

# **Testimony on the proper design of land value taxation programs**

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# Pittsburgh Property Tax Rates (mills)

	Land tax rate	Structure tax rate	Ratio of tax rates
1978	100	75	1.33
1979	146	73	2.00
1983	216.5	92	2.35

# Average Annual Value of Building Permits

(Source: Oates & Schwab, NTJ, 1997)

	Percentage change from 60s and 70s to 80s
Buffalo, NY	-11.5
Cleveland, OH	-31.8
Detroit, MI	-24.7
Pittsburgh, PA	+70.4
Rochester, NY	-30.6
Youngstown, OH	-67.0

# A Partial Explanation of the Pittsburgh Difference

“[L]and-value taxation provides city officials with a tax instrument that generates revenues but has no damaging side effects on the urban economy. In this way, it allows the city to avoid reliance on other taxes that can undermine urban development.”

-- Wallace Oates & Robert Schwab (1997)

# Repeal of Split-Rate Tax in Pittsburgh (2001)

- \* “An overdue reassessment of property ... in 2000-2001 led to substantial increases in assessed land values and tax bills ... [L]and value taxation in Pittsburgh was the scapegoat for infrequent and inaccurate assessments and clumsy rate-setting procedures ....” -- Prof. Steven Bourassa, University of Louisville.

# Lessons from the Pittsburgh Experience

- \* Difficult to implement and retain split-rate property tax unless good assessment practices.
- \* Need for *frequent* assessments of land and structure values in order to avoid taxpayer “sticker shock.”
- \* Need for *sophisticated* assessment practices in order to disentangle land and structure values in urban settings (occasional lot sales, teardowns, statistical regression analyses of developed parcels).
- \* Need for state technical assistance and oversight to ensure good assessment practices by local assessors.

# Political Economy of Split-Rate Tax

- \* Revenue-neutral implementation of split-rate tax → *shift* in property tax burden from owners of “structure rich” properties to owners of “land rich” properties.
- \* Vocal opposition of owners of vacant land and of developed properties with high land value component to be expected.
- \* Possible to reduce opposition by small property owners and to increase fairness of split-rate tax by including *tax credit* feature when split rates introduced.

# Simulation Study of Dover, NH

- \* Dover as small city with old industrial properties, downtown commercial area, office parks and shopping centers, cheap ranches, expensive waterfront properties, a few farms, etc.
- \* Simulation of revenue-neutral shift to two rates with a maximum **tax credit of \$500** per tax bill.
- \* Building tax rate goes from \$14 to \$8 per \$1000 of structure value.
- \* Land tax rate goes from \$14 to \$33.50 per \$1000 of land value.
- \* Most homeowners with less expensive homes pay lower property tax bill if two rates **and** credit feature.