



Local Property Tax Reform



The Issue

Texas' property tax system is among the most burdensome in the nation. According to the Tax Foundation's latest national rankings, the Lone Star State's local governments collected "approximately \$1,557 per person in property taxes [in 2010], which ranks 15th highest nationally." That figure is up from \$1,393 collected per capita in 2008 when the Tax Foundation ranked Texas' property tax system ranked as the 17th most burdensome in the U.S.

In addition to Texas' comparatively high property tax burden, Texans also contend with a real estate tax that is growing quickly compared to traditional measures like population and inflation. Consider that from 1992 to 2010, the state's population grew by more than 40% and U.S. inflation increased by 55%; yet over that same period local property tax levies jumped by 188%, according to the Texas Comptroller's *Texas, It's Your Money* series.

Rising property tax bills negatively affect all Texans by discouraging economic activity, distorting investment decisions, and affecting employment creation. But one category of property taxpayer is affected by the state's burdensome tax system more than others—that is, the Texas homeowner.

Homeowners in Texas have the greatest degree of exposure to the state's property tax system. As compared to other real property taxpayers—i.e. commercial, industrial, and others—single-family residences comprise the largest share of "taxable value" in Texas, which when combined with tax rates determines the total taxes that a property owner must pay. In 2011, single-family residential properties constituted more than half, or 53.3%, of school districts' total taxable value while commercial and industrial properties were a much smaller percentage of the overall total. School districts levy more than 60% of all property taxes in the state.

In dollar terms, the 2010-12 average annual property tax paid by an owner-occupied dwelling in Texas was \$2,477, according to the U.S. Census Bureau. This compares poorly to the surrounding area (i.e. the South Region) and the nation where homeowners paid a 3-year average annual tax of \$1,411 and \$2,091, respectively.

One public policy reform that state and local officials should consider is enacting a hard-limit on the amount of increased tax revenue that can be collected by a local governmental entity over the previous fiscal year. Such a reform could be tailored to require local voter approval for property tax rates that result in an increase in local property tax revenue in excess of 5% or population growth plus inflation, whichever is less.

Under a proposal such as this, current homeowners stand to benefit from a more restrained tax environment that decelerates the growth of the local property tax; prospective homeowners stand to benefit from a more affordable housing market; and the economy



Source: U.S. Census Bureau's American Community Survey

stands to benefit from a more robust labor market and increased business interest as companies seek out pro-growth friendly states.

The Facts

- Texas' property tax system is among the most punitive in the nation.
- According to the Tax Foundation, Texas' property tax system ranks as the 15th most burdensome nationally.
- According to the U.S. Census Bureau, the 2010-2012 average annual property tax paid by an owner-occupied dwelling in Texas was \$2,477. By comparison, homeowners in surrounding area (i.e. the South Region) and the nation paid a 3-year average annual tax of \$1,411 and \$2,091, respectively.
- Rising property tax bills discourage investment and create a drag on the state's economic performance.

Recommendation

- Require local voter approval for property tax rates that result in an increase in local property tax revenue in excess of 5% or population growth plus inflation, whichever is less.

Resources

Homeowners and the Texas Property Tax by James Quintero, Texas Public Policy Foundation (Aug. 2014).

