

LINCOLN INSTITUTE STUDY ON PROPERTY TAX RELIANCE

Response by Roy Langston, roy_langston@yahoo.com, in Georgist discussion group Land Café,

<https://groups.yahoo.com/neo/groups/LandCafe/Cafe/conversations/topics/17045>.

The following was brought to GroundSwell's attention by Scott Baker, ssbaker305@yahoo.com, June 19, 2017, who added his own comment.

The Lincoln Institute has written about a recent multi-city report on property taxes and the reliance upon them. The report is cited in their article here: <http://www.lincolninst.edu/news/lincoln-house-blog/lincoln-institute-releases-annual-50-state-property-tax-report>

They write:

"Because of assessment limits, valuation practices, and other factors, the result is that the effective tax rate on a typical owner-occupied home is just one-fifth of the rate paid by the owner of an apartment building – costs that are in many cases passed along to renters."

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LONG TIME GEORGIST ROY LANGSTON WROTE IN LAND CAFÉ:

But is this claim true? If the housing market is inelastic, how can taxes be passed onto renters? This is a counter-argument I hear often among people who haven't been exposed to Georgist thought, but it is dismaying to hear it from one of its supposed biggest advocates. Isn't it really the case that as the tax goes up, the price goes down, at least aside from the overall improvement in revenues brought about by a more thriving metropolis perhaps also unburdened by other deadweight taxes on production (in practice, there always seems to be little effort to rein in other taxes; perhaps this is why Georgist tax policies face such a struggle to find acceptance?)

The Lincoln Institute seems to be arguing for lower property taxes:

"Many of the cities with the highest property tax rates are struggling to make ends meet, dealing with a low tax base that requires higher tax rates to bring in enough revenue -- and constrained by state laws that restrict their access to other revenue sources that would allow them to reduce their reliance on property taxes. Detroit, which has the highest effective tax rate on a median valued home, has by far the lowest median home value of the cities covered in the report. In Bridgeport, which has the second highest rate on a median valued home, the city relies more heavily on the property tax to fund local government than any of the other cities covered in the report because of state laws restricting their access to other broad-based taxes. ..."

The standard property tax is actually two opposite taxes: the tax on improvement value, which is a measure of what the owner contributes to the wealth of the community, and the tax on land value, which is a measure of what the community contributes to the wealth of the owner. In addition, the tax itself affects land value but not improvement value, so the division of burden of the tax between land and improvements depends sensitively on the rate. The higher the rate, the less the tax falls on land and the more it falls on improvements. In Detroit, the high property tax rate has pushed land values so low that perhaps 90% of the burden -- and it is hefty, about 4% -- falls on improvements. This makes it effectively uneconomic to build improvements unless you can get a property abatement, which is exactly what Detroit has been doing to encourage tax development. The problem is entirely due to the tax on improvements, not the high rate of tax on land. If land rent only were taxed, you'd have lots of development, economic activity, and thus increasing location subsidy repayment (LSR) revenue. ..."