

LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 87TH LEGISLATURE 2nd CALLED SESSION 2021

August 20, 2021

TO: Honorable Morgan Meyer, Chair, House Committee on Ways & Means

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB8 by Bettencourt (Relating to the authority of a person who acquires a residence homestead to receive an ad valorem tax exemption for the homestead in the year in which the property is acquired and to the protection of school districts against the resulting loss in revenue.), **As Engrossed**

Passage of the bill would authorize a homestead property tax exemption immediately when an individual qualifies instead of January 1 of the following tax year. To the extent that homestead property tax exemptions would take effect sooner than under current law, taxable property values would be reduced and the costs to the Foundation School Fund increased through the operation of the school finance formulas.

The bill's provision providing for proration in the event exemptions terminate during the year in which the individual acquired the property could increase taxable property values and reduce the costs to the Foundation School Fund through the operation of the school finance formulas.

The bill's provision requiring additional state aid for school districts that pay refunds under the added proration provisions would be a cost to the state; however, the amount of refunds is unknown and cannot be estimated.

The bill would amend Chapter 11 of the Tax Code, regarding property tax exemptions, to provide that an individual who acquires a residence homestead after January 1 may receive a residence homestead property tax exemption on the property for the applicable portion of the tax year which the individual qualified. The bill would amend Chapter 23 of the Tax Code regarding the limitation on appraised value of a residence homestead to specify an owner who receives a partial year exemption is considered to have qualified the property for the exemption as of January 1 of the tax year following the tax year in which the owner acquired the property for the purpose of when the limitation begins.

The bill would amend Chapter 26 of the Tax Code to provide if an individual receives a homestead exemption under Section 11.13 as provided by 11.42(f), for a portion of a tax year, the tax exemption would be prorated based on the portion of the year the owner qualified for the exemption on that homestead. The bill also provides the taxes be prorated should the exemptions terminate during the year in which the individual acquires the property. The bill specifies calculations for prorating the amount of taxes due depending on when the individual first qualified. The bill would require the assessor for each taxing unit take certain actions depending on the timing of the homestead exemption qualification and when taxes are calculated, tax bills mailed and paid.

The bill would amend Chapter 39 of the Education Code, regarding public school system accountability, to prohibit an indicator or any other performance measure that penalizes a school district for failure to collect the amount of taxes equal to the total amount of tax refunds. The bill would amend Chapter 48 of the Education Code, regarding the Foundation School Program, to require the total amount of maintenance and operations taxes collected by a school district to include the amount of taxes refunded in the calculation of a school district's tier two allotment. The bill would provide additional state aid in an amount equal to the amount of all tax refunds from prorated exemptions.

To the extent that homestead property tax exemptions would take effect sooner than under current law, there

would be a loss of taxable value, and the associated property tax revenue, to taxing units and to the state through operation of the school funding formula. Under current law, an individual who owned a home on January 1 and used it as a primary residence on that date is entitled to certain homestead exemptions. For properties with standard homestead exemptions in place, those exemptions will normally remain for that entire tax year and the taxes will reflect those exemptions. However, if an individual purchases a property intended to be a residence homestead but does not receive a homestead exemption at the time of acquisition, the individual must wait until January 1 of the following year to attain a homestead exemption. Under the bill's provisions, the exemption could commence immediately upon qualification. The bill's provision providing for proration in the event exemptions terminate during the year in which the individual acquired the property could provide a gain of taxable value to taxing units and to the state. The number and value of properties that would qualify for the proration requirements specified in the bill is unknown. Therefore, the fiscal impact cannot be estimated. The provision requiring additional state aid for school districts that pay refunds under the added proration provisions would be a cost to the state; however, the amount of refunds is unknown and cannot be estimated.

The bill would take effect January 1, 2022.

Local Government Impact

Passage of the bill would authorize a homestead property tax exemption immediately when an individual qualifies instead of January 1 of the following tax year. To the extent that homestead property tax exemptions would take effect sooner than under current law, taxable property values and the related ad valorem tax revenue for units of local government could be reduced.

The bill's provision providing for proration in the event exemptions terminate during the year in which the individual acquired the property could increase taxable property values and the related ad valorem tax revenue for units of local government.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, KK, AF, SD, BRI