

LAND VALUE TAX COMMITTEE OF DELAWARE

PROPERTY TAX REFORM TO HELP REMEDY ECONOMIC & SOCIAL ILLS OF OUR TIME

CONCEPT:

TAXING OF PUBLICLY-CREATED LAND VALUES MORE FULLY, RATHER
THAN IMPROVEMENTS, WOULD BENEFIT THE ENTIRE COMMUNITY . . .

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IT'S UP TO THE CITIES TO SAVE THEMSELVES

Some of the shrinkage in our old metropolises
is unavoidable, but they have aggravated their problems
by giving people the wrong incentives.

by Gurney Breckenfeld

The upside-down property tax

Among disincentive taxes, the property tax by a wide margin has the largest and most pernicious effect on cities. It accounts for 82 percent of the \$61 billion localities raise from their own taxpayers, but the trouble is not what it is commonly perceived to be: soaring tax bills that burden hard-pressed homeowners. The real problem is the basic structure of the tax—a confusing and little understood fusion of two separate levies, one on the building and one on the value of the location.

Most cities collect two or three times as much tax from buildings as from the site value of land. The low taxation of land rewards speculators; they can easily afford to keep idle or underutilized sites off the market until urban growth drives the price up enough for a fat profit (which then qualifies for concessionary treatment as a capital gain on their federal income taxes). The high tax on buildings (or improvements to them) discourages both construction of new buildings and maintenance of aging ones. Recognizing this, city after city has offered tax exemption in order to get new buildings put up, but the arrangement reduces the growth of the revenue base and forces other taxpayers to make up the difference.

The remedy is to turn the property tax upside down so it hitches the profit motive to the right objective. States should adopt legislation allowing localities to lighten or abolish the levy on buildings and impose a corresponding increase in the tax on land. The total tax take need not be affected. Most homeowners, several studies have found, would pay less; owners of valuable but well-developed downtown property would pay about the same;

owners of valuable but vacant or underutilized property would pay more. More important, the incentive for private investment in really good buildings would increase while the lure of land speculation would diminish. By raising carrying costs for land, site-value taxation might well drive down inflated land prices, which are a major reason why costs are so high in many big cities.

Such a change should be phased in gradually to avoid disruptions, for it would be potent economic medicine. In a study a few years ago, economist Mason Gaffney found that if property taxes had been based entirely on land, downtown Milwaukee would have been rebuilt after World War II without a penny of subsidy for urban renewal. More recently, Philip Finkelstein, director of the Manhattan-based Center for Local Tax Research, concluded that if New York City continues its present arrangement, taxing buildings twice as much as land, "it will accomplish the apparent goal of New York's critics—breaking it off and letting it sink."

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