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## UNH Study Suggests Tax Change Might Reduce Sprawl, Help Economic Development

By [Janet Lathrop](#)  
UNH News Bureau

*May 24, 2002*

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DURHAM, N.H. -- As New Hampshire cities look for ways to both stimulate economic performance while discouraging sprawl, they may benefit from a recent study by Richard England, professor of economics at the University of New Hampshire's Whittemore School of Business and Economics. His results suggest that a change in property taxation might be a positive step.

Right now, land in New Hampshire and the improvements on it are taxed at the same rate. To an investor or developer, it is just as attractive to buy a farm for development as to rehabilitate an existing structure downtown. But a city shifting to a two-tier plan that taxes land at a higher rate than buildings has the potential to change that scenario, England says.

Taxing land at a higher rate, for example, would make an existing structure on a smaller city lot more attractive because even with improvements its taxes would be lower than those on a low-density lot on the edge of a city. "The split-rate tax encourages rehabilitation," England explains, "and provides an incentive to develop vacant lots in our cities."

Several Whittemore School students have helped to collect data for the research, which is supported, in part, by a grant from the Lincoln Institute of Land Policy in Cambridge, Mass. Overall the work is meant to be "very practical, nitty gritty policy research that will benefit the people of New Hampshire," England says.

For the tax study, the UNH economist plugged economic numbers from Berlin and Manchester into a sophisticated economic model to compare business as usual with the consequences of a constant-revenue shift to a two-rate property tax. The study looked at actual

revenue from property taxes in 1999, about \$11.6 million in Berlin. Ten percent of the city's uniform tax fell on land and 90 percent on capital improvements. In Manchester, the city raised \$114.4 million in taxes; 61 percent of the uniform property tax fell on capital, not land. England's computer analysis quadrupled the land value tax rate in Berlin and doubled it in Manchester, and lowered the tax rate on buildings to keep municipal revenue constant in each city.

Results suggest that tax reform would have a modest, positive impact on the Berlin region within one year, with added benefits over 10 years. Cost of living would go down slightly, while nonresidential investment spending and residential construction would rise. In the long run, advantages would multiply, so a decade after adopting the tax change, residential construction in Berlin would be above the baseline forecast, cost of living would be lower, and migration from Coos County would slow or even stop. The baseline forecast was made before Berlin's paper mill closed, so the improved economic performance is on top of having a mill operating there, England noted.

For Manchester, 10 years of a two-rate tax policy might mean even more prosperity than is now projected for the Granite State's fast-growing urban area -- more jobs, more residential construction, a lower cost of living and increased population.

One more point to be considered is that this change in tax policy in New Hampshire cities would appear to shift the tax burden to homeowners and away from business. But, England says, the transition to heavier land taxation could be made more palatable to homeowners if cities were to grant each taxpayer a tax credit of several hundred dollars.

Pittsburgh, Pa., has employed a land value tax for many decades, England says, and there is some evidence that it helped to revitalize the steel city's depressed downtown area in the 1970s and discouraged sprawl in outlying areas.

In New Hampshire, this tax reform would require a new state law to allow cities to use a two-rate property tax system. "It is not a panacea, but it has helped some cities, notably in Pennsylvania, revive older downtown

areas," England says. "In New Hampshire, my feeling is: Why not give cities the option? They need help with both taxation and land use issues, and this type of approach may prove to be a useful remedy."

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