



**Expanding the
Homestead Exemption
Does Not Offer
Meaningful
Property Tax Relief**

HUFFINES LIBERTY FOUNDATION

About the Founder



Don Huffines

Former Texas State Senator Donald B. Huffines is a strong Christian, proud fifth-generation Texan, husband, father, grandfather, and self-made businessman.

Don Huffines fought fearlessly for fiscal restraint and government accountability in the Texas State Senate while representing Dallas County.

During his time in the Senate from 2015 to 2019, Senator Huffines served as the Vice-Chair of the Texas Senate Border Security, Veteran Affairs, and Transportation committees. Huffines also earned a reputation as one of Texas's most conservative lawmakers.

Don Huffines founded the Huffines Liberty Foundation to promote the values we all cherish that make Texas great.

Executive Summary

The Texas Legislature's use of the homestead exemption to reduce property taxes has provided little actual relief for Texans. In the 88th legislative session, the Texas Senate wants to double down on this measure and increase the homestead exemption from \$45,000 to \$70,000. Like past increases to the homestead exemption, savings from the increase will be short-lived due to rising appraisal values and tax rates. This tax benefit is a political stunt. There are several reasons for this.

The homestead exemption is a legal provision that reduces property taxes for a Texan's primary home.

First, increasing the homestead exemption does nothing to stop the spending that drives the ongoing increases in property taxes. Second, increasing the homestead exemption does nothing to stop all local governments from increasing property taxes. Third, the homestead exemption creates a bifurcated property tax system in which renters and businesses receive no benefit. Fourth, the homestead exemption leads to economic inefficiency. And fifth, the homestead exemption creates constituencies with different economic and political interests that make it easier for the Texas Legislature and local taxing entities to continue the rapid growth of property taxes.

To provide true property tax relief, the Texas Legislature should: 1) limit state spending growth, 2) freeze school M&O property taxes, 3) use state budget surpluses to eliminate school M&O property taxes, 4) require voter approval for local governments to exceed the no-new-revenue tax rate, and 5) enshrine property tax relief in the Texas Constitution. Following this path, the Texas Legislature could cut property taxes almost in half in eight years, or less.

Introduction

Property taxes are once again a major issue of concern for Texas taxpayers. And no wonder. As the Huffines Liberty Foundation has documented, over the last 25 years all previous attempts by the Texas Legislature to provide relief for taxpayers—including the most recent attempt less than a year and a half ago—have failed. School districts have received more money from the state and politicians have taken credit for providing property tax relief, yet taxpayers keep getting stuck with higher property tax bills. Figure 1 shows the growth of property tax levies over the last four years.

Figure 1: Texas Property Tax Revenue 2018-21 (000s)

Year	Special Districts	Counties	Cities	School Districts	Total Revenue	Increase
2018	\$8,485,263	\$9,602,798	\$10,387,752	\$34,723,549	\$63,199,364	
2019	\$8,909,719	\$10,423,290	\$11,146,148	\$36,065,930	\$66,545,088	\$3,345,724
2020	\$9,486,152	\$10,839,800	\$11,963,476	\$37,552,976	\$69,842,406	\$3,297,318
2021	\$10,400,964	\$11,244,745	\$12,492,364	\$38,946,142	\$73,084,217	\$3,241,811
2022	\$11,381,507	\$12,668,561	\$13,634,751	\$44,296,728	\$81,981,548	\$8,897,331

There are a number of reasons the Texas Legislator’s efforts to reduce property taxes have failed. One is because they have refused to address the problem of the rapid growth of government spending at the state and local level. Another is they have generally failed to apply enough funds to property tax relief; though even when they put \$14 billion toward property tax relief in 2006, that also failed because they did nothing to slow or stop spending growth.

Expanding the Homestead Exemption

A third major reason for the failure of property tax relief efforts is that the Legislature has often resorted to the half-measure of increasing the homestead exemption to provide relief. Perhaps this is because homeowners are the constituency group that makes the most noise about high property taxes. Though high property taxes also affect renters, consumers, and businesses—large and small, the Legislature has more often than not provided property tax relief only to homeowners. Three out of the five efforts since 1997 have been focused solely on increasing the homestead exemption. The following shows how these previous efforts have failed to provide meaningful and lasting relief for Texas homeowners.

1997

It was after the implementation of the Robin Hood

system of recapture that property taxes became a political issue in the 1990s. The Texas Legislature responded by increasing the homestead exemption by \$10,000. This may have provided temporary relief to homeowners, but it did nothing to stop the increasing property tax burden. The levy for the 1997 property taxes due January 1, 1998, after the increase in the homestead exemption, rose by \$812 million, up 4.8%, from the prior year.

Year	Special Districts	County	City	School Districts	Total Revenue
1996	\$1,698,557,436	\$2,537,183,937	\$2,701,214,386	\$9,910,195,171	\$16,847,150,930
1997	\$1,759,622,591	\$2,658,308,076	\$2,847,081,480	\$10,394,500,372	\$17,659,512,519
1998	\$1,889,138,306	\$2,828,286,927	\$3,005,996,060	\$11,334,614,289	\$19,058,035,582

2015

In 2015, Texas leaders went back to raising the homestead exemption in an effort to reduce the property tax burden. This was done through a joint resolution adopted by the Texas Legislature and passed by Texas voters which increased the homestead exemption from school district taxes by \$10,000, to \$25,000 (Ballotpedia). As with the 1997 effort, this affected only property owners with a homestead exemption—which accounts for about 47% of taxable property. Even for the homeowners, though, relief was short-lived. Overall, property taxes increased \$1.1 billion the first year and \$3.8 billion the next after the exemption was increased. Meanwhile, education spending continued to climb by \$2.7 billion the next school year.

Year	Special Districts	County	City	School Districts	Total Revenue
2014	\$6,370,469,864	\$8,114,998,194	\$7,828,571,758	\$26,792,677,172	\$49,106,716,988
2015	\$6,954,121,525	\$8,689,549,544	\$8,380,435,861	\$28,176,465,862	\$52,200,572,792
2016	\$8,031,396,864	\$9,027,417,995	\$9,165,214,426	\$29,854,848,667	\$56,078,877,952

2021

During the third called session of the 87th Texas Legislature, members came under pressure because they were spending a lot of taxpayer money without doing anything to address the rapidly increasing property tax burden. As the end of the session approached, members made a late night agreement to increase the homestead exemption from \$25,000 to \$40,000. This decreased school district revenue from the property tax by about \$600 million annually, an average of about \$176 per homeowner.

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A Mixed—and Deceptive—Approach in 2023

This legislative session, it looks like Texas politicians are going to take a mixed—and deceptive—approach to property tax relief.

It is deceptive in part because many politicians are touting a \$15 billion property tax relief package. But about \$5 billion of the package is simply paying for the property tax relief the Texas Legislature promised taxpayers in 2021. At this point, the amount of Texas' current \$32.7 billion surplus that politicians are willing to devote to property tax relief is \$9.7 billion. And they are devoting none of the potential \$31.9 billion surplus over the next two years to property tax relief. Of the \$9.7 billion, based on the Texas Senate's plan, about \$6.7 billion would go toward providing property tax relief for all property owners by reducing the school property tax rate. The remaining \$3 billion would be used to increase the homestead exemption from \$40,000 to \$70,000.

There is another reason why the Texas Legislature's approach to property tax relief this session is deceptive. That is because what members of the Legislature are offering simply will not work, exactly like every other effort it has attempted since 1997. They are not doing anything to reduce spending growth. They are not offering enough funds—less than a sixth of the total surplus revenue available—to make the relief meaningful. And they continue to attempt to achieve property tax relief through an increase in the homestead exemption. To which we now turn our attention.

Why Expanding the Homestead Exemption Does Not Provide Meaningful Property Tax Relief

There are several problems with using an increase in the homestead exemption to provide meaningful property tax relief. We focus on four of them here.

First, increasing the homestead exemption does nothing to stop the spending that drives the ongoing increases in property taxes. As the chart below shows, annual school spending has increased by 4.5% each year for the last five years. As long as school spending continues to increase at these rates, property taxes will also increase. The homestead exemption will slow the rate of increase, but for homeowners already burdened

by excessive property taxes, this provides no relief.

Texas School District Expenditures 2017-2022	
School Year	Expenditures
2017-18	\$60,890,235,223
2018-19	\$63,124,872,187
2019-20	\$67,453,820,696
2020-21	\$70,506,904,205
2021-22	\$72,620,846,524
Avg. Annual Change	4.37%

Second, increasing the homestead exemption does nothing to stop local governments from increasing property taxes. Typically, the homestead exemption applies only to the value of a home for the purpose of school property taxes. Thus, the exemption has no effect on property taxes from cities, counties, and special districts. And even school districts can continue to raise their property taxes. Again, the exemption may slow the increase from school districts, however, overall, property taxes will continue to increase despite any increases in the homestead exemption.

Finally, the homestead exemption creates a bifurcated property tax system with homesteads being taxed at different rates from rental homes, apartments, and commercial properties. This has several undesirable consequences.

One of those is that while property taxes for homeowners may grow at a slightly slower rate, renters and businesses receive no benefit at all from the homestead exemption. While this might not violate the equal protection clause in the U.S. Constitution, it certainly violates general principles of equity. Why should renters bear higher property tax burdens than homeowners? And why should business owners who operate their businesses out of their homes get a tax break that other business owners do not? Essentially every Texan who earns money is employed by a business. Businesses don't pay taxes; people do, as business taxes are passed onto the consumer.

Another undesirable consequence of a bifurcated property tax system is its economic inefficiency. Taxing property at different rates depending on how it is used leads to the inefficient allocation of capital. Owners determine how they will use their property based not only on its highest and best use but also based on

the differing tax levies that might be imposed on the land.

A final problem with the bifurcated tax system is that it creates constituencies with different economic and political interests that tend to make it easier for the Texas Legislature and local taxing entities to continue their rapid increases of property taxes. Businesses, for instance, that see little hope in getting broad-based tax relief because of the Legislature's focus on the homestead exemption may abandon lobbying for lower property taxes overall and turn to special exemptions and abatements that favor only certain businesses. These might include the agricultural and wildlife exemptions and abatements such as those received through Chapters 312 and 313 of the Tax Code. Homeowners too might seek relief only through increases in the homestead exemption. The result is special interests lobbying for special property tax breaks while the rates and levies continue to go up for everyone. There is no widespread opposition to increased property tax levies and the spending that drive them.

Conclusion

There is only one true way to stop the growth of property taxes: stopping the growth of local government and school district spending. The Texas Legislature's focus on using the homestead exemption for property tax relief provides little actual relief and does nothing to stop the spending growth driving property tax increases. The Texas Legislature should stop increasing the homestead exemption and follow these five steps for eliminating the school maintenance and operations property tax:

Limit State Spending Growth

Limiting state spending growth to no more than 5% per biennium (~2.47% annually) will provide adequate state revenue to eliminate the M&O portion of school property taxes within 10 years.

Freeze School M&O Property Taxes

Eliminating the ability of school districts to increase M&O property taxes by freezing school property taxes at the current level stops school districts from interfering with a buydown.

Use 90% of Current and Future Texas' Budget Surpluses for the Property Tax Buydown

Fiscal discipline at the state level will provide enough funds to eliminate the M&O property tax in 10 years (or less) only if 90% of the surpluses generated are used for the buydown.

Require Voter Approval for Local Governments to Exceed the No-New-Revenue Tax Rate

Cities and counties constantly undermine property tax relief by rapidly filling in the gap created by reduction in school property taxes. They should be required to ask voters for permission if they want to keep doing so.

Enshrine Property Tax Relief in the Texas Constitution

Property Tax relief can be accomplished by the Texas Legislature passing a new law. But to ensure a future Legislature does not backtrack on its promises, property tax relief must be made permanent through the passage of an amendment to the Texas Constitution.

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citizens so they are better informed to tackle the toughest
challenges.**