

LIMITATIONS AND TAX RATE ADJUSTMENTS

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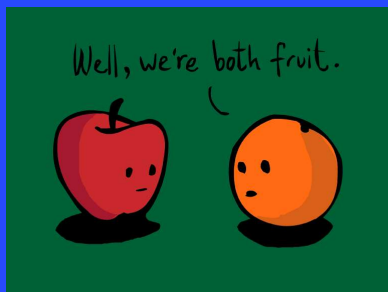
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Texas Tax Code, Section 11.26(a)

The Two Year Compare



“...if the school district taxes imposed on the residence homestead in the next year are less than the amount of taxes imposed in that first year, a school district may not subsequently increase the total amount of ad valorem taxes it imposes on the residence homestead above the amount it imposed in the year immediately following the first year for which the individual qualified that residence homestead for the same exemption...”



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SB 12– 87th 2nd C.S. Amended § 11.26

“multiplying the taxable value of the homestead in the _____ year by a tax rate equal to the difference between the school district’s tier one maintenance and operations rate for the _____ tax year and the district’s maximum compressed rate for the [prior] tax year.”

Subtract the amount calculated from the amount of tax imposed on the homestead in the [prior] year.

Add new improvement value.



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SB 12– 87th 2nd C.S. Amended § 11.26

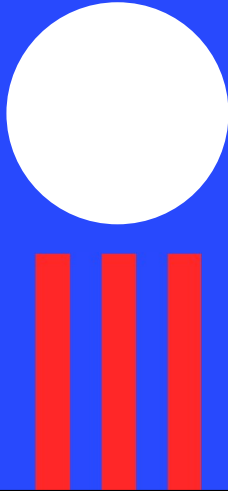


- a-5 – First qualified before 2018 compare 2018 to 2019; 2019 to 2020; 2020 to 2021; 2021 to 2022; and 2022 to 2023.
- a-6 – First qualified in 2019 compare 2019 to 2020; 2020 to 2021; 2021 to 2022; and 2022 to 2023.
- a-7 – First qualified in 2020 compare 2020 to 2021; 2021 to 2022; and 2022 to 2023.
- a-8 – First qualified in 2021 compare 2021 to 2022; and 2022 to 2023
- a-9 – First qualified in 2022 compare 2022 to 2023.
- a-10 – First qualifies in 2024 or a subsequent year

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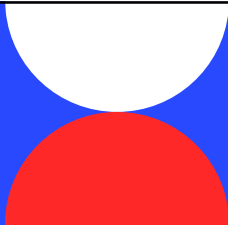
Calculations behind the example discussed



- Individual qualified for exemption before 2019 tax year
 - 2018 taxable value: \$150,000
 - 2018 ceiling: \$1,500
 - Maximum compressed rates for 2018-2023: 1, 0.93, 0.8957, 0.8506, 0.8046, 0.6192
- Calculation for 2023 tax limitation:
 - 2018 ceiling - $(\$150,000 * (1.00\% - 0.93\%)) = \$1500 - \$105 = \$1,395$ (effective 2019 ceiling)
 - Effective 2019 ceiling - $(\$160,000 * (0.93\% - 0.8957\%)) = \$1,395 - \$54.88 = \$1,340.12$ (effective 2020 ceiling)
 - Effective 2020 ceiling - $(\$170,000 * (0.8957\% - 0.8506\%)) = \$1,340.12 - \$76.67 = \$1,263.45$ (effective 2021 ceiling)
 - Effective 2021 ceiling - $(\$180,000 * (0.8506\% - 0.8046\%)) = \$1,263.45 - \$82.80 = \$1,180.65$ (effective 2022 ceiling)
 - Effective 2022 ceiling - $(\$190,000 * (0.8046\% - 0.6192\%)) = \$1,180.65 - \$352.26 = \828.39 (2023 tax ceiling)

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Senate Bill 12 Tax Compression Recalculation Questions

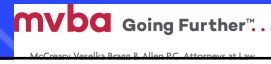


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History of 11.13(b) School Tax Homestead Exemption

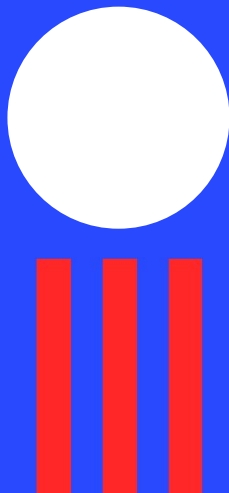
Prior to 1997 Homestead Exemption was \$5,000
 1997, increased to \$15,000
 2015, increased to \$25,000
 2022, increased to \$40,000
 2023, increased to \$100,000

People with 11.26 tax ceilings don't get the same benefit.



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SB 2 – 88th 2nd C.S. adds Texas Tax Code, Section 11.26(a-12)



1. If a property qualified for an 11.26 tax ceiling/limitation in or before 2021:
 - 1) Compress tax ceiling in accordance with SB 12 tax rate compression
 - 2) Subtract the product of \$15,000 multiplied by the school district's tax rate for the 2022 tax year




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SB 2 – 88th 2nd C.S. adds Texas Tax Code, Section 11.26(a-11)

If a property first qualified for an 11.26 tax ceiling/limitation in or before 2022:

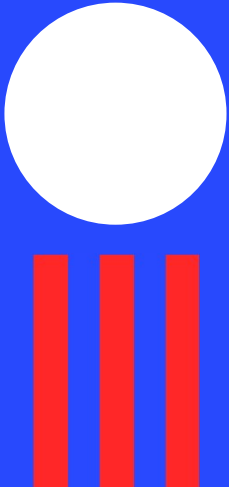

- Compress tax ceiling in accordance with SB 12 tax rate compression
- Subtract the product of \$60,000 multiplied by the school district's tax rate for the 2023 tax year



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SB 2 – 88th 2nd C.S. adds Texas Tax Code, Section 11.26(a-10)

If a property qualified for an 11.26 tax ceiling/limitation in 2024 or a subsequent year, the ceiling limitation is calculated according to SB 12's 11.26(a-10), then:

- Multiply the amount of any increase in homestead exemption since the past year by the school district's tax rate for the current year

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Calculation Example 1

Individual qualified for exemption in 2022 tax year

2023 ceiling: \$700 (after SB 12 + any new improvement)

2023 tax rate: 1.1075

Calculation for 2023 tax limitation:

$$\bullet 2023 \text{ ceiling} - (60,000 * 1.1075\%) - (15,000 * 1.2929\%) = \$1,200 - \$664.50 - \$193.94 = \$341.56$$

(effective 2023 ceiling)

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Calculation Example 2

Individual qualified for exemption in or before 2021 tax year

2023 ceiling: \$1,200 (after SB 12 + any new improvement)

2022 tax rate: 1.2929

2023 tax rate: 1.1075

Calculation for 2023 tax limitation:

$$\bullet 2023 \text{ ceiling} - (60,000 * 1.1075\%) - (15,000 * 1.2929\%) = \$1,200 - \$664.50 - \$193.94 = \$341.56$$

(effective 2023 ceiling)

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Scenario #1 – Exemption year/type change

These scenarios may vary from vendor to vendor:

Disabled to Over 65

Over 65 to Surviving Spouse

Appraisal districts that calculate that have gone through recent conversions

When an exemption changes or in the case of surviving spouse, some vendors create a new owner and move the ceiling to the new owner record. With SB 12, there have been issues with linking back and pulling the full history in order to accurately compress.



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Scenario #2 – 2-year comparison with further reduction

- 1 In the event a taxpayer qualified for their limitation in 2022 and was eligible under 11.26 (a-9), it's very possible the 2023 tax calculates lower than this limitation.
- 2 In this event, we saw in some cases there was a further reduction applied to the 2023 taxes, which are already compressed resulting in what we call a "double compression"
- 3 In the event a 2-year comparison was used (which we'll get into the legalities shortly), there should NOT be any further reduction applied.

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Scenario #3 – New improvement

Should new improvements be added before or after SB 2?

Prior to SB 2 there were two popular methods of handling new improvements when it comes to tax ceilings:

1. Recalculating the ceiling once tax rates are adopted adding in the new improvement multiplied by the current year tax rate.
2. Leaving the ceiling as is, storing the new improvement value and calculating the effective tax as: ceiling limitation + new improvement multiplied by current year tax rate. The ceiling would then be increased the following year.

Prior to SB 12 & SB2, this didn't matter.

11.26 sections (a-5) through (a-10) state that any tax imposed in the current tax year attributable to improvements made in the prior tax year be added to the limitation.

Using method #2 above, anyone with a limitation less than the SB2 reduction would not receive the full benefit.

11.26 (a-10) makes this very clear for 2024 and subsequent tax years.



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SB 12 selected text; Tax Code, section 11.26 – (a-10)

Notwithstanding the other provisions of this section, if in the 2024 or a subsequent tax year an individual qualifies for a limitation on tax increases provided by this section on the individual's residence homestead, the amount of the limitation provided by this section on the homestead is equal to the amount computed by:

- (1) multiplying the taxable value of the homestead in the preceding tax year by a tax rate equal to the difference between the school district's maximum compressed rate for the preceding tax year and the district's maximum compressed rate for the current tax year;
- (2) subtracting the amount computed under Subdivision (1) from the amount of tax the district imposed on the homestead in the preceding tax year;
- (3) adding any tax imposed in the current tax year attributable to improvements made in the preceding tax year as provided by Subsection (b) to the amount computed under Subdivision (2);
- (4) multiplying the amount of any increase in the current tax year as compared to the preceding tax year in the aggregate amount of the exemptions to which the individual is entitled under Sections 11.13 (Residence Homestead)(b) and (c) by the school district's tax rate for the current tax year; and
- (5) subtracting the amount computed under Subdivision (4) from the amount computed under Subdivision (3)..

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Two Year Comparison Example

- Let's walk through the impact of someone who received a prorated homestead for 2022 on 12/27/2022 with and without the 2-year comparison. The impact may be more significant going forward due to the higher homestead exemption amount.

District HUMBLE ISD (101913)						
Effective Tax Year 2023						
Over 65 / Disabled qualify year 2022						
2022 HS Taxable Value 218640	2022 Ceiling Amount 2826.80	2022 Ownership % 100	2022 MCR 0.8046			
	2023 Ceiling Adjustments 0	2023 Ownership % 100	2023 MCR 0.6192	2023 Total Tax Rate 1.1075		
SUBMIT						
Result						
Year	Starting	Ceiling Adjustments	Taxable Value	SB 12 Reduction	SB 2 Reduction	Running Total
2022	\$2,826.80	N/A	218,640	\$405.36	N/A	\$2,421.44
2023	\$2,421.44	\$0.00	N/A	N/A	\$664.50	\$1,756.94



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Two Year Comparison Example

- 2022 ceiling compressed for 2023 = **\$1,756.94**
- 2023 Taxable Value = 130,147
- 2023 Tax Rate = 1.1075
- 2023 Tax = **\$1,441.38**

Year	Taxable Value	MCR	Tax Rate	Levy	MCR Reduction	Ceiling (2 Year)	Effective Tax (2 Year)	Ceiling (W/O 2 year)	Effective Tax (W/O 2 year)	Difference
2023	130,147	0.6192	1.107500	\$1,441.38		\$1,441.38	\$1,441.38	\$1,796.94	\$1,441.38	\$0.00
2024	143,162	0.5759	1.064156	\$1,523.46	\$62.05	\$1,379.33	\$1,379.33	\$1,694.89	\$1,523.46	\$144.13
2025	157,478	0.5355	1.023846	\$1,612.33	\$63.48	\$1,315.85	\$1,315.85	\$1,631.41	\$1,612.33	\$296.48
2026	173,226	0.4981	0.986358	\$1,708.62	\$64.94	\$1,250.91	\$1,250.91	\$1,566.47	\$1,566.47	\$315.56
2027	190,548	0.4632	0.951494	\$1,813.05	\$66.43	\$1,184.48	\$1,184.48	\$1,500.04	\$1,500.04	\$315.56
2028	209,603	0.4308	0.919070	\$1,926.40	\$67.96	\$1,116.52	\$1,116.52	\$1,432.08	\$1,432.08	\$315.56
2029	230,563	0.4006	0.888916	\$2,049.52	\$69.52	\$1,047.00	\$1,047.00	\$1,362.56	\$1,362.56	\$315.56



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Attorney General Opinion KP-0470

Section 11.26(a) includes a computation that compares the amount of tax imposed in the first and second year the person qualifies for the exemption. The computation of that ceiling under other provisions in section 11.26 that adjust for the Legislature's compression of school district maintenance and operations taxes (subsections (a-5) – (a-9)) does not include the two-year comparison set forth in subsection 11.26(a). But each of these compression adjustment provisions apply "notwithstanding" the other provisions of section 11.26. Accordingly, they control over the two-year comparison on subsection 11.26(a), and the school tax ceiling should be computed pursuant to those subsections without reference to the two-year comparison.



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Thank you

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