# Effects of Split-Rate and Land Value Tax Implementation

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## Decreased Sprawl

Infill Development: The PA locales that use a split-rate or land value tax saw the construction of infill housing, effectively reducing pressure for new construction at the periphery. (Banzhaf 2008)

Reduced Land Speculation: Preferentially taxing land discourages speculation and increases the likelihood of development on an affected parcel. (Skidmore, Reese, and Kang 2012)

## Benefits for Residents

Lower Taxes: Moving from a traditional to a split-rate or land value tax has the effect of reducing property taxes on most residents. This, in turn, makes homeownership more affordable, and increases the perceived fairness of the tax. ("Assessment of Property Tax Reductions on Tax Delinquency, Tax Foreclosure, and Home Ownership" n.d.)

Reduced Property Tax Delinquency: Increases in home values make the prospect of going into foreclosure less appealing, resulting in a lower rate of foreclosures and overall property tax delinquency as a result of adopting a split-rate or land value tax. ("Assessment of Property Tax Reductions on Tax Delinquency, Tax Foreclosure, and Home Ownership" n.d.)

Increased Home Values: Decreases in overall property taxes for homeowners results in increases in home prices. (Yang 2018)

Increased Homeownership: Decreases in property tax burdens, of the type brought about through the implementation of a split-rate or land value tax encourage residents to transition from renters to homeowners. (Ihlanfeldt and Boehm 1983)

## Benefits for Business

Increased Business Formation: Removing tax barriers to development encourages significant new business formation. ("Split-Rate Taxation and Business Establishment Location" n.d.)

Agglomeration Economies Encouraged: Because it favors capital intensive businesses, adoption of a split-rate or land value tax is likely to attract retail, transportation, wholesale, construction, and manufacturing - establishments that benefit from colocation with other, similar enterprises. ("Split-Rate Taxation and Business Establishment Location" n.d.)

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"Assessment of Property Tax Reductions on Tax Delinquency, Tax Foreclosure, and Home Ownership." n.d. Accessed April 19, 2021. https://www.lincolninst.edu/publications/working-papers/assessment-property-tax-reductions-tax-delinquency-tax-foreclosure-home.
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# Rethinking Property Tax: Raising Community Revenues From Community Values

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Urban areas and other municipalities worldwide are rightly considered the engines of society, culture, and the economy. Towns and cities serve as hubs for commerce, public services and amenities (universities and hospitals, say), and other human capital intensive activities. Without them, our human world would be nearly entropic.

The requirement for these conurbations to exist depends on one thing: money. That money arrives from taxes and fees. Reaching back to the words of the wise old Frenchman, "plucking the goose" for tax revenue are tricky political and economic questions that  - at times - are raised to the level of blood sport for both plucker and pluckee.

**The Politics**: California's Proposition 13 in the early 1980s resulted from a taxpayers' "revolt" that essentially froze the primary source of municipal revenues: the property tax. The generally acknowledged outcome was a quick decline of local schools, services, and infrastructure. We've seen these "revolts" elsewhere.How is it that the act of taxation can generate such heat?

**The Economics**: Municipal local taxing powers are usually the traditional property or other levies on work, investment, or commerce: wage, sales, or business taxes. Each of these options has strengths and weaknesses. The greatest weakness common to all is that a policy goal other than raising money is often secondary (the cigarette tax meant to reduce smoking, for example).

**What we tax matters**

"The property tax is, economically speaking, a combination of one of the worst taxes—the part that is assessed on real estate improvements . . . and one of the best taxes—the tax on land or site value. —William Vickrey (1999) Nobelist in Economics"

Suppose cities wish to create an environment of shared prosperity and stable revenue flow. In that case, municipal tax systems in an age of ever-increasing labor and capital mobility must themselves become modernized. A municipal wage tax matters little if wage-earners move to avoid it. A municipal sales tax falls prey to the "border-hopping" effect. A municipal business tax becomes an easily avoidable burden to commerce.

As Professor Vickrey tells us, a property tax can be problematic, but it doesn't have to be.

William Vickrey (1999) Nobelist in Economics

# Rethinking Property Tax: Raising Community Revenues From Community Values (cont'd)

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**The Old and the New: Land Value Taxation (LVT)**

What is LVT? LVT is an alternative version of the real property tax, used in 20 cities, school districts, and counties in the United States (mostly Pennsylvania and Hawaii) and most municipalities and states in Australia, Denmark, and New Zealand. ***LVT addresses the corrosive effect of the traditional property tax. In the US and Canada, property tax rates generally fall equally upon land values and building values.*** LVT shifts the more significant share of the property tax from buildings (both a product of private capital and private labor) to the assessed value of land (a public good created by public and community investment). The property tax then becomes a policy with a purpose.

As most municipal officials know, citizens and businesses realize that the current property tax punishes good behavior (reversing the intent of the cigarette tax mentioned earlier). When one improves a structure, the tax bill goes up; the more investment and work one puts into a building, the greater the tax liability. The underlying message is, "If you improve your property and your community, we will make you pay."

For example, Allentown, Pennsylvania, has dual tax rates of 5.038% on land value and 1.072% on building value. The land mill rate is nearly 5 times greater than the building rate. Under a standard tax, Allentown would have a single rate of 1.752%, collecting the same revenue.

Why does this matter? Without LVT, nearly 80% of Allentown's property tax revenue would come from what it needs most: continual capital injections into building construction and maintenance. In addition, jobs appear, and eventually, homeowners and tenants go into the city, as the city then becomes more competitive in attracting private capital and people.

Without LVT, 20% of Allentown's property tax revenue would come from land values. The value created by government investment and the desire of the market to take advantage of that investment (roads, sewers, police protection, fire protection, and schools) would sit fallow or privatized by speculative rather than productive investors. As it stands, Allentown now collects 50% of revenue from land. As a result, tax reduction for most homeowners and built to highest and best use commercial parcels has been significant.
LVT, as practiced in Pennsylvania and elsewhere, addresses several known flaws in the property tax as practiced:

Taxing land value can serve as a partial or total replacement of other taxes known to be economically corrosive (i.e., sales, business, or income tax). To best serve municipalities in competition with other areas lowering the tax burden on work and commerce can nudge the city towards the notion of a citywide enterprise zone, a "region unique" served by an "impot unique."

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