



## Time for Property Tax Reform

### Testimony before the Senate Finance Committee

by The Honorable Talmadge Heflin

Chair Nelson and Members of the Committee:

My name is Talmadge Heflin and I am the director of the Center for Fiscal Policy at the Texas Public Policy Foundation, a non-profit, non-partisan free market think tank based here in Austin. Thank you for the invitation to speak today on the importance of providing property tax relief for Texans this legislative session.

My remarks today will focus on SB 1 regarding the best way to reduce the burden of local property taxes on Texans thereby generating more liberty to own a home and prosperity from faster economic growth.

As you are all aware, local property taxes are skyrocketing from higher appraisals and tax rates from a multitude of taxing entities—about 4,000 statewide. The *Texas Comptroller's Texas, It's Your Money* series shows that from 1992 to 2010, the 188 percent increase in local property tax levies were substantially greater than about a 40 percent increase in the state's population and roughly 55 percent increase in U.S. inflation.

This excessive growth in the burden of property taxes brings the total to \$1,557 per person in 2010 ranking 15th highest nationwide, according to the Tax Foundation.

Rising property tax bills negatively affect all Texans by limiting investment decisions especially in the case of home ownership, discouraging economic activity, and affecting employment creation. But property taxes tend to put the most burden on low- and middle-income individuals by forcing many of them out of their homes as their tax bill increases faster than their income. Keep in mind that property taxes don't just affect homeowners, they are also a detriment to renters as landlords pass the higher tax bill on to their tenants.

Given these costs, I am highly encouraged that this Committee is focusing their attention on providing property tax relief for Texans in SB 1 and the associated SJR 1.

Though there are a multitude of options to reduce property taxes. Many of these tend to be short-lived as property values and tax rates tend to rise reducing, or eliminating, any permanent tax relief. I hope you all will be cautious about passing any legislation that will lead to only short-term property tax relief that will simply lead to higher state spending on public schools and no reduction in property taxes.

To avoid this altogether, we at the Texas Public Policy Foundation believe the best long-term strategy is to abolish property taxes and replace the revenue with a reformed state sales tax. The Foundation's study *Enhancing Texas' Economic Growth through Tax Reform* authored by renowned economist Dr. Arthur Laffer shows that by reasonably adjusting the state's sales tax base and rate the following two scenarios could provide a revenue neutral swap:

- ★ **19.5 percent**, if the current sales tax base is used excluding real estate
- ★ **15.7 percent**, if the current sales tax base is used including real estate
- ★ **11.0 percent**, 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 it 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 over a five-year period, on a cumulative basis, between \$23 billion and \$63 billion—an increase of 1.8 percent to 4.7 percent higher than the baseline. Spurred by stronger economic growth, the number of jobs created in the state would also increase during those five years by 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. Instead of paying the government in perpetuity, the ability to lump the sales tax amount into your mortgage if so desired would allow you to own your home after it's paid off, much like a car purchase.

Given these benefits, we at the Foundation recommend the following:

- ★ Abolish property taxes and replace them with a reformed sales tax that includes an adjusted tax rate and base.
- ★ Ideally, the reformed sales tax would closely resemble the option with an 11 percent sales tax rate and an adjusted base that includes all services taxed in at least one other state, including the sale of property.
- ★ If abolishing property taxes is not possible at this time, then to effectively limit the growth of the burden of property taxes local voters should be given a greater voice. This could be done by requiring local voter approval when property tax revenue increases more than 5 percent or population growth plus inflation, whichever is less.

SB 1 and the companion SJR 1 that raises the homestead exemption for school property taxes from \$15,000 to 25 percent of the median home value statewide, which would be in the \$33,000 ballpark, are steps in the right direction to reducing the heavy burden that the property tax imposes on Texans.

Thank you for your time and I look forward to answering any questions that you may have. ★

## About the Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute. The Foundation's mission is to promote and defend liberty, personal responsibility, and free enterprise in Texas and the nation by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach.

Funded by thousands of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

