

Alternatives to Caps That Help Taxpayers

No homeowners in Texas should ever have to face losing their homes because they cannot pay property taxes. The state provides tax deferrals in such rare instances, but these deferrals unfortunately receive very little publicity and are not known by the public.

Current Law:

Property tax deferrals: Current law permits *homeowners age 65 or older to defer collection of property taxes* as long as they own and occupy their home, and for 181 days thereafter. A tax lien is placed on the property and interest of 8 percent a year accrues until the deferred tax bill is paid. The deferral may be obtained by filing a simple one-page affidavit with the appraisal district.

In other words, an elderly homeowner never has to sell his or her home to pay property taxes. The taxes can be deferred until after the owner moves or dies and the house is sold, and then paid from the proceeds before distribution to any heirs. Unfortunately, this provision is little-known and infrequently used, despite explicit statutory language requiring all chief appraisers to annually publicize this option.

In addition, since 1997 *all homeowners have been able to defer property taxes on the portion of the taxable value of their homes that exceeds 105 percent of the prior year's value, not including new improvements.* This protection is in addition to the cap that prevents homestead appraisals from increasing faster than 10 percent a year. This provision is even less well known and property owners rarely take advantage of it.

The Texas Legislature could also act on bills that have been introduced in recent years to provide more equity among property taxpayers.

Potential Changes to Law:

Margin of error regarding comptroller's property value studies: Because state school finance payments are based on the property values within each school district, the state has a financial interest in ensuring high local property tax appraisals. The higher the

property values and more local property tax money supporting local school districts, the less money the state has to pay.

Current law says that appraisal districts' estimate of market value must not vary more than five percent from the comptroller's determination of the market value in the districts. This spills over from the school districts to other taxing entities since appraisal districts also set property values for counties, cities and special districts.

In 2007, House Bill 216 by Rep. John Otto would have increased the 5 percent margin of error to 10 percent, alleviating some of the pressures on appraisal districts regarding appraised values. The House passed the bill, but the Senate did not.

Sales price disclosure: Local appraisal districts base valuation of property on the best information available from commercial sources, but the districts lack the comprehensive knowledge of real estate values needed for full accuracy. In particular, price information on high-end homes and on business property is very hard to obtain. To remedy this, the state should require that sales prices in all real estate transactions be reported to the appraisal district. Disclosure is required in 35 states; Texas is the only state so highly dependent on property taxes that tries to function without knowing actual sales prices.

Increasing the amount of taxable property value by ensuring that all property is on the rolls and accurately valued would permit the school districts to collect the same amount of revenue at a lower tax rate. Since the state guarantees that school districts can generate a certain amount of revenue per student for each penny of tax rate, more local revenue could also reduce the need for state aid.

During both the 2005 and 2007 regular sessions, Sen. Jeff Wentworth and Rep. Mike Villarreal introduced bills to require sales price disclosure, but the bills failed to pass.