

The Economy

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Property Tax Handling Sour From Ground Up

The property tax is understood by almost no one except big urban landowners and speculators. These few are getting rich on its maladministration.

Those who don't understand the property tax at all are paying a high price. In Ohio, school systems are bankrupt and closing. In California, taxpayers are fighting mad as their property taxes soar 200 per cent in a single year.

As now administered, the property tax refutes both the philosophy and spirit of our enterprise system.

Instead of rewarding entrepreneurial risks, efforts expended, and value created, the property tax severely penalizes capital improvements. If you build a new structure, paint your house, or add a new room, your tax assessment soars. Improve your urban property and up goes the tax bite. Revenues collected on improvements are two to three times the tax revenues collected from land sites. The property tax is a prime generator of urban slums.

What tax assessors overlook is that the only capital asset which increases in value without risk or effort by the owner is urban land. The value of urban land sites derives from an enormous expenditure of taxpayers' dollars on urban infrastructure (estimated at \$20,000 to \$30,000 per building lot in metropolitan areas) and other private developers' investment around the site as the community grows. The owner need only hold title in order to reap unearned increases in land site values. Bill Newcomb, a Florida realtor, tells me that subsequent to establishment of the Kennedy Space Center, Melbourne's population rose from 4,500 to 146,000. Land prices in the boondocks rose from \$50 per acre to \$10,000 and more. Gas station sites soared from \$2,000 to \$125,000. With no effort, landowners reaped a handsome bonanza as taxpayers' dollars built the necessary urban infrastructure.

Financially strapped cities plagued with a dwindling tax base and urban blight are invited to join America in its philosophy and spirit. Turn the property tax around. Harness the profit motive forward. Encourage new construction. Encourage renovation of structures. Encourage homeowners to paint, to maintain, and to improve their homes. This is the way to fight urban blight.

Heavy incremental taxes on land sites and lower or no tax on structures and improvements would change the arithmetic of gain from urban land ownership. Land site values created by the community would be recaptured by city governments for the support of education and public operations generally. This sound financial administration would replace the present practice of making "private millionaires" with the expenditure of taxpayers' dollars. No government subsidies or tax moratoriums to encourage urban renovation and improvement would be needed.

Higher land site taxes would discourage gross underutilization and make it imperative for owners to put their land sites into optimal use. Higher taxes on land sites would take the profit out of land speculation.

Costly urban sprawl reflects faulty property tax discrimination and penalties on improvements as do run-down, blighted buildings and housing slums. These tendencies can be turned around by turning the property tax around.

Property tax reform is theoretically sound. Practically, land value taxation provides an answer to many urban problems, including relief to homeowners and bankrupt city finances.