

Texas Property Tax Reform Needed

FACTS

- More than 45 percent of Texas tax revenue comes from property taxes.
- School districts collect 54.9 percent of total property tax revenue, according to the Texas Comptroller.
- Texas' property tax burden has increased 101.1 percent since the year 2000, outpacing population growth and inflation by more than 30 percent.
- Property tax has also risen as a proportion of income, consuming 9.8 percent of household income in 2013, as compared to 7.6 percent in 2000. Such an increase contributes to housing affordability issues and creates a barrier to homeownership.
- Texas collected about \$1,559 in property taxes per capita in 2012, falling disproportionately on those who purchase or rent land rather than investing in other assets.
- The Tax Foundation ranked the states according to their property tax burdens per capita, with Texas having the 14th highest property tax burden in the country.



“The property tax is an unfair and inefficient way to fund government. Texas would gain hundreds of thousands of new jobs and tens of billions of dollars in personal income just by abolishing the property tax and replacing it with a revised sales tax.”

— Dr. Arthur Laffer

PROBLEMS

- Property taxes do not allow flexibility in the face of financial hardship. Individuals are required to pay tax based on a prior purchase and the existence of an illiquid fixed asset, regardless of their current income or cash holdings.
- Property taxes are based on the value of land, which can fluctuate independent of a person's actions. A spike in property value can quickly outstrip the owner's ability to pay, pricing family out of land even if they've owned it for generations.
- Property taxes create large economic distortions and discourage capital intensive industries from locating to Texas.
- Property taxes are not only more costly but also more complicated to administrate than other taxes.

SOLUTIONS

Short Term: Structural Reform

- Give Texans more control over the growth of their local tax bills by requiring an automatic election to approve a tax rate that would allow overall property tax revenue to rise more than the lesser of 4 percent or population growth and inflation.

Long Term: Abolish Property Taxes

- Abolish the property tax and switch to a flat consumption tax, allowing individuals to monitor and limit their tax bill to accommodate fluctuations in their financial situations.
- **Option 1:** Apply a sales tax rate of about 11 percent to a broader tax base. The new tax base would encompass services that are currently nontaxable or tax exempt in Texas, but are taxed in other states. The initial sale of property would also be subject to this one-time sales tax.
- **Option 2:** Apply a sales tax rate of about 16 percent to the existing tax base, and include the sale of property.

For more information on property tax reform, please see: [The Freedom to Own Property: Reforming Texas' Local Property Tax](#) ☆

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.

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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.

