Collecting taxes is an important, if not always popular, duty of the government. Texas law provides certain property tax exemptions for agricultural land, commonly known as the agricultural exemption. While the merits or demerits of this policy can be argued, they are nonetheless embedded within the tax code. However, when landowners wish to change the use of their land to nonagricultural use, they are subjected to significant penalties in the form of rollback taxes.

These rollback taxes decrease the efficiency of the economy by disrupting the sale of properties with agricultural exemptions, taking money out of the private sector for government use, and penalize landowners for trying to maximize the potential of their land.

Rollback taxes imposed on the land are equal to the difference between the taxes imposed on the land for each of the five years preceding the change and the tax that would have been imposed on the land based on the market value for each of those years, in addition to interest calculated at an annual rate of 7 percent for the past five years. This penalty essentially pretends that the land was used for nonexempt purposes in the past, solely for the sake of collecting higher taxes.

Depending on the size and value of the affected property, the rollback tax can be quite substantial. This cost presents a strong deterrent for landowners trying to find the best use of their land. The problem can be exacerbated during the sale of properties with agricultural exemptions when assigning responsibility for these taxes often necessitates the hiring legal counsel for the parties involved. This interference to property sales is a hindrance to the Texas landowners, and hampers the overall efficiency of the economy.

House Bill 133 and its companion Senate Bill 362 seek to eliminate the rollback tax by repealing Section 23.55 of the Texas State Tax Code. Eliminating the rollback tax at this point would be particularly beneficial as new people flock to Texas to take advantage of the nation’s strongest economy and more rural properties become prime targets for development.

Additionally, allowing landowners to decide the full and best use for their properties without penalty, whether that use be agricultural, commercial, residential or otherwise, allows for a much more efficient economy. The rollback taxes provide a disincentive for landowners to try and maximize the use of their property and adjust its use to changing times.

House Bill 133 and Senate Bill 362 would increase economic efficiency by allowing landowners more flexibility in making full use of their property, keeping money in the private sector, and allowing property to be put to its highest and best use. Finally, it furthers the culture of freedom and liberty in Texas.