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Market vs. Appraised vs. Taxable Homestead Exemptions Cap Loss & the 10% Appraisal Cap

What is the difference between market, appraised, and taxable value? Cap loss?

- 1) **Market Value** – Determined using mass appraisal techniques. It is not capped. This is the value that can be protested.
- 2) **Appraised (10% Capped) Value** – Previous Year's Total Appraised Value plus 10% plus any new improvements.
- 3) **Taxable Value** – Appraised (10% Capped) Value minus exemption amounts per taxing unit. This is the value used to calculate taxes.
- 4) **Cap Loss** – The difference between the Total Market Value and Total Appraised Value. This is value loss due to the 10% cap.

What is a general residence homestead exemption?

In Texas, a homestead exemption is a legal provision that allows homeowners to reduce their property taxes by exempting a portion of their home's value from taxation. The homestead exemption applies only to a homeowner's primary residence. To qualify for the homestead exemption in Texas, homeowners must own and occupy the residence on Jan. 1, and must meet certain eligibility requirements.

Sec. 11.13. Residence Homestead. (a) A family or single adult is entitled to an exemption from taxation (1) "Residence homestead" means a structure (including a mobile home) or a separately secured and occupied portion of a structure (together with the land, not to exceed 20 acres, and improvements used in the residential occupancy of the structure, if the structure and the land and improvements have identical ownership) that: (A) is owned by one or more individuals, either directly or through a beneficial interest in a qualifying trust; (B) is designed or adapted for human residence; (C) is used as a residence; and (D) is occupied as the individual's principal residence by an owner, by an owner's surviving spouse who has a life estate in the property, or, for property owned through a beneficial interest in a qualifying trust, by a trustor or beneficiary of the trust who qualifies for the exemption.

Sec. 11.42. Exemption Qualification Date. (a) Except as provided by Subsections (b) and (c) and by Sections 11.421, 11.422, 11.434, 11.435, and 11.436, eligibility for and amount of an exemption authorized by this chapter for any tax year are determined by a claimant's qualifications on January 1.

When is the deadline to file for a homestead exemption?

Generally, the completed application and required documentation is due to PCAD no later than April 30 of the year for which the exemption is requested. However, a late application for a residence homestead exemption, may be filed up to two years after the deadline for filing. For example, for tax year 2023 a late application can be accepted until Feb. 1, 2026. There is no fee to file for a homestead exemption.

Is there a 10% appraisal cap for properties with a homestead exemption?

Yes, the "10% homestead cap" limits the amount by which the appraised value of a homestead can increase from year to year, even if the market value of the property increases. Under the homestead 10% cap, the appraised value of a homestead cannot increase by more than 10% from the previous year's appraised value, unless there are improvements made to the property, such as adding a new addition or adding a new improvement. For example: In tax year 2022, the appraised value was \$100,000. In tax year 2023, the market value increases to \$200,000. On homesteaded properties, the 2023 appraised value will be capped at a 10% increase totaling \$110,000 (\$100,000 plus 10% = \$110,000). In subsequent years the appraised value will continue to increase 10% each until it reaches the market value of \$200,000. On properties that do not have a homestead, the appraised value is not capped and will immediately increase the full amount to \$200,000.

Sec. 23.23. Limitation on Appraised Value of Residence Homestead. (a) Notwithstanding the requirements of Section 25.18 and regardless of whether the appraisal office has appraised the property and determined the market value of the property for the tax year, an appraisal office may increase the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of: (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office; or (2) the sum of: (A) 10 percent of the appraised value of the property for the preceding tax year; (B) the appraised value of the property for the preceding tax year; and (C) the market value of all new improvements to the property.

What is a pro-rated homestead exemption and when does the 10% cap start?

A pro-rated homestead is for homeowners that don't meet the qualifications for the general residence homestead exemption. A pro-rated homestead only applies the number of months that a property owner owned a home prior to Jan. 1 of the following tax year. The deadline to file for a pro-rated homestead exemption is the first anniversary of the date the person acquires the property. If the previous owner has already claimed the general residence homestead exemption for the year on the property, the new owner will not be able to claim the pro-rated homestead exemption that year. Regarding the 10% homestead cap, an owner who receives a prorated homestead exemption is considered to have qualified the property for the exemption as of January 1st of the tax year following the tax year in which the owner acquired the property. For example, if a homeowner purchases a property in June of 2022, they do not qualify for the general residence homestead exemption, but they do qualify for a 6-month pro-rated exemption. In Jan. 2023 the homeowner qualifies for the general residence homestead. Then 10% appraisal cap will come into effect on Jan. 2024, the second full-year of qualification.

11.42(f) A person who acquires property after January 1 of a tax year may receive an exemption authorized by Section 11.13 for the applicable portion of that tax year immediately on qualification for the exemption if the preceding owner did not receive the same exemption for that tax year.

11.43(d) A person who after January 1 of a tax year acquires property that qualifies for an exemption covered by Section 11.42(d) or (f) must apply for the exemption for the applicable portion of that tax year before the first anniversary of the date the person acquires the property.

23.23(c) The limitation provided by Subsection (a) takes effect as to a residence homestead on January 1 of the tax year following the first tax year the owner qualifies the property for an exemption under Section 11.13. The limitation expires on January 1 of the first tax year that neither the owner of the property when the limitation took effect nor the owner's spouse or surviving spouse qualifies for an exemption under Section 11.13.

23.23(c-1) [Effective January 1, 2022] For purposes of Subsection (c), an owner who receives an exemption as provided by Section 11.42(f) is considered to have qualified the property for the exemption as of January 1 of the tax year following the tax year in which the owner acquired the property.