Alternatives to Property Tax Cuts:
Ensuring a Just and Equitable Tax System for Every Texan

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With a record $33 billion carryover balance in 2023, lawmakers spent $23 billion on a massive property tax cut package just two years ago. Now, they're set to do it again. On top of existing, automatic cuts established by prior legislation, the 89th Legislature's initial budget would spend an additional $3.5 billion in all-new cuts. The House and Senate have different ideas about how these cuts would be implemented, and they will be negotiating in the weeks ahead.

Altogether, according to the [Legislative Budget Board], the proposed 2026-27 budgets include **$51 billion** on ongoing, permanent, and proposed tax cuts instituted since 2019. The difference between total market property value and taxable value for schools now stands at $1.5 trillion.

Texas Real Estate Is Taxed at $1.5 Trillion Below Market Value

The difference between market and taxable value for school districts has surged since 2021.

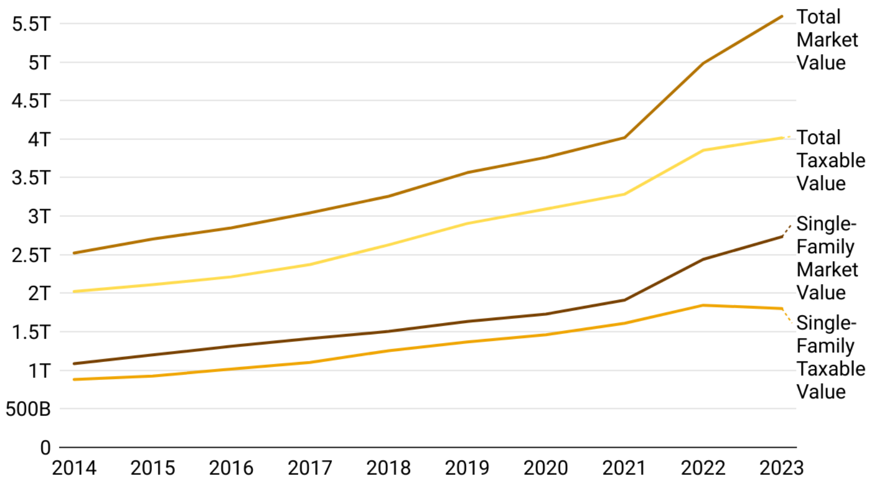


Chart: Every Texan
Source: Texas Comptroller of Public Accounts, Biennial Property Tax Report.

We've had enough across-the-board property tax cuts. Our carryover balance exists because of an unusual, one-time revenue surge, and it should not be the basis for permanent tax cuts. The Legislature cannot keep cutting property taxes session after session while repeatedly neglecting other priorities in our state budget. After our first year of People's Budget engagement, we know one thing – Texans believe it is time to prioritize quality public services by seriously investing in education, health care, jobs and wages, infrastructure, our state workforce and more. Endless, permanent tax cuts jeopardize those investments.

Furthermore, depending on the way they are provided, much of the benefit of across-the-board tax cuts often ends up going to wealthy homeowners with more expensive homes. At a minimum, any cuts must be targeted to those with lower incomes and more modest homes – who in Texas are disproportionately Hispanic.

Most Property Tax Cuts Unfairly Benefit the Wealthy

Depending on the method, half the benefits of property tax cuts often go to households making more than $195,000 a year.

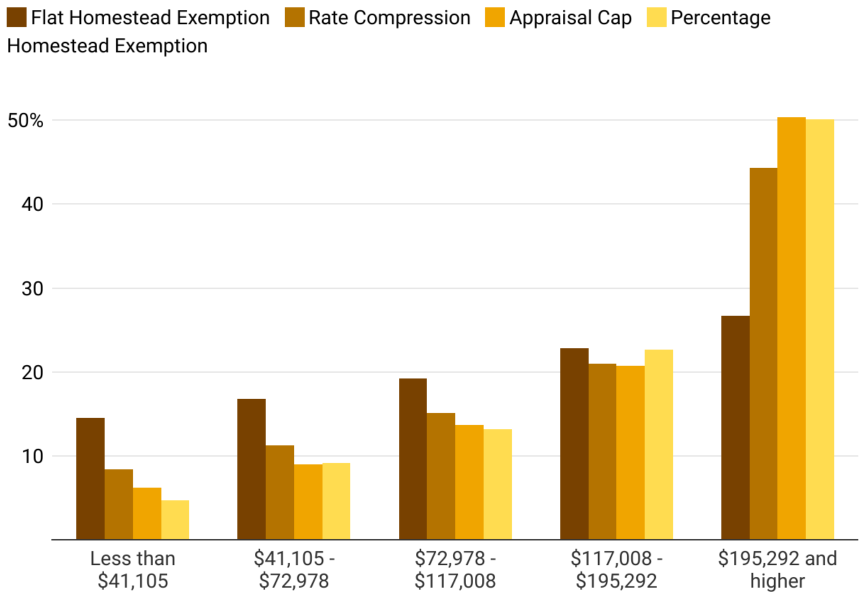
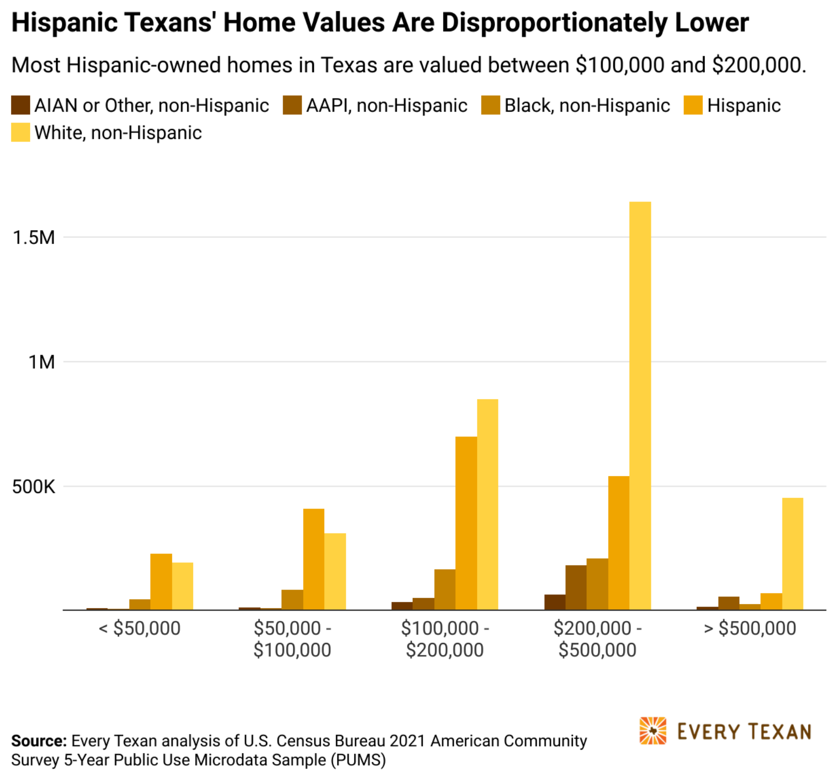


Chart: Every Texan
Source: Texas Comptroller of Public Accounts, Tax Exemptions and Tax Incidence Report, January 2025.
Notes: Vertical axis represents the percent of benefit of tax cuts realized by each income quintile of Texas residents.



Already, our state constitution prohibits a state income tax or wealth tax. And a large number of restrictions exist on property tax revenue, with lawmakers seemingly adding more every session.

- As recently as 2015, the homestead exemption for school district property taxes was only $15,000. Now it is at least $100,000 for all resident homestead owners, and higher for over-65 and disabled homeowners. SB 4 would raise it to $140,000.
- Homestead appraisals are capped at 10% increases year-over-year.
- Tax liability for over-65 or disabled homeowners is frozen.
- Revenue growth caps are in place for school districts (2.5% per year) and local governments (3.5%). Voters must approve proposals to raise taxes past those levels via a tax ratification election (TRE). In 2024, about 80 taxing districts held TREs; out of 53 school districts holding those elections, 31 failed.
- School district maintenance and operations (M&O) tax rates are automatically reduced ("compressed") in accordance with the district's property value growth. The higher the growth, the higher the compression.
- Last session's $18 billion tax cut package emphasized further tax compression on school district M&O rates and the most recent increase in the homestead exemption (to $100,000). Additionally, the measure included a three-year pilot 20% appraisal cap on property under $5 million and an increase in the franchise tax exemption. The constitutional amendment required to implement those changes was approved by 83% of voters statewide.

For school funding, **the steady erosion of our property tax base** simply swaps state revenue for local revenue. But this makes our schools more reliant on sales tax revenue, which is volatile in downturns and unfair to lower-income Texans because of the higher regressivity of the sales tax. Instead, a meaningful amount of this session's carryover balance must be used to help our schools and teachers.

Appraisal Caps

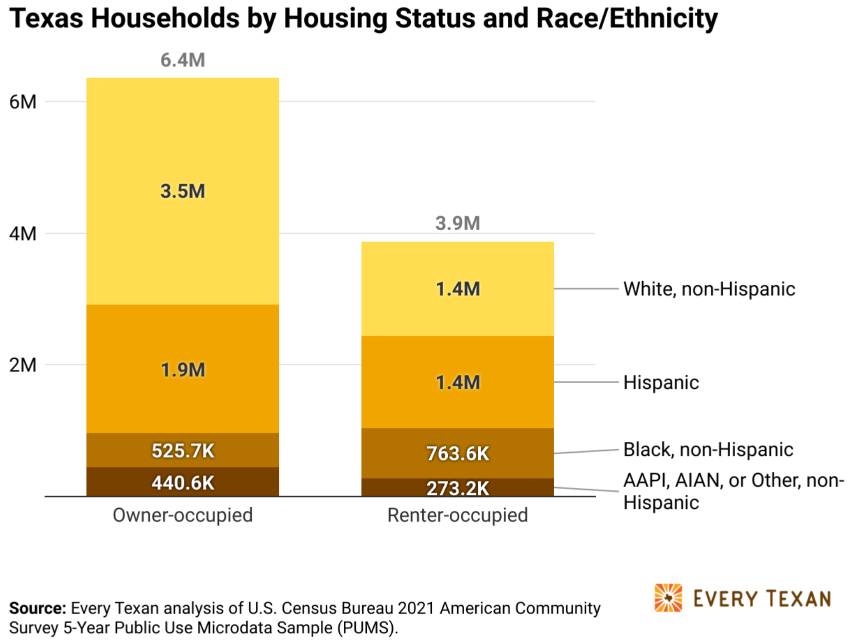
Appraisal caps were advocated last session by many House members, notably Speaker Phelan, but the method lost favor in a battle between the House and Senate. The idea is back this session, with some filed bills proposing a 20% appraisal cap on all residential property, for example.

We oppose appraisal caps because they distort the real estate market, discourage sales, and disproportionately favor established – often wealthier – and longer-term property owners, effectively subsidizing them more and more every year. The higher the property value growth – or the lower the cap – the bigger the subsidies. The 2025 edition of the Comptroller's Tax Exemptions and Tax Incidence Report shows that half the benefits of appraisal caps go to the top 20% of Texas households, those earning $195,292 or more.

This means higher property taxes for everyone else. According to the Texas Taxpayers and Research Association, in 2022 the 10% appraisal cap shifted $4 billion from established homeowners onto owners of rental and commercial properties, as well as new home purchasers. By discouraging homeowners from selling, appraisal caps reduce housing mobility and keep home prices higher since fewer homes are on the market.

Alternatives to Help Renters and Low-Income Homeowners

Another round of across-the-board tax cuts will be too expensive and inefficient. Many Texans are still burdened by rising housing costs and Texas' upside-down, regressive tax system. Approximately 3.7 million Texas households are housing cost-burdened, meaning they pay more than 30% of their income in housing. This includes 51% of renter households, who are disproportionately Hispanic (35.9%) and Black (19.6%).



Any additional tax cuts should be applied with a greater focus on equity, targeting the benefits to those communities who need the most help paying their property taxes. Here are some alternatives.

Renter's Rebate

Texas renters – 37% of households in our state – pay property taxes indirectly. Some portion of any rent can be considered to represent the payments owners make in property taxes, but renters cannot be shown to meaningfully benefit from property tax *cuts*. While some argue that renters indirectly benefit from tax cuts because of market pressures (assuming a perfectly functional housing market) – or perhaps the simple generosity of landlords to pass cuts down to tenants – there is little data or evidence to support this notion. In any case, many Texas renters are finding housing increasingly unaffordable.

One simple way renters could benefit directly would be through a renters rebate program – a a program that would ask renters to submit information on their annual rent costs, and the state would reimburse them a certain percentage. According to the 2023 American Community Survey, there are just over 4 million renter households in Texas with a median rent of $1,339 per month. A 15% rebate to all those households, for example, would return the median rent payer $200 a year, with a modest cost to the state of about $800 million plus administrative costs.

Circuit Breaker

A slightly more complicated policy, a property tax circuit breaker can be a great way to provide targeted tax cuts for renters and low-income households. A circuit breaker limits property tax liability based on household income, connecting property tax bills to a person's ability to pay them. Because the policy is targeted, it is efficient and cost-effective, offering a great bang-for-the-buck.

This is a tried-and-true policy across the country; in fact, Texas is one of only five states that does not provide a property tax reduction based directly on income. Currently 29 states and DC provide a circuit breaker, while another 16 offer some other form of an income-based property tax cut. Circuit breakers can be directed to households regardless of tenure, with about two-thirds of states extending the tax breaks to renters. Some states provide circuit breakers specifically for senior homeowners, but we prefer an income-driven approach that offers the program to working-age Texans as well. That maximizes the benefit to help the broad swath of Texas families who are struggling to make ends meet.

When designing a circuit breaker program, policymakers can tweak a number of parameters to control cost and target the benefits appropriately:

- Percentage of rent or mortgage estimated as the property tax component,
- Percentage of household income that triggers the circuit breaker,
- Percentage of reduction of property taxes over that threshold,
- Benefit ceiling, and
- Maximum household income to qualify.

A meaningful circuit breaker to help Texas' 4 million renting households could be implemented for approximately $2.7 billion or less, depending on how the policy is designed.

State Earned Income Tax Credit / Cost-of-Living Refund

The federal Earned Income Tax Credit (EITC) is a popular, tested policy that returns some tax revenue to low- and middle-income Americans. Fully-refundable and supported on both sides of the aisle, it is so effective that 31 states and DC have their own versions of an EITC. Every Texan's idea for a state EITC – which we refer to as a Cost-of-Living Refund (COLR) – would provide a refund of sales tax payments to eligible low-income Texans.

Many state EITCs are fashioned after the federal version but designed to provide a lower percentage of the federal benefit. At a 25% match of the federal EITC, with similar eligibility requirements, a Texas COLR could return an average of $640 in sales tax payments per year to 2.9 million tax filing households. Such a policy would help improve the lives of 7.9 million Texans, including 3.2 million children, at an approximate cost to the state budget of $2.3 billion each year.

Though implementation would be difficult without a state income tax to provide the administrative backbone (see below), Washington state has done it. Since 2023, the state has successfully run a similar program that returns up to $1200 per family, the Working Families Tax Credit (WFTC). So far, the WFTC has already returned tax dollars to about 162,000 households.

Administration is a Hurdle that Can Be Overcome

Implementing a tax rebate system for low-income Texans through any of these methods is made trickier by the fact that Texas does not have a personal income tax. Most states do, so their departments of revenue have a great deal of data on residents' incomes and tax payments; an administrative infrastructure exists that can be leveraged to return money to families. Some states send a check, while others return the money via their income tax or property tax mechanisms (issuing a credit on the following year's tax bill, for instance).

In Texas, the state could send rebate checks if taxpayers submit documentation of their income. For renters, many cities and counties have rental assistance programs with which they track income data. If the state were given access to that data, it could work with localities to administer a rebate program for those renters.

Finally, Texas *should* have a state income tax. Our state tax system is the seventh-most regressive in the nation. If we had a progressive state income tax – taxing the rich so they pay their fair share – the overall tax system would be more balanced and **most Texans would pay less overall**. Until then, we should be prioritizing a more equitable distribution of taxation and agree not to make more across-the-board cuts.