How Is Property Valued?

Property is appraised for ad valorem taxation according to its market value in an equal and uniform manner. Appraisal districts perform appraisals of all taxable property so that a single value is established every year.

Things to Know

- Article VIII, Section 1 of the Texas Constitution requires that taxation shall be equal and uniform.
- The Constitution also requires that all taxable property shall be taxed in proportion to its value, which shall be ascertained as provided by law, and that a single appraisal shall be determined.
- The Property Tax Code requires that taxable property be appraised each year at its market value as of January 1.
- Market value is determined by generally accepted appraisal methods, including mass appraisal standards adopted by the Uniform Standards of Professional Appraisal Practice.
- The Property Tax Code also requires that all property be appraised based on individual characteristics at least once every three years.
- Generally, the taxable value of a property is its market value less applicable tax exemptions.

Central appraisal districts were created in 1979 to value property for ad valorem taxation. They have boundaries that follow county lines, with the exception of Potter and Randall Counties, which have consolidated their appraisal offices. Appraisal districts are tasked with listing and valuing all property within their boundaries, administering exemptions, and performing other duties required by law. Each district is governed by a board of directors selected by designated taxing units. The most important role of these boards is to appoint a chief appraiser to administer the appraisal office and determine property taxability and values.

In determining values, the chief appraiser is required to comply with market value and mass appraisal standards. These standards are outlined in the Property Tax Code and by other professionally recognized appraisal organizations. The chief appraiser is authorized to use the most appropriate method to determine market value on January 1 of each year using one of the following approaches:

- market sales data comparison;
- income;
- cost; or
- a reconciliation of all three.

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Generally, the market sales data approach is used for residential property. Sales of comparable properties provide good indicators of value. For business property, the income approach provides an estimate of what a willing buyer would pay a willing seller for the property. The cost approach is the most appropriate method when a building is under construction, sales data is not available, or income and expense information cannot be gathered.

The appraised value of residence homesteads is limited to no more than a 10% increase since the last reappraisal, plus the market value of new improvements. This limitation takes effect on January 1 of the tax year following the first year of qualification as a residence homestead. No such limitation exists for other property.

Special appraisal methods exist for property used for agricultural, timber, and wildlife management purposes. Dealer inventories (motor vehicles, boats, manufactured housing, vessels, and heavy equipment), oil and gas interests, and low and moderate-income housing must be appraised according to special methods in law. In addition, recreational, park, and scenic land and public access airport property have special appraisal treatment.

Business personal property is valued through required renditions provided by owners and appraisal schedules used by the appraisal districts. The Property Tax Code prescribes how inventory and other personal property should be valued.

Although values are determined locally by chief appraisers, the state plays an oversight role necessitated by the school finance system. State aid to schools depends in part on a school district's property wealth, so property must be valued consistently. To ensure this, state law requires the Comptroller of Public Accounts to conduct a biennial study of school district property value. The study determines the appropriate value of property categories through a sampling process for the prior year. If the study indicates that a school district's values are not within a 5% margin of error, state funding may be adjusted. One-year grace periods are permitted so that value disparities can be corrected locally to avoid a reduction in state aid to schools. In addition, the Comptroller conducts reviews of appraisal district operations in alternate years to ensure adherence to generally accepted appraisal methods.

Basic Value Definitions

Property: any matter or thing capable of private ownership

Real property: land, buildings, mines, quarries, minerals in place, standing timber, and certain estates or interests

Personal property: property that can be easily moved; only tangible personal property used to produce income (called business personal property) is taxable

Market value: the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
- both the seller and the purchaser know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use; and
- both the seller and the purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.

Appraised value: the value determined as provided by the Property Tax Code to allow limitations or special valuations at less than market value as authorized

Taxable value: the amount determined by deducting from the market value the amount of any applicable partial exemption

Tax year: the calendar year