

# How Tax Rate Notices Can Better Serve Texas Taxpayers

## What Is the Purpose of Truth-in-Taxation Measures?

A common notion is that an increase in the market value of property inevitably leads to a rise in property tax levies. In reality, this is true only when government officials choose not to decrease tax rates in response. Truth-in-taxation measures are intended to curtail increases in property tax by helping property owners hold elected officials accountable for the taxes they impose.

## Study: Is the New Tax Rate Notice Effective as a Truth-in-Taxation Measure?

In 2019, Texas enacted a new truth-in-taxation measure requiring all counties to deliver individualized tax rate notices to property owners on a digital platform. See Texas Government Code § 26.17(b). We investigated how well the new tax rate notice performed as a truth-in-taxation measure and whether different formats worked better.

In two experiments, we recruited 767 homeowners and business owners in Texas and presented each with a tax rate notice showing a tax increase. Some of the notices were in the format required by Texas law and some were variations on the Texas law. We asked participants a series of questions to gauge their understanding of the notice and what prompted them to give feedback to tax officials.

## Finding: A Simple Notice Works Best

Our research found that a simplified notice comparing the proposed tax to last year's tax (Figure 2) performed better as a transparency measure than the notice currently required by Texas law (Figure 1). Participants better understood the simplified notice and found it easier to identify a tax increase. These results were not affected by the size of the tax increase.

Figure 1: Current Notice

Taxing Unit:	Your County		
Property ID Number:	R000009516		
Market Value:	\$222,820		
Taxable Value:	\$193,820		
	<b>No-New-Revenue Tax Rate (2021)</b>	<b>Voter-Approval Tax Rate (2021)</b>	<b>Proposed Tax Rate (2021)</b>
<b>Tax Rate</b>	0.555619	0.580429	0.580429
<b>Your Tax</b>	\$1,076.90		\$1,124.99
			<b>Difference in Your Tax at No-New-Revenue Tax Rate and at Proposed Tax Rate</b>
			\$48.09
Email address to submit comments to Your County on the Proposed Tax Rate: <a href="mailto:comments@yourcounty.tx.gov">comments@yourcounty.tx.gov</a>			
Fillable form to provide opinion to Your County on whether the Proposed Tax Rate should be adopted: <b>FILLABLE OPINION FORM</b>			
<b>Definitions</b>			
No-New-Revenue Tax Rate:	The tax rate for the 2021 tax year that would raise approximately the same amount of revenue as 2020 on properties taxed in both years.		
Proposed Tax Rate:	The tax rate that the taxing unit has proposed to adopt for the 2021 tax year.		
Tax Rate:	The rate of tax per \$100 of taxable value.		
Your Tax:	The dollar amount of property tax for this property at the specified tax rate.		

Figure 2: Simplified Notice

Taxing Unit:	Your County		
Property ID Number:	R000009516		
Market Value:	\$222,820		
Taxable Value:	\$193,820		
	<b>Last Year's Tax Rate (2020)</b>	<b>Proposed Tax Rate (2021)</b>	<b>Difference between Your Tax Last Year and Your Tax at Proposed Tax Rate</b>
<b>Tax Rate</b>	0.5142306	0.580429	
<b>Your Tax</b>	\$806.93	\$1,124.99	\$318.06
Email address to submit comments to Your County on the Proposed Tax Rate: <a href="mailto:comments@yourcounty.tx.gov">comments@yourcounty.tx.gov</a>			
Fillable form to provide opinion to Your County on whether the Proposed Tax Rate should be adopted: <b>FILLABLE OPINION FORM</b>			
<b>Definitions</b>			
Last Year's Tax Rate:	The tax rate adopted by the taxing unit for 2020.		
Proposed Tax Rate:	The tax rate that the taxing unit has proposed to adopt for the 2021 tax year.		
Tax Rate:	The rate of tax per \$100 of taxable value.		
Your Tax:	The dollar amount of property tax for this property at the specified tax rate.		

### **Finding: Larger Tax Increases Prompt Feedback to Taxing Authorities**

Our experiments also found that property owners are more likely to provide feedback to taxing authorities when presented with a larger tax increase compared to a smaller tax increase. Participants who were shown a \$318.06 tax increase were more than twice as likely to give feedback compared to those who were shown a \$48.09 tax increase. These results were not affected by the form of the notice and were the same for the current notice and the simplified notice.

### **Observation: New Tax Rate Notice May Be Less than Truthful**

Our study also highlighted the importance of the Legislature's choice of information for the tax rate notice. The current notice and the simplified notice in Figures 1 and 2 relate to the same property and reflect the actual tax information for that property, a real home on the tax roll of Van Zandt County, Texas. The actual tax increase experienced by the owner of this property was \$318.06, as shown in the simplified notice. The notice under current law, however, showed a tax increase of only \$48.09, a substantial understatement. This difference illustrates a significant shortcoming of the current notice for any given property:

- If the tax at the no-new-revenue tax rate is greater than last year's tax, the notice will *understate* the dollar amount of the tax increase proposed for the property; and
- Conversely, if the tax at the no-new-revenue tax rate is *less than* last year's tax, the notice will overstate the dollar amount of the tax increase proposed for the property.

Further research is needed to determine the prevalence of these scenarios for Texas property owners.

### **Recommendation: Tax Rate Notices Should Provide Relevant Information**

The digital tax rate notice in Texas should be revised to provide information that property owners can easily understand and to represent tax increases as accurately as possible. Specifically, Section 26.17(b)(1)-(11) of the Texas Tax Code should be amended to require the digital tax rate notice to include the following information for a property, as shown in Figure 2:

- Last year's tax rate;
- Taxes imposed last year;
- Proposed tax rate;
- Taxes that would be imposed at the proposed tax rate; and
- The difference between the taxes that would be imposed at the proposed tax rate and the taxes imposed last year.

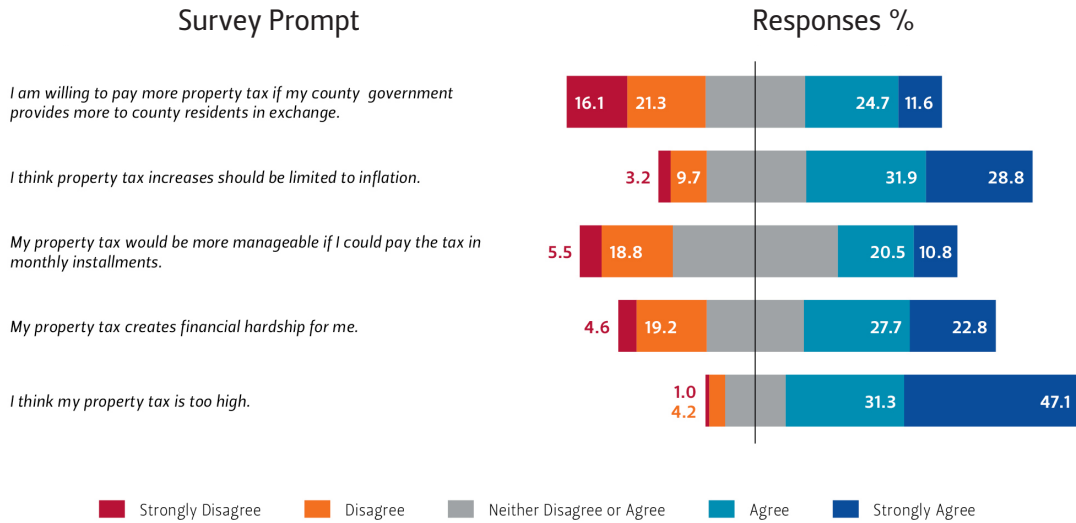
For more information, view the original research paper — by Jennifer Rabb, J.D., LL.M, and Lebona S. Varghese, Ph.D., of the Baker Institute McNair Center for Entrepreneurship and Economic Growth — at <https://bit.ly/TX-Taxation>.

# Opinion and Preference Survey

The opinion and preference survey included a survey of 527 homeowners and business owners in 27 Texas counties about the digital tax rate notice and the property tax burden generally. The results are summarized in the following graphs.

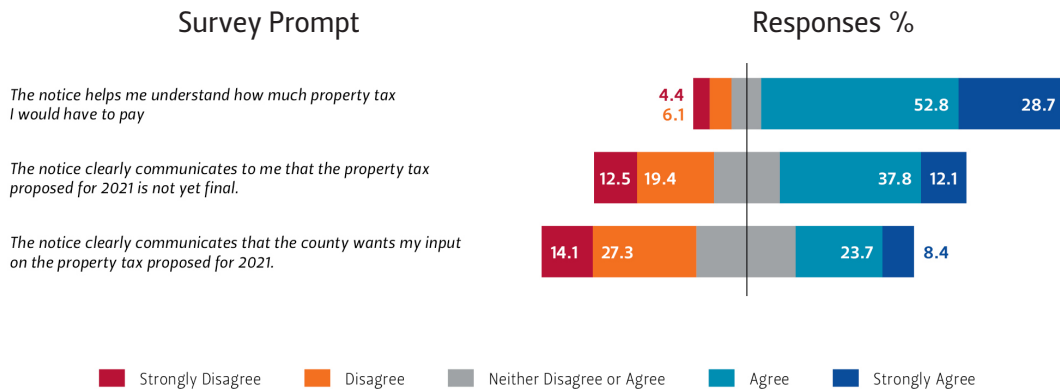
## Do Taxpayers Think Their Property Taxes Are Too high?

**Results:** Most taxpayers think their property taxes are too high, and increases should be limited to inflation.



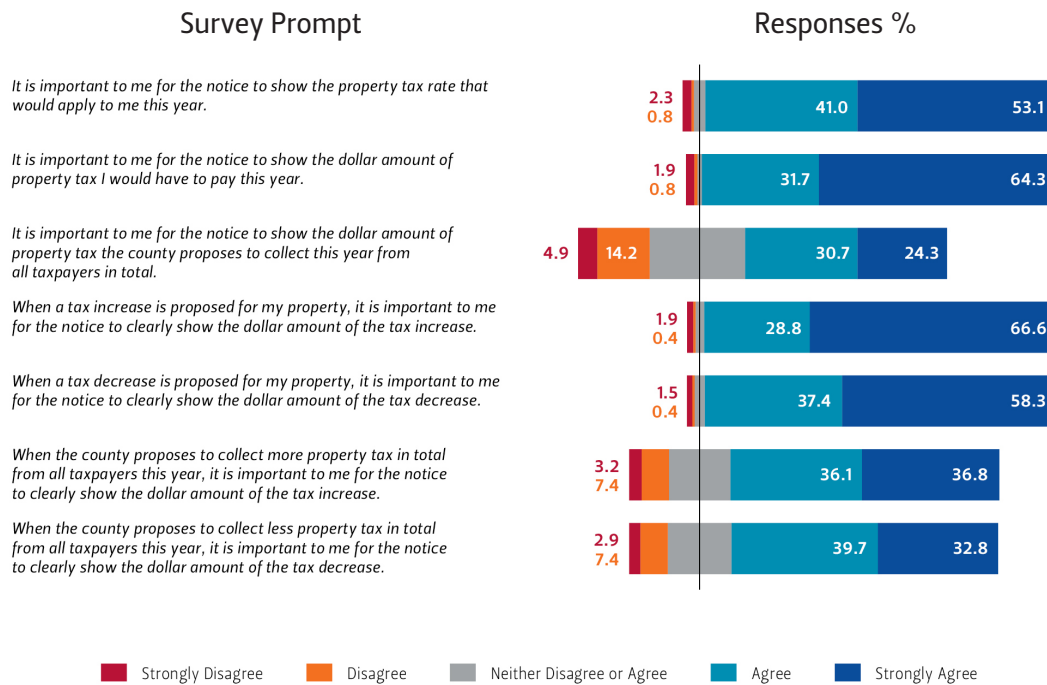
## Do Tax Rate Notices Serve Their Purpose?

**Recommendation:** Tax rate notices should emphasize that tax rates are not final and feedback is wanted.



## What Information Do Taxpayers Want?

Recommendation: Emphasize the information that pertains to the individual taxpayer's property.



For more information, view the original research paper — by Jennifer Rabb, J.D., LL.M, and Lebena S. Varghese, Ph.D., of the Baker Institute McNair Center for Entrepreneurship and Economic Growth — at <https://bit.ly/TX-Taxation>.