



## Property Tax-Sales Tax Swap



### The Issue

Texas' property tax burden—ranked 15th highest nationally by the Tax Foundation—weighs heavily on homeowners and businesses across the state; but research suggests that relief may be only a few modest reforms away.

According to the Texas Public Policy Foundation's updated study, *Enhancing Texas' Economic Growth through Tax Reform*, Texas can eliminate its property tax burden entirely by replacing its revenue with a reformed sales tax.

By reasonably adjusting the state sales tax base and rate, the Foundation's study identifies the following two scenarios to produce a revenue neutral swap:

- 15.7%, if the current sales tax base is used including real estate; and
- 11%, if all services that are taxed in at least one state are taxed in Texas including real estate.

Repealing all property tax and replacing the revenues with one of the above sales tax reforms would provide meaningful tax relief for property owners, and would also have the added benefit of strengthening the state's economy by encouraging capital investment—the primary driver of economic growth and job creation.

If this property tax-sales tax swap happened, the Foundation estimates that personal income in Texas might increase by as much as \$3.7 billion in the first year alone. Over a five-year period, if property taxes were replaced dollar-for-dollar with a higher sales tax rate, personal income could, on a cumulative basis, increase between \$22.85 billion and \$63 billion—an increase of 1.8% to 4.7% higher than it would have been otherwise.

Spurred by stronger economic growth, the number of jobs created in the state would also increase. Over a five-year time horizon, estimates from the study show that Texas would benefit from a net gain in the range of 124,900 and 337,400 new jobs compared with no tax reform.

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.

So long as Texas' property tax remains in place, no man or woman who owns a home, operates a business, or has property of any kind, will ever truly own any of these. Right now, all of us effectively rent from the government, indefinitely.

Of all the major taxes, a consumption tax (or sales taxes) is the most preferable for three reasons: they are simple, transparent, and levied only at the end-user.

In terms of simplicity, the tax is among the easiest for taxpayers to understand and pay since the rate is generally known beforehand and levied automatically at the time of purchase. This is a unique feature that sets the sales tax apart from most other taxes laden with time-consuming paperwork and other compliance costs.

The evidence supports the case for replacing property taxes with a broad-based sales tax; now all that is left to do is to find the political will to enact such a prosperity-generating reform.

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## The Facts

- Repealing property taxes and replacing the revenue with a reformed sales tax would provide meaningful tax relief, generate wealth, spur job creation, and protect the rights of property owners.
- In the first year after tax reform is implemented, personal income in Texas might increase about \$3.7 billion. After a five-year period, personal income may increase by an estimated \$22.8 billion to \$63 billion—approximately 1.8% to 4.7% higher than under the current tax structure.
- Over a five-year period, the Foundation’s property tax reform proposal would help create between 124,900 and 337,400 net new jobs compared with no tax reform.

## Recommendations

- Abolish property taxes and replace them with a reformed state sales tax that includes an adjusted tax rate and base.
- Ideally, the reformed state sales tax would closely resemble the option with an 11% sales tax rate and an adjusted base that includes all services taxed in at least one other state, including the sale of property.

## Resources

*Enhancing Texas’ Economic Growth through Tax Reform* by Arduin, Laffer & Moore Econometrics, Texas Public Policy Foundation (Aug. 2012).

*Texas Property Tax Challenge: The True Cost of Owning Property in Texas* by Talmadge Heflin and James Quintero, Texas Public Policy Foundation (Aug. 2008).

*The Case for Converting from Property Taxes to Sales Taxes* by Talmadge Heflin, Texas Public Policy Foundation (Mar. 2008).

