

**Eliminating School M&O Property
Taxes Is Only Path to Guarantee
Permanent Property Tax Cuts**

By Bill Peacock and Don Huffines

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Texas politicians have promised “property tax relief” for decades—three times in the last five years. And failed each time. Many taxpayers saw their property taxes increase this year despite the claims of the “largest property tax cut in history” emanating from Austin. Even those taxpayers who received some relief this year will see their taxes go back up next year. The reason for this is two-fold. First, the state does not rely enough on compression to lower the taxes. Second, the state does not do anything to stop schools and local governments from continuing to raise property taxes.

taxable value of \$500,000 would be \$5,000.00 $((\$500,000 \div 100) \times 1.00)$.

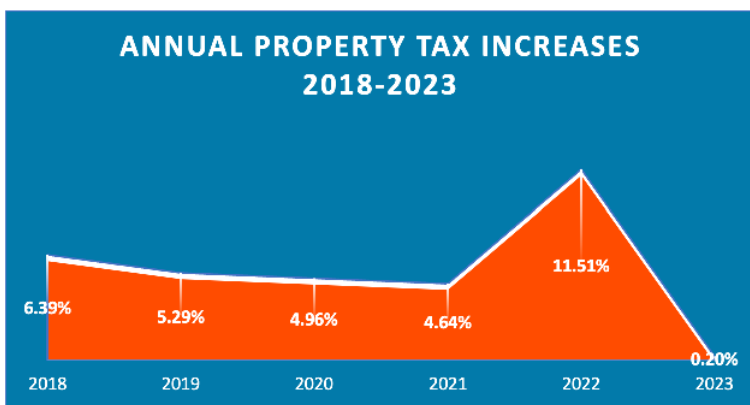
Compression is when the state sends additional education funding to schools using state tax dollars while requiring schools to lower their property tax rates. If the state wanted to reduce our property taxes by about 10%, it would send enough money to the DSISD to reduce the tax rate on this house to \$0.90. This would reduce the property taxes on the house by \$500.

Why is Compression Better Than Increasing the Homestead Exemption?

The best way to give Texans a property tax cut is for school districts and local governments to cut spending. But history shows us this is unlikely to happen.

The state has tried (and failed) to cut property taxes by increasing the homestead exemption. One reason the homestead exemption does not work is that it only decreases property taxes on a person’s primary residence. It does not reduce property taxes on any rental property, apartments, land, businesses, or other commercial properties. In fact, the homestead exemption results in an increase in the property tax burden for non-homestead properties. Any relief that people experience from the homestead exemption is fleeting, as appraisal increases will eventually erase any savings from the homestead exemption.

The only way to achieve long-term property



The following Q&A explains why the only path to long-lasting property tax relief, i.e., actual property tax cuts, is through compression and placing stricter limits on property tax increases.

What is Compression?

When schools or local governments tax our property, they do so by applying a tax rate on the value of our property. For instance, say the Dripping Springs ISD property tax rate is \$1.00 per \$100 of property value. This means the DSISD property tax on a home with a

tax cuts is by completely eliminating school M&O property taxes. The best way to do that is to gradually reduce the school M&O property tax rate down to \$0 over several years using state surplus revenue. Only compression will accomplish this.

Why Aren't Existing Limits on Property Tax Increases Working?

The reason existing limits on property tax increases by schools and local governments are not working is because they are full of loopholes put in place by the Texas Legislature. This includes the no-new-revenue tax rate that, despite its name, allows for revenue increases.

Here is one example. According to the Texas Comptroller, the voter-approval tax rate (the amount that school districts and local governments can increase property taxes without voter approval) for cities and counties is 3.5% and for special purpose districts is 8%. For school districts, the effective rate is about 2.5%. Yet in 2022, property taxes statewide increased by 11.5%

What Happened to This Year's Property Tax Cut?

Texas politicians claimed last year they had given Texans the "Largest Property Tax Cut In Texas History"--\$18 billion. Unfortunately, that was not the case.

In the fight over whether to use compression or increase the homestead exemption, compression largely lost out. Both methods were used, \$7.1 billion for the homestead exemption and \$5.6 billion for compression. This totaled only \$12.7 billion, not the promised

\$18 billion, much less than the budget surplus of \$32 billion that taxpayers had been asking for.

In the end, taxpayers lost. While many homeowners did receive a reduction in taxes, overall property taxes and local government and school district spending increased. Property taxes went up \$165 million this year, as many small business and apartment owners will testify to.

The Path to Long-Lasting Property Tax Relief

- **Limit State Spending Growth**
By placing a limit of 3% on state spending growth, 90% of the resulting budget surplus can be used to eliminate school M&O property taxes.
- **Freeze School M&O Property Taxes**
This will keep school districts from undermining property tax cuts.
- **Require Local Governments to Get Voter Approval to Increase Property Tax Revenue**
If local governments believe they need more money, all they have to do is ask the voters.
- **Keep Schools Fully Funded**
The state of Texas already funds about 40% of government school budgets. We want to make that number 100% and take the school M&O property tax burden off local property owners, homeowners, renters, and businesses. No changes to school funding formulas.
- **No New Taxes**
We do not need to raise or create any new tax.