

# Using Sales Tax to Reduce the Property Tax Rate

Susan Combs, Texas Comptroller of Public Accounts

Texas cities, counties and hospital districts have the option to reduce property taxes through an additional sales and use tax. Although this tax is sometimes called “the sales tax to reduce the property tax rate,” the statutes refer to it as “the additional municipal sales and use tax” for cities, the “county sales and use tax” for counties and the “hospital district sales and use tax” for hospital districts. [Refer to Secs. 321.101, 323.101, Tax Code and Sec. 285.061, Health and Safety Code.]

## Eligibility

### Cities

A city is eligible to adopt the tax if it is not within the boundaries of a regional transportation or rapid transit authority, does not impose a sales tax to fund a municipal transit department, and the new combined local sales tax rate would not exceed two percent at any location within the city.

Cities within the boundaries of the following metropolitan transit authorities (MTAs), regional transit authority (RTAs), and city transit departments (CTDs) are generally excluded from enacting the tax:

- Austin MTA, Corpus Christi MTA, Houston MTA and San Antonio MTA;
- Dallas RTA and Fort Worth MTA; and
- El Paso CTD and Laredo CTD.

[Refer to Sec. 321.101, Tax Code and Chapters 451-453, Transportation Code.]

### Counties

A county is eligible to adopt the tax if the new combined local sales tax rate would not exceed two percent at any location within the county, and no part of the county is located within the boundaries of a rapid transit or regional transportation authority. An authority is not considered part of a county if fewer than 250 people are residents of both the county and the authority. [Refer to Sec. 323.101, Tax Code and Chapters 451-452, Transportation Code.]

### Hospital Districts

A hospital district authorized to impose a property tax is eligible to adopt the sales and use tax to lower the district’s property taxes if the new combined rate of all local sales taxes would not exceed two percent at any location within the district. [Refer to Sec. 285.061(a), Health and Safety Code.]

## Tax Rate

### Cities

Voters may adopt a tax rate of one-eighth, one-fourth, three-eighths or one-half of one percent. Increases in the tax must be in increments of one-eighth of one percent with a maximum of one-half of one percent. Reductions must be in increments of one-eighth of one percent. [Refer to Sec. 321.103, Tax Code.]

### Counties

Voters may adopt the sales and use tax at a rate of one-half of one percent. If a county has no incorporated cities, the county tax rate must be one percent. [Refer to Sec. 323.103, Tax Code.]

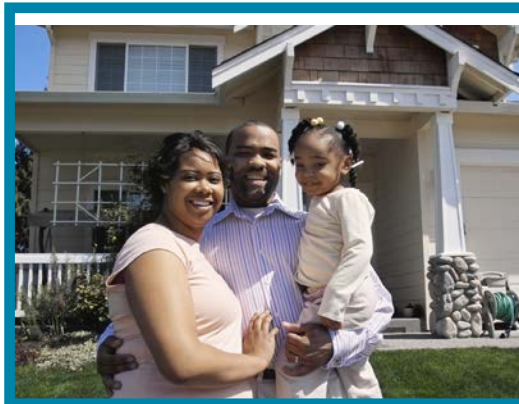
### Hospital Districts

Voters may adopt or change the tax in increments of one-eighth of one percent to a maximum of two percent, as long as the combined local sales tax rate would not exceed two percent at any location within the district. [Refer to Sec. 285.061(a), (c), Health and Safety Code.]

## Calling Elections

The governing body of an eligible city, county or hospital district may call for an election in one of two ways:

1. by majority vote of the governing body; or
2. by petition of qualified voters equal to at least five percent of the number of registered voters.



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## Combined Ballot Proposition

A city may use a combined ballot proposition to lower or to repeal any dedicated or special purpose municipal sales tax, including the additional sales tax for property tax relief; and by the same proposition raise or adopt any other dedicated or special purpose municipal sales tax.

A combined sales tax proposition under this section shall contain substantially the same language, if any, required by law for the lowering, repealing, raising, or adopting each tax as appropriate.

A negative vote on a combined sales tax proposition under this section shall have no effect on either the sales tax to be lowered or repealed by the proposition or the sales tax to be raised or adopted by the proposition. This provision only applies to elections called by the city council. [Refer to Sec. 321.409, Tax Code.]

## Deadline After Petition

If responding to a petition, the governing body must determine if it is sufficient within 30 days of receiving it. If deemed sufficient, the governing body must then adopt an ordinance or order calling for the election within 60 days after receiving the petition. The Tax Code specifies that the election must be held on the next uniform election date not less than 30 days after the ordinance or order is passed.

## Time of Election

The Election Code, however, requires municipalities to call elections at least 62 days before the next uniform election date. Counties must call elections at least 70 days prior to the next uniform election date.

For guidance on the number of days required, please contact the Secretary of State's Election Division at 512-463-5650 or toll free at 1-800-252-8683. [Refer to Secs. 321.401-403, 323.401-403, Tax Code; Sec. 285.062(a), Health and Safety Code; and Sec. 3.005, Election Code.]

The uniform election dates are the second Saturday in May and the first Tuesday after the first Monday in November.

## Withdrawal from a Transportation Authority

A municipality may withdraw from a Transportation Authority after holding an election for that

purpose. However, a municipality may not use a combined ballot proposition to withdraw from a Transportation Authority and impose a sales tax to reduce the property tax rate or any other special purpose sales tax.

## Ballot Wording

### Cities

When holding an election to adopt, increase, reduce or repeal the additional sales tax, a city must print the ballot to permit voting for or against one of the following propositions, as appropriate:

1. If a city has a property tax and proposes to adopt or increase the additional sales tax, the ballot proposition must state:  
"The adoption of an additional sales and use tax within the city at the rate of \_\_\_\_\_ of one percent to be used to reduce the property tax rate." (Insert one-eighth, one-fourth, three-eighths or one-half as appropriate.)
2. If a city does not have a property tax and proposes to adopt or increase the additional sales tax, the ballot proposition must state:  
"The adoption of an additional sales and use tax within the city at the rate of \_\_\_\_\_ of one percent." (Insert one-eighth, one-fourth, three-eighths or one-half as appropriate.)
3. For a city to repeal the tax, the ballot proposition must state: "The abolition of the additional sales and use tax within the city." [Refer to Sec. 321.404, Tax Code.]

### Counties

When holding an election to adopt or repeal the sales and use tax, a county must print the ballot to permit voting for or against one of the following propositions, as appropriate:

1. In a county with territory within the limits of a city, the ballot proposition to adopt the tax must state: "Adoption of a one-half percent county sales and use tax within the county to be used to reduce the county property tax rate."
2. In a county that does not have territory within the limits of a city, the ballot proposition to adopt the tax must state: "Adoption of a one percent county sales and use tax within the county to be used to reduce the county property tax rate."
3. In an election to repeal the tax, the ballot proposition must state: "Abolition of the county sales and use tax within the county." [Refer to Sec. 323.404, Tax Code.]



*Within 10 days after an election, the governing body must enter the resolution or the ordinance declaring the results into its minutes.*

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## Hospital Districts

When holding an election to adopt, increase, reduce or repeal the sales and use tax, a hospital district must print the ballot to permit voting for or against one of the following propositions, as appropriate:

1. For a hospital district to adopt the tax, the ballot proposition must state: “The adoption of a local sales and use tax in (name of district) at the rate of (proposed tax rate) percent to be used to reduce the district property taxes.”
2. To change the tax rate, the ballot proposition must state: “The (increase or decrease, as applicable) in the rate of the local sales and use tax imposed by (name of district) from (tax rate on election date) percent to (proposed tax rate) percent.”
3. To abolish the tax, the ballot proposition must state: “The abolition of the local sales and use tax in (name of district).” [Refer to Sec. 285.062(c)-(e), Health and Safety Code.]

## Notification to the Comptroller

Within 10 days after an election, the governing body must enter the resolution or the ordinance declaring the results into its minutes. The resolution or ordinance must include:

1. the date of the election;
2. the proposition on which the vote was held;
3. the total number of votes cast for and against the proposition; and
4. the number of votes by which the proposition was approved.



## Cities

If the election results change the application of the tax, the city secretary should send, through U.S. certified or registered mail, a certified copy of the ordinance and a map of the city clearly showing the added or detached boundaries to the Comptroller’s office.

After receiving the resolution or ordinance, the Comptroller has 30 days to notify the city secretary that the Comptroller’s office is ready to manage the administration of the tax. [Refer to Secs. 321.405, Tax Code.]

## Counties

If the election results change the application of the tax, the county judge must send a certified copy of

the resolution to the Comptroller’s office through U.S. certified or registered mail. [Refer to Secs. 323.405, Tax Code.]

## Hospital Districts

If the election results change the application of the tax, the governing body must send a certified copy of the resolution declaring the election results to the Comptroller’s office through U.S. certified or registered mail. [Refer to Secs. 285.061(b), 285.063(a), Health and Safety Code.]

## Comptroller’s Address

Comptroller of Public Accounts  
Revenue Accounting Division,  
Tax Allocation Section  
P.O. Box 13528  
Austin, Texas 78711-3528.

## Effective Date of Tax or Tax Change

After voter approval, the tax change becomes effective on the October 1st after the expiration of the first complete calendar quarter after the Comptroller receives official notice from the entity of the tax rate change.

May Election: Send notice to the Comptroller no later than the last week in June. The new tax rate will take effect on October 1 of the same year. The entity will receive its first payment from the Comptroller in December.

November Election: Send notice to the Comptroller no later than the last week in December. The new tax rate will take effect on October 1 of the next year. The entity will receive its first payment from the Comptroller the subsequent December.

[Refer to Sec. 321.102(a-b), 321.409, 323.102(a-b), Tax Code and Sec. 285.063, Health and Safety Code.]

## Use of Revenue and Excess Revenue

Cities, counties and hospital districts may use revenues from this tax as they would use property tax revenues. There are, however, some restrictions placed on cities and counties in the use of “excess” revenues—the additional sales and use tax that exceeds the projected amount of property tax to be reduced for a given year. For cities and counties that impose a property tax, the revenues

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collected from the additional sales and use tax up to the projected amount may be used for any legal budgeted purpose. The projected amount is the estimate of sales tax revenue calculated under Sec. 26.041(d), Tax Code.

During the first three years of imposing the tax, a city or a county must deposit any amounts that exceed the projected amount into an "excess sales tax revenue fund." During these first three years, the city or the county may use the excess revenues only if, and to the extent that, other revenues fall short of budgeted amounts. After the third year, the city or the county may use the revenue in the fund for any legal purpose listed in its budget. When all revenue in the fund has been spent, the fund ceases to exist.

Similarities in depositing and using funds end with the beginning of the fourth year. In the fourth year, a city must deposit excess funds into a "municipal sales tax debt service fund," which may

be used only to pay city debts. After current debt obligations have been paid, excess funds may be used for any legal budgeted purpose. A city cannot pledge the anticipated sales tax revenue to pay bonds or other debts.

Counties also must use excess funds to reduce county debts. After all debt is paid, a county may use the excess funds for any legal budgeted purpose. Similarly, a county cannot pledge anticipated sales tax revenue to secure the payment of bonds or other debts for a period longer than one year. [Refer to Secs. 321.506-7, 323.505, Tax Code and Sec. 285.064, Health and Safety Code.]



### For More Information

For more information about the sales tax to reduce the property tax rate, call the Comptroller's Economic Development and Analysis Division at 1-800-531-5441, ext. 3-4679. For more information about property taxes or about calculating effective rates and rollback rates, call the Comptroller's Property Tax Division at 1-800-252-9121.

*Cities and counties must use excess funds to pay current debt obligations.*

## We're Here To Help! *Call Toll-Free!*

If you have questions or need information on a specific tax, please call our toll-free numbers:

### 1-800-252-5555

911 Emergency Service/Equalization Surcharge  
Automotive Oil Fee  
Battery Fee  
Boat and Boat Motor Sales Tax  
Customs Broker  
Fireworks Tax  
Mixed Beverage Tax  
Off-Road, Heavy-Duty Diesel Equipment Surcharge  
Oyster Fee  
Sales and Use Taxes  
Telecommunications Infrastructure Fund

### 1-800-531-5441

Cement Tax  
Inheritance Tax  
Local Revenue  
Miscellaneous Gross Receipts Taxes  
Oil Well Servicing Tax  
Sulphur Tax

### 1-800-531-5441, ext. 3-3630

WebFile Help

### 1-800-252-1381

Bank Franchise  
Franchise Tax

### 1-800-252-7875

Spanish

### 1-800-531-1441

Fax on Demand (Most frequently requested Sales and Franchise tax forms)

### 1-800-252-1382

Clean Vehicle Incentive Program  
Manufactured Housing Tax  
Motor Vehicle Sales Surcharge,  
Rental and Seller Financed Sales Tax  
Motor Vehicle Registration Surcharge

### 1-800-252-1383

Fuels Tax  
IFTA  
LG Decals  
Petroleum Products Delivery Fee  
School Fund Benefit Fee

### 1-800-252-1384

Coastal Protection  
Crude Oil Production Tax  
Natural Gas Production Tax

### 1-800-252-1387

Insurance Tax

### 1-800-252-1385

Coin Operated Machine Tax  
Hotel Occupancy Tax

### 1-800-252-1386

Certificates of Account Status/Good Standing  
Officer and Director Information

### 1-800-862-2260

Cigarette and Tobacco

### 1-888-4-FILING (1-888-434-5464)

TELEFILE: To File by Phone

### 1-800-252-1389

GETPUB: To Order Forms and Publications

### 1-800-654-FIND (1-800-654-3463)

Treasury Find

### 1-800-321-2274

Unclaimed Property Claimants  
Unclaimed Property Holders  
Unclaimed Property Name Searches  
512-463-3120 in Austin

### 1-877-44RATE4 (1-877-447-2834)

Interest Rate

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