A QUICK OVERVIEW OF
THE PROPERTY TAX & VALUATION PROCESS

The property tax is the primary source of local government revenue in Texas and provides funding for the services provided by counties, cities, school districts, and a variety of special entities such as community colleges and emergency service districts. While the total combined state and local tax burden in Texas is among the lowest in the nation, the portion of the tax burden borne by property taxpayers in Texas is relatively high.

Under Texas law, all real property (land, buildings, etc.) and tangible personal property used for the production of income (business inventories, equipment, etc.) is taxable at its January 1 market value unless exempt by law, or unless subject to special appraisal provisions, such as the appraisal of agricultural land at its productivity value.

To save time and money, the appraisal district uses *mass appraisal* to appraise large numbers of properties. In a mass appraisal, the district first collects detailed descriptions of each taxable property in the district. It then classifies properties according to a variety of factors, such as size, use and construction type. Using data from recent property sales, the district appraises the value of typical properties in each class. Taking into account differences such as age or location, the district uses “typical” property values to appraise all the properties in each class. The appraisal district may use three common methods to value property: the market, income and cost approaches. The market approach is most often used and simply asks, “What are properties similar to this property selling for?” The value of your home is an estimate of the price your home would sell for on Jan. 1. The appraisal district compares your home to similar homes that have sold recently and determines your home’s value. Other methods are used to appraise types of properties that don’t often sell, such as utility companies and gas leases. The income approach asks, “What would an investor pay in anticipation of future income from the property?” The cost approach asks, “How much would it cost to replace the property with one of equal utility?”

Three factors determine the total amount of taxes imposed on a property. These include the appraised value established by the appraisal district for the county in which the property is located; the exemptions, if any, to which that property may be entitled, such as the homestead exemption for owner-occupied residential property; and the tax rates set by the governing bodies of the taxing units (jurisdictions) in which the property is located. The purpose of the appraisal is to allocate the tax burden fairly among all taxpayers.

For owner-occupied residential property receiving a homestead exemption, appraised value may be lower than the property’s market value because of what the law refers to as the “homestead cap.” Under current law, while a homestead property’s January 1 market value isn’t capped, that property’s appraised value is capped at a maximum increase of 10% each year. For example, the January 1 market value of a capped residence might be $200,000. However, if that home were appraised at $175,000 on January 1 of the prior year, this year’s appraised value would be $192,500 ($175,000 x 1.10). A residential property qualifies for the cap the year after the year the owner first receives his or her homestead exemption on the property. In our present economy, there are likely to be situations where the market value of a home may have decreased as of January 1, but the current year's appraised value may still increase because it was capped the previous year at less than the current market value.