

Real Estate Transfer Tax

A significant barrier to homeownership

- ★ A real estate transfer tax is a tax assessed on real estate when ownership of a property is sold or transferred from one party to another.
- ★ Real estate transfer taxes are highly regressive, meaning higher burdens for low-income people. Growing families, seniors, and transferred employees would also be heavily affected.
- ★ Since a small number of people pay real estate transfer taxes in any one year, transfer taxes provide an uncertain amount of revenue. Also, narrowly applied taxes encourage tax-avoidance activity.
- ★ Real estate transfer taxes increase the closing costs of buying or selling a property. Closing costs are the biggest constraint first-time and low-income buyers face when trying to buy a home.

Average Texas home price in 2004*	Transfer tax rate	Additional funds needed at closing
\$164,400	0.5%	\$822
\$164,400	1%	\$1,644
\$164,400	1.5%	\$2,466

*Data from Real Estate Center at Texas A&M University through November 2004

- ★ Owning a home is a major factor in building strong families and thriving communities. The homeownership rate in Texas already lags behind the national average. Assuming a 0.5% real estate transfer tax and a \$125,000 home price, 16,000 Texas families every year would be prevented from buying a home, according to a study by the National Association of Realtors.
- ★ Assuming a 1% transfer tax, the average Texas homebuyer in 2004 would have had to pay an additional \$1,644 in transfer taxes when buying the home, largely negating any benefit from a property tax reduction. For example, a fifty-cent reduction in school property taxes would only save that homebuyer \$747, less than half the cost of the transfer tax.
- ★ A one-time property-tax reduction becomes less valuable to homeowners every year due to inflation, while a transfer tax increases the burden on homeowners every year.
- ★ A 1% transfer tax on real estate would result in \$955.5 million in foregone economic activity and lead to 11,575 lost jobs, according to research by the Real Estate Center at Texas A&M University.
- ★ Homeowners would not be able to deduct transfer taxes from federal income taxes. (Current property taxes are deductible.)

“A real estate transfer tax is an unpredictable revenue source that would damage the Texas economy, lead to lost jobs, and prevent thousands of Texas families from achieving their dreams of owning a home.”

—Dr. Charlie Gilliland, Texas A&M University Real Estate Center, author of Analysis of a Potential Transaction Tax for Financing Education in Texas (November 2004)