

**M E M O**  
**Austin Property Tax Options for Seniors**  
**March 13, 2015**

In 2013, the City of Austin Mayor's Taskforce on Aging stressed the need for detailed research to examine options in affordable senior housing, including deferrals of all property taxes. A major issue to be addressed is how property tax increases affect housing affordability for Austin homeowners, particularly for low-income seniors and those on modest and fixed incomes. The question is motivated by rapidly increasing housing values in conjunction with increasing tax rates. Currently, 75% of Austin seniors live in a home that they own, almost twice the proportion of the general population. Among seniors, 31,816 homeowners are receiving tax exemptions based on the age of the householder. These tax exemptions have a potentially significant impact on municipal revenues because of the growing Austin senior population. In 2012, residents 65 and older make up 7.3% of Austin population (61,099) and their number is expected to increase to 16% by 2040.

Increases in senior tax exemptions were passed by City Council last year and the Commission on Seniors has examined additional tools for tax relief for senior Austinites. We believe that property taxes should be equitable, reflect the ability to pay, and enable Austin seniors to stay in their own homes for as long as possible. We considered four approaches that satisfy these principles including freezing taxes, a sliding scale circuit breaker, property tax deferrals, and reverse annuity mortgages. Table 1 provides a summary of the costs and benefits of each of these proposed options. We reached consensus on the acceptability of the first three options. The reverse mortgage option was rejected.

Option #1: Freezing taxes for all tax entities if the homestead is below the median appraised value of homes in Austin. Two strengths of this option is first that it might stimulate the economy and second that it may also have minimal revenue implications given that it applies the exemption to those households at or below the median appraised value. This proposal still raises questions on whether it is fair and how it should be implemented. Is it reasonable for a household that falls slightly above the median appraised value to be disqualified while one that is just below receives it, e.g., when neighborhood becomes more attractive, in years you are above the median? Or vice-versa, your value stays the same but the rest of the city increases, putting you below the median sometime after age 65? Or you go back and forth? A final concern is that it might be casting too broad a net. Many people over 65 are far from poor and not in need of special tax relief.

An alternative would be to index the current \$70K senior exemption to automatically increase with the median homestead value in the city. That option offers some assurance that the value of the exemption would increase along with home values. In addition, a flat-dollar-amount

(unlike a percentage exemption) gives the biggest proportionate break to those with lower-value homes, who are most likely to have difficulty paying taxes.

In general, a major problem with any freeze arises from the fact that as Baby Boomers turn 65, the city would forgo a major source of revenue, potentially for several decades.

Option #2: Property Tax Sliding Scale Circuit Breaker in which taxpayers earning below a certain income level should be given some amount of property tax relief when their taxes exceed a certain percentage of their income. This option balances equity and relative income adequacy. Another advantage of circuit breakers is that they are less expensive to a jurisdiction than across the board property tax breaks. One limitation of the circuit breaker is verifying income in the absence of a state personal income tax. Washington, a state without an income tax, has designed a program that might work, but it has not yet been implemented:

Option #3: Property Tax Deferral. Tax Code, sec 33.06 allows seniors to postpone payment of property taxes until they move out of their home or die. Their estate then owes the back taxes. A benefit of the tax deferral is that it guarantees that a senior would not be forced out of his or her home because of taxes. A drawback however is that virtually no one takes advantage of this option, partly because the interest rate of 8% is so high. One option would be to lower the interest rate or fix it at a particular year.

Finally, we have some remaining questions that merit attention by Council:

- 1) How many seniors 65 and older have difficulty paying their property taxes in Austin?
- 2) How many elderly homeowners are delinquent in their payments?
- 3) Currently, how much tax revenue is foregone due to the deferment, and how much is that projected to be in the future? Is it a significant increase?
- 4) To what extent will the aging of the baby-boom population affect revenue? And, preferences to age-in-place?
- 5) Has there been a city-wide property tax survey conducted of what is acceptable to voters?

Attachments

**Table 1- Costs and Benefits of Proposed Senior Tax Exemptions**

Senior Tax Exemption	Features	Benefits	Cost
#1 Property Tax Freeze	Texas Property Tax Code (TPTC) §11.13, §11.26, §11.261 freezes the taxable value of a homestead property that is below the median value of all homesteads.	Helps low-income seniors with property that falls below median value.  Stimulates the Austin economy.  Minimal revenue implications given that it applies the exemption to those households at or below the median appraised value.	May lose freeze if home appreciates above the median value.  City will be locking away a large source of revenue as Baby Boomers turn 65.  County may raise the tax rate that is applied to taxable value.  Taxable value may increase if homeowner makes improvements to property.  Homeowner must apply for the exemption each year. To what extent is it reasonable for a household that falls slightly above the median appraised value to be disqualified while one that is just below receives it.
#2 Circuit Breaker/Sliding Scale	Taxpayers earning below a certain income level are given some amount of property tax relief when their taxes exceed a certain percentage of their income.	Targeted exemptions are less expensive to a jurisdiction than across the board property tax breaks.  Ties tax payments to income. Benefits go to the taxpayers for whom property taxes are most burdensome.	Balances equity and relative income adequacy.  Reduces tax liability.  Credit may be available to elderly or non-elderly taxpayers, or both.  In absence of State income tax difficult to verify income.  They are only given to taxpayers who apply for them, in the form of a credit or refund, and are not automatic.
#3 Reverse Annuity Mortgage Program	Encourage seniors to apply for a reverse mortgage through an FHA approved lender if they have equity in their homes.	Allows lower income seniors the ability to borrow the equity in their homes and benefit from additional income.	Unappealing due to excessive administrative costs.  Money unavailable for other purposes.
#4 Property Tax Deferral	Sec 33.06 allows seniors to postpone payment of property taxes until they move out of their home or die.	Provides absolute guarantee that a senior would not be forced out of their home because of taxes.	Although senior homeowner would no longer owe taxes their heirs (estate) then owes the back taxes. Low participation rate owing to high Interest rate 8%. Legislative approval needed to peg rate of deferred tax payment to some current measure of interest rate.

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## Appendix A

### Summary of Senior Tax Exemptions in Austin and Travis County: 2015

Senior Tax Exemption	Features	Benefits	Cost
#1	Travis County - \$70,000 is deducted from a home's appraised value.	Reduces amount of taxable value. Lowers tax bill.	The City loses \$8 million in revenue each year due to the senior abatement. Increasing threshold to \$70,000 leads to an additional \$3.2 million in lost revenue in fiscal year 2015.
#2	Austin ISD - \$25,000 is deducted from a home's appraised value.	Reduces amount of taxable value. Lowers tax bill.	Estimated loss as a result of State funding formulas for school districts is \$6.4 million from the local option.
#3	Austin ISD - Tax ceiling on total school taxes.	The ceiling is set at the amount paid in the year the individual turns 65.	
#4	Austin Community College - \$125,000 is deducted from a home's appraised value.	There are approximately 55,000 homesteads with the senior/disabled exemption. Exemption saves the senior/disabled homeowner about \$118 per year at the current tax rate.	The total value exempted is about \$6.8 billion. At the current tax rate this equates to about \$6.5 million in foregone tax revenue.
#5	Travis County Health Care District - \$70,000 is deducted from a home's appraised value.	Reduces amount of taxable value. Lowers tax bill.	Senior exemptions (over 65) impact the Central Health budget by approximately \$4.1 million annually (based on the latest 2014 certified tax roll).
#6*	City of Austin - \$70,000 is deducted from a home's appraised value.	Reduces amount of taxable value. Saves qualified individuals an average of \$95.51 per year.	\$11.2 million revenue loss; Raises the taxes on the owner of a median-valued home by \$6.79 per year. A large percentage of the elderly population are well off and may not need tax relief.

\*On March 20, 2013 the Austin City Council agreed to increase the city's homestead exemption, a deduction of a home's appraised value, from \$51,000 to \$70,000 for homeowners 65 and older who qualify and the disabled. Council Member Laura Morrison argued that .... "thousands of seniors in this city are just getting by ....." "In terms of searching for ways to address affordability, this is a demographic with many low-income people... I think it makes sense to take advantage of this tool and this option to help with affordability" (Coppola, 2014). Council Member Bill Spelman rebutted stating that: "By putting \$100 back in the pocket of every senior who owns a home, we have to take \$7 out of every younger person who owns a home, in addition to those who rent" in order to make up the difference,.... "I can think of a lot more efficient ways of putting money into the hands of people who really need it. I think we can do better than this".... Some members of the local community agreed and weighed in noting that "The elderly and the rest of us would all be better served if those tax subsidies were used to provide better public transportation options. I think studies have shown that a large percentage of the elderly population are well off and don't need a tax break" (McCrary, 2014). An alternative is to index the \$70K senior exemption to automatically increase with the median homestead value in the City. That offers some assurance that the value of the exemption would increase along with home values. And a flat-dollar-amount (unlike a percentage exemption) gives the biggest proportionate break to those with lower-value homes, who are most likely to have difficulty paying taxes.