

Texas Property and Franchise Tax Relief



Property values have risen exponentially over the past few years. The increased appraised values of properties have led to increased property taxes for all Texas residents. The House and Senate are working on a bill (S.B. No. 2) that is intended to provide property tax relief for homeowners.

The House and Senate are also working on S.B. No. 3, which is intended to relieve some of the administrative burden brought on by the Texas franchise tax for small businesses.

Highlights of S.B. No. 2 (Property Tax Bill)

S.B. No. 2 primarily focuses on reducing the tax burden caused by school district taxes. School district taxes are the largest portion of property tax bills. The current average statewide independent school district tax rate is 1.136%. The specific changes are discussed in more detail below.

Changes to the Homestead Exemption

The bill increases the mandatory homestead exemption for school district property taxation from \$40,000 to \$100,000. This increased exemption will reduce homeowners' property taxes by decreasing the taxable value for school district taxes.

For example, assume a home in Collin County has an appraised value of \$2,000,000. The increased school district exemption generates \$755.85 of tax savings for this homeowner.

The bill maintains the 10% annual appraisal growth limitation that exists under the current law.

The bill includes a hold harmless clause. The state will make up any funding deficit a school district incurs as a result of this exemption increase. The Senate Research Center estimates this increased exemption will provide an average savings of \$681 to homeowners.

Tax Rate Compression

The bill provides an additional 10.7 cent reduction to school district taxes by reducing the maximum compressed tax rate. The reduced rate will lower property taxes for all homeowners.

Tax rate compression is an intentional reduction of the tax rate. The idea is to reduce the tax owed by residents and have the state make up any budget shortfall.

Circuit Breaker Limitation on Appraised Value for Real Property Other Than Residence Homesteads.

The bill places a cap on the appraised value of real property other than residence homesteads. It effectively puts a 20% cap on the appraised value of a property that isn't a residence homestead.

The property will be appraised at the lesser of:

- The market value of the property for the most recent tax year that the market value was determined by the appraisal office. Or,
- The sum of:
 - 20% of the appraised value of the property for the preceding tax year.
 - The appraised value of the property for the preceding tax year, and
 - The market value of all new improvements to the property.

Taxes Before S.B. No. 2 Increased Exemption

Jurisdiction	Appraised Value	Exemption	Taxable Value	Tax Rate (2022)	Tax
Plano City	\$ 2,000,000.00	\$ 308,048.00	\$ 1,691,952.00	0.418%	\$ 7,065.59
Collin County	\$ 2,000,000.00	\$ 77,012.00	\$ 1,922,988.00	0.152%	\$ 2,931.46
Collin College	\$ 2,000,000.00	\$ 15,402.00	\$ 1,984,598.00	0.081%	\$ 1,611.89
Plano ISD	\$ 2,000,000.00	\$ 40,000.00	\$ 1,960,000.00	1.260%	\$24,691.10
			Total Tax		\$36,300.04

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Plano ISD	\$ 2,000,000.00	\$ 100,000.00	\$ 1,900,000.00	1.260%	\$23,935.25
			Total Tax		\$35,544.19

This section only applies to properties appraised under \$5 million. The \$5 million is indexed to inflation so it will increase in future years.

goal is to have the bills finalized by Friday, July 14th.

This will benefit Texas residents who own second residences in the state (including lake houses) and landlords of rental properties. There are no direct savings to renters in the bill; however, the idea is that landlords will pass on the tax savings to renters by reducing rent. This provision expires December 31, 2026.

New Elected Positions for Appraisal District Board of Directors

Counties with a population over 75,000 will need to create three new voter elected positions on their appraisal district board of directors. The three elected directors must reside in the district and have resided there for at least two years before taking office.

Highlights of S.B. No. 3 (Franchise Taxes)

The bill increases the no tax due threshold for the Texas franchise tax to \$2.47 million. The current no tax due threshold is \$1.235 million. The Senate Research Center estimates this will remove the franchise tax burden for 67,000 businesses.

Under current law, taxpayers below the \$1.235 million no tax due threshold are still required to file an information report with the Comptroller. S.B. No. 3 prohibits the Comptroller from requiring an entity that does not owe tax to file an information report. This will greatly reduce the compliance burden on small businesses.

These changes only apply to reports originally due on or after January 1, 2024.

Legislative Process

S.B. No. 2 and S.B. No. 3 are separate bills, but they contain provisions that prevent them from going into effect if the other bill does not pass. Both bills need to be passed for these to go into effect.

The bills are expected to pass in the Senate and House. Both bills passed in the Senate on Wednesday, July 12th. The House is scheduled to vote on the bills on Thursday, July 13th. Governor Abbot has already expressed that he will sign the bills once approved by both the House and Senate. The

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