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Land Value Tax Holds Promise for Cash-Strapped Cities and Towns

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DURHAM, N.H. — At a time when local governments are increasingly strapped for cash, the land value tax – taxing the value of land more than buildings – is an efficient source of revenue that avoids the negative effects that can accompany other taxes, such as local wage or income taxes, according to a new report co-authored by Richard England, professor of economics and natural resources at the University of New Hampshire.

The land value tax, a concept dating back to the 19th century political economist Henry George, has had a checkered history in the United States, but it can be more successfully implemented with a few simple adjustments such as better assessing techniques, more flexibility in tax rate setting, a gradual phasing-in process, and targeted tax credits for land-rich but income-poor property owners, according to “Assessing the Theory and Practice of Land Value Taxation,” the latest Policy Focus Report published by the Lincoln Institute of Land Policy. The report is co-authored by England and Richard Dye, professor at the Institute of Government and Public Affairs at the University of Illinois at Chicago.

According to the researchers, a land tax is an efficient tax because it can make the economy more productive and create wealth, because raising the tax rate on land has few undesirable effects, while lowering the rate on improvements has many benefits. A conventional property tax tends to discourage investment in new structures and maintenance of existing structures by reducing the return on such expenditures. A land value tax can be a better method of property tax reform than assessment limits, which have undesirable side effects, including unequal treatment of similarly situated taxpayers and distortion of economic incentives.

“Assessing the Theory and Practice of Land Value Taxation” shows that a land value tax can raise the same revenue as a standard single-rate tax, changing the distribution of the tax but not the overall revenue collected. Because these changes will redistribute the tax burden, this report recommends a phase-in of dual tax rates, and inclusion of tax credits to ease the transition to a new tax system.

The report also notes that land is in fixed supply, so an increase in the tax rate on land value will raise revenue without distorting the incentives for owners to invest in and make
use of their land. By contrast, the part of the property tax that falls on structures or other improvements discourages investment. The land value tax is neutral with respect to the choice of when to develop a parcel and the density of its development, whereas the taxation of improvements is likely to increase low density sprawl.

Economic theory suggests that switching to a land value tax might result in a number of outcomes: lower house prices, more improvements per acre of land, higher population density, more employment and higher wages, and less sprawl.

"Land value taxation won’t solve all of the world’s problems,” England says, "but it is a far better source of tax revenue than the traditional property tax or taxation of business profits and personal incomes.”

More than 30 countries around the world have implemented a land value tax. In the United States, land value taxation dates back to 1913, when the Pennsylvania legislature permitted Pittsburgh and Scranton to tax land values at a higher rate than building values. A 1951 statute gave smaller Pennsylvania cities the same option to enact a two-rate property tax, a variation of the land value tax. About 15 Pennsylvania communities currently use this type of tax program, while others tried and rescinded it. The report also details Hawaii’s experience with two-rate taxation, as well as the recent authorization by Virginia and Connecticut for several municipalities to implement a two-rate property tax.

There may be legal impediments to land value taxation. Since property taxation in the United States is within the purview of local governments as permitted by the laws of each state, implementation of land value taxation in most states would require new statutory authority and, in some cases, a constitutional amendment.

A land value tax also raises administrative issues. The land and improvements of each parcel need to be assigned a taxable value in a timely and accurate fashion. Special attention must be paid to best practices in assessment, in recording separate values for land and improvements. For a land value tax to be successful, accurate assessments need to be kept up to date, and tax rates need to be flexible in order to respond to changes in total assessed value.

England is a visiting fellow at the Lincoln Institute, and professor of economics and natural resources at the Whittemore School of Business and Economics, University of New Hampshire. His recent research has examined how local property taxation and zoning rules affect land use change in the United States.

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