



LEGISLATOR'S GUIDE TO THE ISSUES 2021-2022

Property Tax Reform

The Issue

In 2019, the Texas Legislature passed the most significant tax reform seen in modern times. The new law—[Senate Bill 2](#), otherwise known as the Texas Property Tax Reform and Transparency Act—makes [many revisions](#) to the Tax Code. Its signature change empowers voters with the right to decide on big tax increases. Under SB 2, property tax revenue growth for cities, counties, and certain special districts is limited to 3.5% annually, unless voters approve a larger increase.

While most Texans welcomed having a greater say in the tax rate setting process, some cities and counties have sought to get around asking for voters' permission. At the urging of certain taxpayer-funded lobbying associations, a concerning number of city councils and county commissioners courts have cited a misinterpreted provision in SB 2 to continue raising taxes to excess. The provision in question provides an exemption from the new law for localities experiencing a disaster. More specifically, if a locality has a disaster declared in its area, then the old tax system is effectively returned, that is, the one permitting as much as an 8% increase without voter approval. However, state lawmakers have repeatedly made clear that the provision was not intended to apply to today's circumstances. [According to top state officials](#), "this exemption only applies to physical damage (such as from a natural disaster) and not economic damage that has accompanied the COVID-19 fallout." Nevertheless, a handful of local officials have chosen to ignore these warnings and act anyway.

Imposing a massive tax increase without voter approval is wrong on many levels. First, it is appalling to cut voters out of the process. SB 2 gives Texans the right to approve property tax revenue increases above 3.5%, and that must be respected. Second, it is a terrible time for huge tax hikes. The Texas economy is performing at a subpar level, and countless workers are unemployed or underemployed. Instead of raising taxes, every city and county official ought to be figuring out how to cut taxes and let families keep more of what they earn. Third, it sends a bad message. Inventing legal loopholes in order to exploit taxpayers breeds mistrust and anger.

Because city and county governments have acted contrary to SB 2, it is vital that the next Texas Legislature take appropriate action. One thing to be done is to add unmistakable clarity to the law. There should be absolutely no ambiguity in the Tax Code as to which situations qualify for a disaster exemption. Next, state lawmakers should consider penalizing cities and counties that exceed the 3.5% threshold without voter approval. Those local governments should have their property taxes reduced by a like-kind amount in fiscal years 2022 and 2023. In addition, lawmakers might consider further reductions to the 3.5% voter approval

tax rate—especially in light of the massive tax increases passed by many cities and counties for both fiscal years 2020 and 2021. Fourth, lawmakers should explore ways to empower voters with the ability to lower taxes. Putting this power directly in the hands of voters could provide tax relief without necessarily having to spend state money next session.

The time for big, bold ideas is now. The recession-like economic environment and sky-high tax bills have taken their toll on a weary public. Texans need help. Lawmakers must protect the gains made last session and make new inroads in 2021.

The Facts

- SB 2 requires cities, counties, and certain special districts to limit property tax revenue growth to 3.5% annually, unless voters approve otherwise.
- Some cities and counties have sought to use the current crisis as an excuse to raise taxes beyond 3.5% without voter approval. They are relying on a misinterpretation of one part of SB 2.
- It is a mistake to exclude voters from the tax rate setting process.

Recommendations

- Add unmistakable clarity to the Tax Code.
- Penalize taxing entities that exceed the 3.5% limitation without voter approval.
- Consider further reductions to the voter approval tax rate.
- Study ways to empower voters with the ability to directly lower tax rates in their area.

Resources

[Abolishing the "Robin Hood" School Property Tax](#) by Kara Belew, Bill Peacock, Emily Sass, and Vance Ginn, Texas Public Policy Foundation (June 2018).

[School Property Tax Reform: An Analysis of Options](#) by Jorge Barro and John W. Diamond, Texas Public Policy Foundation (Nov. 2018).

["On Texas' Property Tax Problem: Go Big or Go Home"](#) by James Quintero, Texas Public Policy Foundation (March 10, 2020).

["Out of House and Home: How to Stop Efforts Undermining Property Tax Reform"](#) [Video], Texas Public Policy Foundation (Aug. 10, 2020).