



## Property Tax Reform

By The Honorable Talmadge Heflin, Director, Center for Fiscal Policy  
& James Quintero, Fiscal Policy Analyst

### THE ISSUE

Texas' property tax burden—ranked 14th highest nationally by the Tax Foundation—continues to weigh heavily on homeowners and businesses around the state; but new research suggests that relief may only be a few modest reforms away.

According to the Texas Public Policy Foundation's study, *Enhancing Texas' Economic Growth through Tax Reform*, Texas can eliminate its property tax burden entirely by replacing the revenue with a reformed sales tax. The Foundation's study identifies four scenarios in which the sales tax base and rate could be reasonably adjusted to produce a revenue neutral swap:

- ★ 14.5 percent, if the current sales tax base is used;
- ★ 12.5 percent, if the current sales tax based is used and the sale of property is included;
- ★ 9 percent, if all services that are taxed in at least one other state are taxed in Texas and property sales are included; and
- ★ 6.5 percent, if the sales tax base is the total value of goods and services in Texas' economy, with adjustments made to remove non-taxable items such as government purchases and the sale of property.

Repealing property taxes and replacing the revenues with one of the proposed sales tax reforms would go far toward providing meaningful tax relief for prop-

erty owners. It would also have the added benefit of strengthening the state's economy.

If the property tax swap were to become a reality, personal income in Texas could potentially increase in the range of \$3.1 billion to \$3.3 billion in the first year. Over a five-year period, assuming property taxes were replaced dollar-for-dollar with a higher sales tax burden, personal income could, on a cumulative basis, increase between \$21.3 billion and \$52.1 billion—2 percent to 4.3 percent higher than would have been the case otherwise.

The strong economic growth that tax reform would produce would spur an estimated five-year net gain of 127,700 to 312,700 new jobs.

Perhaps the greatest incentive for property tax reform has nothing to do with tax relief, creating wealth, or adding new jobs. It has to do with liberty.

While Texas' property tax system remains in place, no man or woman who owns a home, operates a business, or has property of any kind, can ever truly claim ownership. Right now, all of us rent from the government—indefinitely.

The evidence is clear: Texas' property tax system should be abolished, in favor of one that promotes economic activity, job creation, and protects the rights of property owners.

## THE FACTS

- ★ Repealing property taxes and replacing the revenues with a reformed sales tax would provide meaningful tax relief, generate added wealth, spur job creation, and protect the rights of property owners.
- ★ In the first year after tax reform is implemented, personal income in Texas would increase \$3.1 billion to \$3.3 billion. In five years, personal income would increase by \$21.3 billion to \$52.1 billion—2 percent to 4.3 percent higher than under the current tax structure.
- ★ In five years, the Foundation's property tax reform proposal would create between 127,700 to 312,700 net new jobs, as compared to what would happen without tax reform.

## RECOMMENDATION

- ★ Abolish property taxes and replace them with a reformed sales tax.

## RESOURCES

*Enhancing Texas' Economic Growth through Tax Reform* by Arduin, Laffer, & Moore Econometrics, Texas Public Policy Foundation (Apr. 2009) <http://www.texaspolicy.com/pdf/2009-04-taxswap-laffer-posting.pdf>.

*The Case for Converting from Property Taxes to Sales Taxes* by The Honorable Talmadge Heflin, Texas Public Policy Foundation (Mar. 2008) <http://www.texaspolicy.com/pdf/2008-03-PB04-propertytaxes-th.pdf>.

*Texas Property Tax Challenge: The True Cost of Owning Property in Texas* by The Honorable Talmadge Heflin and James Quintero, Texas Public Policy Foundation (Aug. 2008) <http://www.texaspolicy.com/pdf/2008-08-PB08-Proptax-th-jq.pdf>. ★

