

Lower Taxes, Better Texas

Eliminating Property Taxes in Texas by 2033

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Texans will never have the peace of mind of owning their home until property taxes have been eliminated. Until then, Texans are renting from the government, always living with the fear that exorbitant taxes could take their home away. The Foundation has developed a balanced solution to give Texans the relief they demand while also funding the needs for critical services like public safety and education. Our [Lower Taxes, Better Texas](#) plan will eliminate a significant portion of Texans' property taxes by 2033 and make structural reforms that rein in irresponsible local governments to prevent annual spikes in tax bills.

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.