

Testimony

Lower Taxes, Better Texas *Invited Testimony Before the Texas Senate Finance Committee*

by Vance Ginn, Ph.D., Chief Economist

Chairwoman Huffman and Members of the Committee:

My name is Vance Ginn, and I am chief economist at the Texas Public Policy Foundation. Thank you for the opportunity to provide invited testimony on a subject dear to Texans: lower property taxes.

Texans are facing a crisis when it comes to paying for their skyrocketing property taxes, inflated bills, and saving for a rainy day. In fact, many Texans are living with the fear that exorbitant taxes could take their home away or keep them from buying their first home. The Foundation has developed a balanced, practical solution to lower property taxes by eliminating the maintenance and operations (M&O) property taxes while also funding the needs for critical services.

Overview

- Over the last 20 years, property taxes have increased 81% faster than the average taxpayer's ability to pay for them, as measured by the growth of population and inflation, contributing to too many Texans struggling to pay bills and keep their home.
- Our [*Lower Taxes, Better Texas*](#) plan will help Texans by eliminating local M&O property taxes in a revenue neutral way by no later than 2033.
- This balanced solution will lower property tax bills while funding critical services, like public safety and education.
- After eliminating the M&O property taxes, which represent 80% of all property taxes in Texas, constitutional changes should prohibit re-imposing these taxes.
- Texas governments ought to embrace this fiscal framework to ensure all Texans can flourish and deliver real peace of mind to Texas homeowners in a timely way.

TPPF Plan

- *Lower spending* to a maximum of the state's spending growth limit of population growth times inflation and have cities, counties, and special purpose districts do the same to generate surpluses.
- *Lower taxes* with state surplus funds buying down school district M&O property taxes (nearly half of the total property tax burden), and with other local governments surplus funds buying down theirs.
- *Lower tax burdens* until there is a redesign of the tax code by broadening the sales tax base within 10 years to completely eliminate M&O property taxes for school districts by the state and for cities, counties, and most special purpose districts by each taxing jurisdiction.
- Eliminate M&O property taxes by 2033 as a result, then consider options for dealing with the other 20% of interest and sinking (I&S) property taxes that fund debt.
- Support a faster growing economy and more opportunities for people to flourish with this plan, with a lower tax burden per person and true property ownership.

TPPF Plan Q&A

Would it cut funding for government schools or raise taxes if there's a recession? No.

- Our plan is revenue neutral, meaning school districts would receive the same amount based on state-determined school finance formulas. And the funding of the buydown would happen only if there were a surplus each session.
- If the state's general revenue declined from a recession, no surplus funds would be available or obligated, but the Legislature could still take one or more actions to continue making progress: use the rainy day fund; redirect funding from other areas of the state budget; require school districts to operate more efficiently; or direct ISDs to use unrestricted reserve fund balances.

Would the plan benefit upper-income earners and landlords at the expense of others? No.

- The plan initially reduces M&O property taxes by replacing them with surplus general revenue, so this benefits everyone as the property tax rates are compressed for all Texans.
- With lower taxes, property is immediately more affordable allowing lower income earners greater opportunities to qualify to buy or rent homes.
- This redesign also benefits everyone as they have more money in their pocket from paying as much as 80% less in property taxes while only a bit more for some sales taxes on items that were not previously taxed.

Would the plan just shift taxes instead of lowering individual burdens? No.

- While the plan would be revenue neutral to maintain the same level of expense, the individual tax burden would decline.
- This would happen because of dynamic growth in the economy as more people and businesses move to Texas, so the per person tax burden would decline initially and then be frozen in inflation-adjusted terms thereafter.

Would out-of-state homebuyers buy Texas homes and rent them to avoid taxes? Unlikely.

- By lowering the property tax burden there could be more incentive to purchase rental property, but as property taxes go down, rental prices on a home would also go down making it less profitable to rent out property thereby reducing the incentive.
- Ultimately, the plan will better allow the marketplace to work for buyers and sellers instead of distorting the market and driving up the cost of property.

Would this hurt middle-class families during an economic downturn? No.

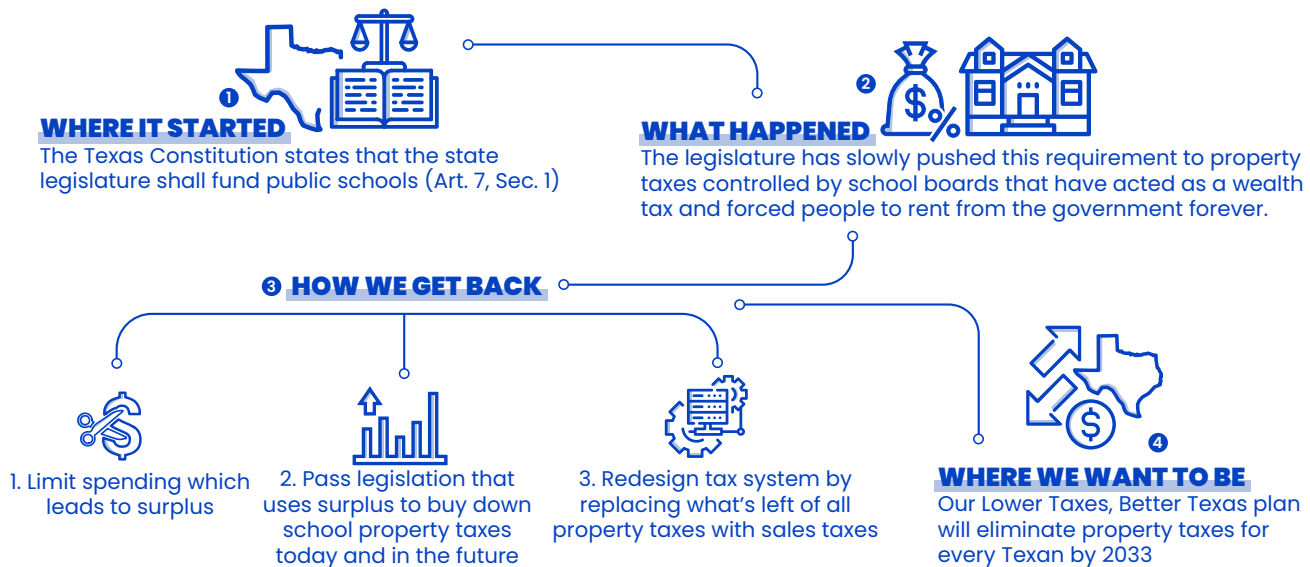
- Middle-class families will benefit more from our plan than under the status quo as their property tax bill would be significantly lower and would not continue to increase unabated over time.
- The redesign later would make the family much better off by further cutting the property tax substantially.

Can we just immediately abolish property taxes? Unlikely, unfortunately.

- Eliminating all property taxes is the ideal, but there is not the political will to do so now for a variety of reasons, including some inappropriately being concerned about shifting to sales taxes. Property taxes should not be replaced with income taxes, value-added taxes, or other types of taxes.
- The state can only effectively pay for and eliminate school district M&O property taxes, while other local tax jurisdictions should eliminate their own. If the state paid for all, there would likely be a massive Robin Hood system to make local jurisdictions revenue neutral by shifting sales taxes from sales tax rich to poor jurisdictions.
- Eliminating the I&S property taxes has additional hurdles because the debt is incurred with financial contracts supported by property taxes requiring those costs to be socialized across the state, the contracts renegotiated with support from sales taxes, or the debt mature and property taxes dropped off then.

Additional details about the plan follow this testimony. Thank you for inviting me to testify today and for the work you do. I'm happy to answer any questions.

THE PATH TO PEACE OF MIND



Appendix: [Lower Taxes, Better Texas – Eliminating Property Taxes in Texas by 2033](#)

Our [Lower Taxes, Better Texas](#) plan will eliminate M&O property taxes in Texas by 2033.

We take a three-pronged approach.

- **Lower Spending:** The Legislature enacted a [new state spending limit](#) on general revenue based on the maximum growth of the state's resident population growth and price inflation, which will help permanently lower spending growth. By putting this in statute, the state has an opportunity for automatic tax relief with surplus general revenue above the spending limit. The Legislature should use this surplus to eliminate school district [maintenance and operations](#) (M&O) property taxes, which is the statewide "[Robin Hood](#)" tax. This would give taxpayers relief and comply with the [constitutional requirement](#) that the state fund schools. Fully eliminating these property taxes will be gradual over decades because of limited surplus tax revenue.
- **Lower Taxes:** The Legislature started this property tax elimination process in the 2019 session. [HB 3](#) provided \$5 billion to reduce the school districts' M&O tax rate by 7 cents (to 93 cents per \$100 of value) and limited tax revenue growth to 2.5%. It provided another \$6.1 billion to maintain it in 2021. This was strengthened by limiting the growth rate of property taxes to 3.5% for most other local governments with [SB 2](#) in 2019. [SB 1](#) in the third special session in 2021 would have provided at least \$2 billion in the 2022-23 school year for an additional 6.6 cents of tax rate reduction, but it did not pass. However, the trend of attempting to provide needed relief with surplus funds sets the stage to put this structural change to lower taxes into law. Legislation similar to [HB 210](#) in the 2021 second special session, which had 75 coauthors, would, if passed, use 90% of general revenue surplus funds to [eliminate all school district M&O taxes](#).
- **Lower Burden:** Texas has [one of the most burdensome property tax systems](#) in the nation. The third part of our approach is to [redesign the state's tax code](#) so that local governments are funded primarily by sales taxes. This [redesign](#) would broaden the base of goods and services covered by the sales tax while lowering the rate. The result would be to finally eliminate school district M&O taxes after years of reducing them. A narrower broadening of the base would help avoid difficult choices about which sales tax exemptions to remove. After eliminating these property taxes, surplus funds could then be used to cut sales taxes to further lower Texans' tax burden. Other local taxing entities should eliminate

their M&O property taxes by using their surplus revenue [above a spending limit](#) of population growth and inflation over time and then redesigning their revenues toward [sales taxes](#).

The Legislature should use this three-pronged approach to put Texas on a path to eliminate M&O property taxes, which represent about 80% of total property taxes, by 2033 or sooner, and consider how to limit or eliminate the I&S portion (related to debt). The elimination of current property taxes should be combined with constitutional amendments to prohibit local taxing entities from imposing new property taxes. Texas governments ought to provide this kind of fiscal framework to ensure all Texans can flourish and have real peace of mind of owning their home. ★

ABOUT THE AUTHOR



Vance Ginn, Ph.D., is the Chief Economist at the Texas Public Policy Foundation. Before joining the Foundation, he served as the Associate Director for Economic Policy of the Office of Management and Budget (OMB) at the Executive Office of the President from 2019 to 2020. Prior to working at the White House, Vance worked at the Foundation and fought for and won many free-market reforms to let people prosper during multiple legislative sessions. Before these endeavors, he taught multiple economic courses at Sam Houston State University and at Texas Tech University. Vance earned his doctorate in economics and a BBA in economics and accounting from Texas Tech University. He grew up in South Houston, Texas, graduated from home school, resides in Round Rock with his wife and three kids, and is a drummer who played for a top rock band.

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