

## **BILL ANALYSIS**

C.S.H.B. 2  
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Ways & Means  
Committee Report (Substituted)

### **BACKGROUND AND PURPOSE**

Local property taxes in Texas are rapidly rising and becoming increasingly unaffordable, with further headaches for taxpayers caused by the lack of stability and predictability in appraisals. Although Texas has an existing limitation on appraised-value increases, that limitation only applies to residence homesteads and allows for a 10 percent annual increase in the appraised value of those homesteads. Additionally, many Texans are concerned with the amount of school district recapture payments and the state's share of public education funding. C.S.H.B. 2 seeks to address these issues and provide property tax relief by reducing the maximum compressed tax rate for all school districts, lowering the limitation on appraised value for residence homesteads and extending its applicability to all real property, and providing all property owners the option to request an escrow account from the collector for their taxing units.

### **CRIMINAL JUSTICE IMPACT**

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

### **RULEMAKING AUTHORITY**

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

### **ANALYSIS**

C.S.H.B. 2 amends the Education Code, Government Code, and Tax Code to enact the provisions of the Property Tax Relief Act.

#### **School District Tax Rate Compression**

C.S.H.B. 2 provides for a \$0.15 reduction in a public school district's maximum compressed tax rate for the 2023-2024 school year. If a district's maximum compressed tax rate after that reduction would be less than 90 percent of another district's maximum compressed tax rate, the district's maximum compressed tax rate is instead the value at which that rate would be equal to 90 percent of the other district's maximum compressed tax rate. The bill provides that, during the 2023-2024 school year, certain references in state law to a district's maximum compressed tax rate or maximum compressed rate mean the maximum compressed rate for the district as reduced by the bill for the 2023-2024 school year. The bill establishes that, for purposes of determining a district's maximum compressed tax rate for the 2024-2025 school year, the value of the district's "PYMCR" is the maximum compressed tax rate determined for the district for the preceding school year. These provisions expire September 1, 2025.

## **Limitations on Increases in Appraised Value**

C.S.H.B. 2 makes the limitation on the appraised value of a residence homestead applicable to all real property, which includes a manufactured home that qualifies as a residence homestead regardless of whether the owner elects to treat the manufactured home as real property. With respect to this limitation, the bill decreases the allowable year-over-year increase in a property's appraised value from 10 percent to five percent. This revised limitation takes effect on January 1 of the tax year following the first tax year in which the owner owns the property on January 1 and expires on January 1 of the first tax year following the year in which the owner ceases to own the property, except that:

- if the property qualifies for a residence homestead exemption when the ownership of the property is transferred to the owner's spouse or surviving spouse, the limitation expires on January 1 of the first tax year following the year in which the spouse or surviving spouse ceases to own the property, unless the limitation is further continued on the subsequent transfer to a spouse or surviving spouse; or
- if the property is not a residence homestead and is owned by two or more persons, the limitation expires on January 1 of the first tax year following the year in which the ownership of at least a 50 percent interest in the property is sold or otherwise transferred.

For purposes of applying the limitation, a person who acquired real property in a tax year before the 2023 tax year, other than property that qualified as the person's residence homestead in the 2023 tax year, is considered to have acquired the property on January 1, 2023.

These provisions take effect January 1, 2024, contingent on voters approving a corresponding constitutional amendment, and apply only to appraisals for a tax year that begins on or after that date.

## **Escrow Accounts**

C.S.H.B. 2 removes a tax collector's discretion regarding whether to enter into a contract with a property owner for the establishment of an escrow account to provide for the payment of property taxes by requiring a collector to do so on an owner's request. This change takes effect January 1, 2024, and applies only to a tax year beginning on or after that date.

## **Repealed Sections**

Effective January 1, 2024, C.S.H.B. 2 repeals Sections 31.072(h) and (i), Tax Code, and, contingent on voter approval of a corresponding constitutional amendment, also repeals Section 23.23(c-1), Tax Code. These repeals apply only with respect to a tax year that begins on or after that date.

## **EFFECTIVE DATE**

Except as otherwise provided, September 1, 2023.

## **COMPARISON OF INTRODUCED AND SUBSTITUTE**

While C.S.H.B. 2 may differ from the introduced in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

The substitute includes a provision absent from the introduced specifying that the revised limitation on appraised values applies with respect to a manufactured home that qualifies as a residence homestead, regardless of whether the owner of the manufactured home elects to treat the manufactured home as real property.