

The Flat-Dollar Homestead Exemption:

A BETTER WAY TO HELP TEXAS HOMEOWNERS

A flat-dollar exemption would reduce the impact of our state/local tax system on lower- and middle-income homeowners. This would be an important step to help create a Texas where everyone is healthy, well-educated and financially secure.

CPPP RECOMMENDS

- If the Texas Legislature insists on looking for tax reductions, leaders should revisit a proposal to create a new option for local property tax exemptions, rather than enacting additional state tax cuts.
- Local entities should have the ability to choose to offer a flat-dollar exemption similar to the one the state requires school districts to adopt.
- CPPP supports a flat-dollar homestead exemption so that middle-class Texas households are set up for success while maintaining funding available for local services.

What is a homestead exemption?

If you own a home in Texas, you pay property taxes, but not on the full value of the home. Appraisal districts estimate the market value of all homes, usually every year. This is each home's "appraised value." The appraisal district then adjusts this value based on any other applicable reductions, resulting in the "taxable value." One type of reduction in the value subject to taxation is called a "homestead exemption."

The tax rate set by each local taxing authority – a school district, city, county, community college, hospital district, or other special district – is then applied against the taxable value to determine the property taxes you owe.

The Texas Constitution sets certain mandatory homestead exemptions that local taxing authorities must give. In addition, these local governments can give an additional exemption, which further lowers a homeowner's property tax bill.

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What homestead exemptions are available to cities and counties?

Texas school districts are already required to grant a \$25,000 homestead exemption. The exemption is what's called a "flat-dollar exemption," as it reduces the taxable value of all homes by the same dollar amount – \$25,000. This means that if you are a Texan with a \$300,000 home, its taxable value is reduced by \$25,000. If your home is worth \$900,000 or \$150,000, the reduction in taxable value is the same – \$25,000. In most school districts, this exemption reduces the school property taxes that homeowners pay by more than \$300 a year.

But when cities, counties, community colleges, and hospital districts grant a homestead exemption, they can't use the flat-dollar method. Their only option is to reduce a home's value by a percentage that can range up to 20 percent.

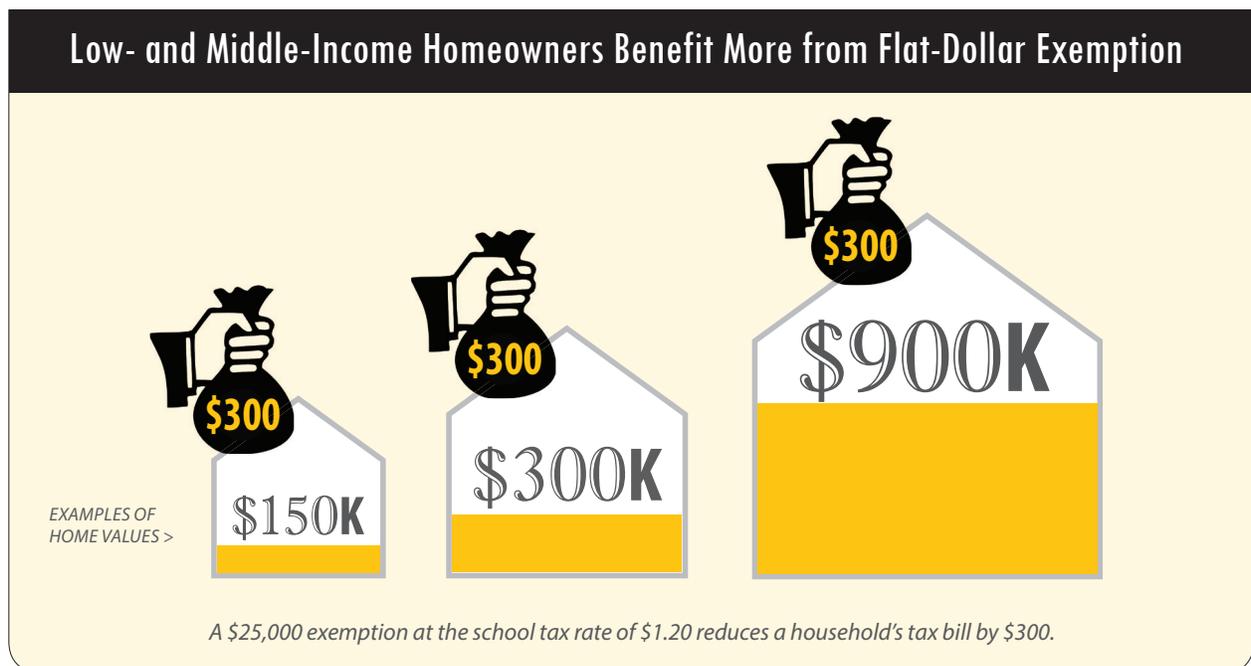
What's the difference between flat-dollar and percentage exemptions?

A flat-dollar-amount exemption gives a bigger boost to middle-class homeowners. A roughly \$300 tax break, for example, is a larger share of a middle-class homeowner's income than that same \$300 would be for someone with a million-dollar home.

In contrast, a percentage exemption is of greatest value to those with the most expensive homes. According to the *Comptroller's Tax Exemptions & Incidence* study, 56 percent of the benefit of the optional percentage exemption goes to the top one-fifth of Texas families (those with incomes over \$146,700), while only a third of the benefits of a flat-dollar exemption go to the same income group. For this reason, cities ranging from San Antonio and Laredo to Lubbock and Amarillo, and counties as different as Tarrant, Bexar, Hidalgo, and Denton, have chosen to give no homestead exemption, rather than accept the distorted distribution of benefits of a percentage exemption.

In the 2015 session, legislators considered a promising constitutional amendment to give cities, counties, and other local taxing units the option of a flat-dollar homestead exemption. The measure passed the Senate, 31-0. It then passed the House Ways & Means Committee by an 8-2 vote but failed to come up for a full House vote before the final bill-passage deadline.

The flat-dollar homestead exemption option deserves another chance in the next legislative session. It offers a more equitable way to support the services Texans value while keeping local control over which option to choose.



CPPP is an independent public policy organization that uses research, analysis and advocacy to promote solutions that enable Texans of all backgrounds to reach their full potential. Learn more at CPPP.org. For more information, please contact Oliver Bernstein at bernstein@cppp.org or call 512.823.2875.