

Land Value Tax

This tax encourages densification and efficient land use, discouraging land speculation



Land uses in downtown Detroit, Mich. *(Photo Courtesy of Detroiters for parking reform)*

The Impact

A land value tax (LVT) stimulates housing development on vacant or underutilized land within existing urban areas, which can lead to increased affordability, revitalized communities and a decrease in urban sprawl. For example, in Allentown, Penn., a partial LVT led to a 32% increase in building permits, reversing the city's industrial decline. Numerous other towns in Pennsylvania, as well as countries such as Denmark, Singapore and Estonia, have seen positive outcomes from implementing LVTs.

Description

Land value taxes are centered around the idea of taxing the land associated with a property rather than the improvements or structures above. By taxing the land itself, an LVT encourages densification and efficient land use, discouraging land speculation.

For instance, consider a major high-rise tower adjacent to a parking lot, both with the same land area. With an existing property tax system, the tax on the high-rise would be significantly more than the tax on the parking lot because both the value of the land and the value of the building itself are considered in the property tax assessment. This system creates perverse incentives, rewarding neglect through lower tax rates while punishing property owners who try to improve their buildings and are hit

with higher property tax assessments. Ultimately, this arrangement leads to intense land speculation, where investors hold on to mostly vacant properties (such as parking lots), in the hope that the value will eventually increase. Conversely, under a LVT system, the tax burden for each property is roughly the same, generating more property tax revenue. The high-rise pays much less relative to the income it generates through rent, whereas the parking lot struggles to break even on parking revenues alone. This system disincentivizes speculation, as it will be no longer feasible to hold on to empty plots of land in valuable areas, such as city centers or near important transit infrastructure. Additionally, an LVT could also encourage more density because existing property owners will want to build higher to reduce their tax burden on a per-square-foot basis.

Where It's Been Implemented

Allentown, Penn., implemented a partial LVT in 1996, adopting a split rate property tax system where land was assessed at roughly five times the building value. As a result, the tax on 70% of residential parcels decreased, and in older, denser neighborhoods, up to 90% of homes had a decrease in tax liability. The LVT only penalized property that used land in an inefficient manner, incentivizing more development on vacant or underutilized land so the land could be used for a better purpose.

Harrisburg, Penn., implemented a partial LVT in 1982, also adopting a split rate tax system, where land was assessed at four times the building value. Stephen Reed, former mayor of Harrisburg, attributed much of the town's revitalization to this tax, noting that since the tax was implemented, more than \$1.2 billion in new investment had occurred, reversing the fortunes of a town that the federal government had considered distressed. He said the land value tax was one of the key policies leading to that success. After witnessing the success of those cities, a dozen other municipalities in Pennsylvania chose to implement an LVT.

Key Drivers

By encouraging density, LVTs can lead to reduced sprawl (low-density development), yielding enormous environmental benefits. Dense development reduces per capita land use, helping to preserve the natural environment. It also reduces the need for longer trips, as everything can be located closer together, reducing greenhouse gas emissions from automobile travel. Additionally, smaller units and more shared walls, such as in an apartment tower or a row of townhomes, help with insulation and thus reduce energy demand, leading to reduced emissions.

LVT's could also increase the supply of affordable housing. According to the Public Policy Institute of California, 55% of renters in 2019 were cost burdened, which is defined as spending greater than 30% of one's income on rent. By encouraging more efficient use of land, an LVT could lead to more homes in the state, easing the housing crisis. Instead of being hit with a higher property tax assessment when improving existing property (such as by adding more units), property owners' tax bills would stay roughly the same, encouraging them to build up in order to pay less on a square-foot basis.

Key Factors for Success

Support by elected leaders is essential for enacting an LVT. Getting them on board means getting the public to understand the need for more housing and the benefits of higher density, such as locating essential services within walking distance of one's home, lowering carbon emissions and creating vibrant areas within a city that are also safer because of more people milling about 24/7.

Key Obstacles

In California, state law is a major barrier to implementing property tax reform. Proposition 13, passed by the state legislature in 1978, bars the reassessment of a home's value unless it is sold or redeveloped. Additionally, it caps property tax increases at only 2% per year, regardless of underlying economic conditions. Prop. 13 is often considered to be a third rail in California politics (similar to Social Security and Medicare reform on the national level), so most politicians have avoided changing the law. In 2020, a statewide ballot proposition would have partially repealed Prop. 13 for certain commercial and industrial properties. The measure failed, 52 to 48%, showing the difficulty of property tax reform in California and lowering the prospects of successfully implementing a land value tax.

Another significant problem is accurately assessing the value of underlying land. In California, for instance, property taxes are proportional to the purchase price of a property, which is relatively straightforward. However, it may be challenging to accurately decouple the purchase price of a property from its underlying land value, potentially reducing fairness. Despite that challenge, newer statistical models, using detailed data regarding property characteristics, can come up with more accurate land values for properties.

Timeline to Implementation

A land value tax scheme should be relatively quick to implement as long as state laws allow it, and tangible benefits should start to be seen within a few years as developers and property owners change their behavior to adapt to the new tax incentives.

Next Steps

As the initial barrier is state law, advocacy is needed for this policy on the state level. On February 1, 2023, California Assembly member Alex Lee introduced Assembly Bill 362, which would study the practicality of a land value taxation system in California. As of January 2024, the bill was still in committee.

References and Resources

- [California Assembly Bill 362](#)
- StrongTown.org. [Non-Glamorous Gains: The Pennsylvania Land Tax Experiment](#)
- Investopedia.com. [Land Value Tax Description](#)
- Economist. [The time may be right for land-value taxes](#)

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