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Texas Comptroller of
Public Accounts

USING SALES TAX TO REDUCE THE PROPERTY TAX RATE

Texas cities, counties and hospital districts have the option to reduce property taxes by imposing a sales and use tax.

Although this tax is sometimes called “the sales tax to reduce the property tax rate,” state 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 **Health and Safety Code, Sect. 285.061**, and **Tax Code, Sect. 321.101, 323.101.**]



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 **Tax Code, Sect. 321.101**, and **Transportation Code, Chapters 451-453.**]

COUNTIES

A county is eligible to adopt the tax if the new combined local sales tax rate would not exceed 2 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 **Tax Code, 323.101**, and **Transportation Code, Chapters 451-452.**]

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 2 percent at any location within the district.

[Refer to **Health and Safety Code, Sect. 285.061(a).**]

Additional sales and use tax can be enacted

if a community's total local sales tax rate will not exceed 2 percent.

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BY EMAIL AT
econ.dev@cpa.texas.gov

This publication is intended as a general guide and not as a comprehensive resource on the subjects covered.

It is not a substitute for legal advice.

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Within 10 days after an election, the governing body must enter the resolution or the ordinance declaring the results into the minutes of a meeting held for that purpose.

TAX RATE

CITIES

Voters may adopt a tax rate of up to 2 percent in increments of 0.125 percent. Increases or reductions in the tax rate also must be in increments of 0.125 percent.

[Refer to [Tax Code, Sect. 321.103](#).]

COUNTIES

Voters may adopt the sales and use tax at a rate of 0.5 percent. If a county has no incorporated cities, the county tax rate must be 1 percent.

[Refer to [Tax Code, Sect. 323.103](#).]

HOSPITAL DISTRICTS

Voters may adopt or change the tax in increments of 0.125 percent to a maximum of 2 percent, as long as the combined local sales tax rate would not exceed 2 percent at any location within the district.

[Refer to [Health and Safety Code, Sect. 285.061\(a\), \(c\)](#).]

CALLING ELECTIONS

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

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

COMBINED BALLOT PROPOSITION

A city may use a combined ballot proposition to lower or to repeal any municipal sales tax, including the additional sales tax for property tax relief; and by the same proposition raise or adopt any other 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 [Tax Code, Sect. 321.409](#).]

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.

TIME OF ELECTION

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.

The uniform election dates are:

- the first Saturday in May; and
- the first Tuesday after the first Monday in November.

For guidance on the timing of elections, please contact the Secretary of State (SOS) at 512-463-5650 or toll free at 800-252-8683. Additional information is available on the [Secretary of State's website](#).

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.

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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:

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 _____ to be used to reduce the property tax rate.” (Insert rate in increments of 0.125 percent as appropriate).
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 _____.”
(Insert rate in increments of 0.125 percent, as appropriate).*

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 **Tax Code, Sect. 321.404.**]

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:

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.”

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.”

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 **Tax Code, Sect. 323.404.**]

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:

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.”

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.”

To abolish the tax, the ballot proposition must state:

“The abolition of the local sales and use tax in (name of district).”

[Refer to **Health and Safety Code, Sect. 285.062(c)-(e).**]

Cities, counties and hospital districts may use revenues from this tax as they would use property tax revenues.

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

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 meeting minutes. The resolution or ordinance must include:

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

Before the end of the current calendar quarter, the city, county or hospital district must send copies of the resolution or ordinance along with a map of the municipality clearly showing its boundaries to the Comptroller's office, through U.S. certified or registered mail. After receiving the resolution or ordinance, the Comptroller has 30 days to notify the entity that the Comptroller's office is ready to manage the administration of the tax.

[Refer to [Tax Code, Sect. 321.405](#).]

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 Oct. 1 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 Oct. 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 Oct. 1 of the following year. The entity will receive its first payment from the Comptroller during the subsequent December.

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

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 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 [Tax Code, Sect. 26.041\(d\)](#).

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.



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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 **Tax Code, Sect. 321.506-7, 323.505**, and **Health and Safety Code, Sect. 285.064.**]

FOR MORE INFORMATION

For more information about the sales tax to reduce the property tax rate, contact the Comptroller’s Data Analysis and Transparency Division at 844-519-5672, or econ.dev@cpa.texas.gov.

For more information about property taxes or about calculating no-new-revenue tax rates and voter-approval tax rates, contact the Comptroller’s Property Tax Division at 800-252-9121.



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listed or by sending a fax to 512-475-0900.

800-252-5555

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

800-531-5441

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

800-531-5441, ext. 3-3630

WebFile Help

800-252-1381

Bank Franchise
Franchise Tax

800-252-7875

Spanish

800-531-1441

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

800-252-1382

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

800-252-1383

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

800-252-1384

Coastal Protection
Crude Oil Production Tax
Natural Gas Production Tax

800-252-1387

Insurance Tax

800-252-1385

Coin-Operated Machines Tax
Hotel Occupancy Tax

800-252-1386

Account Status
Officer and Director Information

800-862-2260

Cigarette and Tobacco

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

TELEFILE: To File by Phone

800-252-1389

GETPUB: To Order Forms and
Publications

800-654-FIND (800-654-3463)

Treasury Find

800-321-2274

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

877-44RATE4 (877-447-2834)

Interest Rate