



Limiting Annual Valuation Increases of Residential Property in Texas is an Attack on Fairness

Any limitations imposed on the growth in local government spending should be applied to the tax rate, not to the property value.

It is without dispute that property taxes are high in Texas for all taxpayers, not just for residential or even just for real property owners. If the legislature is inclined to "reign in" this revenue growth, it should do so by putting limitations on the tax rate that may be adopted by taxing jurisdictions. Limitation on tax rates accomplishes the goal of limiting revenue and, therefore, spending, but does so in an equitable manner that benefits all taxpayers proportionately, whereas, a limitation on appraisal increases operates in an inequitable and disproportionate manner.

A limitation on the rate of increase of the taxable value of residential property creates serious inequities within the residential taxpayer class.

Homes do not all increase and decrease in value at the same rate. Any limitation on the amount that the taxable value is allowed to increase will necessarily benefit homeowners whose values are rising rapidly to a greater degree than those whose homes are either not increasing in value or are increasing at a slower rate. Studies have shown that, over time, higher valued homes increase in value at a rate much higher than do lower valued homes. This means that, under any value cap scenario, the owners of high valued homes will receive a greater tax benefit funded by other taxpayers including the

**Incidence Analysis: School Property Tax
Limitation on Appraisal Value of
Homestead (Tax Code 23.23)**

FINAL DISTRIBUTION OF EXEMPTION—
BY HOUSEHOLD INCOME DECILE, TAX YEAR 2006
(dollar amounts in millions)

Decile	Family Income	Amount (\$millions)	Percent of Tax Paid	Tax as a Percent of Total Income
Decile 1:	less than \$12,820	\$ 3.2	2.4%	0.1%
Decile 2:	\$12,820 to \$21,797	2.9	2.2	0.0%
Decile 3:	\$21,797 to \$30,397	4.0	3.0	0.0%
Decile 4:	\$30,397 to \$39,743	4.7	3.5	0.0%
Decile 5:	\$39,743 to \$49,661	5.9	4.4	0.0%
Decile 6:	\$49,661 to \$61,734	7.4	5.5	0.0%
Decile 7:	\$61,734 to \$76,037	9.0	6.7	0.0%
Decile 8:	\$76,037 to \$96,693	12.0	9.1	0.0%
Decile 9:	\$96,693 to \$135,599	19.0	14.3	0.0%
Decile 10:	\$135,599 and over	<u>36.1</u>	<u>27.2</u>	0.0%
Residents		\$104.2	78.4%	
Exported		<u>\$ 28.7</u>	<u>21.6%</u>	
TOTAL		<u>\$132.9</u>	<u>100.0%</u>	

Source: Tax Exemptions and Tax Incidence, Comptroller's Office, Chart 42, January 2005

These figures show that, under the current 10% cap, the vast majority of the benefit has accrued to those at the highest income levels.

(continued)



owners of lower valued homes. Over time this fact creates serious inequity in the rate of taxation that threatens the fundamental fairness of the property tax system.

Residential home values in Texas over the last ten years have not increased at an annual rate anywhere near 10%, nor are they projected to do so in the future.

Statistics, promulgated by proponents of the proposition to lower the cap on the allowable annual increase in the value of residential property, that appear to show values increasing at a rate approaching 10% a year, are misleading in that they fail to exclude the impact of the substantial number of new homes built in recent years. For example, data from the Harris County Appraisal District illustrates that the actual annual rate of value increase for the average home that existed in Harris County from 1994 to 2004 is near 3.7%.

Owners of the most expensive homes are currently avoiding property tax at a rate much higher than are the owners of the least expensive homes.

Further statistics acquired from the Harris County Appraisal District illustrate that, for the 2004 tax year, the average amount of value not being taxed, due to the 10% cap, for homes in Harris County valued under \$100,000 is \$8,600 while the average amount of value not being taxed for homes valued over \$700,000 is \$126,000. This means that, for the 2004 tax year, over \$341 million of value on homes worth in excess of \$700,000 is not being taxed in Harris County alone.

This represents in excess of \$10 million in tax that is not being levied against property owners who are the most able in our society to pay such a tax. The shifting of this tax burden from those most able to pay to those less able to pay is not good public policy.