

Applications of Land Value Taxation

Many of today's current environmental and economic problems could be dealt with, in part, by shifting to a system of land value taxation. The concept of land value taxation is not new; it was articulated by political economist Henry George in his book *Progress and Poverty*. Land value taxation shifts the property tax liability from the value of the buildings and improvements to the value of the land itself, thus encouraging people to make improvements on their property, and discouraging land speculation.

Arguments for land value taxation (LVT) can be made on the basis of equity, efficiency, and environmental protection. The equity argument asserts that because the value of land is, in large part, a result of societal efforts rather than efforts on the part of the landowner, society should reap the benefit of increased land values. Governments should be able to capture some of this value through taxes on the land, and use it to benefit society as a whole.

Land value taxes are efficient because they remove a "market disincentive," which discourages people from building or making improvements on property because their taxes would go up. When people are taxed on the value of the land, including factors such as location and public amenities, they are able to make improvements to the property without being penalized with higher taxes. Most taxes on labor and property discourage productive activity, because the more you produce, the more you are taxed. Land value taxes do not offer this disincentive.

Environmentalists generally support land value taxation because it encourages compact development in city centers, which decreases sprawl. By taxing land at a higher rate, landowners are encouraged to either improve their property so it will generate revenue, or sell it to someone else who will. Utilizing land in urban areas more efficiently means that developers do not need to use up tracts of rural land to build homes and offices. Because land value taxation encourages landowners to develop their land, it is generally recommended that it only be implemented in urban areas.

While Henry George and many economists argued that property taxes should be completely based on land value and not the value of improvements, most places have not implemented land value taxes as such. Instead, most places that utilize land value taxes do so through graded tax systems, where land is taxed more heavily than improvements to the land.

Land Value Taxation in the U.S

Pittsburgh, Pennsylvania stands out as the community in which land value taxation has been most successful in the United States. Pittsburgh began using a graded tax system for land and improvements in 1913. Through the 1970s, land was taxed at twice the rate of buildings. In 1979, Pittsburgh increased the land tax to five times the rate on improvements as a way to encourage investment in the city. There was an increased level of construction activity within the city of Pittsburgh through the 1980s, while the suburbs saw a decline in construction. (*Outlandish Taxes*, p.4).

In Pittsburgh, following a countywide reassessment of all property, voters pushed City Council to remove the 2-tiered property tax system. The Pittsburgh voters had hoped that they could get the tax on land assessment reduced to the lower tax rate used

for buildings, giving them a lower overall property tax. In actuality, most residences and businesses ended up with a higher tax burden. In addition, construction spending fell 21% in the two years following the rescission of the 2-tiered system. (Craig, p.5)

According to state legislation passed in 1998, the nearly 1,000 boroughs in Pennsylvania are permitted to implement 2-tiered property tax systems. A total of 18 cities in Pennsylvania assess taxes on land and improvements at different rates. Scranton, PA doubled the tax rate on land and removed the property tax on new construction in 1979. In the two years following the change, building permits in Scranton increased 22 percent; during the same time period Wilkes-Barre, a neighboring city with similar demographics, saw a 44 percent decline in building permits.

Land Value Taxation around the World

While land value taxation has had very limited application in the United States, it has long been applied to varying degrees in countries around the world. Over 700 cities worldwide implement a graded tax system, where land is taxed at a higher rate than improvements. (Craig, Eleanor p. 4).

In 1844, Denmark began assessing the national property tax on the value of the land but not on improvements. The LVT was abolished and replaced with a flat rate tax on the land and improvements in 1903. Farmers, who were hurt by the change, lobbied for a return to LVT. While the tax on improvements was never removed entirely, today all cities in Denmark use a graded property tax. (*Outlandish Taxes*, p.5).

South Africa first began implementing land value taxation in 1914. By the 1980s, over half of the largest cities use land value taxes, and in Cape Town, 70% of the city's revenue is generated from LVT.