

Texas Public Policy Foundation

Keeping Texas Competitive

A Legislator's Guide to the Issues 2013-2014



Property Tax Reform

The Issue

Texas' property tax burden—ranked 14th highest nationally by the Tax Foundation—continues to weigh heavily on homeowners and businesses around the state; but ongoing research suggests that relief may only be a few modest reforms away.

According to the Texas Public Policy Foundation's updated study, *Enhancing Texas' Economic Growth through Tax Reform*, Texas can eliminate its property tax burden entirely by replacing the revenue with a reformed sales tax. The Foundation's study identifies two scenarios in which the sales tax base and rate could be reasonably adjusted to produce a revenue neutral swap:

- 15.7%, if the current sales tax base is used including real estate; and
- 11%, if all services that are taxed in at least one state are taxed in Texas including real estate.

Repealing all property taxes and replacing the revenues with one of the proposed sales tax reforms would go far in providing meaningful tax relief for property owners, and it would also have the added benefit of strengthening the state's economy by encouraging capital investment.

If the property tax swap were to become a reality, personal income in the state of Texas could potentially increase in the range of \$3.6 billion to \$3.68 billion in the first year. Over a five-year period, if property taxes were replaced dollar-for-dollar with a higher sales tax burden, personal income could, on a cumulative basis, increase between \$22.85 billion and \$63 billion—or an increase of 1.8% to 4.7% higher than it would have been otherwise.

Spurred by stronger economic growth, the number of jobs created in the state would also increase. Over a five-year time horizon, it is estimated that Texas would benefit from a net gain of between 124,900 to 337,400 new jobs, as compared to if no tax reform were implemented.

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 man or woman who owns a home, operates a business, or has property of any kind, will ever truly own what they possess. Right now, all of us effectively rent from the government, indefinitely.

The evidence supports the case for repealing property taxes and replacing them with a broad-based sales tax; now all that is left to do is to find the political will to enact such reform.

The Facts

- Repealing 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.
- In the first year after tax reform is implemented, personal income in Texas would increase \$3.6 billion to \$3.68 billion. After a five-year period, personal income would increase by an estimated \$22.85 billion to \$63 billion—a rate of approximately 1.8% to 4.7% higher than under the current tax structure.

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- Over a five-year period, the Foundation's property tax reform proposal would help create between 124,900 to 337,400 net new jobs as compared to if no tax reform were implemented.

Recommendations

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

Resources

Enhancing Texas' Economic Growth through Tax Reform by Arduin, Laffer & Moore Econometrics, LLC, Texas Public Policy Foundation (Apr. 2009).

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

The Case for Converting from Property Taxes to Sales Taxes by The Honorable Talmadge Heflin, Texas Public Policy Foundation (Mar. 2008).

