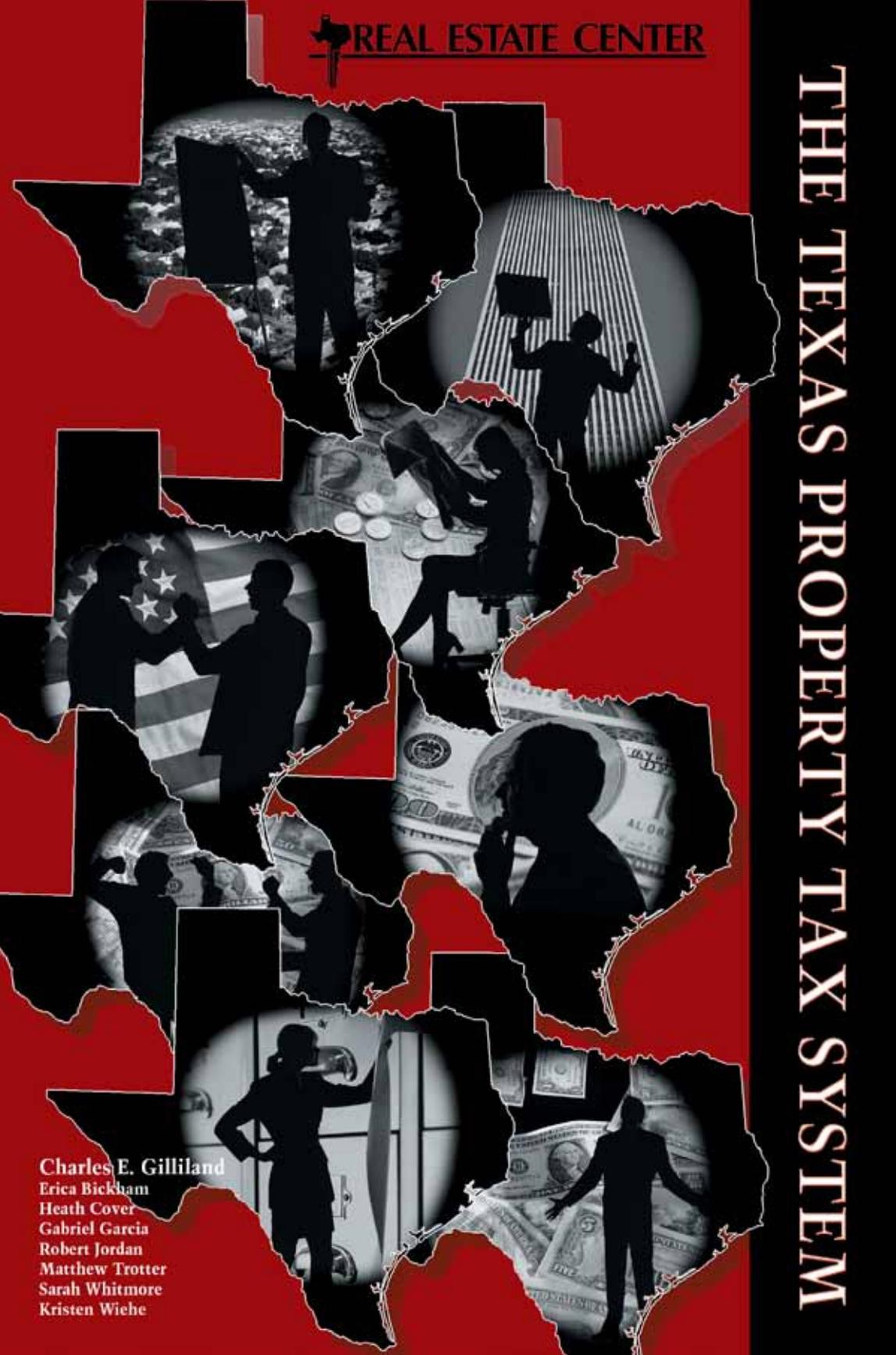


THE TEXAS PROPERTY TAX SYSTEM



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Acknowledgements

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Revised July 2011

December 1997

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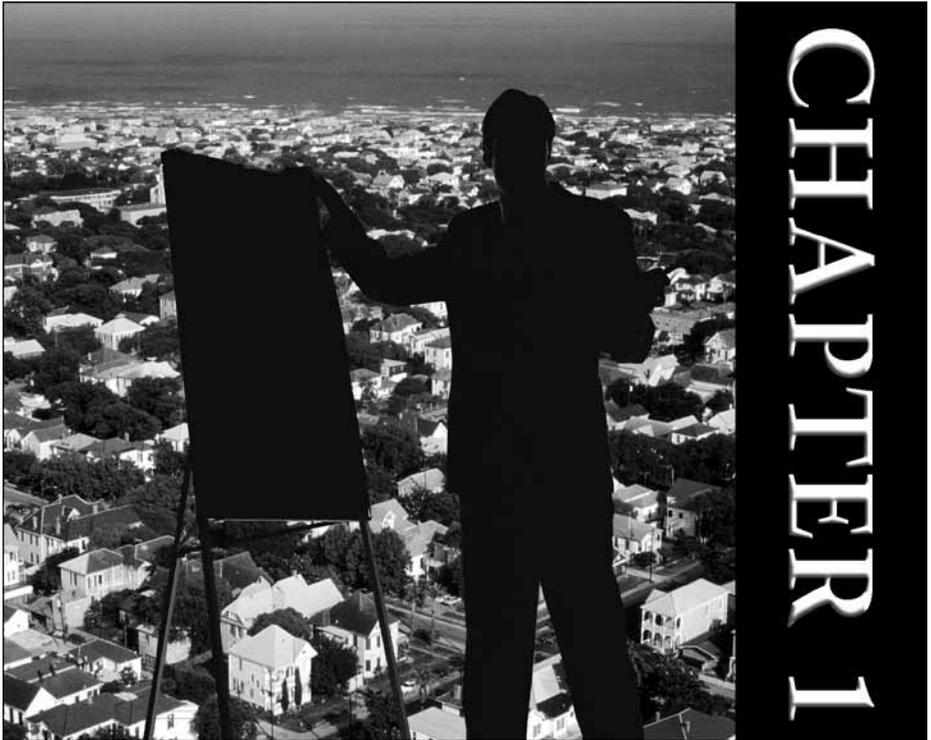
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Solutions Through Research



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The Texas Property Tax System: An Overview

Chapter 1 provides a general overview of the Texas Property Tax System. It explains the legal basis for property taxation and the importance of property tax revenues to local governments, school districts and other special districts.

Definition

A tax is a compulsory monetary contribution imposed by governments to pay for governmental activities. Common taxes include income, sales and value-based taxes. A property tax is assessed according to the value of property a taxpayer owns. Because property taxes depend on value, they are called *ad valorem*, meaning “according to value.” Property value presumably reflects its owner’s wealth; therefore, market value demonstrates an owner’s ability to pay. Knowing property values should allow governments to make impartial, fair tax assessments to individual property owners.

Importance to Local Governments

Property taxes are locally based and administered. Local governments and school districts use property tax revenues to finance a wide range of services such as fire and police protection, schools, public libraries, street maintenance and parks. Special districts finance water systems, utility systems, junior colleges and other systems and projects.

In the past, both state and local governments levied property taxes. Until 1980, the state tax helped finance construction at many of the state's colleges and universities. The legislature has now eliminated the state tax, but the local property tax remains as the primary revenue source for more than 1,000 school districts and more than 3,000 other local jurisdictions in Texas.

Statewide, more than half of all Texas property tax levies support public education. The state general fund provides more than 40 percent of the revenues, and federal funds and other local revenues contribute the remaining portion of school funds. A school district's total taxable value affects the level of state funding it receives.

Major Administrators and Agencies

To understand how the Texas property tax system functions, the reader should be able to identify the political subdivisions, public officials and governmental agencies that administer the system. The specific roles and responsibilities of these entities are explained in detail throughout the text. The following section introduces the major property tax administrators and agencies.

Appraisal Districts

Appraisal districts are frequently referred to as county appraisal districts or CADs. CADs exist for each county. However, Potter and Randall Counties (Amarillo) share a single district, bringing the state-wide total to 253. These districts are responsible for appraising property in the district for ad valorem tax assessments. Generally, a board of directors is elected by taxing units that are authorized by law (cities, counties, schools, and certain reclamation/conservation districts). It governs appraisal districts and establishes the appraisal office. Special provision exist for contracting with local governmental entities to provide appraisal services.

Chief Appraisers

The chief appraiser serves as the primary administrator of the CAD. The chief appraiser is responsible for personnel hiring and management. The chief appraiser hires and directs district personnel. The appraisal district board of directors appoints the chief appraiser, who serves at their pleasure. No individual who is more than 60 days delinquent on their property taxes can serve as the chief appraiser or on the CAD board of directors (Sec. 6.035).

Appraisal Review Boards

Each appraisal district board of directors also appoints an appraisal review board (ARB). Beginning in 2010 in certain counties (currently Harris and Fort Bend Counties), ARB members are appointed by the local administrative district judge. The ARB hears property owner protests, taxing unit challenges, and correction motions, then approves the records to create the district's appraisal roll. Thus, the ARB settles disagreements about value, exemptions or other issues between a property owner and the CAD.

Taxing Units

Local governmental entities with the legal authority to impose property taxes are called "taxing units" (Sec. 1.04[12]). Counties, school districts, incorporated municipalities (cities) and special districts (municipal utility and junior college districts) are examples of taxing units. Taxing unit governing bodies (city councils, county commissioners courts, school boards) set each taxing unit's budget, adopt tax rates, collect taxes and spend those taxes to provide services and pay the unit's debts. The amount of a taxing unit's budget determines the tax rate. The tax rate and taxable value set the total taxes that property owners must pay.

The Texas Constitution and the *Property Tax Code* specify how taxing units may adopt a property tax. Cities, counties, school districts and special districts each have legislative authority that defines their powers to tax by setting rate limits, debt limits and timetables for action.

Assessors and Collectors

Counties elect assessor-collectors for the county. Taxing units name a specific person — an *assessor* — to calculate taxes, prepare tax rolls and generate tax bills. A person responsible for collecting and accounting for taxes is called a *collector*. A person combining these duties is commonly called an *assessor-collector*. These are legal terms, but some assessor-collectors may use different titles, such as *business manager*. Other taxing units may opt to have the county assessor-collector assess and collect for them or they may appoint separate assessors and collectors. In many cases, a number of taxing units have pooled their resources to establish a single tax office with a single assessor-collector.

State Agencies

The Texas Constitution bars the state from imposing property taxes. However, a few state agencies regulate the administration of property taxes.

The *Comptroller of Public Accounts Property Tax Assistance Division* was established in 1991 to administer certain areas of the state's property tax system at the state level. The Property Tax Assistance Division:

- gives technical assistance to local property tax administrators;
- provides information about property taxation to the public;
- makes a study of property values and the accuracy of appraisals in each school district and appraisal district every two years; and

- conducts performance audits to review each CAD's governance, taxpayer assistance, operating standards, and appraisal standards, procedures and methodology at least once every two years.

The *Texas Education Agency* regulates school districts and has some rule-making authority over school district tax rate adoption.

The *Texas Department of Licensing and Regulation* is responsible for regulating the activities of professional property tax consultants, as well as the core educational program that tax professionals take when progressing toward state certification. TDLR establishes the approved educational materials, curricula, instructors and course sponsors.

TDLR also is responsible for registering those who work in the property tax area. TDLR requires the following persons to register *and work toward certification* as a Registered Professional Appraiser (RPA):

- chief appraisers
- appraisal supervisors and assistants
- property tax appraisers
- appraisal engineers
- property tax consultants
- employees of appraisal firms who appraise property for tax purposes
- all other persons with authority to judge, recommend or certify appraised values for property tax purposes

TDLR also requires each tax office to register at least one person with TDLR (usually the head of the tax office). If this official performs assessment activities, then the individual works toward certification as a Registered Texas Assessor-Collector (RTA). If this official does not perform assessment activities, then the individual works toward certification as a Registered Texas Collector (RTC). However, elected county assessor-collectors in counties whose population totals exceed one million are exempt.

Ethics in Property Tax Administration

Each person registering with the state must sign a pledge to uphold a Code of Ethics.

AGREEMENT OF APPLICANT

I attest that the information in this application is accurate to the best of my knowledge. I agree to comply with all of the requirements of the Property Taxation Professional Certification Act. Further, I agree to comply with any and all rules and regulations promulgated by the Department of Licensing and Regulation as required by the Property Taxation Professional Certification Act. I pledge to subscribe and promote the following Code of Ethics:

1. I will be guided by the principle that property taxation should be fair and uniform, and apply all laws, rules, methods, and procedures, in a uniform manner, to all taxpayers;
2. I will not accept anything of value from any party other than my employer as an appraiser, assessor, or collector;
3. I will not use information received in connection with the duties of an appraiser, assessor, or collector for my own purposes, unless such information can be known by ordinary means to any ordinary citizen;
4. I will not engage in an official act that is dishonest, misleading, fraudulent, deceptive, or in violation of law;
5. I will not conduct my professional duties in a manner that could reasonably be expected to create the appearance of impropriety;
6. I will not accept an appraisal, assessment, or collection related assignment that can reasonably be construed as being in conflict with the my responsibility to my jurisdiction, employer, or client, or in which the I have an unrevealed personal interest or bias; and
7. I will not accept an assignment or responsibility in which I have a personal interest without full disclosure of that interest.

Signature of Applicant

DO NOT SUBMIT APPLICATION BEFORE CHECKING THE FOLLOWING:

- Is application signed?
- Is application filled out completely?
- Is employer's statement complete and signed?
- Have you attached a certificate or a transcript for each course, taken within the past 5 years, for which you are requesting credit?
- Have you attached the \$105.00 check payable to Department of Licensing and Regulation?
- If registering in dual fields, the application the fee is \$105.00 *per field*.

Texas Administrative Code

Improper Influences (Sec. 628.3)

This section bars any person registered with TDLR from accepting any benefit in return for favorable treatment. The section applies to decisions regarding property valuation, an exemption from taxation, or property tax collection. Further, a registrant cannot accept any benefit with the understanding that he or she will testify falsely or withhold information in an adjudication proceeding, or promise a benefit to another to do so.

Conflicts of Interest (Sec. 628.4)

This section prohibits a registrant from engaging in activities that could result in a conflict of interest. Specifically, a registrant cannot engage in any activity outside of the appraisal or tax office that adversely affects the person's impartiality in officially assigned duties. For example, a registrant must disclose any financial interest he or she possesses in any firm operating in the real estate industry. In addition, a registrant may not invest in a property within the jurisdiction if it creates a conflict of interest. Finally, a registrant may not serve as a tax agent, unless such service focuses on properties not in the appraisal district or tax office that employs the registrant.

Unfair Treatment and Discrimination (Sec. 628.5)

This section details when registrants provide unfair advantages to other persons. For example, a registrant cannot provide information to any private party when the information is not provided to everyone. In addition, a registrant cannot use different appraisal techniques for similar properties to arbitrarily raise or lower appraised values of particular properties. Further, a registrant may not use collection procedures that discriminate to the advantage or disadvantage of any taxpayer. A registrant also must not provide information on the delinquent tax status of any property for a fee, except under a limited number of circumstances. Finally, a registrant may not predetermine the value or value range of a property and then manipulate the data to arrive at the predetermined value.

Abuse of Powers (Sec. 628.6)

This section prohibits acts where a registrant uses his or her power in an unethical manner. For example, a registrant cannot use agency resources for personal benefit. Further, in his or her capacity as a property tax professional, a registrant may not endorse any services. Also, unless otherwise permitted by law, a registrant cannot collect money from a private person or firm under the guise of official action.

Use of Titles (Sec. 628.7)

This section bars the use of the titles registered professional appraiser (RPA), registered Texas collector/assessor (RTA), or registered Texas collector (RTC) unless the individual is an active, certified registrant with TDLR. Further, registrants may only use the above titles in connection with official duties.

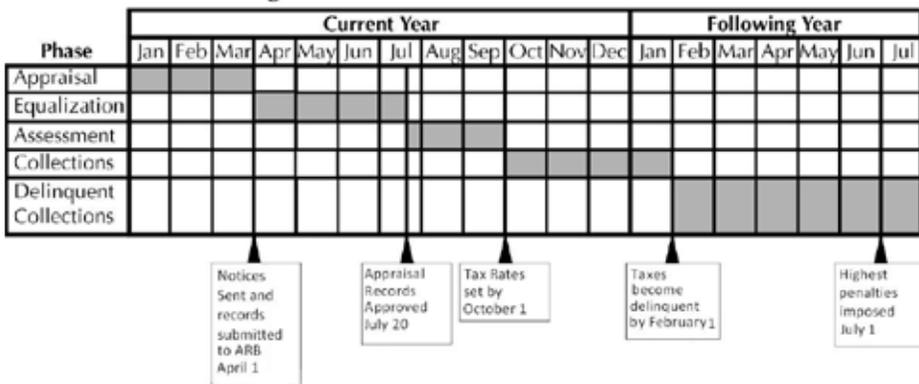
The preceding discussion summarized the *Texas Administrative Code*. Registrants should review each section carefully when confronting situations that border on unethical.

Tax Calendar

The tax calendar specifies a schedule of property tax activities and provides the key to understanding the property tax process. Some dates on the calendar are fixed by law; other dates depend on events. For example, the chief appraiser must notify property owners, in writing, concerning increased or new appraisals. This notice allows property owners to protest taxable values. The protest usually occurs during mid-May, but may be later if the appraisal district prepares some records late. When legal deadlines fall on weekends and holidays, appraisal districts and tax offices extend the official deadline to the next regular working day.

Events in the tax calendar divide into four phases of the tax process: appraisal, equalization and review, assessment and collections (see Figure 1).

Figure 1. Phases in the Tax Calendar



Appraisal Phase (January 1 through May 15)

In most appraisal districts, property appraisal, recordkeeping and maintenance of a set of property maps occur year-round. The chief appraiser and his or her staff appraise all taxable property according to its value on January 1 of the tax year (Sec. 23.01). Between January 1 and April 15, property owners submit property renditions (Sec. 22.23). Taxpayers turn in applications for exemptions and special appraisal between January 1 and May 1. From January through March, the chief appraiser adds new property records, reappraises to reflect property value added by improvements or other property value changes, and corrects clerical errors in the records. Throughout this phase, the chief appraiser grants or denies exemption and special-use appraisal applications. During the appraisal phase, the chief appraiser must notify taxpayers of any changes to their property records and send a notice of appraised value. Notices must be sent to the address requested in writing by the property owner or to

the property owner's agent at the agent's address. Notices may be in an electronic format if agreed to in writing by the property owner and chief appraiser (Sec. 1.07). On May 15, or as soon afterward as possible, the chief appraiser presents the appraisal records to the ARB.

Equalization Phase (May 15 through July 20)

During June and July, the ARB usually reviews the appraisal records and hears taxing unit challenges. Most protests must be filed before June 1 (Sec. 41.44). The ARB presents changes to the chief appraiser in a written order and notifies affected property owners of those changes. By July 20, the ARB finishes its hearings and approves appraisal records, thus making them the official appraisal roll. However, if more than 5 percent of the total appraised value remains under protest, the ARB may not approve the roll. In counties with population of more than one million, the Board of Directors can extend the date to August 30 and allow certification of the records if the amount remaining at protest is 10 percent or less of the total appraised value. The chief appraiser then certifies an appraisal roll to each taxing unit. The chief appraiser is also required to submit to each taxing unit a certified list of properties not included in the initial appraisal roll or on the list of properties certified as being under protest before the ARB. The list contains information about the properties appraised value, market value and taxable value for the preceding year, along with an estimate of these values for the current year. Until the property is added to the taxing unit's appraisal roll, the unit must use the lower of the values for calculations (Sec. 26.01). Any additional property records the chief appraiser prepares following certification must also undergo ARB review. These supplemental records become part of the official appraisal roll after ARB approval.

Assessment Phase (July 25 through October 1)

The assessor receives the certified appraisal roll from the chief appraiser and presents it to the governing body on or about July 25 (Chapter 26). Information on the roll helps the unit set its budget and adopt a tax rate. The assessor or an employee of the taxing unit designated by the governing body of the taxing unit calculates the effective tax rate and rollback tax rate soon after the unit receives the roll, and the taxing unit publishes the rates along with other financial information. Tax rates must be adopted by September 30 or 60 days after receipt of the certified tax roll (Sec. 26.05). Otherwise the rate acts at the lower of the effective tax rate or the rate from last year.

As soon as the governing body finalizes its budget (often in August or September), the governing body adopts a tax rate to generate enough revenue to fund that budget. The assessor then calculates the tax liabilities for each property by multiplying taxable value times the adopted tax rate. Taxing units sometimes have difficulty adopting a tax rate by early September. If the governing body delays rate adoption, that delay pushes assessment and collections activities to a later time. Assessors generally mail tax statements (tax bills) around October 1 (Sec. 31.01). However, when circumstances delay rate adoption, bills often go out later as well.

Collection Phase (October 1 and throughout the year)

Taxes become due when the taxpayer receives a bill (Chapter 31). The tax becomes delinquent on February 1 of the following year. However, if a taxing unit mails an initial bill after January 10, that tax becomes delinquent on the first day of the next month, thus providing at least 21 days for payment. For example, when the taxing unit mails initial bills on January 11, taxes become delinquent on March 1. Throughout the year, the collections staff mails notices to delinquent taxpayers and takes legal action to secure payment of overdue taxes, penalties and interest.



Property Rights, Ownership and Use

The enjoyment or profit derived from the use of real property creates value. Thus, the rights to the real estate impart value, making the extent of ownership critical to the valuation process.

Bundle of Rights

Real property consists of a number or “bundle” of ownership rights. Each right establishes some degree of control over the real estate and presumably has a value in the market. The bundle is often viewed as a group of sticks that can be separated from one another. Therefore, different individuals may own different rights in a piece of property for specified periods. A right or interest in real estate is referred to as an *estate*. The value of a particular real estate parcel depends on the rights conveyed to the buyer. The “bundle of rights” inherent in the ownership of real estate includes the right to:

- use the real estate
- sell the real estate
- lease the real estate
- enter and leave the real estate
- give away the real estate
- choose or exercise all or none of these rights

Restrictions

Governmental

Estates in real property are limited by the four powers of government: police power, escheat, taxation and eminent domain. *Police power* is the right of government under which property is regulated to protect public health, safety, morals and general welfare. The following regulations are based on police power:

- zoning ordinances
- use restrictions
- building codes
- access rights
- health regulations

Escheat is the right of government that gives the state title to property when its owner dies without a will or any ascertainable heirs. In Texas, great effort is made to find heirs of individuals who die without a will. Thus, the power of escheat is not often used.

Taxation is the right of government to raise revenue through assessments on valuable goods, products and rights. The U.S. Constitution prohibits the federal government from taxing real property directly. Therefore, the right of property taxation is reserved for state and local governments. These governments assess ad valorem taxes to pay for public services.

In Texas, a tax lien is created on all taxable property on January 1 of each year. This lien remains in effect until the property taxes are paid in full. Property taxes become delinquent on February 1 of the year following assessment. Tax liens have automatic superiority over all prior security liens and federal tax liens. At any time after taxes on a property become delinquent, a taxing unit may file suit to foreclose the lien, to enforce personal liability for the tax, or both.

Eminent domain is the right of government to take private property for public use upon the payment of just compensation. A government may use the power of eminent domain to obtain land for roads, schools, parks or oil and gas pipelines to name a few. Condemnation is the act or process of enforcing the right of eminent domain.

Private

In addition to government restrictions on property, private legal agreements can impose limitations on property ownership. By placing restrictions in a deed, a prior owner can limit the use of that property by subsequent owners. For example, a deed restriction prohibiting the sale of alcohol on an otherwise ideal site for a convenience store may destroy its appeal for that use.

Types of Ownership

It is possible to own all or only some of the rights in a parcel of real estate. The extent of ownership in a property determines the type of interest, or estate, that is held. The most complete form of ownership is called a *fee simple estate*. A fee simple estate implies absolute ownership unencumbered by any other interest or estate. Thus, the owner of a fee simple estate has all of the sticks in the bundle of rights.

Another form of ownership is a *life estate*. A life estate is an estate that lasts only as long as the life of the owner of the life estate. Upon the death of that person, the property reverts back to the original transferor of the property, his or her heirs, or any other designated person.

Partial ownership interests in real estate are created by selling, leasing or otherwise limiting the bundle of rights in a fee simple estate. A *leased fee estate* is an ownership interest held by a landlord with the right to use and occupy conveyed by lease to others. The landlord owns the fee, but it is leased to another party. Upon termination of the lease, the landlord will once again have fee simple ownership.

Another type of partial interest is a *leasehold estate*. This is the type of interest that a tenant or renter has under a lease agreement. The lease transfers the right to use and occupy the property to the tenant for a specified period. At the end of the lease term, the right to use and occupy the property reverts to the landlord.

Taxable Property

Real property, including certain leasehold interests, and personal property are taxable. *Real property* is the rights, interests and benefits connected with real estate. *Real estate* is the physical parcel of land, improvements to the land and improvements attached to the land. Thus, real estate is the land and everything permanently attached to it. *Personal property* includes movable items that are not permanently affixed to, or part of, the real estate.

Real Property

The Property Tax Code defines real property to be (1) land, (2) mines or quarries, (3) standing timber, (4) minerals in place, (5) improvements and (6) any other ownership interest in real property unless that ownership secures a lender's or contractor's lien (Sec. 1.04).

Minerals in place are those minerals that have not been removed from the ground. As soon as they are brought to the surface, those minerals become personal property. The Property Tax Code defines an *improvement* as "a building, structure, fixture, or fence erected on or affixed to land." A manufactured home, popularly known as a mobile home, counts as an improvement (and therefore as real property) only if the owner of the home has elected to treat the manufactured home as real property under Sec. 1201.2055 of the Occupations Code and a certified copy of the statement of ownership and

location has been filed with the county in which the home is located (Sec. 1.04[3][A]). All other mobile homes are personal property (Sec. 1.04[3][B]).

Appraisers distinguish between *improvements-on-land* and *improvements-to-land*. Improvements that make the site more suitable for general use or that involve reshaping the land itself are improvements-to-land. This category includes things such as sidewalks, curbs, retaining walls and stock tanks. Improvements-on-land include things such as houses, barns, warehouses and factories. Appraisers normally include the value of improvements-to-land with their land value estimate but not their estimate of improvements-on-land value. Often, the term *site* is used to refer to the raw land and improvements-to-land.

The “all other ownership interests in real estate except for lender’s or contractor’s liens” category is composed mostly of mineral leases. A person or company that purchases mineral rights in a property must pay property taxes on the value of that ownership interest. However, an ownership interest held by a mortgage lender or a contractor who has a lien on a property is not taxable. A *lien* enables the holder to take over ownership of property or force its sale if the owner does not pay the debt owed to the lien holder. The lien holders cannot be taxed on the value of the lien unless they actually take possession of the property. Borrowers are liable for the property taxes as long as they retain ownership of the property.

Personal Property

Personal property includes two types: *tangible* and *intangible* (Sec. 1.04). Property perceived through the senses (seeing, weighing, measuring, feeling) is tangible. Property not perceived physically is intangible. Stock in a corporation is intangible. Even though the piece of paper (the share of stock) provides legal evidence of ownership, the owner cannot actually see the corporation or the ownership interest in it.

Generally, appraisal districts do not have to consider intangible personal property (Sec. 11.02). Under certain circumstances, however, the intangible property of insurance companies and savings and loans may be taxed. Otherwise, intangibles are exempt unless a transportation company owns them, and the state comptroller appraises such personal property. Although a corporation is intangible and intangibles usually are not taxable, corporations do pay property taxes. The appraisal district must discover and list all of a corporation’s real and tangible personal property, which are taxed.

Recently, the inclusion of intangible personal property in business valuation has become controversial. The controversy concerns properties having unique management or other features that create value in excess of the tangible assets. Arguments typically center on items such as goodwill, an assembled workforce, a permit or a superior management system. Because intangible personal property is exempt, this controversy likely will continue until court rulings clarify the issues.



Market Value Concepts

Because CADs have primary responsibility for identifying all taxable property within a jurisdiction and appraising it at 100 percent of market value, the concept of value is central to the property tax process.

Market Value

The Property Tax Code gives the legal definition of market value (Sec. 1.04):

Market value means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- it is exposed for sale on the open market for a reasonable time for the seller to find a purchaser;
- both the seller and the purchaser know all the uses and purposes for which the property is adapted as well as any enforceable restrictions on its use; and
- both the seller and purchaser seek to maximize their gains, and neither is in a position to take advantage of the *exigencies* of the other.

Exigencies means pressing or urgent conditions that leave one party at a disadvantage. For example, if a buyer needs one and only one particular property

and if the seller knows of the buyer's needs, then the seller has an advantage over the buyer. The negotiated sale price probably will exceed market value. Other examples of potential nonmarket value transactions include:

- sales involving governmental entities
- sales involving churches
- sales between relatives
- sales to avoid foreclosure
- purchases of adjoining land to expand a business
- sales with advantageous financing

In judging whether a sale is for market value, appraisers also must consider the length of time property typically remains on the market before it is sold. The typical time span may vary with the type of property and with market conditions. Commercial properties change owners less frequently than residential properties, and industrial properties change owners less frequently than commercial. Several years may be required to sell an oil refinery, while a single-family residence may sell in only a few months. When examining sales to determine whether they are market-value transactions, appraisers should keep this point in mind.

Forces Affecting Market Value

The value of real property reflects and is influenced by the interaction of basic forces that motivate human activity. These forces are classified under four major categories: environmental, economic, governmental and social.

Environmental

Real property values are influenced by natural and constructed environmental forces. Natural environmental forces include:

- water availability
- climate
- topography
- soils
- natural barriers to future development (e.g., rivers, mountains and other geographic features)

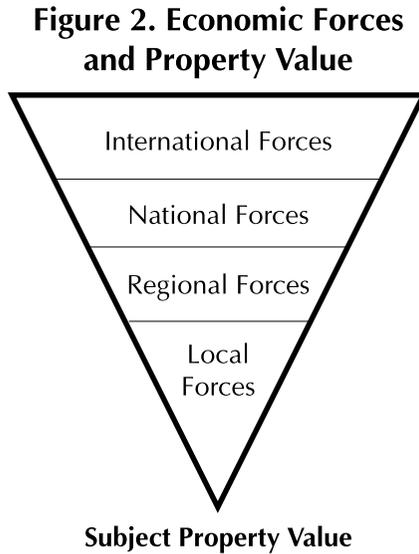
Constructed or artificially-created environmental forces include:

- toxic contaminants (e.g., asbestos or PCBs)
- primary transportation systems (e.g., highways, railroads, airports)
- time-distance relationships to complementary land uses

Environmental forces influence market values by determining both resource quality and accessibility. Being a prisoner of its location, real estate value reflects the conditions of its surroundings as well as the site composition. All of these forces exert an impact on land use and property value.

Economic

Economic forces relate to the general state of the international, national, regional and local economies. Demand variables that affect land values include employment levels, wage rates, income levels and purchasing power, as well as the availability of financing, interest rates and transaction costs. Supply variables include the quantity of available land, development and construction costs, taxes and other holding costs. Figure 2 depicts how world-wide economic forces influence a particular property's value:



Governmental

Governmental, political and legal actions at all levels affect property values. Natural market forces may be overshadowed by the legal climate at a particular time or in a particular place. Governmental forces with potential impact on property values include:

- public services such as utilities, educational facilities, transportation networks and municipal services
- land-use controls such as zoning ordinances and building codes
- national, state and local fiscal policies
- legislation

A prime example of governmental forces affecting real estate values is the current enforcement of environmental laws. Because these laws severely restrict property use, they have a significant impact on market values.

Social

Social forces are exerted primarily through population characteristics and demographics. The demand for real estate services is a function of population,

employment and the number of persons per household. Other social forces affecting real estate values include age distribution, education levels, beliefs and crime rates. Examples include the clustering of affluent individuals in a particular area or the development of retirement communities.

The interaction of environmental, economic, governmental and social forces affect the value of every parcel of real estate in the market. These forces are dynamic; an appraiser, therefore, must analyze and interpret trends in these forces to estimate value accurately.



Appraisal Principles

The International Association of Assessing Officers defines *appraisal* as “an estimation of value.” It is the process of developing an unbiased estimate of value based on *objective* market observations and typical buyer-seller expectations. An estimate of value should never be based on the appraiser’s personal desires or interests.

Texas law mandates the use of “accepted appraisal practice.” This requires specific steps to eliminate bias and to test value estimates. These steps help to insure that the value estimate is more than a mere guess. Specific requirements appear in the Texas Property Tax Code. In addition, the Appraisal Foundation in Washington, D.C., promulgates the Uniform Standards of Professional Appraisal Practice (USPAP). USPAP specifies the requirements for property tax appraisals. Students should obtain these sources to gain a thorough understanding of the elements required in a proper appraisal.

A thorough understanding of the appraisal process begins with the principles of appraisal. These principles are the necessary tools for the appraiser’s understanding of why and how property values change over time. The eight principles of appraisal are: change, anticipation, supply and demand, competition, substitution, balance, conformity and contribution.

Change

Change results from the cause and effect relationships among the forces that influence real property value. Although change is inevitable and continuous, the process may be gradual and not easily discernable. At other times, however, change may be abrupt and frustrating. In active markets, change may occur rapidly; new properties may be put up for sale and others may be sold on a daily basis. Changing market conditions such as inflation and deflation, as well as appreciation and depreciation affect real estate values.

The inevitability of change is also apparent in the physical, functional and economic impairments observed in buildings as they age. These impairments create *depreciation*, defined as “a loss in property value from any cause.” A similar phenomenon can be observed in the life cycle of a neighborhood or district. After an initial period of growth, the neighborhood enters a period of stability followed by a period of decline. After a decline, many areas are revitalized.

Appraisers must consider all these factors when estimating value.

Anticipation

Anticipation is the perception that value is created by the expectation of future benefits. In the real estate market, the current value of a property usually is not based on its historical prices or the cost of creation. Value is based on market participants’ expectations of future acquisition benefits.

The value of owner-occupied property is based primarily on expected advantages, amenities and pleasures of ownership and occupancy. For income-producing real estate, value is based on the future income the property will produce. Because of this, appraisers must be aware of local, regional and national real estate trends that affect the perceptions of buyers and sellers and their anticipations of the future.

Supply and Demand

Demand is defined as “the quantity of a good that consumers want (and are financially able) to purchase at a given price.” In real estate, demand is the amount of a type of real estate desired for purchase or rent at various prices in a given market for a given time. *Supply* is defined as “the quantity of a good producers will offer for sale when they obtain a certain price.” In real estate, supply is the amount of a type of real estate available for sale or lease at various prices in a given market at a given time. The appraisal principle of supply and demand states that the price of real property varies directly, but not necessarily proportionately, with demand, and inversely, but not necessarily proportionately, with supply.

When the demand for a certain type of property increases, the prices paid for those properties will increase in terms of sale price or rental rate. When demand decreases, the opposite occurs. When the supply of a certain type of property increases, the prices paid for those properties will decline. This is because as supply increases, scarcity for that type of property decreases. When supply decreases, the opposite occurs.

The combination of supply and demand constitutes a market. Appraisers must interpret market behavior to determine the existing relationship between the supply of, and the demand for, the type of property being appraised. This relationship helps determine the value of the property being appraised.

Competition

Competition between buyers or tenants represents the interactive efforts of two or more potential purchasers or tenants to make a sale or secure a lease. Between sellers or landlords, competition represents the interactive efforts of two or more potential sellers or landlords to effect a sale or lease. Competition is fundamental to the operation of a free-enterprise economic system. The following example of the real estate cycle helps to explain the effect of competition on real property values.

Increased demand for a property type produces higher than normal prices and profits. These excessive profits begin to attract competing suppliers. The increased supply causes a glut in the market. As a result, the price increases moderately and then begins to decline. Competing suppliers then leave the market, and falling prices result in normal profits. This simple example explains the principle of competition and its effects on values.

Substitution

The principle of substitution states, “When several similar or commensurate commodities, goods or services are available, the one with the lowest price attracts the greatest demand and widest distributions.” In other words, no buyer will pay more for a good or service than the price of obtaining an acceptable substitute without undue delay. Because of this principle, property values tend to be set by the cost of acquiring an equally desirable substitute property.

The principle of substitution is fundamental to the three traditional approaches to value: the cost approach, the sales comparison approach and the income capitalization approach.

Balance

The principle of balance holds that real property value is created and sustained when contrasting, opposing or interacting elements are in a state of equilibrium. This principle applies to relationships among various property components, as well as between the costs of production and the property’s productivity.

The four agents of production are land, labor, capital and coordination (management). Property value is maximized when the agents are combined in technically efficient proportions in a cost-effective manner. Adding more of any of the agents actually reduces net returns. For most real estate, the critical combination is between the land and the improvements.

Applying fertilizer to a lawn demonstrates this principle. The fertilizer increases grass growth up to a point when more fertilizer reduces growth. Too much fertilizer actually can kill the grass. This condition illustrates the “law of increasing and decreasing returns.”

Conformity

The principle of conformity holds that real property value is created and sustained when the characteristics of a property conform to the demands of its market. Through local zoning ordinances, the government encourages conformity by restricting land use. A particular market also sets standards of conformity, especially in terms of price. For example, the value of an over-improved property may decline or regress toward the value level of surrounding, conforming properties.

The styles and uses of the properties in an area may conform for several reasons: economic influences, shared preferences of owners and enforcement of uniform standards by means of zoning.

Contribution

The principle of contribution states that the value of a particular component of a property is measured in terms of its contribution to the value of the whole property, or as the amount that its absence would detract from the value of the whole. The cost of an item does not necessarily equal its value. For example, swimming pools rarely increase equal to their dollar cost.

This principle also applies to an overall improvement that represents an interim use. An interim use is an existing, less optimal use of the property that will remain until it is economically feasible for a developer to absorb the costs of converting the property by razing or rehabilitating the existing improvements.

The principle of contribution and the related principles of balance and conformity are interdependent and crucial in estimating a property's highest and best use and market value. These concepts form the theoretical foundation for estimating all forms of depreciation in the cost approach, for making adjustments in the sales comparison approach and for calculating expected earnings in the income capitalization approach.



Appraisal Phase

The appraisal phase initiates the annual ad valorem property tax process. All non-exempt property must be taxed either according to its market value or a special specified value on the specified legal appraisal date, usually January 1. The appraisal phase puts properties and their estimated market value on the roll between January 1 and May 15 each year. The tax calendar shows the four main phases in the ad valorem process.

Developing Appraisal Records

In developing the appraisal records, the appraisal district must follow four steps for each property:

- Discover, list and estimate the property value
- Determine situs (finding the location for tax purposes) and eligibility for exemptions or special appraisal
- Notify the property owner of the appraisal (except in rare cases)
- Submit the appraisal records for review and approval

Discovery

When appraisers discover property, they identify it and determine its tax status. They determine the property type (real or personal) and general

classification (commercial property, inventory, agricultural land, and so forth). They begin with a set of maps showing the real property within the appraisal district.

Sometimes appraisers discover property because they actually see it or review public records such as building permits. Occasionally, they find unlisted property while doing field work. For example, a retailer may store goods in a leased warehouse or an individual may have established an income-producing activity, such as an auto repair shop, in a garage. Appraisers must be alert to clues indicating taxable property.

Appraisers use various information sources to discover taxable property: county deed records, subdivision plats, zoning records, building permits, telephone book listings, newspaper advertising, exemption applications, airplane lists from the Federal Aviation Administration, real estate brokers, developers and civic organizations. Renditions from owners and property managers provide an excellent starting place.

A rendition is a written report describing the taxable property and its ownership on January 1 of the tax year. Taxpayers must annually render tangible personal property used to produce income (Sec. 22.01). Passenger cars or light trucks used in the course of an individual's occupation and also used for personal, nonincome-producing activities are exempt. Machinery and equipment, inventories and supplies are examples of taxable tangible personal property. However, taxpayers need to render other personal property or real property only when the chief appraiser requests it. In addition, a taxpayer may voluntarily render any property. The rendition filing period is January 1 through April 15, but the law permits two 15-day extensions (to May 30) if the taxpayer requests it in writing (Sec. 22.23). An extension to May 15 is automatic but the extension to May 30 is available at the discretion of the chief appraiser. Failure to file a required rendition on time results in a penalty equal to 10 percent of the taxes imposed that year. Any taxpayer who commits fraud or attempts to evade taxes is subject to an added penalty equal to 50 percent of the taxes imposed that year (Sec. 22.28 and 22.29). The assessor must add the penalty to the original amount of tax on the property and include the penalty in the tax bill for that year. The penalty becomes part of the tax on the property and is secured by the tax lien that attaches to the property. A collector who collects a rendition-related penalty must remit to the appraisal district imposing the penalty 5 percent of the penalty amount collected (Sec. 22.28[B] and Sec. 22.28[C]).

Some taxpayers choose to submit renditions for real property as well as personal property because of certain advantages.

- By filing a rendition, owners may place on record their estimates of property value.
- The rendition automatically makes the chief appraiser and the ARB responsible for notifying the owners of any increases in property value compared to the amount stated on the rendition.
- By reporting a correct mailing addresses, taxpayers help ensure delivery of notices and tax bills.

Listing

The chief appraiser must list property correctly in the appraisal records. The appraisal district classifies the property and assigns an identification number. Identification numbers vary widely from district to district, but many districts use an 11-category classification system: eight classes of real property, two classes of tangible personal property and one class of intangible personal property. Comptroller of Public Accounts Rule 9.3014 specifies standards for an acceptable property identification system.

Property Classes

Real property	Tangible personal property	Intangible personal property
Single-family residential	Inventory	Goodwill
Multi-family residential	Furniture, fixtures and equipment	Patents
Vacant platted lots		Bonds
Agricultural open-space land		Copyrights
Commercial/industrial — real		Contracts
Pipelines		Brand names
Minerals		
Farm improvements		

An appraisal district may subdivide certain categories (single-family residential or vacant platted lots and tracts, for example), depending on the number and variety of properties in its jurisdiction.

Most districts maintain an appraisal record or “card” for each property. The card may be on a computer or a handwritten card. The real property record shows the account number, taxing units, land description and value, improvement description and value and an improvement sketch (Sec. 25.02). The chief appraiser also must keep personal property records. Many appraisal districts have made much of this information available on their Websites, greatly reducing the cost of accessing the information.

Estimating Value

The third appraisal step occurs when the chief appraiser places a value on each taxable real and personal property item. Property appraisal is the chief appraiser’s most important responsibility. This section introduces the steps in appraisal, as well as some appraisal concepts that are background for understanding the property tax system.

The law requires periodic reappraisal of property and appraisal of real property at least once every three years (Sec. 25.18). Many districts reappraise more often. In most cases, the chief appraiser values property each year at its

market value as of January 1. However, inventories may be appraised at their value as of September 1 of the year preceding the tax year if the owner files a written request by July 31.

Even though the appraisal period is generally from January 1 to May 15, the appraiser records the value as of January 1, except in the case of some inventory appraisals. This is a specific date, not an approximation. Appraisals must reflect the conditions that applied on January 1, without regard to subsequent changes. Thus, appraisers value a house under construction according to the percent complete on January 1 even if it will be finished (and worth more) in just a few months. A house seriously damaged by fire in February 2011 still appears on the roll at the market value as of January 1, 2011. Any reduced value will affect the 2012 appraisal, not the 2011 appraisal. However, a governing body of a taxing unit that is located partly or entirely inside an area declared to be a natural disaster area by the governor may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. Taxes are then prorated to reflect the reappraised value (Sec. 23.02). Special provisions apply to new houses built to replace a resident's homestead rendered uninhabitable by a casualty or wind and water damage (Sec. 23.23f).

In Texas, appraisals reflect full market value unless the property qualifies for special-use appraisal. Even then, the market value remains on the property records, along with the value of the property in the special use. However, the market value of a residence homestead must be determined on its current use rather than its highest and best use. The Property Tax Code (Sec. 23.01) sets two standards for determining market value.

- Appraisers must use generally accepted appraisal methods to find market value: the market approach (also known as the sales comparison approach), the income approach and the cost approach.
- Appraisers must use similar techniques to appraise similar properties.

The Appraisal Foundation's *Uniform Standards of Professional Appraising Practices* (USPAP) serves as a recognized authority in specifying acceptable appraisal methods. The Property Tax Code expressly requires chief appraisers to conform to USPAP standards on mass appraisal. Because appraisers do not have time to appraise every individual property on January 1, they use mass appraisal techniques for categories such as single-family residences and vacant lots. They apply valuation schedules for typical property classes to data about specific properties. One important appraisal office activity, therefore, is to develop and update the mass appraisal schedules.

Situs

Jurisdiction to tax refers to the power of the state to tax real and personal property. Because real property does not move, property tax professionals and the courts seldom encounter jurisdiction questions concerning real property. Taxable personal property, because it may be transported from state to state, presents more jurisdiction questions.

Once the chief appraiser establishes the state's jurisdiction to tax, he or she needs to find which local taxing units may tax the property. Finding the correct

location of property for tax purposes is “determining situs,” meaning to determine “the place where something exists.” In general, a taxing unit has authority to tax property located within its boundaries on January 1. Real property situs is easy to establish, but personal property situs may present problems. The Property Tax Code (Sec. 21.02a) gives four rules for determining situs of most tangible personal property. A taxing unit may tax personal property if it is:

- located in the unit on January 1 and remains for more than a temporary period,
- normally within a taxing unit but temporarily outside the unit on January 1,
- usually returned to a place in the taxing unit between uses outside the unit and is located in another place only temporarily, or
- in the taxing unit where the owner lives or has his or her principal place of business or does not attain taxable situs elsewhere.

The Property Tax Code includes some exceptions to these rules. Generally, however, personal property is taxable in a unit if any one of these four rules is satisfied.

Exemptions

An exemption excludes all (total exemption) or part (partial exemption) of a property’s value from taxation. It provides significant relief for some taxpayers by reducing taxable value and tax levies. Most property receives no exemptions and is totally taxable.

Generally, the law requires the property owner to apply for the exemption. If a property owner fails to file a required application on time, the owner usually forfeits the right to the exemption. The requirements for exemptions are extensive and detailed. Unless the facts of the case clearly show eligibility for an exemption, it cannot be granted.

Most exemption requirements involve one or more of three issues:

- owner’s qualifications,
- property’s qualifications and
- property’s use.

Except for federally mandated property tax exclusions, all legally enforceable exemptions must arise from the Texas Constitution. Some constitutional exemptions apply to public properties while the remainder are designed to promote a governmental policy objective.

Public property exemptions always apply to the entire value of the property. For example, the Texas state capitol building and grounds are exempt from property taxes. Maintaining this kind of property is vital to the functioning of government. Taxing it would amount to transferring public monies from one agency to another. Thus, all taxing units must exempt public properties.

Governmental policy exemptions attempt to promote some economic or social objective by reducing or eliminating the tax burden on specific property classes. For example, residence homestead exemptions apply to a portion of the taxable value of a home owned by individuals with special qualifications.

In contrast, the exemption for family household supplies excludes their total value from property taxes. In addition to varying proportions of value eligible for exemption, governmental policy exemptions sometimes only apply when local taxing jurisdictions choose to extend them.

Exemptions authorized in the Texas Property Tax Code are listed in Table 1. Public property exemptions include public property and federal exemptions. The remainder are governmental policy exemptions. Many exemptions concentrate on narrowly-defined groups of properties or specific categories of owners. For example, the cemeteries exemption only applies to not-for-profit cemeteries. Similarly, the family supplies exemption applies to property owned by individual families.

Table 1. Exemptions Authorized by the Texas Constitution

Title of Exemption	Code Section	Amount Exempted	Type	Application Required
Public Property	11.11	total	mandatory	none
Public property used to provide transitional housing for indigent persons	11.111	total	optional	yearly
Federal exemptions	11.12	total	mandatory	none
Residence homesteads	11.13	partial	both ^c	once ^d
Residence homesteads for disabled veterans	11.131	total	mandatory	once
Tangible personal property not producing income	11.14	total	optional	none
Income producing tangible personal property less than \$500	11.145	total	mandatory	none
Mineral interest having value of less than \$500	11.146	total	mandatory	none
Family supplies	11.15	total	mandatory	none
Farm products ^e	11.16	total	mandatory	none
Implements of farming or ranching ^f	11.161	total	mandatory	none
Cemeteries	11.17	total	mandatory	once ^d
Charitable organizations	11.18	buildings & personalty ^a	mandatory	once ^d
Charity care and community benefits requirements for charitable hospitals	11.1801	total	mandatory	yearly
Charitable organizations improving property for low-income housing	11.181	buildings & personalty ^a	mandatory	yearly
Community housing development organizations improving - property for low- and moderate-income housing	11.182	buildings & personalty ^a	mandatory	once
Organizations constructing or rehabilitating low-income housing	11.1825	real property	mandatory	yearly

IRS 501(a) and (c)(3) Associations that provide assistance for ambulatory health care centers	11.183	buildings	mandatory	once
Organizations engaged primarily in performing charitable functions or a corporation that is not a qualified charitable organization if they are exempt from federal income taxation under certain provisions of the Internal Revenue Code	11.184	buildings & other real property and the tangible personal property	mandatory	every 5 years
Colonia model subdivision program	11.185	building or tangible personal property	mandatory	yearly
Youth spiritual, mental and physical development association	11.19	total	mandatory	once ^d
Religious organizations	11.20	total	mandatory	once ^d
Schools	11.21	buildings & personalty ^a	mandatory	once ^d
Disabled veterans	11.22	\$5,000-\$12,000	mandatory	once ^d
Miscellaneous exemptions	11.23	variable	mandatory	variable
Nonprofit business organizations	11.231	total	mandatory	once
Historic sites	11.24	variable	optional	yearly
Foreign owned marine cargo used exclusively in international commerce	11.25	total	mandatory	yearly
Tangible personal property transported outside the state [freeport]	11.251	total	both ^b	yearly
Motor vehicles leased for personal use	11.252	total	optional	yearly
Tangible personal property transported inside Texas	11.253	total	both [*]	yearly
Motor vehicles for production of income and for personal activities	11.254	total	optional	once
Limitations of school tax on homesteads of the elderly	11.26	limits tax increases	mandatory	once ^d
Limitations of county, municipal or junior college district tax on homesteads of disabled and elderly	11.261	limits tax increases	optional	once
Solar- and wind-powered energy devices	11.27	total	mandatory	yearly
Offshore drilling equipment not in use	11.271	total	mandatory	yearly
Property exempted from city taxation by agreement	11.28	variable	optional	yearly
Intracoastal waterway dredge disposal site	11.29	total	mandatory	once ^d
Nonprofit water supply or wastewater service corporation	11.30	total	mandatory	once ^d
Pollution control property	11.31	total or partial real & personal property	mandatory	once ^d

Certain water conservation initiatives	11.32	total or partial	optional	yearly
Raw cocoa and green coffee held in Harris County	11.33	total	mandatory	once ^d
Limitation on taxes in designated areas	11.34	variable	optional	yearly
Cotton stored in warehouses	11.437	total	both ^b	once

^aThese statutes define “building” to include a “reasonable” amount of land.

^bMandatory in some units, taxable in others.

^cIncludes both mandatory and optional.

^dChief appraiser may require property owner to reapply for this exemption by delivering a written notice and application form to the owner.

^eIncludes timber as a farm product after January 1, 2000.

^fIncludes implements of husbandry used for timber production, regardless of primary design.

Source: *Texas Property Tax Code*

Public Property

The three public property exemptions eliminate a wide range of potential tax liabilities. The public property provision (Sec. 11.11) exempts property owned by the state or a political subdivision of the state. Thus, property owned by counties, cities, public school districts, water districts and various other special districts escape property taxation. However, the exemption applies only to properties used for public purposes. Property owned by these entities used in private activities becomes taxable. For example, an industrial building owned by a university and not used for educational purposes but leased to a paint manufacturer would not be exempt. Similarly, medical buildings owned by a hospital district with space leased to doctors for their private practice, would not qualify for this exemption.

Public property used to house indigent persons who are participating in programs operated or directed by the United States Department of Housing and Urban Development is exempt (Sec. 11.111). The housing must be supplied at nominal or no cost, and the program must be oriented to assisting the persons to become self-sufficient. The exemption applies to property owned by the U.S. government and applies even when leased by nonprofit organizations assisting in conducting the programs. This exemption only applies when adopted by taxing jurisdictions.

Texas recognizes the federal government’s supremacy by eliminating taxes on property exempted under federal law (Sec. 11.12). These exemptions apply to U.S. government property. However, other privately owned properties also may qualify for exemption where federal law provides an exemption that overrides state law. For example, federal law excuses goods stored in a customs warehouse under bond.

Families or Individuals

Several provisions reduce or eliminate property taxes for individuals or families. These exemptions promote the family and encourage homeownership by lowering property tax burdens. The non-income producing personal

Table 2. Available Texas Residence Homestead Exemptions

Code Subsection	Amount of Exemption	Taxing Jurisdiction	Type	Eligibility
11.13(a)	\$3,000	county	mandatory ^a	all homeowners
11.13(b)	\$15,000	school	mandatory	all homeowners
11.13(c)	Addit. \$10,000	school	mandatory	disabled or over 65
11.13(d) & (e)	at least \$3,000 additional	all	optional	disabled or over 65
11.13(n)	at least \$5,000 up to 20% of value	all	optional	all homeowners
11.13(q)	at least \$3,000 additional	all	optional	surviving spouse of a person age 65 or older who qualified under 11.13(d) ^b
11.131	Total	all	mandatory	100% disabled veterans

^a Applies only where county levies a farm-to-market road or flood control tax.

^b An individual who receives an exemption under 11.13(d) is not also entitled to an exemption under 11.13(q). In addition, the surviving spouse must have been at least 55 when the spouse who qualified under 11.13 died.

Source: Texas *Property Tax Code*

property and family supplies exemptions (Sec. 11.14 and 11.15) excuse most of a family's personal property from taxation. They eliminate assessments on supplies, furnishings, appliances, personal automobiles and other household items. Taxing units may opt to tax non-income producing personal property after conducting a public hearing. However, no unit can tax any family supplies. The non-income producing personal property exemption does not apply to manufactured homes or a structure that a person owns that is substantially affixed to real estate and is used or occupied as a residential dwelling. Taxpayers automatically receive these exemptions unless a taxing unit elects to tax non-income producing personal property.

These exemptions achieve two objectives. First, they relieve any tax burden on most personal property. This effectively eliminates taxation on the necessities of life. Second, because discovery and appraisal incur costs that exceed potential taxes for most of these properties, assessors rarely have attempted to tax them. Thus, these measures ratify a set of de facto but previously illegal exemptions.

In addition to the non-income producing personal property and family supplies exemption, a person who owns tangible personal property that is held or used for the production of income is entitled to an exemption if the property has a taxable value of less than \$500 (Sec. 11.145). This exemption includes mineral interests with a taxable value of less than \$500 (Sec. 11.146).

Residence homestead exemptions (Sec. 11.13) have multiplied from a modest \$3,000 reduction in county appraised values to an array of provisions involving all taxing units. The homestead exemption contains seven subsections (Table 2). These measures reduce taxes for the primary residence of three groups of Texas homeowners. Some subsections apply to all Texas homeowners. Others apply only to disabled homeowners and those older than 65 or both. Some exemptions apply to all taxing units while others apply only to specific types of units.

Both the owner and the property must qualify for the exemptions, and each exemption requires a timely application. Owners may file applications up to one year after taxes would have become delinquent. The owner must occupy a property adapted for and used as a residence. However, a homestead exemption is not lost if the homeowner temporarily moves, does not establish another principal residence, intends to return to the home, and is absent for less than two years (Sec. 11.13[1]). Persons who intend to return but live outside of the United States as a member of the military or who live in a facility that provides services related to health, infirmity, or aging may continue to receive homestead exemptions for an indefinite period. The exemption also covers up to 20 acres used for the residence.

Residence homestead exemptions generally excuse part of the value of the home from taxation. For example, on a home valued at \$63,000, a \$3,000 homestead exemption would reduce the taxable amount to \$60,000. There are three types of residence homestead exemptions: a *general* homestead exemption applies to all homeowners who own their property and occupy it as their principal residence. An *over-65* exemption applies to homeowners who meet the requirements for a general homestead exemption and who are 65 years of age or older. If a person who has qualified for an over-65 exemption dies leaving a spouse who is 55 years old or older, the spouse will receive the same exemptions as long as he or she owns and continues to occupy the home.

A **disabled person's** exemption applies to persons who meet the requirements for a general homestead exemption and the Social Security definition of disabled. If a person is both over-65 and disabled, the person must choose one set of exemptions. In addition to this protection, a taxing unit may not foreclose on an over-65 or disabled resident's homestead for deferred taxes until the 181st day after the date that the individual, or their surviving spouse, no longer owns and occupies the property as their homestead. However, a tax lien remains on the property and interest continues to accrue during the period collection of taxes is deferred or abated. The annual interest rate during the deferral or abatement period is 8 percent instead of the rate provided for in the code delinquency chapter (Sec. 33.01 and Sec. 33.06).

State law requires counties and school district to give certain homestead exemptions. When a taxing unit is required by law to give an exemption, it is called a mandatory exemption. State law also authorizes every taxing unit to give certain other homestead exemptions. The taxing unit decides whether to offer these exemptions and, within certain limits, decides the amount of the

exemption. These types of exemptions are called optional exemptions. They are also sometimes called local-option exemptions.

A disabled veteran who receives from the United States Department of Veteran Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual nonemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead (Sec. 11.13).

Counties can levy a special tax called a farm-to-market road or flood control tax. If they levy this tax, counties must grant a mandatory \$3,000 general exemption from that tax to all homeowners.

School districts must grant a mandatory \$15,000 general exemption to all homeowners.

School districts must also grant a mandatory \$10,000 over-65 exemption.

Only counties and school districts must offer the mandatory exemptions listed above.

Any taxing unit, including counties in school districts, may offer optional homestead exemptions.

- The unit may offer an optional general exemption (applicable to all homeowners) of up to 20 percent of the appraised value of the home. This exemption must have a minimum value of \$5,000.
- Any taxing unit may also offer optional over-65 and/or disabled person's exemption. The taxing unit must provide a minimum \$3,000 exemption and there is no maximum exemption.

If a county or school district offers optional exemptions, the property owner receives those in addition to the mandatory exemptions provided.

Although the taxing unit decides what types of exemptions it wishes to offer, it isn't directly involved in deciding whether a particular property or property owner will receive those exemptions. The taxing unit provides a list of the exemptions it wishes to offer to the appraisal district. Property owners apply to the appraisal district for homestead exemptions. The appraisal district determines whether the property is eligible for homestead exemptions and then automatically applies the exemptions offered by the taxing units in which the property is located.

School districts must also provide a "tax ceiling," popularly called a tax "freeze," for over-65 or disabled property owners. The tax ceiling law caps the amount of school tax that the over-65 or disabled property owner will pay each year. Generally, the person pays no more than he or she paid in the first year he or she qualified the home for the exemption (Sec. 11.26). The freeze on school taxes is transferable on a percentage basis to any home subsequently qualified by the homeowner anywhere in Texas.

Beginning with 2004, a county, city or junior college may also place a tax limitation on the homesteads of persons 65 years of age or older or disabled persons. These local limitations may be adopted directly by the taxing unit's governing body or by voters in an election. These additional freezes are transferable on a percentage basis within the same taxing unit (Sec. 11.261).

As with over-65 exemptions, the tax ceiling will transfer to a surviving spouse if the surviving spouse is 55 years old or older (Sec. 11.26).

Once an over-65 person has qualified a home for the tax ceiling, the ceiling can be transferred to a different homestead if the person later moves. If the ceiling is transferred, the dollar amount of the tax ceiling will change. The new ceiling will provide the same percentage of tax savings that the old ceiling provided.

The freeze can be moved across school district and county lines, meaning that a freeze originally obtained in Marfa could apply equally in Dallas, Decatur or Dumas. The chief appraiser in the appraisal district where the original home was located must provide the property owner with the information necessary to compute the new tax ceiling. Each school district must honor the information received from the chief appraiser in the original appraisal district.

Homeowners must apply for homestead exemptions. The deadline for doing so, and the date that the homestead exemption will first apply differ for general and for over-65 exemptions. This was done to give over-65 property owners an additional tax break for the year in which they turned 65.

For a general homestead exemption, the application deadline is April 30 (Sec. 11.43). However, the owner can file a late application up to one year after the delinquency date for the tax year (Sec. 11.431). If the owner files a late application, then he or she receives a retroactive exemption. The property owner must have owned the home and occupied it as the owner's principal residence on January 1 of the year for which application is made.

For an over-65 exemption, the application deadline is one year from the date the property owner qualified (Sec. 11.43[k]). A person who receives a general homestead exemption is entitled to receive an exemption for persons 65 years of age or older without applying for the exemption, if the person becomes 65 as shown by information in the appraisal district records (Sec. 11.43). Usually, the property owner will already have owned the home and received general homestead exemptions. If however, a property owner did not already own the home, he or she will receive the general homestead exemptions as of January 1 of the following year.

The over-65 homestead exemption applies from January 1 of the year in which an owner can qualify by reaching the appropriate age and filing a valid application with the chief appraiser. For example, suppose that a homeowner qualified for the residence homestead exemption on September 16 of a tax year. That homeowner would pay taxes based on the market value of the property less the amount of the homestead exemption. Further, if a property should cease to qualify for the exemption, the tax liability will be prorated (Sec. 26.10[b]). For example, suppose that a property ceased to qualify for the exemption on July 4. The owner would pay taxes based on market value less the amount of the homestead exemption from January 1 through July 4. The remainder of the tax, from July 4 through December 31 would be based on full market value.

Regarding a disabled person's exemption, the applicant does not need to meet the definition of disabled on January 1 of the tax year but may qualify

any time during the tax year. The exemption then applies to the entire tax year as if the applicant was disabled on January 1.

Limitations on value increases. Values for qualified residence homesteads may not increase more than 10 percent from the last reappraisal. This is called the “cap” value. Appraisal of property must consider available evidence specific to the property in determining market value. If the value is determined in a year by an appraisal review board, an arbitrator, or a district court, the value may not be increased in the subsequent year without substantial evidence to support the increase. A sale must be within 24 months of valuation date to be considered comparable unless there are insufficient sales. Comparable residence homesteads that sold at foreclosure during the preceding three years or property that declined in value because of the economy may not be excluded (Sec. 23.01).

This measure could produce inequities in the tax roll. For example, in areas where values have begun to increase rapidly, assessed values could lag well behind market values as years pass. In the past, urban enclaves where buyers have begun to renovate old homes have seen values range sharply higher. In those instances, assessed values on homes owned by nonresidents will shoot up with the market while the statutory limit ensures lower values for owner-occupied homes. Further, when a qualifying homestead transfers to a new owner, it no longer qualifies as a residence homestead. The value automatically rises to the market value before the new owner applies for a new homestead exemption. Thus, new homebuyers could face much higher tax bills than long-term homeowners.

Residence homestead exemptions fulfill various objectives. They promote homeownership and benefit the family by reducing housing costs. However, they also reduce the payments of local residents for local government services and shift taxes to property owners who are nonresidents and nonhomeowners. The elderly often live on a fixed income and receive few direct benefits from schools. Thus, the exemption and freeze adjustments in school taxes for the elderly reflect both ability to pay and benefits received. Further, these property tax reductions help diminish local opposition to tax increases and reappraisals.

Farms and Ranches

Farm-related exemptions (Sec. 11.16 and 11.161) excuse farm and ranch inventories and equipment from property taxes. All machinery and equipment items used in the production of farm or ranch products or of timber, regardless of their primary design, are considered to be implements of husbandry and are exempt from property taxation (Sec. 11.16). Exempted inventories include crops, livestock and timber. Farm implements include items primarily designed and used for farming and ranching, such as combines, cotton pickers and hay balers. Concerns about the ability to pay, benefits received and discovery difficulties prompted these exemptions.

Public Service Organizations

A number of exemptions dismiss all or part of the tax on properties providing a public service. State or local governments are responsible for functions supplied by owners of these properties. The constitution grants the exemptions to promote these activities without direct governmental expense. Exemptions extend to schools (Sec. 11.21); charitable organizations (Sec. 11.18 and 11.181); religious organizations (Sec. 11.20); youth spiritual, mental and physical development associations (Sec. 11.19); nonprofit cemeteries (Sec. 11.17); and nonprofit water supply or wastewater service corporations (Sec. 11.30); and other public service organizations.

School exemptions (Sec. 11.21) cover buildings and personal property owned by the operators of the school. The school must have a faculty, curriculum and students and operate without generating profits. To obtain the exemption, operators must file a one-time application with the appraisal district. As defined in this measure, buildings also include the land necessary for use. At least one court has ruled that the exemption extends to land used for instruction and athletics. School operators must own the properties. Buildings leased by nonprofit schools do not qualify. Granting this status to schools reduces operating costs to nonpublic schools and eases demands on tax-supported institutions.

Charitable organizations, religious organizations and youth spiritual, mental and physical development association exemptions extend tax benefits to organizations that enhance the lives of their participants. The services offered by these groups frequently go beyond the scope of government. Providing these organizations a tax exemption contributes to the social benefits they generate.

To qualify, a charitable organization must operate as an institution primarily engaged in public charitable functions. The organization may conduct auxiliary activities designed to support their charitable functions. The organization must own the property and use it exclusively. The organizational charter must contain specific provisions for disposition of assets to further its charitable purpose if it should dissolve (Sec. 11.18[c]).

A charitable organization must perform one of the 23 functions listed in Sec. 11.18 to qualify. These include medical care, support groups for needy individuals, humane treatment of animals, wildlife conservation and symphony orchestras. The organization must be chartered to perform one of the 230 listed functions. An organization may fail to qualify if it uses the property for activities that are not merely incidental to its charitable purpose.

The religious organizations exemption applies to property primarily used for religious worship, which in this instance means property used for “individual or group ceremony or meditation, education, and fellowship, the purpose of which is to manifest or develop reverence, homage and commitment in behalf of a religious faith.” The organization cannot provide a private gain and must use its assets for its religious functions (Sec. 11.20[c]). However, occasional nonsecular use does not automatically destroy the exemption. In addition, religious exemptions can apply to property owned by a religious organization and leased to a school.

Youth spiritual, mental and physical development associations exemptions require the association to promote all three traits. The association must be affiliated with a state or national organization that pursues the same mission. The association cannot provide distributable profits or private gains. Further, the association must provide for the transfer of its assets to a qualified organization if it ceases to operate (Sec. 11.19[d]).

The cemeteries exemption covers property used exclusively for human burials. The cemetery must not make profits (Sec. 11.17).

The exemption for water supply or wastewater service corporations applies only to those corporations that provide for transfer of their assets to a tax-exempt entity that provides water or wastewater service in the event of dissolution of the corporation. The exemption pertains only to property owned by the corporation that is necessary for operation (Sec. 11.30).

Public service organization exemptions ban personal gain. The explicit prohibition of any profit from operations emphasizes the public objectives behind the exemptions. In addition to the nonprofit stipulations, exemptions spell out qualifying characteristics in legal detail. The laws target specific types of organizations and properties. Simply organizing an association to be nonprofit will not meet requirements for this exemption. Property owners should carefully check provisions of the relevant sections of the Property Tax Code before attempting to qualify for exemption as a public service organization.

Other Exemptions

To promote business activity, Texans have enacted an exemption for tangible personal property transported outside the state, a so-called *freeport exemption*. This provision exempts qualifying goods, wares, ores and merchandise other than oil, gas and petroleum products . . . and aircraft or repair parts used by a certified air carrier (Texas Constitution, Article VIII, Sec. 1-j). The items can qualify if they leave the state within 175 days after initial acquisition. This exemption automatically applies to all taxing units unless its governing body votes to tax such property. Many units do tax this type of property (Sec. 11.251).

To accomplish the same objectives, Texas added a goods-in-transit exemption for certain personal property that changes locations in Texas within 175 days (Sec 11.253). Local entities may opt in and out of the exemption each year.

The energy crisis of the 1970s prompted Texans to exempt solar- and wind-powered energy devices. The exemption applies to the appraised value of radiant solar- and wind-driven generators of mechanical, thermal or electrical energy (Sec. 11.27).

The subsequent energy glut caused many operators to withdraw offshore drilling rigs temporarily from service. Storing the rigs along the coast rendered them taxable in Texas (unlike neighboring states). Texas voters extended a constitutional exemption to all offshore drilling rigs stored for purposes other than repair or drilling (Sec. 11.271).

The historic sites exemption allows a taxing unit to exempt part or all of an officially recognized landmark's assessed value. Sites may qualify if recognized by both the Texas Historical Commission and the governing body of the tax unit. Alternatively, the governing body of the taxing unit may designate the site as historically significant. Each tax unit must explicitly adopt this exemption and specify the exemption amount (Sec. 11.24).

Cities, towns and counties can identify property reinvestment zones that make properties eligible for a tax abatement. A tax abatement is an exemption granted by agreement between a taxing unit and the property owner. The property owner must execute a written agreement to make specified improvements to the property in exchange for the exemption (Sec. 11.28). The exemption applies only for 10 years or less. Detailed rules govern when and how units may make agreements.

The exemption applies to property value increases occurring after execution of the agreement and usually applies to property improvements. However, the exemption is available only when the taxing unit chooses to offer it. If the taxing unit extends this exemption to other properties in the zone, the same provisions must apply to all properties in the zone. This exemption now is used to promote economic growth in designated areas.

Effects of Exemptions

Exemptions reduce or eliminate taxes on specified properties. This promotes selected activities by reducing their cost. However, exemptions also remove property value from the tax base. When taxes are reduced for some properties, the tax burden falls more heavily on others. Some of the shift makes local government operations more palatable to local voters. For example, homestead exemptions lower school taxes for the elderly. Because of the exemption, the elderly are less likely to oppose spending plans of local school districts.

However, the increase in taxes to nonexempted properties may be offset partially by the operation of the exempted properties. For example, public schools might face staggering costs if private schools ceased to exist. Cities or counties might be forced to maintain historical sites if owners found upkeep plus taxes too burdensome.

Some exemptions recognize economic realities by eliminating the need to tax property that is difficult and expensive to discover and value. For example, property tax administrators would find it extremely difficult to identify and tax household furniture. In the past, assessors ignored this kind of property even though the constitution required taxation of its value in excess of \$250. The household goods and personal effects exemption legitimizes ignoring the taxation of household furniture.

Finally, the proliferation of exemptions eliminates the idea of applying property tax equally to all wealth. Enactment of many exemptions indicates Texans' willingness to promote various organizations and causes through a targeted tax policy. However, expanding the categories of exempted properties may seriously limit the tax base and cause taxes to become onerous for others.

Required Notices

The property owner's right to notice of actions affecting a property's value is one of the cornerstones of the tax reforms of the late 1970s. In 1979, Texans amended the constitution to provide:

The legislature shall require that, subject to reasonable exceptions, a property owner be given notice of a revaluation of his property and a reasonable estimate of the amount of taxes that would be imposed on his property if the total amount of property taxes imposed for the subdivision were not increased. The notice must be given before tax rate adoption procedures are instituted (Art. VIII, Sec. 21[c], Tex. Constitution).

The property tax code requires notice to the property owner for virtually any action that will change the property's value or increase the owner's tax liability. Not only must the owner be notified on reappraisal, but also the owner must be notified of exemption application denial; determinations of change of use; corrections to appraisal records that increase the owner's tax liability; scheduling of a protest hearing; and a variety of other actions. Effective, proper administration of these notice provisions is one of the most critical aspects of the appraisal district's operations. Courts have repeatedly ruled that failure to send a required notice can void a reappraisal or grant a property owner the right to challenge the appraisal in court. Failure to deliver a notice also permits a property owner to file and receive a hearing on a protest. To deliver a notice, the appraisal district must address it to the correct owner at the most recent address in the district's records. When required, a notice must be sent to the property owner's agent at the agent's address. If a property owner files a written request with the appraisal district that notices be sent to a particular address, the official or agency must send the notice to the address stated in the request (Sec. 1.07[B]).

As a result, districts must stay informed about changes in property ownership.



Equalization Phase

The equalization phase allows affected parties to question proposed valuations and protest to locally appointed appraisal review boards (ARB). Property owners may protest assigned values to the ARB. Taxing units also may file challenges with the ARB. The equalization phase can move into the courts when parties continue to dispute the ARB adjusted values.

The equalization phase is intended to address grievances fairly and impartially. However, the public appears to question the objectivity of the process. Taxpayers deserve fair, equitable treatment and often an objective hearing of the facts will resolve a dispute.

Appraisal Review Board

The appraisal district board of directors or an administrative judge in some counties appoints ARB members to two-year terms. Appointees serve staggered terms so the ARB always has a core of experienced members. Eligible candidates for the ARB must have lived in the appraisal district for two or more years. A person is ineligible to serve on the appraisal review board if the person is a member of the board of directors, an officer, or employee of the appraisal district, an employee of the comptroller, or a member of the governing body, officer or employee of a taxing unit (Chapter 6, Subchapter C).

In counties with populations exceeding 100,000 persons, anyone that has served all or part of three previous terms on the ARB as a member or auxiliary member or is a former director, officer or employee of the CAD is barred from serving. Former members or officers of a taxing unit for which the CAD appraises property, cannot serve on the ARB until four years after such service ended in counties of more than 100,000 in population. Further, anyone who has ever appeared before an ARB for compensation may not serve on the ARB in counties with populations exceeding 100,000.

Other ineligible individuals include anyone in counties with 100,000 or fewer persons, that has served all or part of three previous terms on the ARB. This prohibition only applies to a fourth consecutive term. However, he or she can serve again at a future date.

Those who have substantial interest in a business having a contract with the appraisal district or who are party to a contract with a taxing unit served by the CAD also are barred from serving on the ARB. A person is also ineligible if a relative by either blood or marriage does business in the district as a paid property tax agent or as a fee appraiser who performs appraisals for property tax proceedings.

The ARB's primary responsibility is to hear and rule on protests and challenges to the current appraisal records and on motions to correct appraisal rolls for earlier years (Sec. 41.01). The ARB also is charged with ensuring that the chief appraiser has granted exemptions and special-use appraisals properly. ARB members must participate in training provided by the Comptroller of Public Accounts.

Both taxing units and taxpayers may come before the ARB and challenge appraisals, exemptions, property rolls, situs and other matters.

The ARB decision in each case that it hears applies to every taxing unit in which the property is located. This is consistent with centralizing property appraisals and appeals.

In many counties, the ARB meets once or twice a month to consider changes to the records. During the equalization phase, ARBs throughout the state are likely to meet weekly or even more often. Each board establishes its own policies about when, where and how to conduct meetings; however, the board must schedule night and weekend meetings to make the process more accessible to the public.

Required Appraisal District Protest Notices

Each year during the period beginning May 1 and ending May 15, the chief appraiser must publish a notice outlining ARB protest procedures (Sec. 41.70). The notice must describe how to initiate a protest and indicate the filing deadlines. The notice also must describe how a property owner may appeal an ARB order. The chief appraiser must include this information in the taxpayer's notice of appraisal increases along with an official protest form.

The state comptroller sets standards for the form and content of the published notice, which must be at least one-quarter page of a standard or tabloid

size newspaper with general circulation in the county. The notice may not be published on the pages where legal notices or classified advertisements appear in the newspaper.

The chief appraiser also must send each owner who protests a copy of the Comptroller's *Property Taxpayer Remedies* pamphlet, along with a copy of the ARB's hearing procedures and a notice that the owner can inspect and obtain copies of the evidence the chief appraiser intends to submit at the hearing.

Taxpayer's Notice of Intent to Protest

Taxpayers must file a notice of protest before June 1 or 30 days after the appraisal notice is mailed to them, whichever is later (Sec. 41.44). An ARB correction or omitted property notice must be protested within 30 days of the date of mailing. Taxpayers have the right to protest the following issues at an ARB hearing (Sec. 41.41):

- the appraised or market value of property,
- unequal appraisal of property,
- inclusion of property on appraisal rolls,
- denial of partial or whole exemptions,
- denial of special-use appraisal,
- a change-of-use ruling on previously qualified agricultural or timber land,
- identification of the taxing units in which the property is taxable,
- determination of ownership and
- other appraisal district or ARB action that adversely affects the property owner.

The tax code places the burden of proof in ARB hearings concerning appraised values and unequal appraisals on the appraisal district. Notably, if the appraisal district fails to prove their value with a preponderance of the evidence, the board must decide in favor of the taxpayer.

Because the ARB may decide only these matters, it will not hear protests about tax rates, payment policies, exemption adoption and other issues that are the responsibility of the taxing units. Taxpayers with questions about the effects of assessment and collections must contact the taxing unit.

Often, property owners informally settle matters with the appraisal district. An agreement between the property owner or agent and the chief appraiser is final and does not require further ARB action if it relates to a matter that may be protested or an unresolved protest.

Taxing Unit Challenge Petitions

Taxing units must file their challenge petitions before June 1 or 15 days from the date the ARB receives the records, whichever is later. They may challenge the following matters at an ARB hearing (Sec. 41.03):

- The level of appraisal of a property category or appraisals in a geographic area, but not the appraisal of one taxpayer's property

- Exclusions of property from the records
- Any type of exemption
- Determination of special-use appraisal
- Appraisal district failure to identify the taxing unit as one in which a particular property is taxable

The scope of a taxing unit challenge is much narrower than that of a property owner protest. The taxing unit may not challenge an individual property value, nor join in a lawsuit or protest brought by a taxpayer.

Concluding ARB Hearings

The ARB must finish its hearings and approve the appraisal records by July 20. Generally, the ARB may not approve the appraisal records if the total value of property still under protest exceeds 5 percent of the value of all other property on the records (Sec. 41.12). ARB approval officially changes the appraisal records to the district appraisal roll. The ARB chairman signs an approval order, a written statement accompanying the records stating that the ARB has finished its review and hearings. The approved roll then is forwarded to the chief appraiser.

When the ARB approves the appraisal records for the year, the board loses most of its authority to change the records. However, an ARB's duties do not end after it approves the appraisal records. The board may need to address other matters throughout the tax year, including late-filed residence homestead exemptions, supplemental records, appraisal roll corrections, failure to deliver notice and cases of substantial error. The ARB may rectify clerical errors. Corrections may be made for errors occurring as long as five years ago.

Disposition of the Approved Appraisal Roll

The chief appraiser receives a copy of the approval order along with the roll. By July 25, the chief appraiser must prepare and certify a portion of the district roll to each taxing unit containing properties within its jurisdiction (Sec. 26.01).



Assessment Phase

During the assessment phase, tax office personnel combine tax rates and certified taxable values to produce an official tax liability for each property on the certified tax roll. The assessment phase requires a set of steps including setting tax rates and establishing the truth in taxation provisions of the Property Tax Code (Chapter 26). Truth in taxation is designed to inform the public of increases in total tax revenues assessed by taxing units. This chapter explains how appraisal rolls become collectable tax rolls.

In some states, assessment has a general meaning that includes the complete process of appraising property, adopting a tax rate, levying taxes and collecting taxes. Texas now uses a narrower definition: assessment refers only to the steps a taxing unit takes to determine the tax base and to adopt and impose a property tax. The definition does not include appraisal or collections.

Tax Levies

A taxing unit is a governmental entity that levies property taxes. A few entities do not need taxes because they operate with user fees and other revenue sources. Such units (usually special districts such as utility districts) do not participate in the appraisal district and are not taxing units.

Four types of units may levy property taxes: counties, cities and towns, school districts and special districts.

The county is the basic unit of Texas local government. The Texas Constitution established the number (254) and boundaries of the state's counties. Cities or towns are formed by vote of the residents within the city. Two types of school districts can levy property taxes: the general or independent school district, which provides for primary and secondary education, and certain special-purpose county school districts created to provide special services to schools within their boundaries.

Major Property Tax Responsibilities

Governing bodies have seven major property tax responsibilities:

1. appoint an assessor and a collector or an assessor-collector (except for counties that elect the assessor-collector) and designate a person to calculate tax rates,
2. establish a tax office,
3. oversee the budget,
4. contract for goods and services,
5. adopt the tax rate,
6. approve the tax roll and
7. spend tax revenues for government functions.

The governing body appoints staff, adopts tax payment policies, enters into contracts, selects a depository and adopts a budget. The taxing unit's representative, usually the assessor-collector, publishes the effective and rollback tax rates. The assessor-collector is then responsible for reporting the effective and rollback tax rates to the governing body. The governing body must comply with the notice and hearing laws set by the truth-in-taxation provision.

Tax Rates

The amount of tax liability depends not on value alone but also on taxing unit budgets.

A governing body directs each taxing unit and sets policies for its services. The county commissioner's court is the county governing body, and the board of trustees (school board) governs the school district. Cities often have councils, and special districts often have boards of directors or commissioners.

The governing body adopts a tax rate, approves an official tax roll and levies and collects taxes. If it chooses, the governing body may contract with another organization to assess and collect taxes, but the governing body must adopt its own tax rate. It may not delegate this responsibility.

The tax rate is the amount required to satisfy the budget:

$$\text{Tax rate} = \text{levy} \div \text{tax roll}$$

A property tax is determined by the value of the property. To generate a given amount of property tax income, the taxing unit must establish a tax rate — that is, the dollar amount of tax a person will pay for each dollar amount of property value owned.

Because tax rates are generally low on a dollar-for-dollar basis, they usually are expressed as the dollar amount of tax for each \$100 of property value. To convert a tax rate to dollars per \$100 of value, multiply the rate by 100. To calculate a levy or a value using a rate expressed in dollars per \$100, convert the rate to a tax rate before figuring the levy. To convert the tax rate back, divide by 100. A memory trick for this conversion is to look at the way dollars per \$100 are usually expressed: \$\$\$/100. Remember the /100 means divide by 100.

Value, rate and tax levy are related through a mathematical relationship. It is best expressed in the two following formulas:

- Rate equals levy divided by value times 100
- Levy equals rate times value divided by 100

NOTE: Multiplying and dividing by 100 respectively adjusts the tax rate to and from dollars per \$100.

The tax assessor also uses the levy formula to calculate individual tax amounts. For example, assume the tax rate is \$2.50 per \$100 and the taxable value of a property is \$100,000. To calculate the individual tax liability, multiply the taxable value by the tax rate and divide by 100.

\$2.50 multiplied by \$100,000 equals \$250,000 divided by 100 equals \$2,500 tax liability.

Operating and Debt Taxes

Laws relating to a taxing unit's authority to borrow money often require that the unit account separately for expenditures that it will make to pay its debts from expenditures that it makes for other purposes. The truth in taxation laws refer to property tax levies used for debt payments as "debt" or "Interest and Sinking Fund" levies. Levies for all other purposes are called "Maintenance and Operations", sometimes abbreviated M&O.

Truth-in-Taxation

Taxing units are required to comply with truth-in-taxation laws in adopting their tax rates (Property Tax Code, Chapter 26).

The law has a two-fold purpose:

- To make taxpayers aware of tax rate proposals
- To allow taxpayers, in certain cases, to roll back or limit a tax increase

Who administers the various parts of truth-in-taxation during the tax year? During the appraisal stage, truth-in-taxation laws require the chief appraiser to deliver notices of appraised value to certain taxpayers.

During the assessment stage, the laws require the taxing unit's governing body to publish effective and rollback tax rates, to hold public hearings and, if necessary, to administer a rollback election.

Truth-in-taxation requires a taxing unit to calculate three rates after receiving the certified appraisal roll from the chief appraiser — the effective tax rate, the rollback tax rate. Comparing a proposed tax rate to these three rates

determines which truth-in-taxation steps apply. Generally, the governing body is required to:

- determine and publish the effective tax rate, the rollback tax rate and the amount of surplus funds on hand;
- decide how much revenue it needs and calculate the rate required to raise that amount;
- publish notices and hold hearings if the proposed tax levy exceeds the previous year's levy;
- adopt the tax rate; and
- administer a rollback election (possibly).

Calculate and Publish Tax Rates

Effective Tax Rate

All taxing units that levied property taxes in the preceding tax year and will levy them in the current tax year must calculate and publish an effective tax rate. Small taxing units are excepted, although the actual calculation can become more complicated, a taxing unit's **effective tax rate** is generally equal to the prior year's taxes divided by the current taxable value of properties that were also on the tax roll in the prior year (Sec. 26.04).

Rollback Tax Rate

A rollback tax rate establishes a threshold rate that allows citizens to overturn a tax rate increase. A unit's **rollback tax rate** divides the overall property taxes into the two categories discussed earlier — maintenance and operations (M&O) and debt service. Rollback rate calculations allow units to raise the same amount of M&O levy raised in the prior year plus an 8 percent cushion (Sec. 26.04).

(For school districts, the rollback rate is calculated differently to account for state revenue as well as property tax revenue.) The debt portion of the rate is the current year's debt payments divided by the current year's property values. The debt tax rate may rise as high as necessary to cover debt expenses.

Limitations on Levy Increases

If a proposed tax rate is greater than the effective tax rate or the rollback tax rate, then the taxing unit must follow these procedures (26.06):

1. Publish a Notice.

After proposing a tax increase and scheduling a public hearing, the governing body must notify the public of the date, time and place of the hearing and provide information about the proposed tax rate. The law establishes specific requirements for this "Notice of Public Hearing on Tax Increase." If the taxing unit operates an Internet website, the notice of public hearing must be posted on the website (Sec. 26.065).

2. Hold two public hearings.

After publishing the required notice, the taxing unit must hold two public hearings. A quorum of the governing body must be present. Taxpayers must have the opportunity to express their views on the increase.

The governing body may not adopt the tax rate at these hearings. Instead, at the end of the hearings, it must set and announce the date, time and place of the meeting at which it will vote on the tax rate.

3. Publish notice of meeting to adopt tax rate

Again the taxing unit must post a required notice and hold a hearing using the prescribed procedures. They then may vote on the new tax rate. In addition, the county tax assessor-collector must post, on the county's public website, a table of tax rates for the past five years for each taxing unit in the county. These tax rates include the adopted tax rate, maintenance and operations rate, debt rate, effective tax rate, effective maintenance and operations rate, and the rollback tax rate (Sec. 26.16).

Adopted Rate Exceeds Rollback Rate

If a taxing unit adopts a tax rate that exceeds the rollback tax rate, the taxpayers may petition for a rollback election (Sec. 26.07). They have 90 days from the date the rate is adopted to file a petition with the governing body. If the petition is valid and has sufficient valid signatures, the governing body must order an election. If the election is successful, taxes will be rolled back to the rollback tax rate. If tax bills have already been mailed, the delinquency date is postponed and those who have paid taxes are entitled to refunds.

Preparation of Tax Roll

When the governing body has adopted its tax rate, the assessor begins the process of calculating individual tax liabilities (Sec. 26.09). Once the taxes are calculated on each property, the assessor enters the calculated taxes on the appraisal roll. The assessor then presents the appraisal roll with the tax amounts entered to the governing body. The governing body approves the roll and this act of approval creates the tax roll. Once the tax roll has been approved, the assessor can prepare and mail bills.

Tax bills

The assessor must prepare and mail a tax bill to every person in whose name property is listed on the tax roll and to a property owner's designated agent (Sec. 31.01). However, if a taxpayer submits a written request on or before September 15 to have their bill sent electronically, the taxing unit's assessor shall deliver a tax bill by electronic means. If the assessor implements procedures to permit the delivery of a bill by electronic means the assessor does not need to send a bill by regular mail. This provision does not apply if the assessor lacks the capability of sending tax bills electronically (Sec. 1.07 and 31.01). Bills must be mailed by October 1, or as soon afterward as practicable. The bill must contain a variety of information including identification

of the property, the appraised, assessed and taxable value, the productivity value and the market value of land receiving agricultural or timber appraisal, the type and amount of any partial exemption, the unit's total tax rate, the amount of tax due, and the due date and delinquency date. A tax bill for real property must also show the differences, expressed as a percent increase in the appraised value and the amount of taxes for the current year as compared to each of the preceding five tax years before the current tax year. In addition, the percentage difference between the fifth tax year and the current tax year must be shown. If this information is not available, the tax bill must state that the information is not available for that year (Sec. 31.01). The bill must explain payment options and discounts, as well as state the rates of penalty in interest imposed for delinquent payment. Finally, it must include the name and telephone number of the assessor and collector for the taxing unit. Numerous other requirements apply to preparation of tax bills.



Collection Phase

Although the annual appraisal phase begins on January 1, the collection phase begins after bills are e-mailed in October. This phase continues as current collections through the delinquency date of February 1 in the following year and delinquent collections thereafter. Delinquent collection procedures continue until taxes are paid. This section explains the collection process.

Collector or Assessor-Collector

The collector or the assessor-collector for a unit collects the property taxes and accounts to the governing body for the revenue. Some counties consolidate collections, and one office collects for all the units. Many governing bodies contract with other taxing units or an appraisal district to collect taxes.

Tax Collector Functions

Receive Payments

Current collections begin after the assessor (or assessor-collector) mails tax bills. The collections office receives payments and issues receipts, posts transactions to the accounts, deposits the money, posts payments on tax records, balances the accounts, sends notices to taxpayers, issues refunds, issues tax

certificates and reports regularly the amount of revenue received to the governing body.

Current taxes are due when the statements are mailed, although taxpayers may pay through January 31 without penalty. If January 31 falls on a weekend, taxpayers may pay until the end of the next working day without a penalty. February 1 is the delinquency date (Sec. 31.02).

If an individual receives a tax bill that contains taxes for prior tax years, the delinquency date is postponed to February 1 of the first year that provides at least 180 days to make payment (Sec. 31.04[a-1]). However, failure to receive a tax bill does not eliminate the taxpayers' responsibility to pay on time (Sec. 31.01[g]). Taxpayers can mail payments, but they must be postmarked before the delinquency date.

Payment Options

A taxing unit's governing body may adopt several options to encourage prompt payment of taxes. Two common options are:

- split payments (Sec. 31.03), which allow taxpayers to pay half of their tax liability before December 1 and the remaining half before the following July 1 without penalty and
- discounts (Sec. 31.05), which provide discounts for payment in the first few months after bills are mailed.

Tax collectors also have options available to them concerning acceptance of partial payments and escrow agreements with property owners. At the collector's discretion, a collection fee could be charged for processing a property tax payment by credit card (Sec. 31.06).

Issue Receipts

The tax collector is required to issue a receipt for taxes paid if the taxpayer requests one. The receipt must contain the tax roll account number and a description of the property as it appears on the tax roll. If the amount of the tax for the current year has not been calculated when a request is made for a tax receipt, a statement indicating that taxes for the current year have not been calculated must be issued to the property owner or agent (Sec. 31.075).

Deposit Funds

The Texas Property Tax Code requires collectors who collect for their own unit to make deposits at least once a month unless the governing body requires more frequent deposits (Sec. 31.10). When collecting for other taxing units through contract or consolidation, the collector must deposit and disburse tax payments on a daily basis unless the arrangement allows less frequent deposits. As a matter of practice, most collectors deposit all taxes collected on a daily basis. The collector also is responsible for depositing all transactions to accounts and the tax records. The collector also must balance the accounts.

Send Notices to Taxpayers

The collector is responsible for sending necessary notices to the taxpayer.

Issue Refunds

Refunds are automatic for: corrections to the appraisal roll certified by the chief appraiser; corrections to the tax roll; approved late homestead exemption grants; rollback election tax reductions; and court-ordered appraisal roll changes. The taxpayer must apply for refunds for overpayments or erroneous payments. If a tax payment exceeds the amount owed by \$5 or more, the tax collector is required to mail the taxpayer a written notice of overpayment along with a refund application form. A collector for a unit in a county over 2 million in population must refund an amount between \$5 and \$5,000 without an application (Sec. 31.11).

The law provides for interest on refunds in several cases. If a refund results from a court-ordered appraisal roll change, the taxing unit pays 8 percent interest calculated from the original delinquency date for the taxes. If the refund is automatic but does not result from a court change, the unit must pay 1 percent interest per month if it delays a refund more than 60 days. The interest starts on the sixty-first day (Sec. 31.12). If the refund is made to a religious organization after a court grants an exemption that the appraisal district has denied, the unit must pay 10 percent annual interest on the refund from the date the tax was paid. If a property owner wins a suit to collect a refund, filed on or after the 180th day following the date the appraisal roll is corrected, he or she is entitled to court costs and reasonable attorney's fees (Sec. 42.43[d]).

If the refund is not automatic, the taxpayer must file a form requesting it within three years of the date when the mistaken payment was made. If a requested refund is more than \$2,500, in a county with a population of 1.5 million or more, the governing body must approve it. Governing body approval in all other counties is required for refunds of \$500 or more (Sec. 31.11).

Issue Tax Certificates

Tax certificates safeguard buyers of real property against liability for delinquent taxes, interest and penalties undisclosed by the seller. Anyone may ask the collector to prepare a tax certificate for any property on the roll. For a fee of not more than \$10, the requester will receive a signed certificate or form showing any delinquent taxes, penalties and interest currently due on a property. If someone buys real property and, at the time, the tax certificate incorrectly shows no delinquent tax obligations for a given year, the tax lien for that year is extinguished for the new owner. The tax certificate protects the new owners but the former owner is held personally liable for the taxes (Sec. 31.08). This happens even if the tax office makes an error when it prepares the certificate.

When the tax certificate correctly shows delinquent taxes due and the purchaser still buys the property, the lien remains on the property. In addition, if an individual wishes to purchase property at a tax foreclosure sale, that individual must show proof that they owe no delinquent property taxes to that county or to any taxing unit in that county. This is done through a written request to the county tax assessor-collector for a no-taxes-owed statement (Sec. 34.015).

Report Revenues

The Tax Code also requires collectors to file periodic reports with their governing bodies. Monthly written reports, made under oath, account for all taxes collected by the taxing unit. Reports for October through January are due on the twenty-fifth day of the month following the month that is the subject of the report. For example, the October report is due on November 25. Reports for other months are due on the fifteenth day. Annual reports for collected and delinquent taxes are due on the sixtieth day following the last day of the fiscal year (Sec. 31.10).

Delinquent Collections

Texas taxpayers currently owe millions of dollars in delinquent taxes, penalties and interest. Many of these tax payments have been delinquent for several years. Lost revenues ultimately mean higher tax levies for all taxpayers, so it is important for collectors to pursue delinquent taxes aggressively by mailing bills and notices on time, keeping good address records and taking legal action to secure payment when other efforts fail.

Penalty and Interest

A delinquent tax accumulates penalty and interest. The penalty is a 6 percent charge for the first month and an additional 1 percent per month (or part of a month) until July 1 when the penalty becomes 12 percent permanently. Interest accrues at 1 percent per month (Sec. 33.01). On July 1, in addition to penalty and interest charges, a taxing unit may charge as much as 20 percent of penalty, interest and taxes collected to cover collection costs if it hires a private collections attorney (Sec. 6.30).

With the exception of an individual serving on active duty in any branch of the U.S. armed forces during a war or national emergency, penalty and interest must be paid on delinquencies, no matter how valid the taxpayer's reasons. The taxing unit governing body must waive penalty and may waive interest only if a tax office or appraisal district error caused the delinquency (Sec. 33.011).

Legal Actions

On January 1, taxing units obtain a property right called a *tax lien* on each piece of taxable property in the jurisdiction (Sec. 32.01).

The lien gives the unit the right to ask the court to order the property sold if taxes become delinquent. Because all taxing units with jurisdiction to tax the property hold a lien, any taxing unit may force the sale of property to collect overdue taxes.

Real Property

Before a taxing unit acts against a taxpayer, it usually sends one or more notices of delinquency. Law requires collectors to send a notice of delinquency

once a year to every person whose name is on the current delinquent roll, but some tax offices send several notices (Sec. 33.04). However, a notice of delinquency is not required if the collector does not know and by exercising reasonable diligence cannot determine the delinquent taxpayer's name and address. A taxing unit usually mails follow-up notices or attorneys send warning letters before initiating legal action.

Personal Property

Legal action takes two forms. The unit may obtain a tax warrant, seize the taxpayer's personal property, sell it and apply the sale proceeds to the tax bill. Personal property subject to seizure includes tangible personal property, cash on hand, notes or accounts receivable (including rents and royalties), demand or time deposits, and certificates of deposit (Sec. 33.21). Alternatively, the unit may file suit to enforce the lien on real property or to enforce personal liability for taxes. After the lien is foreclosed, the sheriff or constable sells the property at a public sale (Sec. 34.01). Property owners may redeem their property, but various fees and penalties added by the collector and the payment to the purchaser make this route more costly than paying taxes on time (Sec. 34.21).

