

Why Appraisal Caps Cause Inequities

During the high growth days of 1997, voters approved a 10 percent cap on the amount an individual residential homestead could increase each year. Some legislators are proposing to reduce that cap to 5 or even 3 percent, and some even want to apply the caps across the board, to include industrial and commercial properties. These proposals would create inequities among taxpayers and damage the integrity of the Texas property tax system.

Caps create inequities between neighbors. Take two equally valued homes, for example. Three percent appraisal caps would create different tax obligations if one of those houses sells. It would go back on the tax rolls at its accurate value while the other home would have an artificially lower value because of the caps. One family would pay more taxes despite having houses of similar values. Further, a study by the head of the Dallas County Appraisal District clearly proves that wealthier homeowners would see more benefits from appraisal caps, compared to middle income and poor homeowners.

No matter how applied, appraisal caps cause unfairness. Some proposals before the Legislature call for appraisal caps solely on residential homesteads – others would apply a lower cap equally to all properties. Either way, unfairness results:

- Caps that apply solely to residential properties have the net effect of raising taxes on business, harming our state's economic development. The Texas Taxpayers and Research Association, which represents the tax interests of Texas industries, reports that caps on residential properties shift the burden to business.
- If the cap is broadened to include industrial and commercial properties, the reverse would occur – a greater burden would be shifted onto residential homeowners. That is, because commercial and industrial property values are much more volatile, properties that experience significant decreases in appraised value will seldom catch up with actual market value, which is the primary underpinning of Texas' property tax system.

And consider the impact if the value of minerals is capped. Due to the uncertainties of the world market, the cost of mineral production fluctuates wildly. Under a 5 percent cap, if values plummeted by 50 percent, it would take ten years for the value of the minerals to return to their true market appraisal.

(Prepared for county officials by the Texas Association of Counties.)