

Truth-in-taxation requires most taxing units to calculate two rates after receiving a certified appraisal roll from the chief appraiser - the effective tax rate and the rollback tax rate. The type of taxing unit determines which truth-in-taxation steps apply.

### **Effective Tax Rate**

The effective tax rate is a calculated rate that would provide the taxing unit with about the same amount of revenue it received in the year before on properties taxed in both years. If property values rise, the effective tax rate goes down and vice versa.

Although the actual calculation can become more complicated, a taxing unit's effective tax rate is a calculated rate generally equal to the last year's taxes divided by the current taxable value of properties that were also on the tax roll last year. The resulting tax rate, used for comparison only, shows the relation between the last year's revenue and the current year's values.

### **Rollback Tax Rate**

The rollback tax rate is a calculated maximum rate allowed by law without voter approval. A taxing unit's rollback tax rate is a calculated rate that divides the overall property taxes into two categories - M&O and debt service, also called interest and sinking.

With the exception of school districts, the rollback tax rate provides the taxing unit with about the same amount of tax revenue it spent the previous year for day-to-day operations, plus an extra eight percent increase for those operations, and sufficient funds to pay debts in the coming year. If a taxing unit adopts a tax rate higher than the rollback tax rate, voters in the taxing unit can circulate a petition calling for an election to limit the size of the tax increase.

School districts add four cents to the lesser of the compressed operating tax rate or the effective M&O rate to get their highest M&O rate. They then add the debt service rate to get the final rollback tax rate. To calculate the effective M&O rate, school districts should consult the Texas Education Agency or their Regional Education Service Center.

For all taxing units, the debt service portion of the rollback tax rate is the current year's debt payments divided by the current year's property values. The debt service rate may rise as high as necessary to cover debt expenses.

Please click on the link below for more information.

<http://www.window.state.tx.us/taxinfo/proptax/tnt/>

For more detailed information about a specific taxing unit's tax rate calculation please contact our office at:

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