



CHAPTER 2:

The Effective Tax Rate

The effective tax rate enables the public to evaluate the relationship between taxes for the preceding year and for the current year, based on a tax rate that would produce the same amount of taxes if applied to the same properties taxed in both years.

The calculation process starts after the chief appraiser delivers to the taxing unit the certified appraisal roll and the estimated values of properties under protest. The unit's tax assessor-collector determines the following information:

- the total appraised and taxable value of property in the unit;
- the total appraised and taxable value of new improvements; and
- the total taxable value of property annexed since the preceding year.

The tax assessor submits all of this information to the governing body. The governing body designates an officer or employee (often the tax assessor-collector, but not necessarily) to calculate the effective tax rate and the rollback tax rate.

Calculating the Effective Tax Rate

Calculating the effective tax rate requires the last year's taxes and the current year's taxable value for property taxed in both years. Dividing the taxes by the value (and multiplying by 100 to convert to a rate per \$100 of value) produces the effective tax rate, as illustrated in **Exhibit 3**.

In practice, the calculation is slightly more complicated. The worksheets in **Appendix 2** provide step-by-step details of these calculations. What follows is a general summary.

Last Year's Taxes Less Taxes on Property Lost This Year

To calculate a 2012 effective tax rate, a taxing unit must first determine its total 2011 taxes. The effective and rollback rate calculations begin with the total taxes and values for the last year at the time of the rate calculations. These totals include all supplements and corrections that have occurred to the tax roll since the last year's certification and tax rate adoption. However, some corrections ordered prior to the date the taxes become delinquent are generally not included in these adjusted total taxes and values.¹⁶

These corrections are for late appraisal roll changes ordered by the appraisal review board (ARB) to correct one-third over-appraisal errors. Taxpayers may file for such corrections before taxes on the property become delinquent. Typically, taxpayers file for these corrections after receiving their tax bills. Some taxing units with substantial amounts of value reductions through these corrections experience revenue losses in that budget year. To include these changes in the adjusted total taxes and values in calculating the effective and rollback tax rates for the current year would result in lower effective and rollback rates for the taxing unit. The appraisal district

EXHIBIT 3
Calculating the Effective Tax Rate

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|--|--------|----------|-----|
| $\frac{\text{Prior Year's Taxes} - \text{less Taxes on Property Lost this Year}}{\text{Current Value of Property Taxed in the Prior Year}} \times \$100 = \text{Effective Tax Rate}$ | \div | \times | $=$ |
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Source: Texas Comptroller of Public Accounts, 2012.

¹⁶ These include corrections made under Tax Code § 25.25(d).