



Property Tax – Sales Tax Swap



The Issue

Texas' local property tax burden ranks [14th highest nationally](#) and weighs heavily on homeowners and businesses statewide; but research suggests that relief may be only a few modest reforms away.

Local property taxes levied across the state increased by 101.1% compared with only a 70.3% increase in compounded population growth plus inflation from fiscal years 2000 to 2013. This substantial increase in property taxes has increased property owners' mandated tax liability by almost 30% to 9.8% of the state's median income

during this period. Meanwhile, state sales tax revenue, supported by discretionary purchases, rose by 86.2%. Voters also recently indicated their concern about the mounting property tax burden by their response to Proposition 1 on the March 2016 Republican primary election ballot that read: "Texas should replace the property tax system with an alternative other than an income tax and require voter approval to increase the overall tax burden." It passed by a wide margin with 69.5% in favor.

According to a Texas Public Policy Foundation study [The Freedom to Own Property: Reforming Texas' Local Property Tax](#), Texas can entirely eliminate the property tax burden by replacing it with a reformed sales tax.

Of all the major taxes, a consumption tax (or sales tax) is the most preferable for three reasons: it is simple, transparent, and levied only at the end-user, which provides some discretion over one's tax liability. In terms of simplicity, the sales tax is among the easiest for taxpayers to understand and pay since the rate is generally known beforehand and levied automatically at the time of purchase. This unique feature sets the sales tax apart from most other taxes laden with time-consuming paperwork and other compliance costs.

The study highlights a revenue neutral swap by reasonably adjusting the state sales tax base and rate outlined in the Foundation's publication authored by the famed economist Dr. Arthur Laffer. Abolishing local property taxes and changing the current 8.25% maximum state and local sales tax rate to achieve the swap could include a reformed sales tax rate of:

- 15.7%, if the current sales tax base is used including the sale of property; or
- 11%, if all services that are taxed in at least one state are taxed in Texas including the sale of property.

One of these swaps would provide meaningful tax relief for property owners, and it would have the added benefit of strengthening the state's economy by encouraging capital investment—the primary driver of economic growth and job creation.

Based on the property tax-sales tax swap, with the 11% sales tax rate option, the Foundation estimates over a five-year period personal income could increase by as much as \$63 billion, or 4.7%, higher than under the current tax system. This increase in economic activity could contribute to 337,400 net new jobs statewide compared with no tax reform. Put simply, Texans are not able to reach their full potential from the current property tax system.

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 person who lives in a home, operates a business, or has property of any kind, will ever truly own any of these. Right now, Texans effectively rent from the government, indefinitely.

The evidence supports the case for replacing property taxes with a reformed sales tax; now the political will is needed to enact such a prosperity-generating reform.

The Facts

- Repealing local property taxes and replacing the revenues with a reformed sales tax would provide meaningful tax relief, generate added wealth, spur job creation, and protect the rights of property owners.
- Over a five-year period, the Foundation's property tax reform proposal would help create tens of billions of dollars in net new personal income and hundreds of thousands of net new jobs.

Recommendations

- Abolish local property taxes and replace them with a reformed sales tax that includes an adjusted tax base and rate.
- Ideally, the reformed sales tax would closely resemble an 11% sales tax rate and an adjusted base that includes all services taxed in at least one other state, including the sale of property.

Resources

[*The Freedom to Own Property: Reforming Texas' Local Property Tax*](#) by Kathleen Hunker, James Quintero, and Vance Ginn, Texas Public Policy Foundation (Oct. 2015).

[*Enhancing Texas' Economic Growth through Tax Reform*](#) by Donna Arduin and Arthur Laffer, Texas Public Policy Foundation (Aug. 2012).

[*Texas' Property Tax Challenge: The True Cost of Owning Property in Texas*](#) by Talmadge Heflin and James Quintero, Texas Public Policy Foundation (Aug. 2008).

[*The Case for Converting from Property Taxes to Sales Taxes*](#) by Talmadge Heflin, Texas Public Policy Foundation (March 2008).

