

HOMESTEAD EXEMPTION AND HOMESTEAD SAVINGS EXPLAINED

MARKET VALUE Vs ASSESSED VALUE:

Each year properties are reappraised using sales data to arrive at a market value, which is the value a property would likely sell for on the open market. Market value can fluctuate greatly from year to year based on sales data. Appraised value is the value that is used to calculate taxes on a property. Section 23.23 of the Texas Property Tax Code limits increases on the appraised value to 10% over the previous year, **if the property owner is receiving a homestead exemption, and if it is not the first year the property owner is receiving that exemption on the property. This limit excludes any improvements added by the property owner during the previous year.** Due to the recent increases in values many properties will have a market value that is greater than its appraised value.

HOMESTEAD SAVINGS:

Also known as the “homestead cap loss”, it is the difference between the market value and the appraised value on a property. This figure is arrived at by subtracting the appraised value of a property from its market value. The difference is the amount of value that is not being used to calculate taxes on the property for that year, which is the homestead savings.

For example: In 2021, a property receiving a homestead has a market value and appraised value of \$100,000. Prices in the area increase the following year and the appraisal district sets the market value at \$140,000 for 2022. Since the property had a homestead on January 1, 2021, the appraised value can only increase by 10% plus any new construction. The market value for 2022 is \$140,000 but the appraised value is \$110,000. In this scenario the Homestead Savings is \$30,000

Last Year Value + 10% = Current Appraised Value

$$\$100,000 \times 1.1 = \$110,000$$

In the event the owner added new improvements in 2021, for example a \$20,000 shop, the 2022 appraised value would then be \$130,000.

Last Year Value + 10% + New improvement Value = Current Appraised Value

$$(\$100,000 \times 1.1) + \$20,000 = \$130,000$$

HOMESTEAD SAVINGS EXAMPLES:

Example 1: A property owner purchases property in December of 2021, they qualify for their homestead exemption on January 1, 2022. The homestead limitation will not go into effect until January 1, 2023.

Example 2: A property owner purchases property in April of 2022, and they qualify for a prorated exemption, on April 5, 2022. The homestead limitation will not go into effect until January 1, 2024, on year after the January 1 date the exemption qualified.