

There's No Good Way to Pay for Property Tax Repeal

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Key Findings

- Property taxes currently generate 70 percent of all local tax revenue, some or all of which would have to be replaced with other taxes under property tax repeal.
- Replacing the property tax with newly granted local taxing authority is exceedingly difficult, because local sales and income tax bases vary widely across jurisdictions; there may, for instance, be no feasible sales tax rate by which an agricultural county or bedroom community could replace its property tax revenue.
- Backfilling forgone local property tax revenue through new state taxes is difficult because it dramatically shifts overall tax burdens, undermines local accountability, and cannot easily adjust for changing population mixes.
- All revenue alternatives are less conducive to economic growth than the existing property tax regime, but some transfer regimes are sharply degrowth.
- Taxpayers should have the opportunity to evaluate plans for replacing property tax revenue, not just promises of repeal without trade-offs.

Introduction

The property tax will never win any popularity contests. Economists hold it in high regard, but, perhaps relatedly, economists are not terribly popular either. It's one thing, however, to favor property tax repeal in the abstract: many Americans are clearly for that. But with which taxes should it be replaced, and how will the overall package of property tax replacement be received?

Some proponents of property tax elimination wish to postpone this conversation, advancing ballot measures that repeal property taxes and charge the legislature with working out minor details like how to replace the lion's share of local tax revenue. The only responsible way to consider property tax abolition, however, is to grapple with the alternatives.

There are many good arguments for reforming rather than replacing property taxes, arguments we have advanced elsewhere.¹ This analysis, however, largely sets those issues aside and simply asks: *if not the property tax, then what?*

Replacing the largest source of local tax revenue is no easy task. It is rendered still more difficult by the necessity of replacing current revenues—or some substantial percentage of them—in each taxing jurisdiction, since alternative revenue streams have different geographic distributions. Even if a high-rate local sales tax were able to offset property taxes in a community dominated by retail establishments, for instance, it would be woefully inadequate to the task of replacing revenue in a bedroom community or in farm country.

New statewide taxes create their own distributional challenges. Once the property tax and its apparatuses (including assessments) vanish, how should revenues be allocated to cities, counties, and other local jurisdictions in future years? Should a replacement funding mechanism be based on each jurisdiction's prior year collections, in essence subsidizing higher-tax jurisdictions with state funds in perpetuity? Or should funding be equalized by population or a formula estimating a jurisdiction's needs, yielding vastly different distributions than exist at present?

Additionally, as communities evolve both in population and economic status, how would state funding adjust? Stripped of the property tax as an anchor, could lawmakers design a local funding system without an inadvertent incentive structure that stifles growth and rewards fiscal mismanagement and economic stagnation?

This paper examines a range of options, with sample calculations and discussions of trade-offs. The unavoidable conclusion: every possible replacement option has a host of problems that would render it undesirable to most taxpayers. Doing away with the property tax may be popular. Replacing it won't be.

¹ See Jared Walczak, "Confronting the New Property Tax Revolt," Tax Foundation, Nov. 5, 2024, <https://taxfoundation.org/research/all/state/property-tax-relief-reform-options/>, particularly the sections on levy (revenue) limits and deferral programs.

Evaluating Revenue Alternatives

The property tax generates 70 percent of all local tax revenue. It accounts for more than 80 percent of local tax revenue in 18 states (with a 95 percent share or higher in seven), and supplies less than 50 percent in only five states and the District of Columbia. In fact, local governments across the country bring in twice as much in property tax revenue as state governments do in income taxes, though these numbers are skewed by the decision of nine states to forgo wage income taxes. Even limiting the analysis to the 41 states (and the District of Columbia) with broad-based income taxes, however, local property taxes raise 59 percent more than state income taxes do.²

Not all of this falls on homeowners, of course. An estimated 42 percent of local property tax is imposed on businesses—on their land and structures, but also, frequently, on their machinery and equipment.³ Public utilities also pay property taxes, which can be significant, and the remainder falls on residential property—both single- and multi-family units, ranging from detached single-family homes to high-rise apartment buildings. Apartment dwellers do not remit property taxes directly, but they bear much of the economic incidence of the tax in the form of higher rent payments, often without the benefits (like homestead exemptions and lower assessment ratios) available to homeowners.⁴

We assume, for purposes of this publication, that lawmakers will seek to replace all current property tax revenue. Of course, some may prefer not to offset all existing revenue, permitting some level of overall tax reduction. Stopping short of full replacement would reduce the required rates of alternative taxes, but this would not affect this paper's broader analysis of the challenges confronting those who wish to replace the property tax with something else. We begin with proposals to offset the property tax through additional local taxing authority before exploring the more likely approaches involving state-level assumption of forgone property tax revenue.

Local-Level Property Tax Replacement Options

Thirty-eight states authorize local option sales taxes. Some only grant this authority to certain jurisdictions, though most provide broad city- or county-level authority. Typically, local sales taxes are administered by the state and are imposed on the statewide sales tax base, but local governments frequently have their own rate-setting authority, and the state merely administers the tax and remits local collections to the appropriate jurisdiction.⁵

At least theoretically, states could raise or eliminate any existing caps on local sales taxes, or authorize such taxes for the first time, as an alternative to local property taxes. In practice, however, this is almost certainly a non-starter.

2 US Census Bureau, "Annual Survey of State and Local Government Finances," 2023 data (July 2025), <https://www.census.gov/data/datasets/2023/econ/local/public-use-datasets.html>.

3 Tax Foundation estimate based on EY/COST business figures. See Council on State Taxation, "Total State and Local Business Taxes," December 2024, https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/score_ey-50-state-tax-burden-study_final_121824.pdf.

4 On the incidence of property taxes on renters, see, e.g., Robert J. Carroll and John Yinger, "Is the Property Tax a Benefit Tax? The Case of Rental Housing," *National Tax Journal* 47 (June 1994): 295-316; and Leah J. Tsoodle and Tracy M. Turner, "Property Taxes and Residential Rents," *Journal of Real Estate Economics* 36:1 (2008): 63-80.

5 For a discussion of differences in sales tax administration, see Jared Walczak and Janelle Fritts, "State Sales Taxes in the Post-Wayfair Era," Tax Foundation, Dec. 12, 2019, <https://taxfoundation.org/research/all/state/state-remote-sales-tax-collection-wayfair/>.

Local option sales taxes can alleviate pressure on property taxes. They are a significant source of local tax revenue in some states, particularly in several lower-income southern states where it is difficult to raise adequate revenue per capita from a single tax without exorbitantly high rates.

In Arkansas, for instance, median household income is 76 percent of the national figure, household consumption is 80 percent of the national average, and median housing value is 60 percent of the US median.⁶ Particularly once homestead exemptions, sales tax exemptions for common household expenditures, and income tax deductions are taken into account, it can be hard to raise significant sums from any given tax, at the state or local level. Arkansas, therefore, has high local sales tax rates in addition to its property taxes. Other states with higher-income populations could also lean on local sales taxes to reduce reliance on property taxes. It would be virtually impossible, however, for local sales taxes to *replace* property taxes.

This is partly because property taxes are such a significant and consistent revenue generator. But it is also because local governments have been built around existing funding mechanisms, and any local-level replacement would yield vast geographic disparities or require wildly different rates.

Take Florida, for instance. Currently, the combined state-local average sales tax rate is 7.02 percent, consisting of a 6 percent sales tax combined with local rates ranging from 0.0 to 1.5 percent, with a weighted average of 1.02 percent.⁷ We estimate that the statewide average sales tax rate would have to rise from 7.02 to 15.34 percent to replace the property tax, even without accounting for any reduction in taxable sales due to the high rate. But if counties, municipalities, school districts, and other local taxing authorities were each responsible for replacing the revenue with their own local taxes, actual rates would vary widely.⁸

Tiny Jefferson County, with a population of less than 15,000, is located on the I-10 corridor east of Tallahassee. It features truck stops and travel centers, generating sales tax revenue vastly disproportionate to the population. For every percentage point on the sales tax, Jefferson raises \$378 per capita, compared to a statewide average of \$283. As a rural county with low population density, moreover, property values are low. Jefferson County could replace its current property tax collections with a combined state and local sales tax rate of only 9.8 percent.

At the other end of the spectrum, equally small Glades County is largely agricultural and residential, and its retail concentration is largely on tribal lands, which the county cannot tax. In Glades, the sales tax replacement rate is an astronomical 32.5 percent. For every percentage point on the sales tax, Glades County only generates \$61 per capita.

These are, of course, outliers, and both have extremely modest populations. But they illustrate a broader challenge: a solution that might work for Orange County (11.3 percent) or Duval County (13.8 percent) may not do for Broward or Miami-Dade (17.0 and 17.3 percent, respectively), to say nothing of Palm Beach (19.0 percent) or Nassau (19.9 percent).

6 Tax Foundation calculations based on US Census Bureau and IRS data. See US Census Bureau, "Annual Survey of State and Local Government Finances"; and Internal Revenue Service, "Statistics of Income" by state.

7 Jared Walczak, "State and Local Sales Tax Rates, Midyear 2025," Tax Foundation, Jul. 8, 2025, <https://taxfoundation.org/data/all/state/sales-tax-rates/>.

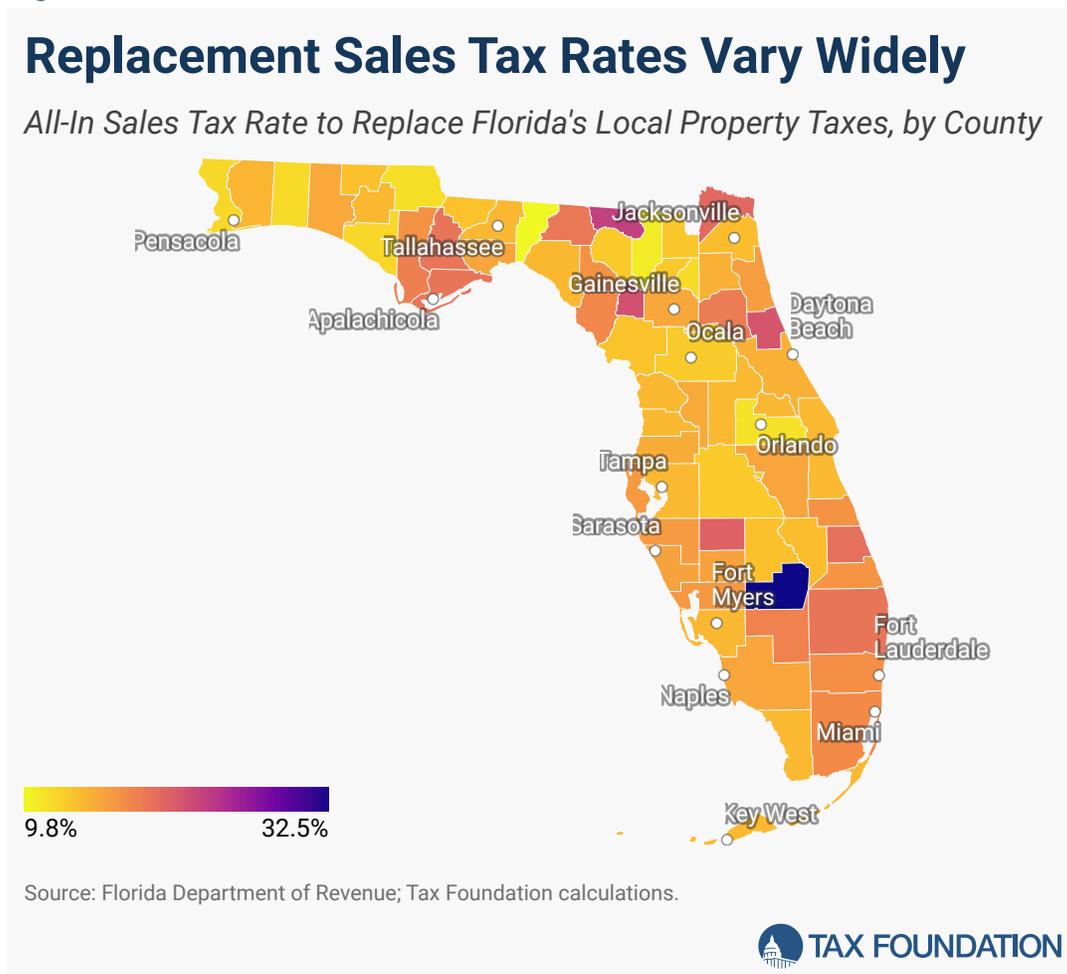
8 Tax Foundation calculations using revenue from the Florida Department of Revenue, using grossed-up 2024 data. For existing local surtax rates, see Florida Department of Revenue, "Discretionary Sales Surtax Information for Calendar Year 2024," https://floridarevenue.com/Forms_library/current/dr15dss_24.pdf. For property tax data, see Id., "Florida Ad valorem Valuation and Tax Data Book," https://floridarevenue.com/property/Pages/DataPortal_DataBook.aspx. Additional data on general tax collections are from the Office of Tax Research Collections and Distributions, <https://floridarevenue.com/dataPortal/Pages/TaxResearch.aspx>.

With Orlando as its county seat, Orange County would require one of the lower rates in the state, since it generates so much sales tax revenue from visitors and has such large, tourism-driven entertainment, amusement, and restaurant sectors. The resulting 11.3 percent offsetting rate is therefore the lowest for a large county—and still, Orlando would immediately have a higher sales tax rate than any major city in the country has now. Currently, only six major cities (defined as those with a population of 200,000 or more) have sales tax rates above 10 percent, led by Seattle, Washington, at 10.35 percent.

The upshot: even localities with significant retail concentration or tourism activity would require sales tax rates higher than any currently imposed in the US, while bedroom communities and other predominantly residential or agricultural areas lack the sales tax base to recoup forgone property tax revenue at any feasible sales tax rate.

Necessarily, such rate differentials would induce cross-border shopping, which would only sharpen the disparities. Glades County residents could save 19 percentage points on the sales tax by crossing the border to shop in neighboring Highland County. Tallahassee residents could save 4.4 percent in neighboring Jefferson, and Miami-Dade residents could save 3.4 percent shopping in adjacent Monroe County. Further decreasing sales in the high-rate counties puts still more upward pressure on the replacement revenue stream.

Figure 1.



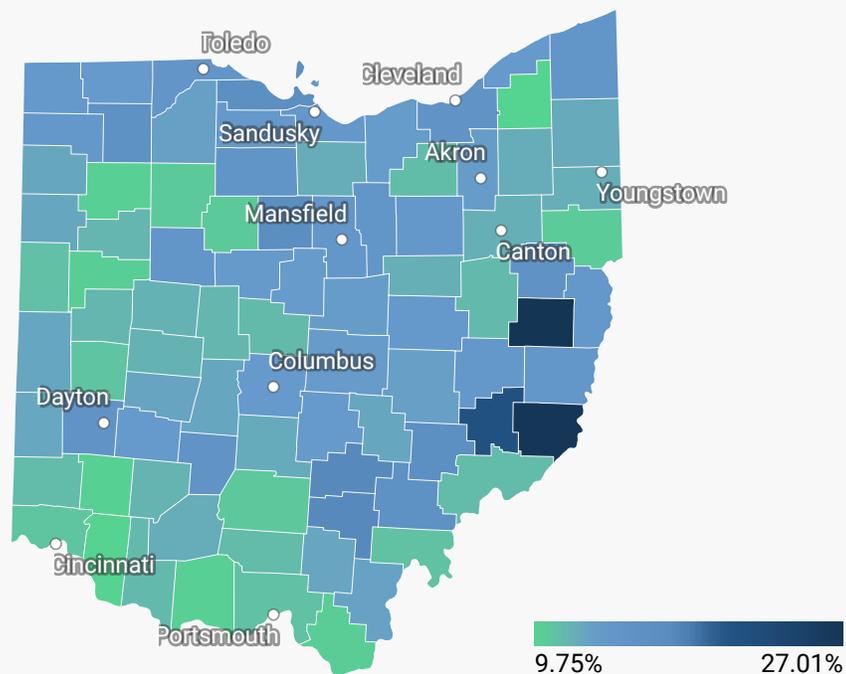
Local option sales taxes are far more common than county or municipal income taxes, but local income taxation presents similar distributional challenges. Ohio, which already authorizes municipal and school district income taxes, provides a good case in point.

In 2026, Ohio's state income tax will decline to a flat 2.75 percent, while combined municipal and school district taxes add an estimated further 1.49 percent statewide, though with significant variation across the state. If further income taxes were authorized at the county level to offset the loss of property tax revenue in each county, these additional rates would average 8.35 percent. That would bring the statewide average, including existing state and municipal income taxes, to a 12.59 percent flat tax, almost on par with California's top marginal rate on income over \$1 million.⁹ Currently, the nation's highest state-level single rate individual income tax is 4.95 percent in Illinois, and the highest combined state-local rate is 6.65 percent in Detroit, Michigan.

Figure 2.

Replacement Income Tax Rates Vary Widely

All-In Income Tax Rates to Replace Ohio's Property Taxes, by County



Note: Figures represent countywide averages. Existing municipal and school district income taxes are included, with adjustments for jurisdictions that straddle county borders, and weighted by population share. These adjustments are imperfect, but sufficient to purpose for county-level allocation of local income taxes with an average rate of about 1.49% statewide.

Source: Ohio Department of Taxation; US Census Bureau; National Center for Education Statistics; Tax Foundation calculations.

⁹ Tax Foundation calculations using data from the Ohio Department of Taxation and the US Census Bureau, with school districts mapped using National Center for Education Statistics data. A commercial large language model (LLM) was used to process school district shape files. See Ohio Department of Taxation, Tax Data Series, <https://tax.ohio.gov/researcher/tax-data-series>; and Id., "The Finder" (for municipal and school district income tax rate databases), <https://tax.ohio.gov/help-center/the-finder/the-finder>.

Here too, however, statewide averages disguise dramatic variation. Five counties would require additional rates below 6 percent, the largest of which is Miami County outside of Dayton. Twenty would require double-digit additional income tax rates, led by Monroe County, a small, low-income county bordering West Virginia. Monroe County's replacement rate is 24.0 percent. While no municipality or school district in Monroe County levies its own income tax at present, a new 26.75 percent rate in Monroe County would certainly be a boon for its three West Virginia border counties across the Ohio River, where the top income tax rate is 4.82 percent.

Cuyahoga County, which contains Cleveland, would require a 9.93 percent replacement income tax rate. Within the city of Cleveland itself, there is an additional 2.5 percent municipal income tax, yielding an all-in rate of 15.18 percent for Cleveland (14.87 percent averaged across the county). Cincinnati, in Hamilton County, would require a 6.68 percent additional income tax to replace its property taxes, atop a 1.8 percent existing city rate, for an all-in rate of 11.23 percent (and 10.63 percent for the county as a whole). Cincinnati borders Kentucky, which will boast a state income tax rate of 3.5 percent in 2026, plus 1.45 percent in combined local income taxes in adjacent Boone County. Toledo residents, meanwhile, might rue the decision that gave the Toledo Strip to Ohio rather than Michigan.

Local governments' economic bases simply vary too widely to swap one tax system for another and expect similar revenues. If one had to choose a local tax base for an entirely new state, property would be a prudent choice, as relative property values are a reasonably good proxy for the benefit of services that each property owner receives. The property tax also strikes a healthy middle ground between the geographic distributions of income taxes, which are mostly based on place of residence (and sometimes place of employment), and sales taxes, which perform better in areas with retail concentration. But this is not to say that the distribution of revenue under property taxes is the only conceivable choice, just that it *is* the choice around which cities and counties have been structured, and that no alternative tax available to local governments could replace that revenue in each jurisdiction without impossibly large rate variations.

That reality is why most proposals for property tax elimination involve the state picking up most or all of the replacement cost, to the extent that these plans suggest any specific source of replacement revenue at all.

State-Level Property Tax Replacement Options

If the state assumes responsibility for replacing local revenue, that solves the initial geographic disparities but creates new ones. Lawmakers must decide whether to replace revenues at existing levels—embedding economic inequalities and permanently rewarding jurisdictions that previously imposed higher rates—or to use some other formula for revenue distribution, thereby inducing the dramatic revenue swings of the sort associated with local-level replacements. Even if the state undertakes full revenue replacement, moreover, lawmakers must figure out how to adjust in future years, since there will not be new assessments on which to base the transfers.

Let us first consider the political challenge of revenue backfill, which makes every jurisdiction whole, but under which the revenue to do so is generated from a statewide tax with a very different distribution of burdens.

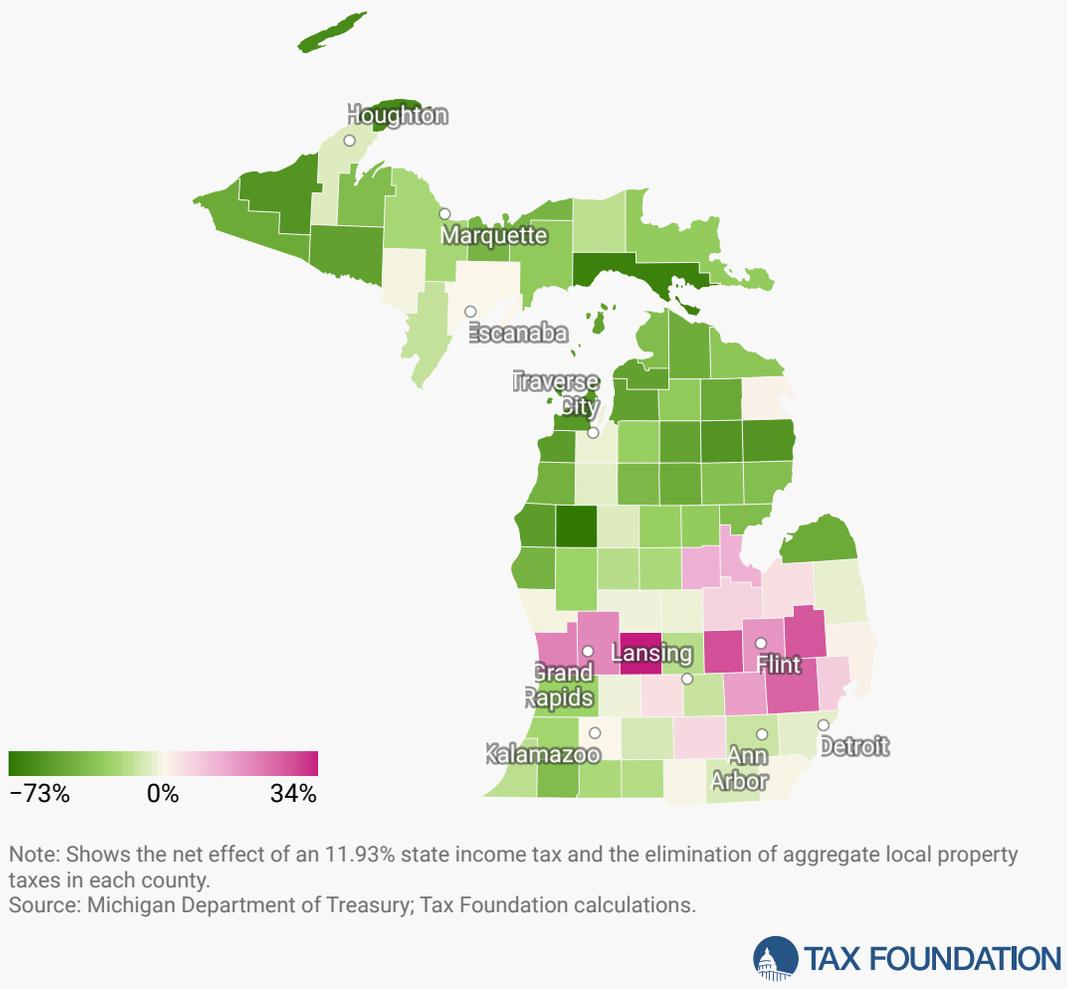
Michigan currently imposes a flat 4.25 percent individual income tax. To replace the property tax, the income tax would have to be imposed at a rate of 11.93 percent.¹⁰ (Detroit, the only jurisdiction in Michigan with local income tax authority, would have a new all-in individual income tax rate of 14.33 percent.)

Imagine that Michigan imposed an 11.93 percent income tax. Taxpayers in every jurisdiction would pay significantly more in income tax, but their property tax burdens would be eliminated. Statewide, the two offset. But that would not be true at the individual or jurisdictional levels. Suppose that Michigan sought to make counties whole, using the new state-level revenue to backfill whatever had been raised through property taxes in each county previously.

Figure 3.

Property Tax Replacement Shifts Tax Burdens

Change in Net Tax Burden in Michigan, by County, by Backfilling the Property Tax with Higher State-Level Individual Income Taxes



¹⁰ Tax Foundation calculations using data from the Michigan Department of Treasury with adjustments for base years. See Michigan Department of Treasury, "Michigan's Individual Income Tax 2020," December 2022, https://www.michigan.gov/mdhhs/-/media/Project/Websites/treasury/Uncategorized/2022/ORTA-Tax-Reports/IIT-report_TY2020-data_UPDATED_Final.pdf; and Id., "2023 Ad Valorem Property Tax Report," <https://www.michigan.gov/taxes/-/media/Project/Websites/taxes/Tax-Levy-Reports/2023-Ad-Valorem-Tax-Levy-Report.pdf>.

In Lake County, which, despite its name, is not on a Great Lake and is only 1.2 percent water, income taxpayers contribute less than \$4.5 million to the state under the current system (at the 4.25 percent rate), but property taxes bring in \$29.5 million. There, residents would pay an additional \$8.1 million in state income taxes while being relieved of their \$29.5 million property tax burden—a net tax reduction of 73 percent. In Ionia County, where many affluent Grand Rapids commuters reside, the opposite is true: residents would pay an additional \$96.8 million in income tax to avoid \$72.5 million in property tax bills, a 34 percent tax increase. Wayne County, home of Detroit, would see a 6 percent reduction in overall tax burdens, while Oakland County, the site of Detroit’s northern suburbs, would absorb a 25 percent tax increase. Ingham County, where Lansing is located, would get a 14 percent net tax reduction. On the other hand, Kent County, home of Grand Rapids, would experience a 19 percent tax hike.

Any replacement of existing property tax revenue locks the effect of current rates (mill levies) in place, effectively subsidizing counties and municipalities with high existing property tax rates. Currently, at least, those taxes are paid by residents who also benefit from the services provided by those high rates. If states were to backfill property tax revenue, localities that previously taxed at high rates would still get the benefit of them even though residents would no longer be paying them, while jurisdictions with lower property taxes would, in effect, subsidize the higher-tax jurisdictions. In practice, this would largely be a rural to urban transfer, with major cities—which typically impose higher property tax rates—receiving more revenue than rural counties, even though the state’s replacement tax revenue (from whatever source) would apply statewide.

Not only would residents of some jurisdictions subsidize the greater spending of other localities, but they would also lose their input on the size of local government. Localities would have less reason to economize, because doing so would not allow them to return any money to local taxpayers. Jurisdictions where taxpayers would prefer additional services would likewise be hamstrung: they could not increase their revenue even if there was overwhelming support for doing so.

Using Nebraska as an example, note that high rates in Omaha, Lincoln, Grand Island, and Scottsbluff yield high subsidies to their counties, while most of the state’s remaining counties emerge as losers. In the extreme, the county of Keya Paha would see its tax burden increase by 120 percent if it were forced to contribute an equalized share, while Douglas County (Omaha) would see a 23 percent tax reduction.¹¹

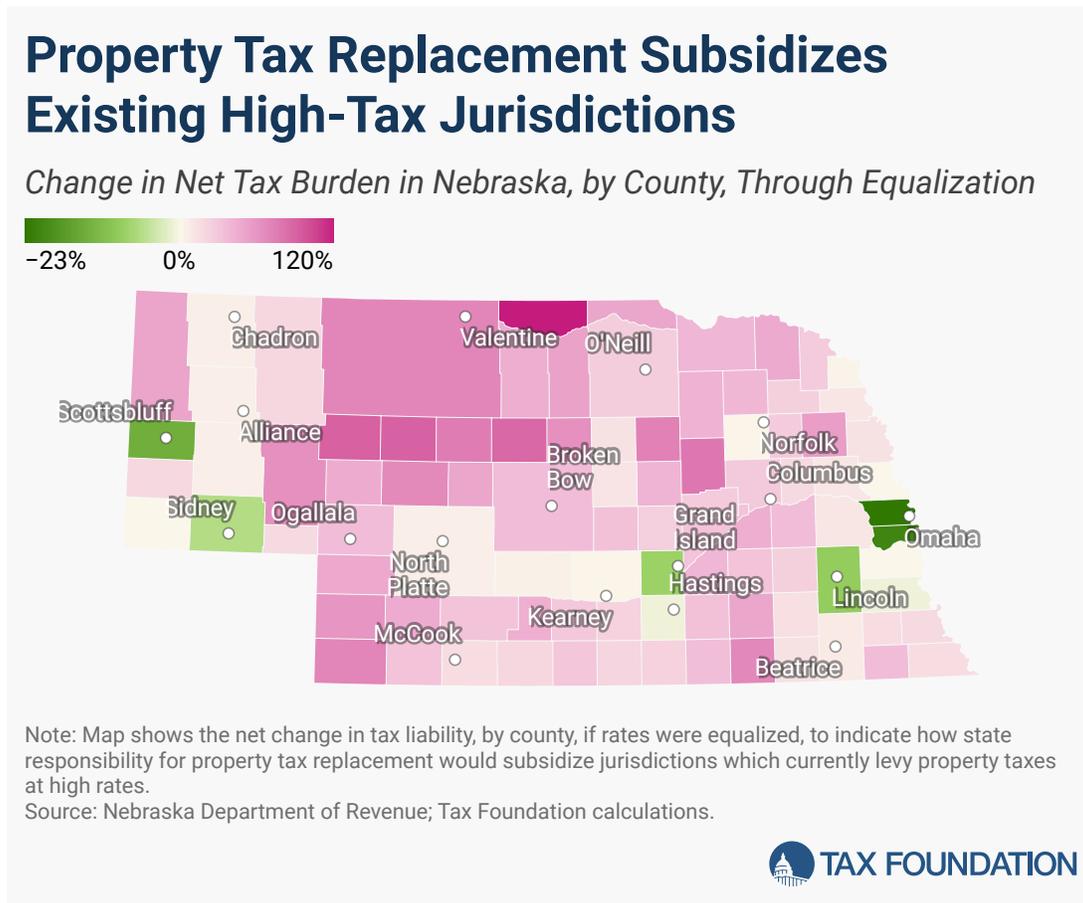
This last calculation is, of course, largely a thought experiment, as whatever replacement revenue stream is chosen (likely income or sales taxes) will add further layers of distortion not taken into account here. But it may be helpful to see the effect of these transfers broken out, to see how states might be obligated to transfer revenues to jurisdictions in perpetuity based on rates they set before repeal. Omaha residents currently pay more in exchange for greater (or at least more costly) government services. Why should rural Nebraskans’ taxes increase to subsidize Omaha’s higher spending?

Existing collections per household provide further insight into the challenges facing lawmakers hoping to centralize tax collections at the state level and backfill existing local tax collections. In North Dakota, the greatest variation in property tax collections arises from oil and gas activity, whereas in other states,

11 Tax Foundation calculations; Nebraska Department of Revenue, “2022 Certificate of Taxes Levied Reports,” 2023, <https://revenue.nebraska.gov/sites/default/files/doc/pad/research/valuation/2023/avgrate2022.pdf>.

disparities might reflect urban versus rural areas, or the differences across business districts, bedroom communities, and farm country. But however the differences arise, they can be substantial. Can residents of a North Dakota county where property tax revenue runs \$1,165 per household be expected to pay additional state-level income or sales taxes at a rate that offers another county a transfer worth \$10,565 per household?¹²

Figure 4.



Even if these challenges are surmounted and taxpayers accept the new redistributions, policymakers must set a mechanism for adjusting transfers year-over-year. Some proposals notably lack any provision for such adjustments, suggesting that every jurisdiction should receive the same amount—perhaps inflation-adjusted, perhaps not—in perpetuity, but this creates a perverse incentive for economic decay.

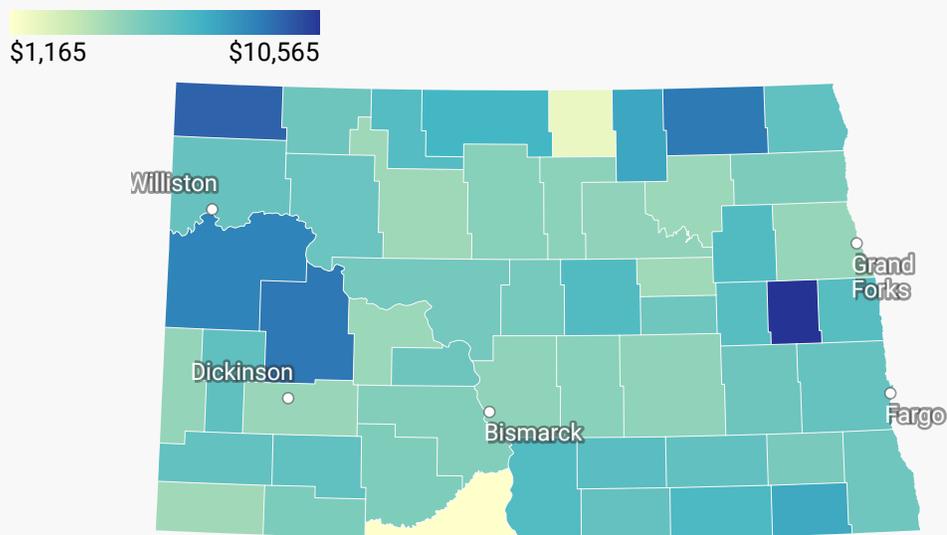
Growing communities would receive fewer dollars per capita, while shrinking communities would see their per capita transfer revenues increase. The “smart” policy, therefore, is degrowth. Residents would have strong incentives to discourage new development and to drive out new or expanding businesses. Instead of economic vitality serving as a source of additional revenue, growth would stretch a locality’s finances thin. All replacements for the property tax are less pro-growth than the existing system, but the distribution mechanism can make the overall system profoundly *degrowth*.

12 Tax Foundation calculations based on North Dakota Office of the State Tax Commissioner and US Census data. See North Dakota Office of the State Tax Commissioner, “Taxable Valuation of Property Subject to the General Property Tax – 2024,” <https://www.tax.nd.gov/sites/www/files/documents/property-tax/2024-Property-Tax-Statistical-Report.pdf>.

Figure 5.

Property Taxes per Household Vary Widely

North Dakota Property Tax Revenue per Household, by County (2024)



Note: Includes all classes of property, not just residential property, since any state-level replacement tax would replace all taxes on property. Household figures are not published annually. Calculation uses rolling average household sizes by county scaled to 2024 population data.

Source: North Dakota Office of the State Tax Commissioner; Tax Foundation calculations.

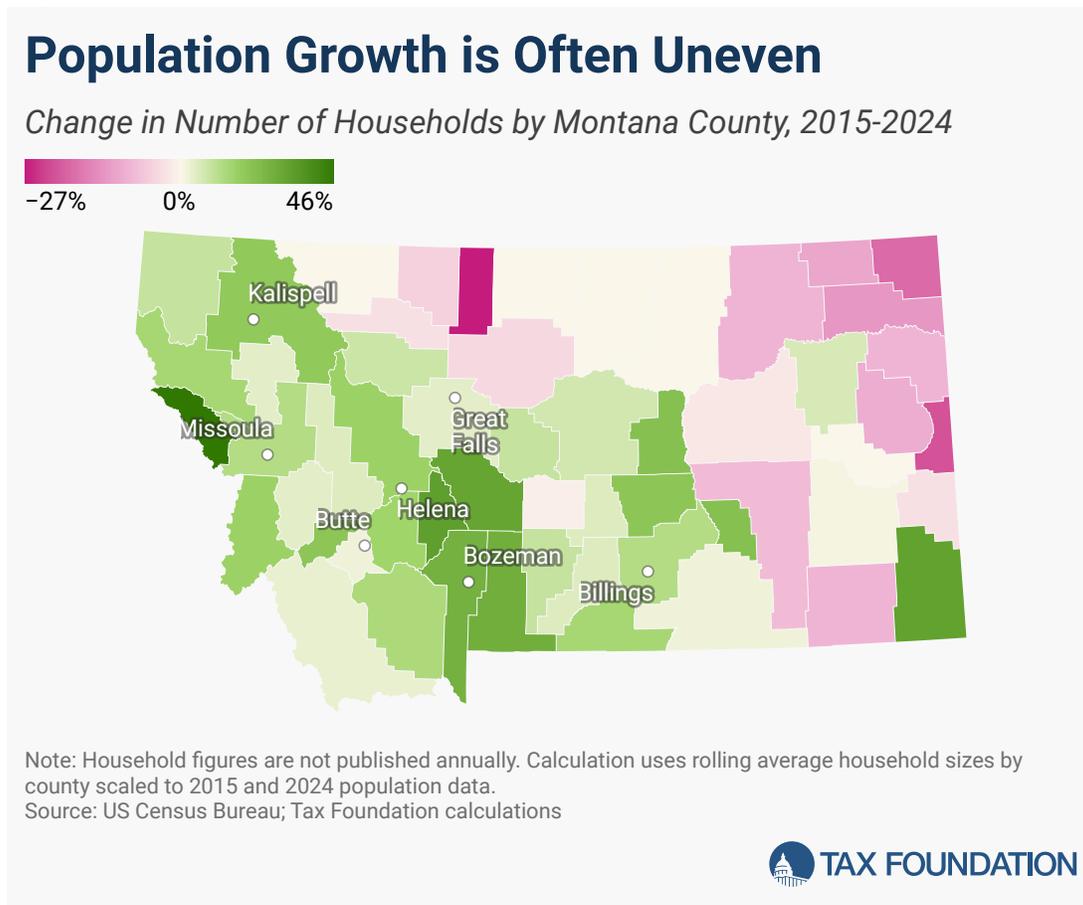


Conversely, dying communities would find themselves flush with cash on a per capita basis, though they would be disincentivized from spending it in ways that would revitalize the community and attract new residents. Local leaders would be incentivized to identify spending that lavishes benefits on existing residents without building out amenities or services that might entice new ones. This is hardly a recipe for success, at the local level or statewide.

In some states, populations are currently increasing quite rapidly, though unevenly. In Montana, for instance, counties in the eastern part of the state are losing population, while the western half of the state is booming. What would happen if Bozeman received the same amount of revenue now (perhaps inflation-adjusted) as it did for a much smaller population a decade ago?

A per capita or per household adjustment could address this concern, but quite imperfectly. New developments, for instance, might be more expensive and feature higher-value homes or businesses. Furthermore, blockbuster growth might require investment in new infrastructure and expanded services that require more than just a per capita adjustment. A fixed state formula cannot account for these needs and is unresponsive to local preferences. A growing and more affluent population might want better amenities and be willing to pay for them, but it cannot do so if local funding is overwhelmingly concentrated at the state level. Another community might prefer more limited government and the lower taxes that go along with it, but that choice is taken away from residents, too, since the jurisdiction's funding is set by state lawmakers, using statewide tax revenue.

Figure 6.



Even with population adjustments, local governments would be incentivized to resist any new economic activity that increases government costs, no matter how significant the broader economic benefits. Local economic growth makes no difference for the property tax's state-level revenue replacement, while any costs are borne out of that fixed sum.

Lawmakers could instead use some other aid formula (as states already do for school equalization), though a system that attempts to provide the same amount of funding per household statewide will be grossly insufficient to meet the needs of some communities where service delivery costs are higher, and a system that tries to address local cost disparities will involve a large-scale, perpetual transfer from affordable communities to more costly ones.

In all cases, there is an erosion of local autonomy. Currently, high-tax jurisdictions must justify those higher taxes, but under a system of full state backfill, they would receive the same amount regardless of what services they deliver or how well they deliver them.

Conclusion

Given the pitfalls of each possible approach to property tax replacement, it is unsurprising that many advocates of repeal want to defer deliberations on a replacement until *after* the property tax's abolition is approved. But that is no excuse. Every policy choice involves trade-offs, and for a policy change as radical as property tax elimination, it is irresponsible to consider repeal separately from proposals to replace the forgone revenue.

Proponents of property tax repeal should be having frank conversations about which taxes would replace it, what rates would be necessary, and who would pay more. They should have a plan for how the replacement revenues would be allocated, and how adjustments would be made in future years. And they should grapple with the incentive structure created by a system in which local governments may no longer control their own revenues, and where expenditures may be independent of the tax costs of those decisions, which could be socialized across all taxpayers, regardless of where they live.

Repealing the property tax is an aspiration, not a plan. If proponents of property tax elimination have plans for how to replace it, voters should have an opportunity to evaluate those plans in advance. And if they don't have a plan, voters should know that too.