



Testimony to House Ways and Means Committee
Shannon Halbrook, Invest in Texas Director, Every Texan
February 25, 2025

Every Texan is an independent policy research organization that advocates for equity-focused policies to help all Texans reach their full potential. We believe our state policymakers should invest in our state and our people.

Preserving our state and local revenue is crucial for our public schools, health care, infrastructure, and other public institutions. Plus, recent federal cuts in grants, labor, social programs and higher education will demand more of states and localities. This means any new tax cuts could be disastrous to our communities. **There must be no new tax cuts in the 2026-27 state budget.** Our large carryover balance is an anomaly that will not continue. It should not be used to fund permanent, ongoing tax cuts.

Yet we acknowledge that many Texans are struggling with the increasing cost of housing, of which property taxes represent a significant part. About 3.7 million Texas households are housing cost-burdened, paying more than 30% of their income in housing. This includes 51% of renter households, who are disproportionately Hispanic (36%) and black (20%).

If the Legislature chooses to cut property taxes again, some methods are better than others. **Any tax cuts must prioritize equitable benefits to communities that need help the most.**

The benefit distribution of a tax or exemption is known as its incidence, and the Comptroller's biennial Tax Exemptions and Tax Incidence report is an invaluable resource for comparing the fairness of various taxes and tax cuts. The 2025 report confirms once again that Texas, which relies mostly on property taxes and sales taxes, has a regressive tax system. **Texas families with lower incomes pay higher tax rates overall.**

This makes it particularly vital that any cuts be applied using a method that **maximizes fairness and provides the most tax savings for low-income families at minimal cost.** Analysis of the Comptroller's data shows that of the common methods to cut taxes, a flat dollar homestead exemption is the most equitable. Most other methods – appraisal caps, tax rate compression, percentage homestead exemptions – bring greater benefits to the wealthiest Texans. In some cases over half the benefit goes to Texans making over \$195,000 a year.

Texas's Tax System Is Upside-Down

The lowest-income Texans pay more than 14% of their income in state and local taxes, while the wealthiest pay less than 4%.

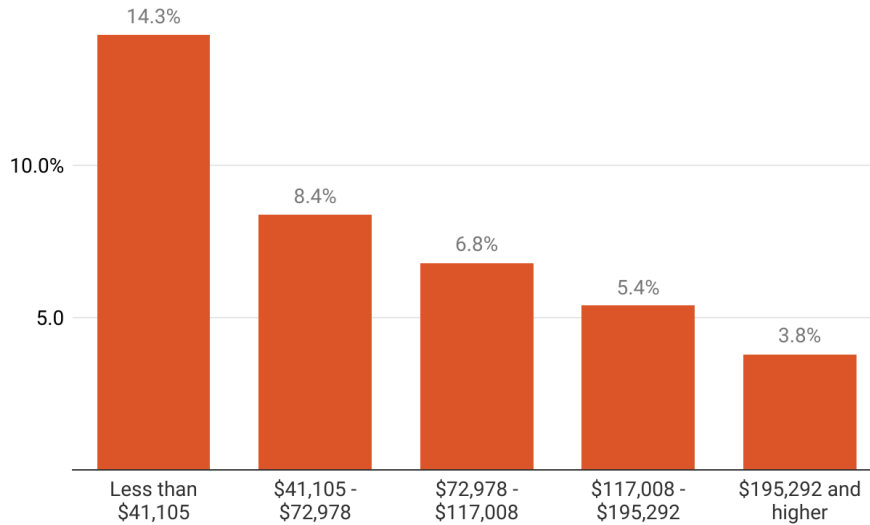


Chart: Every Texan

Source: Texas Comptroller of Public Accounts, Tax Exemptions and Tax Incidence, Jan. 2025.

Notes: The chart indicates the average percentage of income paid in selected state and local taxes by five quintiles of Texas households, classified by annual income. Each quintile contains about 2.3 million households.



We also encourage the Legislature to consider other ways to better target tax relief to low-income Texans and renters. Ideas include a flat-dollar local-option homestead exemption; a renter’s credit or rebate; a circuit breaker program, where property taxes are reduced based on household income; or even a state Earned Income Tax Credit. More information on those methods is found in the attached supporting materials. Additionally, Every Texan would consider supporting other kinds of tax breaks and cuts if they promise to bring significant benefit to low-income Texans in particular.

We are currently flush with revenue, but this won’t always be the case. The state faced budget shortfalls in 2003, 2011, 2016, and 2020. The Legislature should reevaluate existing tax exemptions with, again, a focus on whether the benefits are truly equitable.

The business and professional services exemption is a good example. This exemption disproportionately benefits wealthier Texans, who spend more of their income on those services. Eliminating the exemption would bring in more than \$12 billion in revenue each year. Other exemptions could also be scrutinized, such as those on high-cost natural gas extraction, or on property used for data centers.

Thank you for the invitation to testify.