

# Should We Eliminate Local Property Taxes?

## Key Points

- In the 2023 tax year, local property taxes totaled \$82.1 billion, equal to ALL taxes collected by the state.
- Replacing all property taxes with sales tax revenue would require a sales tax rate of over 19%.
- Repealing all exemptions and exclusions would generate approximately \$55.1 billion, two-thirds of total property taxes.

The local property tax is arguably the most maligned tax paid by Texans, and property owners have not hesitated to let their state legislators know how they feel. The tax rate and the property's taxable value are determined annually, making it prominently visible to taxpayers. In 2023, property taxes collected by local governments in Texas totaled \$82.1 billion, equal to ALL taxes collected by the state (Figure 1). The total property tax levy in 2023 was composed of \$40.1 billion in property tax levied by school districts (49%), \$15 billion levied by cities (18%), \$14.3 billion levied by counties (17%), and \$12.6 billion levied by special districts (15%) as illustrated in Figure 2. The rallying cry against the property tax has been, "You don't own property in Texas; you pay rent on it annually through the property tax." In response, the Texas legislature has attempted to stem the rise in the tax even though the state does not control the rates set by local taxing jurisdictions or the appraised values determined by the market and quantified by local appraisal districts. Limiting the rise in property tax levies has proved to be a daunting task.

## Past Efforts to Reduce Property Taxes

The 79<sup>th</sup> Legislature (2005) passed HB 1, appropriating \$7 billion to reduce school district maintenance and operations (M&O) tax rates by 33.3% over two years. No limitation was placed on school district I&S tax rates (to make debt payments for school facilities) or on the tax rates levied by counties, cities, and special districts, so the effort to reduce school M&O tax went largely unnoticed as other taxes grew to fill the void. The 86<sup>th</sup> Legislature (2019) passed HB 3, mandating that school district M&O tax rates be reduced if taxable values increase by more than 2.5%, and SB 2, which placed a limit of 3.5% on additional revenue permitted for cities and counties without voter approval. Building on that momentum, the 88<sup>th</sup> Legislature (2023) spent \$18 billion for the 2023-2024 biennium to reduce school district M&O tax rates further, increase the school district homestead exemp-

Figure 1

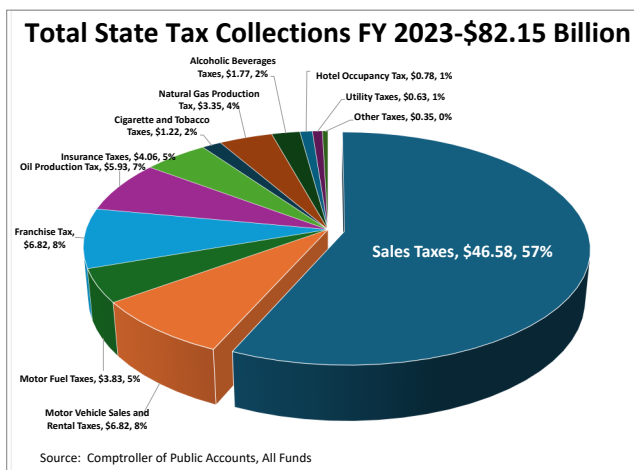
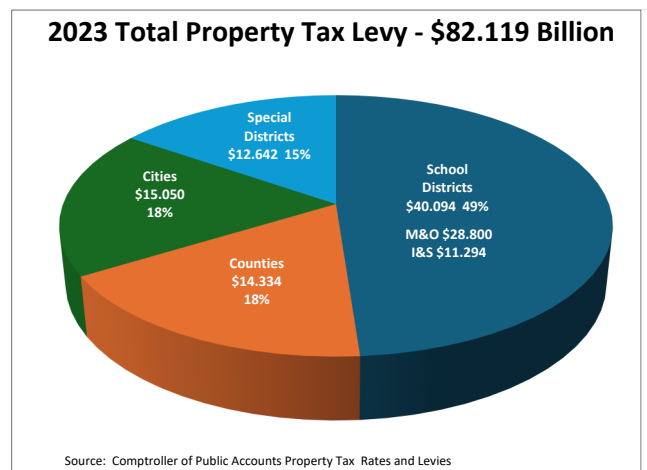


Figure 2



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tion by 150%, and adjust the taxes paid by homeowners 65 years or older or disabled. Their effort resulted in a decrease in school district taxes of \$4.1 billion.

Despite these efforts, calls to eliminate the property tax have become more prevalent. However, taxpayers do not seem ready to forego the services provided by the taxing units levying the tax, such as public education, police protection, firefighters, emergency first responders, garbage and recycling pickup, and public libraries. Therefore, the question arises: If we eliminate the property tax but maintain the services provided, how do we pay for those services?

## Considerations

Most proposals to eliminate the property tax center around two possibilities: Replace the property tax with an expansion of the sales and use tax (sales tax for short); and/or use a portion of any state surplus to buy down property taxes each biennium. The state sales tax raised \$46.6 billion in fiscal year 2023 at a tax rate of 6.25% to help finance the state’s budget, equating to \$7.4 billion for each percentage point of tax. Local taxing jurisdictions may impose an additional 2% to help finance their budgets, resulting in a total sales tax rate of 8.25% in most Texas localities.

The sales tax is paid by consumers on taxable items and, at 8.25%, is the 14<sup>th</sup> highest sales tax rate in the nation according to the Tax Foundation’s [2023 midyear ranking](#). To replace the total \$82.1 billion property tax levy would require a sales tax increase of over 11 percentage points, resulting in a total sales tax rate of 19.27%, which is 2.3 times the current rate, and exceeding the current highest sales tax rate in the nation of 9.548% (Tennessee) by almost 10 percentage points. A total sales tax rate even higher than 19.27% would likely be required to make up revenue lost to tax avoidance in both legal and illegal forms, especially in areas of Texas that border another state with a far lower sales tax rate.

Because a sales tax rate of 20% is unpalatable to many, recent proposals have focused on replacing only the school district M&O tax, which totaled \$28.8 billion in 2023. This would require increasing the sales tax rate by almost four percentage points to over 12% and would replace only 35% of total property taxes. Property taxes levied by cities and counties and those levied by school districts for debt service would most likely continue to increase, and consumers could end up paying higher sales taxes in exchange for little or no decrease in their property taxes. Table 1 illustrates the various sales tax rates necessary to replace different property tax components.

**Table 1**

Type of Taxing Jurisdiction	2023 Total Property Tax Levy (Billions)			State and Local Sales Tax Rate to Replace Total Levy		State and Local Sales Tax Rate to Replace M&O Levy		State and Local Sales Tax Rate to Replace I&S Levy	
	2023 M&O Levy (Billions)	2023 I&S Levy (Billions)	2023 Total Property Tax Levy (Billions)	State and Local Sales Tax Rate to Replace Total Levy	Additional Percentage Points to Replace Total Levy	State and Local Sales Tax Rate to Replace M&O Levy	Additional Percentage Points to Replace M&O Levy	State and Local Sales Tax Rate to Replace I&S Levy	Additional Percentage Points to Replace I&S Levy
School Districts	\$ 28.800	\$ 11.294	\$ 40.094	13.63%	+5.38	12.11%	+3.86	9.77%	+1.52
Counties	\$ 12.500	\$ 1.834	\$ 14.334	10.17%	+1.92	9.93%	+1.68	8.50%	+0.25
Cities	\$ 10.890	\$ 4.159	\$ 15.050	10.27%	+2.02	9.71%	+1.46	8.81%	+0.56
Special Districts	\$ 9.645	\$ 2.998	\$ 12.642	9.95%	+1.70	9.54%	+1.29	8.65%	+0.40
<b>Total</b>	<b>\$ 61.834</b>	<b>\$ 20.285</b>	<b>\$ 82.119</b>	<b>19.27%</b>	<b>+11.02</b>	<b>16.55%</b>	<b>+8.30</b>	<b>10.97%</b>	<b>+2.72</b>

Source: Comptroller of Public Accounts Property Tax Rates and Levies; TTARA calculations

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Many have advocated repealing exemptions and exclusions to expand the tax base of the sales tax rather than increasing the rate. According to the Comptroller's 2023 [Tax Exemptions & Tax Incidence Report](#), if ALL exemptions and exclusions were repealed, an additional \$55.1 billion would be generated by the sales tax—only two-thirds of the revenue required to replace all property taxes (Table 2). Pursuing this option would result in consumers paying increased sales taxes in addition to the remaining property taxes.

## Conclusion

Several issues must be carefully considered before a concerted effort to replace local property taxes with increased state sales tax is embarked upon.

- How would swapping some or all of the property tax for a higher sales tax rate affect economic growth in Texas and the state's attractiveness as a business location compared to other states?
- Would a 20%+ sales tax rate give rise to significant tax avoidance?
- How would repealing current exemptions and/or exclusions affect economic growth in Texas and the state's attractiveness as a business location compared to other states?
- The sales tax is a more regressive tax than the property tax, especially after the new \$100,000 homestead exemption. Would a tax swap increase regressivity of our tax system overall?
- Comptroller has estimated that individual consumers initially pay 58% of the sales tax while paying 44% of the school district property tax beginning in 2023. How would a property-tax-for-sales-tax swap shift the tax burden?
- A new funding mechanism for local jurisdictions would have to be developed. Theoretically, local property tax could be swapped for local sales tax, but in real life, a local jurisdiction's sales tax base will not necessarily yield the same amount of revenue as its property tax base. On the other hand, if local property tax were replaced by state sales tax, a mechanism to distribute state funds to counties, cities, and other local governments would need to be developed.
- Finally, is it worthwhile to increase state sales tax collections to replace only a portion of the local property tax?

# Should We Eliminate Local Property Taxes?

**Table 2**

Value of Sales Tax Exemptions (Billions)		
<b>Consumer Items</b>		<b>\$ 6.134</b>
Groceries	\$ 3.926	
Residential Utilities	\$ 1.162	
Drugs	\$ 1.046	
<b>Manufacturing</b>		<b>\$ 11.885</b>
Raw Materials	\$ 9.277	
Machinery & Equipment	\$ 1.143	
Manufacturing Utilities	\$ 1.178	
Other Manufacturing	\$ 0.287	
<b>Agricultural</b>		<b>\$ 0.580</b>
<b>Taxed by Other Law</b>		<b>\$ 20.577</b>
Insurance Premiums	\$ 9.547	
Motor Vehicles	\$ 5.644	
Motor Fuels	\$ 4.359	
Other Taxed by Other Law	\$ 1.027	
<b>Governments &amp; Non-profits</b>		<b>\$ 0.484</b>
<b>Research &amp; Development Activities</b>		<b>\$ 0.259</b>
<b>Other</b>		<b>\$ 2.302</b>
<b>Total Exemptions</b>		<b>\$ 42.221</b>
Value of Sales Tax Service Exclusions (Billions)		
<b>Construction Labor</b>		<b>\$ 1.029</b>
New Residential	\$ 0.216	
New Non-Residential	\$ 0.653	
Residential Repair & Remodeling	\$ 0.160	
<b>Personal Services</b>		<b>\$ 0.558</b>
Hair, Nail & Skin Care	\$ 0.112	
Death Care	\$ 0.088	
Child Day Care	\$ 0.224	
Other Personal Services	\$ 0.134	
<b>Business &amp; Professional Services</b>		<b>\$ 10.192</b>
Physician, Dental, & Other Health Care	\$ 3.433	
Legal	\$ 0.698	
Accounting & Auditing	\$ 0.461	
Architectural & Engineering	\$ 0.605	
Computer System Design & Programming	\$ 1.082	
Employment Agency & Temp Labor Supply	\$ 0.799	
Financial Securities Brokerage & Other Financial	\$ 0.750	
Management Consulting & Public Relations	\$ 0.601	
Real Estate Brokerage & Agency	\$ 0.489	
Research & Development	\$ 0.356	
Other Business & Professional	\$ 0.918	
<b>Other Services</b>		<b>\$ 1.103</b>
<b>Total Service Exclusions</b>		<b>\$ 12.882</b>
<b>Total Exemptions and Service Exclusions</b>		<b>\$ 55.103</b>

Source: Comptroller of Public Accounts, 2023 Tax Exemptions & Tax Incidence Report