

## Questions and Answers from REBUILD. REENVISION. REFORM.

How effective is a two-rate or land value tax if the underlying property assessments aren't accurate? Two-rate and land value taxes function identically to a traditional property tax in that they involve the application of a tax rate (or rates) to the assessed value of parcels to derive the owner's annual tax bill. Just as with a traditional property tax, therefore, assessment inaccuracies can distort the resulting tax liabilities, either depressing them, if assessed values are erroneously low, or inflating them, in instances where assessments are artificially high. So whether a land value tax, or a traditional property tax is employed, accurate and consistent assessment practices are essential to ensuring owners' tax bills reflect the true values of their parcels. [Delaying reassessments is not just bad administration](#), it's unfair to property owners. [The longer assessments are "frozen in time" larger inequities start to form.](#)

How does Philadelphia's homestead exemption affect the application of a land value tax in the City? The City of Philadelphia offers homeowners a homestead exemption on their primary residences, which reduces the taxable value of their property to \$45,000 per year. Since the City currently applies the same tax rate to the assessed value of land and improvements, the exemption is applied in a straightforward fashion, to the total assessed value of their property.

Should the City move to a land value tax, in which the entire tax liability is based on the value of land, the exemption could continue to be implemented with no adjustments. If, on the other hand, Philadelphia adopted a split-rate approach, in which the tax rate on land differed from that on improvements, a policy articulating the proportion of the \$45,000 in tax liability representing land versus improvement value would be necessitated.

Can Philadelphia establish a split-rate or land value tax without authorizing legislation? Split-rate and land value taxes are already legal in Pennsylvania and have been adopted in 16 cities, towns, and school districts. Philadelphia would need to obtain \_\_\_\_\_ from Harrisburg, but this is an administrative process already familiar to lawmakers there and should not pose a significant obstacle to implementation.

How does the adoption of a land value tax or split-rate tax interact with the City's abatement program? The City of Philadelphia offers a variety of property tax abatements to support both rehab projects and new construction, which lower the tax liabilities for the developers, residents, and businesses who receive them for up to 10 years. While these abatements differ somewhat in their details, they all have in common the effect of reducing or eliminating the portion of the property tax bill derived from the value of improvements.

By reducing the proportion of the property tax bill that comes from improvement value (a split-rate tax) or eliminating it entirely (a land value tax), these policies dampen or eliminate the effects of the City's improvement value-focused abatement programs. CPTR estimates that under a scenario in which tax revenues are held constant and 50% of the total is derived from the value of land, abated properties will contribute an additional \_\_\$28 Million\_\_\_\_\_ to

that total. If a full land value tax were implemented, their contribution would increase to As the city progresses in measured steps to a full land value tax, that increased tax levy on land values would rise. Since most tax abatements are being phased out, a land value tax would in essence continue the benefits of the abatement. \_\_\_\_\_ . “

How are long term and/or low-income residents affected by the adoption of a two-rate or land value tax? The short answer is that residents generally see their property tax bills go down under a two-rate or land value tax, particularly under a revenue neutral scenario, such as the one modeled by CPTR. This is because when the onus is shifted from improvement to land values, owners of vacant parcels and those engaged in land-intensive, low-improvement uses (such as surface parking lots) shoulder a higher percentage of the overall tax liability for the City, reducing the burden on other segments of the population as a result. Add to this the dampening effect these tax policies would have on the City's abatement programs (which are slated towards new construction and investments), and long-term, low-income residents would see their bills reduced even more than in the absence of these programs.

How does the application of a two-rate or land value tax affect the owners of high rise apartments and condos versus the owners of single family and row homes? The answer to this question is not as straightforward as it might seem at first. Clearly, high rise living demands less land than does a row home, and certainly less than a single family home. So at first blush, it would appear that owners of these properties would see their tax bills plummet under either a two-rate or land value tax, with the owners of the City's more land-intensive dwelling making up the difference. While it's certainly possible that *individual* homeowners would see these trends play out, it is also true that high rise buildings are typically erected on a City's most valuable land (in Philadelphia that would be Center City), a fact which often partially or fully offsets the tax dampening effects of a smaller footprint size under a two-rate or LVT scenario.