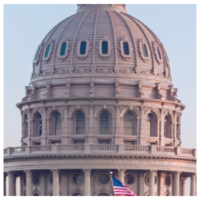

TEXAS PUBLIC POLICY FOUNDATION

Testimony

September 14, 2020

Paths to Reducing the Excessive Property Tax Burden in Texas

Testimony submitted to the Texas House Committee on Ways & Means

by Vance Ginn, PhD, Senior Economist

Chairman Burrows and Members of the Committee:

My name is Dr. Vance Ginn, and I am chief economist at the Texas Public Policy Foundation. I am submitting this written testimony on Charge 2 of the interim charges considered by this committee. I provide options for how to substantially reduce the high property tax burden in Texas by limiting government spending with either a buydown of property taxes over time or a swap with sales taxes immediately so that Texans have more opportunities to prosper.

High Property Tax Burden in Texas

Texas looks to have at least the 7th highest local property tax burden in the nation. This is according to an effective property tax rate of 1.81% per WalletHub.com or the share of property taxes paid to owner-occupied housing value of 1.69% per the Tax Foundation. While some claim this high burden is because Texas does not have a personal income tax, the two sources above show other states with no income tax tend to have a more competitive property tax burden. Texas's high burden is from excessive spending.

The Texas Constitution prohibits the state government from levying a property tax, so all Texas property taxes are levied at the local level. These local taxes have far outgrown taxpayers' ability to pay them, as their growth has exceeded population plus inflation, increasing their tax burden over time. Property taxes are an inefficient type of tax based on arbitrary appraisal determinations and high administrative costs. They can be more regressive than other forms of taxation as they punish the poor more because of the compounding of tax payments annually over time and they can keep them from getting or keeping their home. They also keep Texas from being as economically competitive with other states as otherwise.

Ultimately, property taxes should be eliminated, with the first step being to eliminate school districts' maintenance and operations (M&O) property taxes. Texas's school M&O property taxes partially fund government schools based on school finance formulas determined by the Texas Legislature. These taxes amounted to $25.6 billion in 2017, equal to 43% of all property taxes levied in Texas. This property tax has numerous problems, resulting in several school finance lawsuits over the last half century, with the current system still questionably constitutional.

Options for Eliminating School M&O Property Taxes

Given the high burden this tax places on Texans' prosperity, there is a need for multiple options to reduce it or even eliminate it. We provide two options to eliminate school districts' M&O property taxes of swapping property taxes for final sales taxes or buying down property taxes with surplus state funds. Both options require spending restraint and a constitutional amendment prohibiting school districts from imposing an M&O tax after its elimination.

- For the sales tax swap, we recommend replacing school M&O property taxes with final sales taxes by mostly broadening the sales tax base. This would allow Texas to increase the fairness of the Tax Code, to broaden the tax base to collect more final sales taxes, and to keep the maximum sales tax rate competitive with other states. In 2017, the last year for which data is available from the Texas Comptroller's website, Texas provided an estimated $42 billion in exemptions, exclusions, and discounts to the final sales tax base, requiring a higher tax rate and higher burden on those taxed. When considering these excluded items for inclusion in the final sales tax base to eliminate nearly half of all property taxes in Texas, it is important to continue excluding items either taxed by other taxes, funded primarily by taxpayer

continued

dollars through government expenditures, or that would make the system similar to a n onerous value added tax.

Another way to consider how to do this is to look at which sectors to tax in the state's gross state product using a similar approach of what to exclude as for the exemptions, which could result in a combined state and local sales tax rate increase from 8.25% to 9.88% with a broadened base. Broadening the sales tax base would influence other local government jurisdictions' sales tax collections, which they should address by lowering rates to make it revenue neutral and enact strict local spending limits. While this means payment of more sales taxes, Texans would pay only about half of what they paid in property taxes. Texans would benefit from this immediate swap because it brings permanent property tax relief, relies on slower-growing sales taxes, and bases collections on objective market exchanges rather than the subjective valuations by appraisal districts.

- For the buydown option, we recommend that the state limit the increase of general revenue-related funds per biennium and use 90% of the resulting surplus to buy down school districts' M&O property taxes over time until they are eliminated. This means that school M&O property taxes would be frozen as the state provides an increasing portion of government school funding. If state tax receipts kept up with past trends and spending was limited to 4% per biennium, this elimination process would take about a decade. This option would be dependent on legislatures sufficiently limiting spending every session until elimination of the school M&O property tax.

Economists at the Baker Institute at Rice University studied the economic effects of similar options for the M&O elimination and found that each plan would lead to increased economic output and more jobs created. But the benefits of both options could be negated if other property tax jurisdictions raise taxes too much. Fortunately, there were valuable reforms in Senate Bill 2 in the 2019 Legislature. This bill lowered the rollback rate trigger to call for an automatic voter election to 3.5% for local taxing entities other than school districts, whose rate was reduced to 2.5%. This historic reform must be maintained, improved, and the trigger even lowered, to protect taxpayers from skyrocketing tax bills.

Government Spending Must Be Limited to Address Skyrocketing Property Taxes

High taxes are always and everywhere a spending problem, so any path to tax relief must be paired with limiting government spending. By doing so, Texas could shift to a more efficient and fairer sales tax-dominated system. In this way, Texans can be assured meaningful, lasting property tax relief and an improved Texas Model that will sustain prosperity for generations.

The Facts

- Texas has a high property tax burden, with the school districts' being about half.
- Past attempts to provide property tax relief without limiting spending do not work long.

Recommendations

- Eliminate school M&O property taxes by replacing them either (a) immediately with a swap using sales taxes or (b) over time with a buy down using surplus state funds.
- Require spending restraint at the state and local levels to keep taxes from rising.
- Pass a constitutional amendment either upfront with the swap or at the end with the buy down that prohibits school districts from imposing an M&O tax.

Thank you for your time in considering these reform ideas to improve the state's institutional framework, increase its competitiveness, and help Texas families by reducing the property tax burden.

Resources

Education and Property Taxes: A Texas-Sized Conundrum by Austin Griesinger, Emily Sass, and Parker Stathatos, Texas Public Policy Foundation (Feb. 2020).

Paths to Real Property Tax Cuts by Vance Ginn, Texas Public Policy Foundation (April 2019).

School Property Tax Reform: An Analysis of Options by Jorge Barro and John Diamond, Texas Public Policy Foundation (Nov. 2018).

Abolishing the "Robin Hood" School Property Tax by Kara Belew, Emily Sass, Vance Ginn, and Bill Peacock, Texas Public Policy Foundation (June 2018).

ABOUT THE AUTHOR

Vance Ginn, PhD, is chief economist at the Texas Public Policy Foundation, a 501(c)(3) non-profit, non-partisan free market think tank based in Austin. He is the former associate director of economic policy for the Office of Management and Budget at the Executive Office of the President, former college lecturer, and an expert on economic and fiscal issues with research that seeks opportunities to let people prosper in Texas, D.C., and beyond. He earned his doctorate in economics at Texas Tech University.

About Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute. The Foundation promotes and defends liberty, personal responsibility, and free enterprise in Texas and the nation by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach.

Funded by thousands of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

Texas Public Policy Foundation

901 Congress Avenue | Austin, Texas 78701 | (512) 472-2700 | www.TexasPolicy.com