

Economy:

Reducing Taxes in Texas

August 2026



Top Line

Texas prides itself on having low taxes and no state income tax. However, our current tax system is not serving Texas well: It fails to fund adequate public services, and it is extremely regressive - lower income Texans pay a much higher share of their incomes in taxes.

- 1. Overview of Taxes in Texas – how much does our state and local government spend, where does the money come from, and where does it go?**
- 2. State level spending has grown rapidly under Republican leadership – much faster than population growth and inflation would justify.**
- 3. Texas Taxes are extremely regressive – lower income households pay a much higher percentage of their income in taxes**
- 4. Despite the billions we spend, the Texas budget fails to adequately meet the needs of Texans in many ways.**
- 5. Republicans propose cutting (or even eliminating) Property Taxes, which would either further underfund critical needs, or shift even more taxes onto lower income Texans.**
- 6. Solving Texas' budget challenges will require more responsible and comprehensive solutions, not easy promises.**

Backup

- 1. Overview of Taxes in Texas – how much does our state and local government spend, where does the money come from, and where does it go?**

- a. **Sources of Funds** - In Fiscal Year 2026 (ending 8/31/26), State and Local revenues in Texas totaled approximately \$278 billion (including \$51 billion from the Federal government, a return of some of the Federal taxes we pay), or almost \$8,800 for every Texan.
- This includes \$176 billion at the State level, primarily from Sales Taxes, other taxes and fees, and funds from the Federal Government. (1)
 - It also includes approximately \$102 billion at the local level, primarily from Property Taxes, plus a portion of the state sales tax. (2)

Where Texas State and Local Revenues come from

(in Billions, FY 2026 ending 8/31/26 unless noted)

Tax Category	FY 2026 Amount	Description
State Government		
General Revenue	\$77.40	The Sales Tax (6.25% on specified goods and services) is the largest component, approximately \$39 billion. Other sources include the Business Franchise Tax, Motor Vehicle Taxes, and Oil and Natural Gas taxes.
General Revenue - Dedicated	\$4.60	Funds that are designated by law to specific purposes, including Health and Human Services, Education, and Natural Resources.
Federal Funds	\$51.80	Money from the US Government.
Other Funds	\$42.60	This includes the State Highway Fund, Economic Stabilization Fund (aka Rainy Day Fund), and hundreds of other statutory trust funds, and agency-specific funds such as Texas Parks and Wildlife Fees.
Total State Revenues	\$176.40	
Local Governments		
Property taxes (2025)	\$89.40	About 60% of this, or about \$53.6 billion, is paid by businesses, and 40%, or \$35.8 billion, is paid by individuals.
Sales Taxes (estimated)	\$12.50	Local governments can add up to 2% to the 6.25% state sales tax rate. About half of Texas Sales Taxes are paid by individuals and about half by businesses.
Total Local Revenues	\$101.90	
Total State and Local Revenues	\$278.30	
Divided by Texas Population	31.7 million	
Total Taxes per Texan	\$8,779	

Sources:

State Appropriations - https://www.lbb.texas.gov/Documents/GAA/General_Appropriations_Act_2026_2027.pdf (pages ix and x)

Property Taxes - <https://www.texaspolicyresearch.com/texas-property-tax-levies-1998-2025/>

Sales Taxes - <https://comptroller.texas.gov/about/media-center/news/20250903-acting-texas-comptroller-kelly-hancock-announces-state-revenue-for-fiscal-2025-august-state-sales-tax-collections-1756843079560>

Texas Population - US Census Bureau, <https://www.census.gov/quickfacts/fact/table/TX/PST045225>

b. Uses of Funds – where does the money go?

- **State** - The State of Texas establishes budgets on a Biennial (every two years) basis. The current budget is for Fiscal Year 2026 and 2027. Fiscal years end on August 31, so as of August 31, 2026 we have completed the first half of the current biennial budget.
 - The State budget is broken down into 10 "Articles", as shown in the table below.
 - The Articles are explained in more detail in Appendix 1

Texas State Budget - 2026/2027 Biennium

(Dollars in Billions)

Article		Year Ending		Percent of Total Budget	
		8/31/2026	8/31/2027	8/31/2026	8/31/2027
I	General Government	\$6.86	\$5.63	3.90%	3.50%
II	Health and Human Services	\$53.33	\$54.27	30.20%	33.50%
III	Agencies of Education	\$69.37	\$63.69	39.30%	39.30%
IV	The Judiciary	\$0.76	\$0.64	0.40%	0.40%
V	Public Safety and Criminal Justice	\$10.10	\$9.71	5.70%	6.00%
VI	Natural Resources	\$4.19	\$3.89	2.40%	2.40%
VII	Business and Economic Development	\$25.45	\$23.03	14.40%	14.20%
VIII	Regulatory	\$5.83	\$0.86	3.30%	0.50%
IX	General Provisions	\$0.00	\$0.00	0.00%	0.00%
X	The Legislature	\$0.26	\$0.28	0.10%	0.20%
Other (Disaster Relief and Flood Preparedness, passed in Special Session in 2025 in response to severe flooding)		\$0.28	\$0.02	0.20%	0.00%
Total		\$176.44	\$162.01	100.00%	100.00%

Source: General Appropriations Act, page xi,
https://www.lbb.texas.gov/Documents/GAA/General_Appropriations_Act_2026_2027.pdf

- Note that several Articles have lower budgets for FY 2027 than FY 2026. In part, this is because some spending is front loaded into the first year of the biennium.
- **Local Spending** - Property taxes and the portion of the Sales Tax that is retained locally (up to a rate of 2%, on top of the 6.25% State Sales Tax) are used primarily to fund public schools and local (city and county) services: (3)
 - Public School Districts – The largest portion often goes to funding K-12 education, teacher salaries, and school facility maintenance.
 - City Services – This includes libraries, sanitation, parks, and recreation programs.
 - County Governments – Courts, elections, and public health services are funded at the county level.
 - Emergency Services – Fire departments, EMS, and local police.
 - Infrastructure – Roads, bridges, drainage systems, and public utilities.

2. State level spending has grown rapidly under Republican leadership – much faster than population growth and inflation would justify.

- a. **Growth in the State budget over time** - State level spending has grown rapidly since Greg Abbott became Governor in 2015. During this time, Republicans have controlled the Governor's office, the State House and the State Senate. (4)

Increase in the Texas State Budget

(Dollars in Billions)

Biennium	State	Federal	Total
2014-2015 - prior to Abbott	\$131	\$68	\$199
2016-2017	\$141	\$68	\$209
2018-2019	\$144	\$71	\$215
2020-2021	\$161	\$86	\$247
2022 -2023	\$166	\$99	\$264
2024-2025	\$219	\$102	\$321
2026-2027	\$237	\$101	\$338
Increase During Abbott's term	\$106	\$33	\$139
Percentage Increase	80.90%	48.50%	69.80%

Sources:

[Budget - Texas Policy Research - https://www.texaspolicyresearch.com/state-budget-by-biennium-1996-2027/](https://www.texaspolicyresearch.com/state-budget-by-biennium-1996-2027/)

- As shown below, under Republican leadership, our state government has allowed the state budget to grow significantly faster than what can be justified by population growth and inflation. **The excess amounts to \$23 billion of spending in the current biennium.**

Excessive Growth of the State portion of the budget:

2014-2015 Biennium - prior to Abbott	\$131	Billion
Growth in Texas population - from 26.5 mm in 2013 to 31.7 mm in 2025, an increase of 19.75%	\$157	Billion to account for population growth
Inflation - from 2013 through 2024 - cumulative inflation of 36.63% - an average of about 3.2% per year	\$214	To account for inflation
2026-2027 Biennium	\$237	
Increase not accounted for by population growth and inflation	\$23	Billion

Sources:

Budget - Texas Policy Research - <https://www.texaspolicyresearch.com/state-budget-by-biennium-1996-2027/>

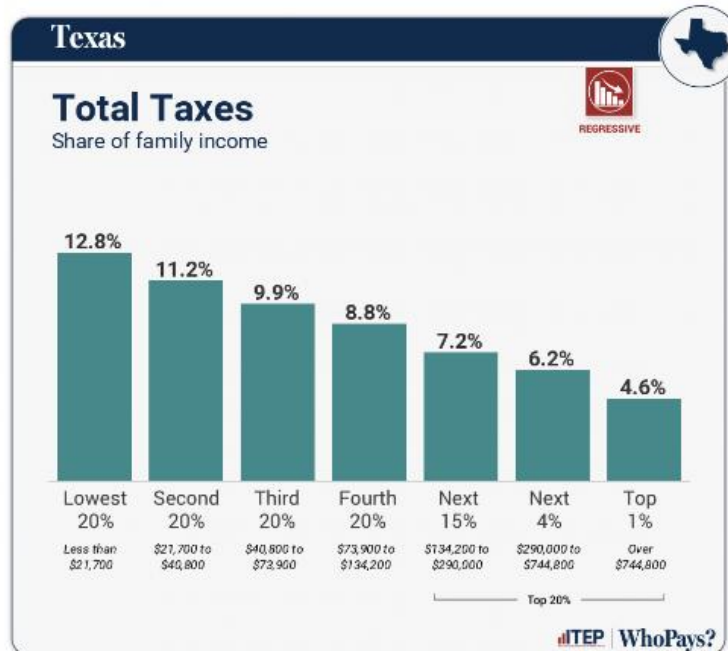
Population Growth - Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/TXPOP>

Inflation - Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/FPCPITOTLZGUSA>

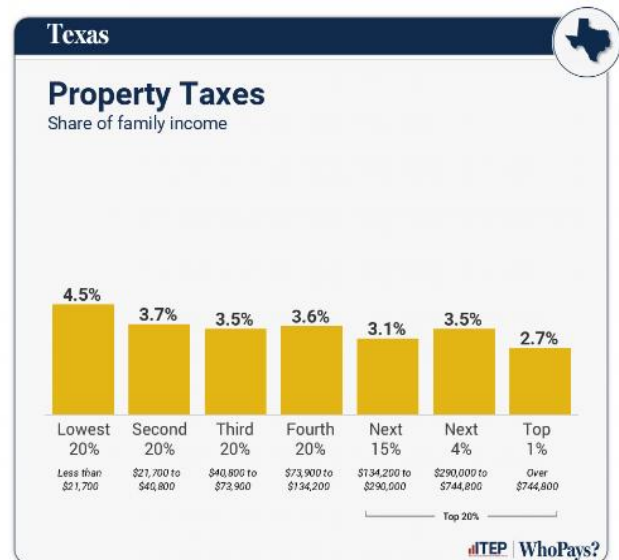
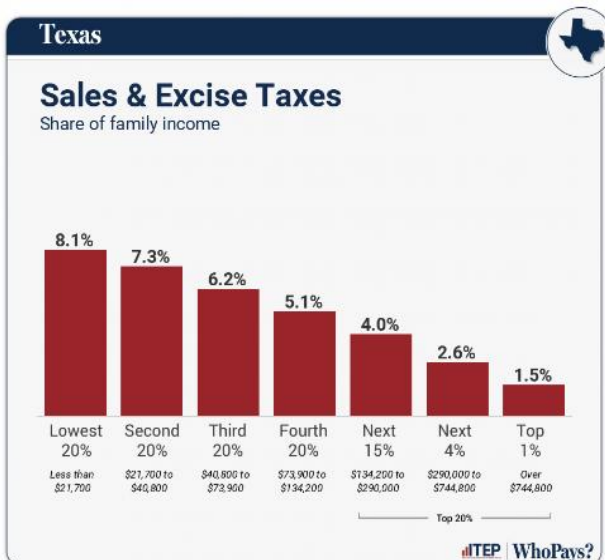
3. Texas Taxes are extremely regressive – lower income households pay a much higher percentage of their income in taxes

- a. Texas prides itself on being a low tax state, and that is true - on average, Texas has one of the lowest rates of individual state and local taxes. (5)
- b. However, Texas is also one of the most **regressive states**, meaning that lower income Texans pay a much higher tax rate than higher income Texans.
 - This is because of our two primary forms of taxes - Property Taxes and Sales Taxes. Lower income households spend almost all their income, so it is more likely to be taxed.
 - Texas has the 7th most regressive state and local taxes in the country. 43 states are less regressive than Texas. (6)
 - ITEP (The Institute on Taxation and Economic Policy) is a non-profit, non-partisan tax policy organization which conducts analysis on the tax systems of each state. Their analysis shows that Texas taxes – primarily Property Taxes and Sales Taxes - are extremely regressive, as shown in the charts below. (7)

- Texans in the bottom half of the income range pay a State and Local tax rate that is more than twice as high as the highest income Texans – in other words, those who can least afford it are spending more of their income to support our state and local governments.



- Both the Sales Tax and Property Taxes are regressive, and the Sales Tax is by far the most regressive.



- **According to ITEP, Texans in the bottom half of the income range pay a higher tax rate than people in California. (12)**
 - Republicans often warn about California’s high taxes. And they are right – if you are wealthy.
 - Texans in the lowest 20% of the income range pay more - an average of 12.8% in state and local taxes, compared to 11.7% in California.
 - And in the next 20%, Texas families also pay more - an average of 11.2% in Texas vs. 10.3% in California.
 - The big difference is at the high end of the income range. **The top 1% of Texans pay just 4.6% in state and local taxes, compared to 12.0% in California.**

4. Despite the billions we spend, the Texas budget fails to adequately meet the needs of Texans in many ways.

Despite the rapid growth in state spending in the past 10 years, Texas is failing in many of the areas funded by our taxes:

a. Public Education –

- Texas spends significantly less per student than the US average (In 2024–25, Texas spent an estimated \$12,815 per student on day-to-day school operations, compared with a national average of \$17,840. On spending per student, Texas ranks 46th among the states). (8)
- Partly because of this underinvestment, Texas lags the US in many measures of school performance. (9)
- This is discussed in more detail in our paper on Public Education in Texas, [here](#).

b. Health Care –

- **Texas has by far the highest rate of uninsured people in the US** - In 2023, over 18.6% of Texans under age 65 did not have health insurance, the largest percentage in the US by far. (10)
- This is far above the state with the second highest uninsured rate, which is Oklahoma at 13.5%.
- This represents 4.8 million Texans without health insurance.

- This contributes to less access and worse health outcomes in Texas, including higher Maternal Mortality, closure of rural hospitals, and worse health outcomes for people living in rural areas. See our papers on these issues [here](#).

c. Infrastructure –

- The American Society of Civil Engineers produces a Report Card on infrastructure for the 50 states and for the US overall.
- The scale is: A: Exceptional, B: Good, C: Mediocre, D: Poor, F: Failing
- 16 infrastructure categories are evaluated by the civil engineers. According to their website, each category was evaluated on the basis of capacity, condition, funding, future need, operation and maintenance, public safety, resilience, and innovation
- In the most recent Scorecard, for 2025, Texas received an overall grade of C. (11)
- As shown in the table below, Texas does not receive an A in any category and receives a B in only 2.
- **We received a D grade in 6 categories, including Broadband and Drinking Water.** Our papers on Broadband Access and Securing Texas’ Water Future are [here](#).

Infrastructure Report Card - 2025

Category	Texas Grade
Aviation	B
Broadband	D+
Drinking Water	D+
Hazardous Waste	C+
Ports	C+
Rail	C
Solid Waste	C+
Transit	D+
Bridges	B-
Dams	D+
Energy	C
Levees	D-
Public Parks	C-
Roads	C-
Storm Water	C-
Waste Water	D-
Overall	C

Source: American Society of Civil Engineers, 2025 Report Card,

d. Given these failures, **it is no surprise that Texas ranks low in terms of the best states in which to live.**

- In a recent ranking by CNBC, Texas ranked second from the bottom - ahead of only Tennessee. (13)
- Reasons cited include lack of health care access (Texas has the highest percentage uninsured, by far), worker protections, and reproductive rights.

Texas may be a great state for high income households and corporations, but it is not for the rest of us. And the budget decisions by our Republican leadership are a big reason why.

5. Republicans propose cutting (or even eliminating) Property Taxes, which would either further underfund critical needs, or shift even more taxes onto lower income Texans.

- a. The Texas Republican's 2026 platform includes "We support eliminating the property tax system for businesses and individuals by applying fiscal discipline and restraint at all levels of government, and without imposing new, onerous taxes like an income tax." (14, paragraph 79)
- b. There are several issues with this proposal:
 - **Property taxes are not a state-level tax – they are levied at the local level.** The state legislature can implement caps, etc., which interfere with local decisions. According to reporting by the Texas Tribune, many local government units in Texas are growing increasingly frustrated with Republican interference into this source of local funding. (20)
 - Republicans have been in control of the Texas Legislature and Governor's office for decades. **They have had plenty of time to "apply fiscal discipline" but instead have grown state spending far faster than population growth and inflation would justify.**
 - The Republican platform also proposes eliminating most other forms of taxes, including "Inventory taxes, Business Franchise taxes, Taxes on phone and internet services, Firearms, ammunition, accessories and safety equipment taxes." (14, Paragraph 72) This would only be possible by **cutting services that Texans depend on or raising taxes somewhere else.**
 - The most common proposal for replacing the property tax is to **increase consumption taxes - i.e. the Sales Tax.** For example, the organization Texas

Policy Research proposes increasing consumption taxes to offset the revenue decline from eliminating property taxes. (15) And as shown above, the consumption tax is extremely regressive, and even more regressive than the property tax.

Republican's tax and budget promises are too late, unworkable, and would only make our regressive tax system even more regressive, pushing more taxes onto those least able to afford them, while continuing to minimize taxes for their wealthy donors.

6. Solving Texas' budget challenges will require more responsible and comprehensive solutions, not easy promises.

- a. The first step is to understand why the budget has increased so much in the last decade. **Why are we spending more, after adjusting for population growth and inflation, and getting less?**
- b. **Assess corporate subsidies** to ensure they are meeting their objectives. Texas pays billions in corporate subsidies every year, much of it to large, profitable corporations, and over \$1 billion to data center operators. (16) Some of these subsidies may be beneficial to Texas and to working Texans, but we should make sure these subsidies are appropriate, that they are achieving their goals, and that these corporations are paying a fair amount in taxes.
- c. **Look for new revenue sources.**
 - One potential opportunity is to review, and where appropriate, reduce tax exemptions. The Texas Comptroller's office estimates the value of each exemption, exclusion, discount, deduction, special accounting method, credit, refund and special appraisal available to taxpayers. For fiscal 2025, aggregate exemptions for these revenue sources will total an **estimated \$98 billion**. Of this amount, exemptions related to state taxes included in the report amount to \$71 billion; school property tax exemptions account for the remaining \$27 billion. (17) Many of these may be very appropriate, but they are worth a hard look.
 - Another potential revenue source is **legalizing marijuana and taxing it**, as many states already are. According to the Texas Standard, about a third of states already do this, and it could add about \$400 million a year or more to tax receipts. This also has many other benefits, including freeing up courts from

enforcement. (18) And, most Texans support legalizing marijuana – a recent survey by the University of Houston Hobby School of Public Affairs found that more than 60% of Texans support the sale and use of marijuana for recreational purposes. (19)

- d. Make sure we charge major industrial users for their actual infrastructure impacts.** Data centers, crypto operations, petrochemical plants, and other high-demand facilities should pay for the transmission, generation, water, road, and emergency-service capacity they require. Texans should not have to subsidize corporate growth through higher utility bills or local taxes.
- e. Most importantly, make our tax system less regressive** by insisting that corporations and wealthy individuals pay more of their fair share, and looking for ways to cut taxes for lower income Texans. One potential action is to review tax levels on luxury items that are purchased more frequently by higher-income people. Another option is to provide an income-based rebate, which other states have done.
- f. Make sure our budget priorities reflect the needs of working Texans, not the wealthy.**

While Texas taxes are not high overall, they are very unevenly distributed, with lower income Texans paying a far higher state and local tax rate. Simplified proposals to “eliminate property taxes” will either cut important activities or shift an even bigger tax burden onto low-income families. The Texas Legislature needs to do some hard work to make sure expenditures are appropriate, and to make our tax system less regressive.

More Information

1. Texas Budget Process Primer, Texas Comptroller,
<https://comptroller.texas.gov/transparency/budget/primer.php>

Sources

1. State Appropriations -
[https://www.lbb.texas.gov/Documents/GAA/General Appropriations Act 2026 2027.pdf](https://www.lbb.texas.gov/Documents/GAA/General_Appropriations_Act_2026_2027.pdf) (pages ix and x)

2. Texas Policy Research, <https://www.texaspolicyresearch.com/texas-property-tax-levies-1998-2025/>
3. Texas Tax Protest, 9/13/25, <https://www.texasaxprotest.com/blog/what-do-property-taxes-pay-for/>
4. Ballotpedia, https://ballotpedia.org/Party_control_of_Texas_state_government
5. Source: Texas Taxpayers and Research Association, https://ttara.org/wp-content/uploads/2023/01/TTARATaxBurdenResearchBrief_1_23.pdf
6. ITEP - "Who Pays" Seventh Edition - <https://itep.org/whopays-7th-edition/#10-most-regressive-state-and-local-tax-systems>
7. ITEP - <https://itep.org/whopays/texas-who-pays-7th-edition/>
8. National Education Association, 2026, https://www.nea.org/sites/default/files/2026-04/2026_rankings_and_estimates_report1.pdf
9. National Center for Education Statistics, 2024, <https://www.nationsreportcard.gov/>
10. KFF, <https://www.kff.org/state-health-policy-data/state-indicator/health-insurancecoverage-population-0-64/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D>
11. American Society of Civil Engineers, 2025 Report Card, <https://infrastructurereportcard.org/state-item/texas/>
12. ITEP, <https://itep.org/whopays-map-7th-edition/>
13. CNBC, 7/11/26, <https://www.cnbc.com/2026/07/11/worst-states-to-live-in-america-2026.html>
14. 2026 Texas Republican Platform, Paragraph 79, <https://texasgop.org/wp-content/uploads/2026/07/2026-Republican-Party-of-Texas-Platform-As-Approved.pdf>
15. Texas Policy Research, <https://www.texaspolicyresearch.com/how-texas-can-replace-property-taxes/>
16. Good Jobs First, <https://goodjobsfirst.org/states/texas/>
17. Texas Comptroller's Office, 1/17/25, <https://comptroller.texas.gov/about/media-center/news/20250117-texas-comptroller-glenn-hegar-releases-tax-exemptions-and-tax-incidence-report-1736979967761>
18. The Texas Standard, 1/30/23, <https://texasstandard.org/stories/could-taxed-marijuana-sales-lower-texas-property-taxes/>
19. Houston Public Media, 2/5/25, <https://www.houstonpublicmedia.org/articles/news/texas/2025/02/05/512943/majority-of-texans-support-legalizing-marijuana-gambling-recent-uh-poll-finds/>
20. Texas Tribune, 8/1/25, <https://www.texastribune.org/2025/08/01/republicans-legislature-cities-counties-property-taxes/>

Appendix 1 - Texas State Budget Articles

Source: Texas 2036, <https://texas2036.org/news-analysis/a-quick-guide-to-texas-state-budget/>

Article I: General Government — Covers executive-branch elective offices, including those established by the Texas Constitution such as the Office of the Governor, the Comptroller of Public Accounts, and the Office of the Attorney General.

Article II: Health and Human Services — Covers caseloads for Medicaid, the Children’s Health Insurance Program (CHIP), and child protective services. Also includes mental health services and programs to protect public health.

Article III: Education — Covers the public education system serving 5.4 million students enrolled in 8,094 campuses and 872 charter school campuses as well as the state’s system of public higher education, including 37 general academic institutions and 50 community college districts.

Article IV: The Judiciary — Covers the state’s court system, which includes the Supreme Court of Texas, the Court of Criminal Appeals, Courts of Appeals, and trial courts.

Article V: Public Safety and Criminal Justice — Covers the adult and juvenile corrections systems, law enforcement and highway patrol, the Texas military forces, and driver license processing.

Article VI: Natural Resources — Covers agencies charged with the responsibility of influencing the management and development of the state’s natural resources, such as agriculture, water and oil & gas.

Article VII: Business and Economic Development — Covers agencies that provide services supporting transportation, business and workforce development.

Article VIII: Regulatory — Covers regulated industries like insurance, health-related occupations, telecommunications, electric utilities, securities and professional licensing.

Article IX: General Provisions — Covers provisions that apply broadly to all or multiple articles of the state budget, including items like state employee classifications and salary schedules.

Article X: Legislature — Supports operations of the Texas House and Texas Senate and other legislative entities, such as the Legislative Budget Board, Legislative Council, State Auditor’s Office and Sunset Advisory Commission.