

Close the Tax Break Loophole



The Equal and Uniform Law, passed in 1997, was meant to ensure that property tax payers would be assessed fairly but the law has been abused by large property holders, most notably commercial property owners.

Large corporations are getting a tax break, at the expense of homeowners and small business owners — these are Texas-based businesses twisting the law to cheat our homeowners and children! The changes needed to close the loophole and ensure equity between taxpayers would increase collections state-wide WITHOUT increases in tax rates by \$5 billion per year.**

How It Works

- Large commercial property owners receive their property valuations. Like all property owners, they can appeal the value.
- Large property holders can appeal their valuations to district courts, appeals courts and all the way to the Texas Supreme Court. Because they can afford attorneys and experts, they frequently are able to get their property valued for much less than its worth.
- This results in a much smaller tax bill for large property holders and more reliance on homeowners by school districts and municipalities.

Issues

- The loophole has manifested itself in eroding the tax base from the top downward — the best property in a category gets moved to the median value of “comparables,” then others which were originally below the best property are now above. They then argue (rightfully so) that their values should be reduced causing the downward spiral. This is exacerbated on the higher end of the value spectrum and for more “unique” properties due to the lack of true comparables and the lack of sales price disclosure.

Example: Harris County Appraisal District v. United Investors Realty Trust

- A property that was purchased for \$15.2 million was appraised for \$10.2 million, only 67% of its sale price, after successful appeal by United Investors.

This is an example of the “property tax death spiral” — large real estate holders can litigate to get their valuations decreased, causing other comparable properties to have a lower benchmark for their assessment.

- The comparable properties used to assess property can be located outside of the county and even the state. (Ex. A Whole Foods in Travis County does not have to be assessed compared to another Whole Foods in Travis County or Texas. It can be assessed compared to a Whole Foods in Detroit.)
- Texas is a non-disclosure state where purchase prices are usually kept confidential. Appraisal districts often do not know the official purchase price of a property, and must compile a base price from press releases, voluntary surveys and phone calls. Sale prices for homes are much more accessible. This creates inequity in the system.

The Equal and Uniform Law is a provision that ensures that all Texas property, private or commercial, is assessed fairly. It was intended to protect property owners from overzealous appraisal district appraiser.

The law has become more of a loophole, shifting the property tax burden unfairly to homeowners and small business owners as large commercial interests are not paying their fair share.

- Tax revenue from local properties has increased as the State has decreased its portion of school finance.
- Local homeowners and small businesses have also shouldered an increase in the city and county tax burden for essential services.

Recommendations

- Amend the Equal and Uniform statute to require the party filing the equity appeal to prove comparability, by reference to age, location, utility, etc. of the comparable property (i.e., require the appellant to provide evidence that the comparable properties are, in essence, comparable),
- To insure equity between taxpayers and to help with comparability: Require the prices paid on real estate transactions to be disclosed so that the appellant and the court can discern the true value of comparable properties, and
- Require appellants to pay legal fees when they are large property owners (i.e., this requirement should not apply to homeowners and small businesses because they do not abuse the system and they are the folks we are trying to protect from abuse).
- If these recommendations are adopted, more school districts will be subject to recapture. Increases in recapture need to be put back into the basic allotment to help all school children.

These are similar to recommendations made by the **Legislative Budget Board** for mandatory sales disclosure in 2004, and modifications in Equal & Uniform provisions in 2015.

What about that flier:

“The Phony \$5 Billion”

- Large corporate interests and commercial property holders fund the group that published their flier last fall during election season. Their flier is loaded with many misleading statements and feel good language that actually claims to protect the very homeowners and small business owner that are being harmed by Equal & Uniform (E&U) abuses by large corporations. They are not offering any solutions. This is just a weak effort to discredit the idea that folks are cheating the system. For more information on this, visit www.fortbendis.com/legislativepriorities.

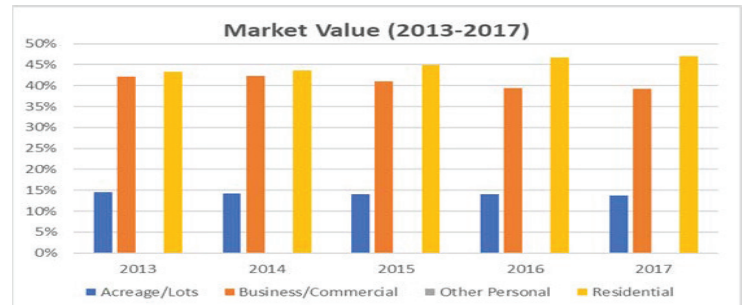
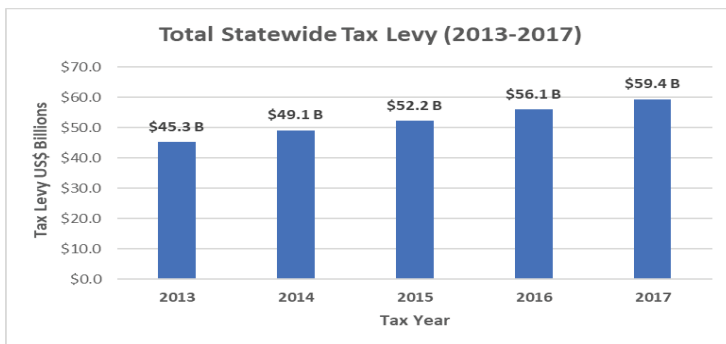
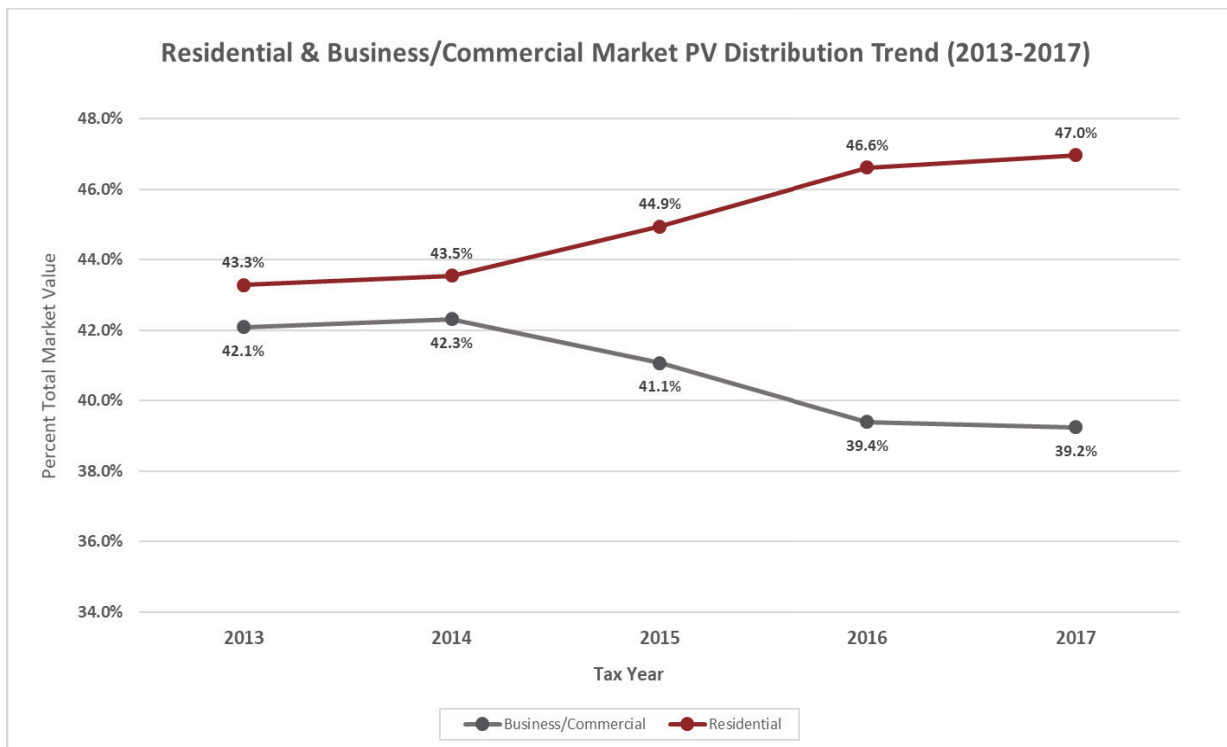
** “Appeals Shift Tax Burden,” MyStatesman, September 28, 2013, by Brenda Bell (sales disclosure impact)
See tables and reference on back page for impact of equal value growth.

HISTORICAL TREND STATEWIDE MARKET PROPERTY VALUE (2013-2017)

In the last 5 years, the Residential Market Value has increased, on average, about 1.43x faster than the Business/Commercial property value. The 5yr average growth rate for Residential values registered 8.12% versus a 5.66% on the commercial side. If commercial values had grown at parity with their residential counterpart; they would have generated a cumulative variance of \$227 billion of additional market value tax base. On average, exemptions for commercial property represent 5.9% of its total market value. Discounting the \$227 billion at such rate, yields around \$213.6 billion of taxable value. The potential levy to be generated at the average statewide tax rate* of 2.311 would be close to \$4.9 billion.

Growing at Parity with Residential (Values in \$ Billions)				
Year	Market Value	YoY Growth	Variance	Cumulative
2013	\$943.3	3.83%	-\$34.7	-\$34.7
2014	\$1,030.0	9.19%	-\$37.2	-\$71.9
2015	\$1,139.1	10.60%	\$29.3	-\$42.7
2016	\$1,245.1	9.30%	\$123.1	\$80.5
2017	\$1,341.0	7.70%	\$146.5	\$227.0

Historical YoY Market Value Growth (Values in \$ Billions)		
Historical YoY Growth Business/Commercial		
Year	Market Value	YoY Growth
2013	\$978.0	7.65%
2014	\$1,067.2	9.12%
2015	\$1,109.9	4.00%
2016	\$1,121.9	1.09%
2017	\$1,194.4	6.46%
Average	\$1,094.3	5.66%
Historical YoY Growth Residential		
Year	Market Value	YoY Growth
2013	\$1,005.7	3.83%
2014	\$1,098.2	9.19%
2015	\$1,214.6	10.60%
2016	\$1,327.5	9.30%
2017	\$1,429.8	7.70%
Average	\$1,215.1	8.12%



Source: Data: Texas Comptroller - Property Value Reports
Calculations from FBISD Finance

* Statewide Tax Rate: Includes Cities, Counties, and School Districts, but excludes special districts (i.e. MUD, LID, etc.)