal cap of 10 percent on residential homeowners:

- Lower appraisal caps benefit a few homeowners while increasing the taxes of many other property owners.
- Appraisal caps have an adverse impact on the real estate market, driving prices up and reducing turnover.
- There are other options such as increased homestead exemptions that more closely target those segments of communities that may need help.
- If business properties are included, appraisal caps distort the local economy and form a barrier to entry for new businesses.
- Appraisal caps not only make the property tax appear unfair, they ARE unfair.

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Does Texas have an appraisal cap at this time?

Yes, there is already a 10 percent appraisal cap on residential homesteads.

During the recession, why did my appraisal keep rising when home values were falling all across the country?

The current appraisal cap had previously limited the growth in your appraisal. But it didn't actually stop that growth all together; it merely postponed the growth.

Therefore, even though the market value (the value your home would be worth if you tried to sell it) may have decreased during the recession, it stayed above the taxable or capped value.

So when the appraisal district looked at your home, they saw that the value, even after adjusting for any exemptions, was still higher than the previous capped value. So they adjusted your taxable value higher.

Here's an example to help explain it. It ignores partial exemptions in order to focus on the impact of the appraisal cap.

Last year a home had a market value of \$250,000, but due to the appraisal cap had a taxable value of only \$230,000. This year, the market value decreased to \$240,000.

The new market value is then compared to the maximum taxable value allowed under the cap ($\$230,000 + \$23,000 = \$253,000$). As a result, since the appraised value is less than the maximum allowed value, this year the taxable value of the home is \$240,000, a \$10,000 increase from the prior year.

If the market value of the home had fallen further, to \$220,000 for example, then the taxable value would have decreased to \$220,000, which in this case is the lesser of the appraised value and the maximum capped value.

I just bought a house and my property tax is higher than my neighbor's. Our houses are identical. Why should I pay more property taxes than my neighbor?

Your neighbor is benefiting from the appraisal cap. At some point, the taxable values may equalize. But in the meantime you pay extra taxes in order to subsidize your neighbors because they purchased their property before you, when values were lower.

But values may not equalize any time soon if you purchased a home in a hot market. It could be many years before (a) the market cools off and (b) sufficient time passes to enable their taxable value to catch up. In the meantime, they get a tax break financed by all of the newcomers such as yourself, as well as by those owners whose properties did not increase in value as quickly. ★