

Texas' Property Tax Challenge

The True Cost of Owning Property in Texas

by The Honorable Talmadge Heflin & James Quintero

For years, taxpayers have criticized Texas' flawed property tax system as being inequitable, discouraging economic development, outpacing the growth in wages and income, and failing to connect public goods and services to the individuals consuming them.

Prompted by growing public concern, state lawmakers proposed a number of bills to reduce the property tax burden during the past two legislative sessions. The state's most recent attempt at property tax relief requires local school districts to forgo a portion of property tax revenue in favor of additional state aid. Under this new system, additional state funding is to come from the "revised" franchise tax, higher cigarette taxes, and the new "liar's affidavit" tax.

Yet, in spite of supplemental state aid, local property taxes remain a heavy burden on both homeowners and businesses alike.

The Uphill Financial Battle Facing Texans

During the 1990s, property taxes in Texas grew an average of 6.1 percent every year. Beginning in 2000, however, taxpayers witnessed a dramatic escalation in the growth of their property tax bills.

From 2000 to 2006, property tax levies increased by an annual average of 8.4 percent, forcing taxpayers to struggle with a much larger tax burden every year. Fiscal years 2000 and 2001 were particularly distressing for property owners as statewide levies grew by 10.8 percent and 12.4 percent, respectively.

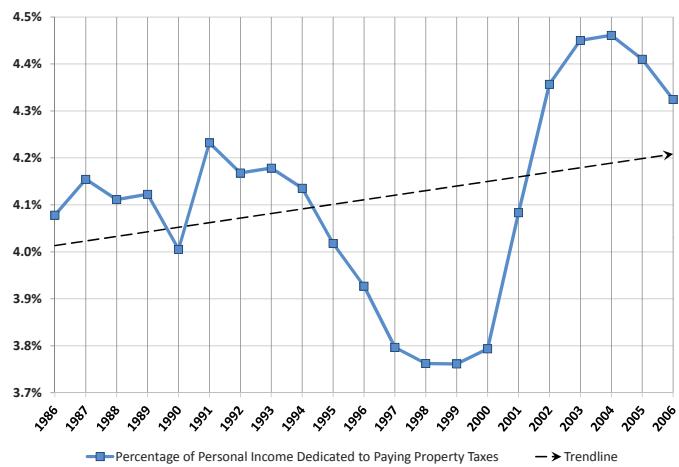
As a result of these substantial year-to-year increases, Texans have seen an unprecedented amount of their income go to local governments. Between 2000 and 2006, taxpayers were levied with a total of \$204 billion in property taxes. In 2006 alone, local governments took in over \$35.5 billion in property tax revenue; this cost every man, woman, and child in the state \$1,602.95.

While the cost of owning property in Texas has grown considerably, taxpayers have not realized the same growth in their wages and income. From 2000 to 2006, statewide

property tax levies jumped by a total of 58 percent; over the same period, personal income only grew 39 percent. The difference in the two measures suggests taxpayer wealth is growing at a slower rate than their tax burden is increasing.

As **Figure 1** illustrates, Texans are dedicating a greater share of their personal income to pay for property taxes. Starting in 2000, the percentage of personal income taxpayers had to set aside for their property tax bills rose steeply; ultimately peaking in 2004. Figures from the Texas Comptroller's Office show that property owners paid nearly 4.5 percent of their total wages and income to cover property taxes in 2004.

Figure 1: Texas Property Tax Levies as Percentage of Total Personal Income, 1986-2006



Source: Texas Comptroller of Public Accounts, Property Tax Division.

Although the percentage of personal income allocated for property tax bills fell slightly in fiscal years 2005 and 2006, the 20 year trend shows a sustained upward shift in the amount of taxpayer wealth necessary to support the growth of Texas local government.

Since taxpayers have to set aside a greater share of their personal income to pay for property taxes, particularly since 2000, they are unable to spend it in the economy and stimulate further private sector activity, make investments, or engage in any other productive activity. Instead of being

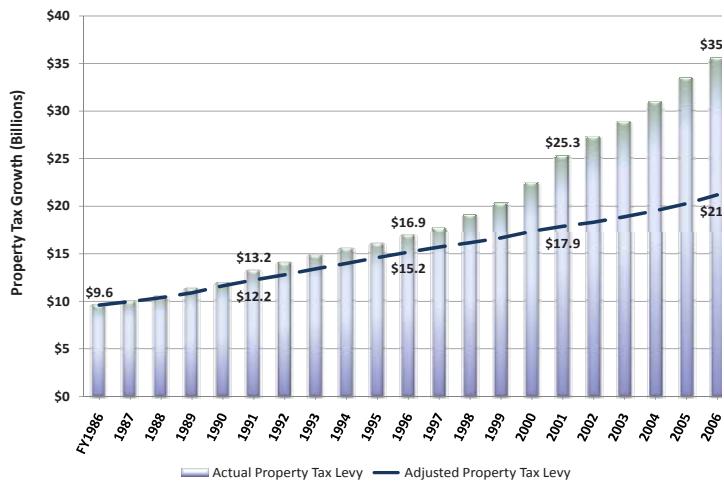
able to make these economic choices, taxpayers have had to pay for the growth of local government spending.

Excessive Spending at the Local Level Raises the Cost of Property Ownership

Spending increases by local governments routinely exceed the percent growth of population plus inflation. As a consequence, taxes must remain high—or be continually raised—to support the growth of government.

A check on the growth of local government spending is a critical step in addressing rising property taxes. As Figure 2 demonstrates, if the growth of local property tax levies were held to the sum of population and inflation growth in Texas since 1986, taxpayers would have kept billions of dollars that instead went to local governments.

Figure 2: Property Tax Levies, Actual vs. Adjusted for Population & Inflation Growth, 1986-2006



Source: Texas Comptroller of Public Accounts, Property Tax Division.
Note: Figures have been rounded.

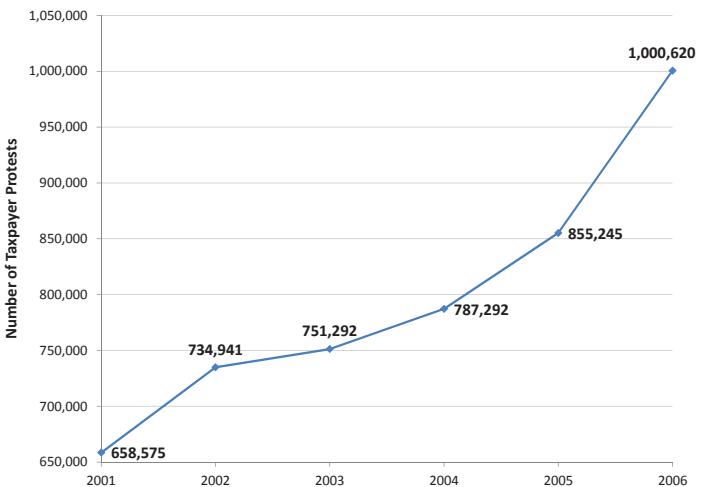
The bars in Figure 2 represent the actual growth of property tax levies over the past two decades; while the dashed green line shows what property tax levies should have been if local governments had limited their spending.

Had Texas local governments had in place an expenditure limit between 1986 and 2006, taxpayers could have saved nearly \$90 billion dollars in property tax payments. Having a spending limit in effect in only 2006 would have netted a \$14 billion tax savings for property owners.

Property Tax Increases Provoke Response

Texans are responding in growing numbers to the sharp increases in property taxes. For instance, the number of protests filed with Central Appraisal Districts (CADs) has risen dramatically over the last few years. In Figure 3, the Texas Comptroller's Office reports that out of 9.7 million property value notices mailed out in 2006, over 1 million property owners filed protests. Since 2001, the number of protests filed by taxpayers has risen by 52 percent.

Figure 3: Taxpayer Protests Filed with Texas CADs



Source: Texas Comptroller of Public Accounts, Property Tax Division.

Property owners are not just filing tax protests either; the number of lawsuits being filed against CADs is also on the rise. The Comptroller's Office reports that there were 5,673 lawsuits challenging property valuations in 2006; with 1,999 still pending from previous years.

Conclusion

The cost of owning a home or business in Texas is becoming increasingly prohibitive. Not only are property owners currently facing sky-high tax bills, but as each year passes the rate of growth intensifies. Rather than encouraging economic prosperity, the property tax system penalizes Texans every year for their investments. Short of totally abolishing the property tax, limiting the growth of local spending to the sum of population growth and inflation is the only meaningful way the Texas Legislature can push back the rising tide of property taxes. 