Two Rate Property Tax Offers Alternative To Current System, According To UNH Economics Professor

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DURHAM, N.H. – Bring up the issue of property tax reform and you’re likely to get an earful.

Richard England, economics professor at the University of New Hampshire’s Whittemore School of Business and Economics, has heard the arguments and is offering an alternative to the most important source of local government revenue, the property tax.

Instead of a single-rate property tax, England advocates a two-rate property tax system, with a lower tax on buildings and higher tax on land, coupled with a uniform credit on each tax bill. According to the research, which was published in the June 2005 issue of National Tax Journal, a system that taxes land values more heavily than building values would encourage building maintenance and new construction. It also could stimulate commercial and industrial activity, thereby promoting income and employment growth.

"Our research suggests that a two-rate property tax would be good for local economic activity, especially in New Hampshire's cities. It would also help to preserve open space by encouraging larger buildings on smaller lots," England says.

England and a fellow economist at Ohio State University focused their research on Dover, N.H., which they chose because the city has a "landscape ranging from a traditional central business district to suburban shopping centers and office parks to undeveloped farmland. Its housing stock ranges from aging apartment buildings to new condo projects and from modest ranch homes to expensive waterfront mansions.”

The two researchers calculated the tax bills that every Dover property owner would pay for various combinations of tax rates on land and buildings and tax credits. According to Professor England, "We discovered that if buildings were taxed at $10.98 and land at $34.10 per thousand, and if every property received a $1,000 credit each year, then a large majority of homeowners in Dover would get a tax cut from City Hall. Almost all condo owners would also get a tax break. The tax hikes to keep the city budget at the same level would go mainly to owners of shopping
centers, office parks and large parcels of undeveloped land waiting for development."

More than a dozen cities and towns in Pennsylvania, including Pittsburgh, Scranton and Harrisburg, have operated under the two-rate system. In 2002, Fairfax City, Virginia, was permitted by its state legislature to adopt the two-rate tax structure. This year, a bill has been filed in the Connecticut legislature to enable the state's cities to adopt two-rate property taxation.

"Although two-rate taxation has been restricted to Pennsylvania until now," England says, "interest seems to be spreading. It is being seriously considered now in Virginia, Minnesota and Connecticut."

New Hampshire has one of the lowest overall local and state tax burdens in the country, ranking 49 out of the 50 states, according to The Tax Foundation. But with no sales or income tax, it heavily relies on property taxes to fund local and state government. "Lots of people resent paying their property taxes because it means coming up with a wad of cash once a year. But at least it's a reliable source of revenue to pay the salaries of teachers, firefighters and police officers. What we need to do," England says, "is reform the property tax to make it a better tax."

After completing his research project funded by UNH and the Lincoln Institute of Land Policy, England concluded that it’s possible to design a property tax reform proposal that promises to cut the tax rate on building values, hold tax revenue constant, and avoid regressive impacts on most homeowners. “If the authors of such a reform proposal wish to achieve these three policy goals, then they need to incorporate a credit provision in their plan, along with the introduction of dual tax rates, and also fully account for local circumstances,” according to the study.