Unused Increment Rate
(not applicable to school districts)

Unused Increment Rate

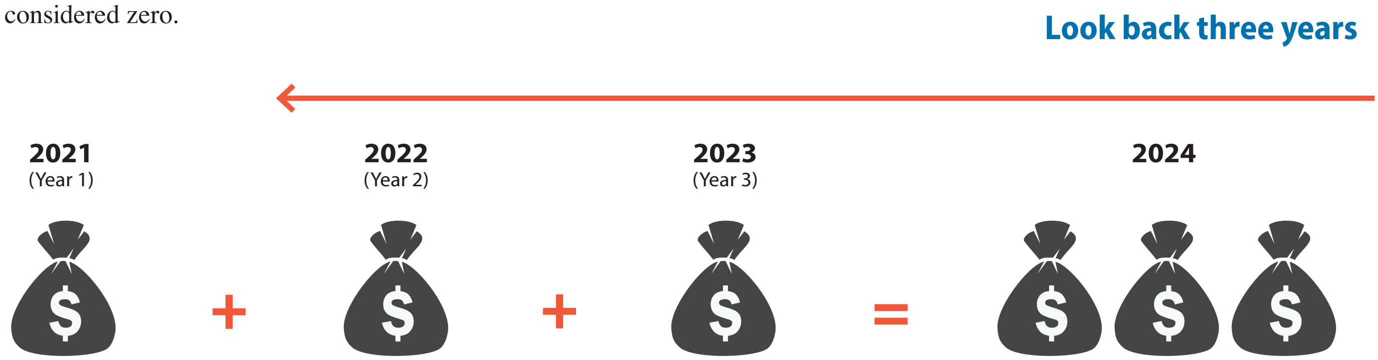
The unused increment rate is a component of the overall voter-approval tax rate.[1] The unused increment rate is defined as the greater of zero, or the sum of the foregone revenue amount for the preceding three years divided by the current year total value. The unused increment amount is now a dollar amount yield that a city may forward. Tying the rate to revenue and taxable value is consistent with the way the voter-approval and no-new-revenue tax rates are calculated. This is determined by the formula for the foregone revenue amount. The foregone revenue amount is the voter-approval tax rate, less the unused increment rate, subtracted from the actual adopted tax rate for each preceding tax year. The result is multiplied by the applicable preceding year's total value. If a taxing unit adopts the voter-approval tax rate in a preceding year, the forgone revenue amount for that year is zero. Taxing units that do not meet the definition of a special taxing unit and school districts do not calculate an unused increment rate.

FORGONE REVENUE AMOUNT = (VOTER-APPROVAL TAX RATE − ACTUAL TAX RATE) X PRECEDING TOTAL VALUE

Three Year Look Back Calculation

Taxing units calculate the unused increment rate by comparing the actual tax rate adopted in the previous three years to the voter-approval tax rate prior to adding the unused increment rate for that tax year.[2] If a municipality is considered a defunding municipality, the difference between the municipality's actual tax rate and the voter-approval tax rate is considered zero.

Counties that reduce the funding or allocate funding away from a law enforcement agency without voter approval, the difference between the actual tax rate and the voter-approval tax rate is considered zero.



"Year 1" means the third tax year preceding the current tax year.

"Year 2" means the second year preceding the current tax year.

"Year 3" means the first tax year preceding the current tax year.

Unused increment rate is the greater of zero; or the rate expressed in dollars per $100 of taxable value calculated using the following formula:.

UNUSED INCREMENT RATE = (YEAR 1 FORGONE REVENUE AMOUNT + YEAR 2 FORGONE REVENUE AMOUNT + YEAR 3 FORGONE REVENUE AMOUNT) / CURRENT TOTAL VALUE

[1] Tex. Tax Code §26.04(c)(2)(B)
[2] Tex. Tax Code §26.13(a)(2)

Frequently Asked Questions

How do I calculate my taxing unit's unused increment rate?

The unused increment rate is equal to the sum of the preceding three years forgone revenue amount divided by the current total value. The forgone revenue amount is the difference between a taxing unit's voter-approval tax rate, less the unused increment rate and the actual tax rate used to levy taxes, multiplied by the applicable preceding tax year's value. The unused increment rate is added to the no-new-revenue maintenance and operations rate, which includes the 3.5 percent increase limit and the current debt rate to arrive at the voter-approval tax rate. The formula for the unused increment rate is: (Year 1 Forgone Revenue Amount + Year 2 Forgone Revenue Amount + Year 3 Forgone Revenue Amount) / Current Total Value.

What happens if my taxing unit adopts a tax rate that uses some or all the available unused increment rate for the current year?

If a taxing unit adopts a tax rate that is equal to or greater than the voter-approval rate in the applicable preceding year, then the forgone revenue amount for that year is zero. If they adopt a rate less than the voter-approval tax rate, the difference in each preceding year of the voter-approval tax rate and the actual tax rate multiplied by the preceding total value is the foregone revenue amount. The use of some or all of the unused increment rate in the prior year is not considered when calculating the unused increment for a new tax year.

Do we have to use all the available unused increment rate when calculating this year's voter-approval rate?

Your voter-approval tax rate calculation must include the entire unused increment rate, however, the taxing unit does not have to adopt a tax rate that uses any of the unused increment rate or forgone revenue amount. The unused increment rate available for the current year depends upon the amount of unused increment in each of the previous three years. The forgone revenue amount for each applicable preceding tax year must be equal to or greater than zero.

Are there posting or publishing requirements for the unused increment rate?

Yes, the unused increment rate is calculated within the Tax Rate Calculation Worksheet and the worksheet must be published. However, there is no specific requirement that a notice of tax rate, hearing or meeting must separately identify the unused increment rate.

Does the use of the unused increment rate trigger an automatic election?

No, if a taxing unit adopts a tax rate greater than the voter-approval rate, an automatic election to approve the tax rate is triggered. The voter-approval tax rate is made up of the maintenance and operations tax rate, plus the 3.5 rate limit increase, the debt rate and the unused increment rate.

What happens to the unused increment rate if we do not use it?

The unused increment rate looks at the previous 3 years. If a taxing unit adopts a tax rate equal to what its voter-approval tax rate would have been without the addition of the unused increment rate, it will not contribute a forgone revenue amount to the unused increment rate for that year within the calculation for the next three years. The unused forgone revenue amount from the two proceeding years will still be available within the calculation in the next immediate year.

For more information, visit our website:
comptroller.texas.gov/taxes/property-tax

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