



Texas Legislative Study Group

An Official Caucus of the Texas House of Representatives

LSG Analysis for Property Tax Relief Bills

July 13, 2023

HB 3 (identical to SB 3 by Bettencourt)

Author: Geren | Meyer | Darby | Hefner | Raymond

Committee: Ways & Means — 9 Ayes, 0 Nays, 0 PNV, 2 Absent

Recommendation: Will of the House

HB 3 provides franchise tax exemptions to certain businesses.

Franchise Tax Exemptions

HB 3 increases the total revenue threshold below which a taxable business would owe no franchise tax from around \$1 million to \$2.47 million. This would cost the state roughly \$300 million per year, \$600 million for the 2024-25 biennium. Franchise taxes are levied by the state for doing business in Texas and vary per year. In 2022 and 2023, businesses earning less than \$1.23 million do not have to pay a franchise tax. HB 3 would increase this so more businesses qualify. The bill would apply to taxes originally due on or after January 1, 2024.

Increasing the threshold to exempt franchise taxes will be a boon to small businesses. Although reducing franchise taxes will primarily benefit high-income households making more than \$166.5 thousand per year, a targeted exemption is better than an across-the-board franchise tax cut.

HB 3 includes a section stating that it is contingent on the passage of SB 2, or similar legislation.

HB 2 (very similar to SB 2 by Bettencourt)

Author: Meyer | Metcalf | Burrows | Raymond | Thierry

Committee: Ways & Means — 9 Ayes, 0 Nays, 0 PNV, 2 Absent

Recommendation: Will of the House

HB 2, the Property Tax Relief Act, includes nearly \$13 billion to increase the homestead exemption, accelerate tax compression, and provide non-homestead properties a 20% cap on appraisals for three years.

Tax Rate Compression

Tax rate compression lowers a taxing unit's tax rate. HB 2 includes \$12.7 billion to reduce a school district's maximum compressed rate by an additional 10.7 cents. This accelerates the compression already occurring (although less than previous House plans) and shifts the burden of funding schools from local taxpayers to the state. It also means that recapture districts would pay less into recapture, with less local revenue collected overall.

Concerns

A rate cut would likely benefit higher-income families and businesses the most. Because tax rates are based on a percentage of the appraised value, property owners with the highest-valued homes gain the most benefit. A rate cut would also benefit businesses, which pay just over half of school property taxes. However, because businesses can adjust their practices, including changing prices and wages to increase profits, it is not certain that a boon to businesses would benefit their workers.

There are also concerns about the sustainability of cutting rates. If and when there is an economic downturn, the state may be unable to fill the school finance bucket, reducing funding for schools or increasing other taxes such as sales tax, at the expense of low-income families.

Given the amount of surplus funds currently available, additional compression poses no immediate threat, but future hard times could pose a serious challenge to the state. Additionally, our current compression system creates tax rate inequities among school districts because faster-growing districts can get their full school-finance entitlement at a lower tax rate than slower-growing districts. Further compression simply exacerbates this.

Increasing the Homestead Exemption

HB 2 increases the homestead exemption from \$40,000 to \$100,000. It also adjusts the “over-65/disabled freeze,” which caps the school property tax bill at the level a homeowner paid when turning 65, to take into account increases in the homestead exemption. Increasing the homestead exemption makes sense, as flat dollar exemptions lose value over time. A flat dollar exemption distributes the tax savings relatively equally amongst households, with a greater share going toward the higher income groups more likely to be homeowners. Flat dollar exemptions give a bigger boost to middle and lower-class homeowners because the reduction in taxes is a greater percentage of their overall income compared to an upper-class homeowner.

Appraisal Caps on Non-homestead Properties

HB 2 includes a 3-year pilot for a 20% appraisal cap on non-homestead residential and commercial properties¹ valued at or under \$5 million during the 2025 tax year. The Comptroller will determine qualifying property values for the 2024 tax year and subsequent tax years after 2025. For qualifying properties, the appraised value cannot exceed the lesser of the market value or the sum of:

- 20% of the appraised value in the preceding year,
- the appraised value in the preceding year, and
- the market value of any improvements.

Currently, homestead appraisals are capped at 10%, but there is no such cap on other property types. The proposed appraisal cap expires on December 31, 2026. The proposal on appraisal caps on all real property during the regular 88th Regular Session posed a number of issues. HB 2’s 20% appraisal cap is temporary and more targeted to smaller businesses. The impact of the cap will need to be examined in future sessions.

Increases Appraisal District Board of Directors in Counties over 75,000

Appraisal districts are responsible for providing accurate appraisal of all property in the county, in accordance with the Texas Constitution. A district’s board of directors is responsible for the district’s efficient operation.

HB 2 increases the number of members on an appraisal district’s board of directors from five to nine in counties with populations over 75,000. Additionally, three of the members of this expanded board would be elected in a countywide election, rather than appointed by taxing jurisdictions in the county.

Property appraisals should be a professional process, not a political one. The directors have no authority to set values or appraisal methods. There are concerns that elected board members will lead to a board more focused on tax rates, which is not part of the board’s duties, rather than the efficient operation of the appraisal district.

Provisional Tax Bills until Constitutional Amendment (HJR 2) is Passed

Each year in October, the tax assessor mails tax bills to every person on the tax roll. However, the constitutional amendment needed to implement the legislation, **HJR 2**, will not be voted on until November 2023. Therefore, the bill directs assessors to send property owners a “provisional bill” with language stating how much savings the property owner would receive if Texas voters approve the constitutional amendment and how much “supplemental tax” they would owe if it is not approved.

Other Provisions

HB 2 includes a section stating that it is contingent on the passage of SB 3, or similar legislation. There are no specific provisions to provide savings to the nearly 40% of Texans who rent their home, nor is there a pay increase or bonus for teachers.

¹ Under HB 2, a non-homestead property is real property other than residence homesteads; land designated for agricultural use; agricultural land; timber land; recreational, park, and scenic land; public access airport property; and restricted-use timber land.