

# What Politicians Know About Land Taxation

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Supporters of land taxation view it as an efficient and effective means of financing government, and the concept has wide appeal among public finance scholars. Many economists, including several Nobel Prize winners, actively endorse this method of taxation, which taxes land value separately and instead of buildings and improvements. At least from an academic perspective, then, the case for the efficiency and fairness of a land-based tax system seems irrefutable.

Despite that support, the concept of land taxation has not been widely embraced in the United States. Property tax bases are set by state constitutional or statutory law, so local governments cannot implement a land tax, or its split-rate variant, without authorization from their respective state legislatures. Other than a handful of Pennsylvania cities that have adopted split-rate or two-rate tax systems, no American jurisdictions currently place higher tax burdens on land than on buildings and other improvements. Virginia recently responded to interest in two-rate taxation with legislation allowing two local governments to adopt graded tax programs, but they have not yet done so. While split-rate taxation is discussed periodically as a reform measure, there are no current proposals for its adoption awaiting action before a state legislature (Brunori and Carr 2002).

Statutory or constitutional enactment of a land tax would entail revising property tax laws that have been substantially unchanged for more than a century. In general, state legislators are cautious about implementing dramatic reforms in any public policy area, and comprehensive tax reform has been a particularly elusive goal. Adoption of split-rate or land taxation would be a dramatic change, requiring significant awareness, advocacy and support in the ranks of the legislature and at the local level.

There are few areas of government finance in which scholarly opinion and actual public policy diverge so dramatically. This situation prompted me to undertake two nationwide research surveys. The first survey sought to ascertain the level of knowledge of land taxation on the part of the nation's state legislators. Without an understanding of the issues presented by the taxation of land, legislators are unlikely to champion, advocate or even vote for such measures. I also surveyed local elected officials, because state legislators will not advocate any reforms without constituent support. Moreover, since the reforms at issue will affect primarily local government finances, any legislative body seeking to reform a tax system will solicit the views and advice of local officials.

## The Survey Questions

To gauge general awareness of the concept of land value taxation, the survey began with a broad question, describing it as "taxing the full value of land but exempting buildings, structures and other improvements from tax." The next question narrowed the scope to

determine familiarity with split-rate taxation, the version of land taxation practiced in Pennsylvania and authorized in two Virginia municipalities. Because it entails less dramatic reforms, split-rate taxation is the version of land taxation most likely to be adopted in the U.S. This concept was described as “taxing land at a higher rate than buildings, structures and other improvements.”

Legislative research has long found that state lawmakers are likely to support policies that they believe will foster economic development and oppose policies perceived to deter development (Beamer 1999). Taxing land at a higher rate than improvements has historically been thought to encourage building and investment by eliminating or reducing the tax burdens of improving the land. Thus, the third question asked for the respondents’ opinion on the effect that taxing improvements at a lower rate than land would have on economic development, defined as capital investment and job creation.

The proliferation of suburban sprawl is a growing concern among legislators and local officials across the country. The vast academic literature suggests that policy makers view sprawl unfavorably and that most officials think that policies that promote sprawl are unsound. Some public finance scholars believe that adopting split-rate tax policies will limit the negative effects of sprawl (Brueckner 2001). If this belief is true, split-rate taxation could play an important role in the continuing debate over policies intended to deter suburban sprawl. Question four asked what effect taxing improvements at a lower rate than land would have on sprawl. Sprawl was not defined in the question because the term can refer to a number of developments affecting density, suburban growth, loss of open space and decrease in population. Indeed, scholars have lamented the lack of a single operational definition of sprawl. Still, the perception of sprawl as an undesirable land use pattern and policy outcome warranted inclusion of the question in the survey.

Finally, state and local legislators are influenced by the desires and concerns of their constituents. The more important a particular issue is to constituents, the better informed a legislator will become about that issue. Thus, survey participants were asked if during the past year any citizens or organizations had contacted their offices with respect to the issue of split-rate taxation, and if so, whether the constituent supported or opposed the idea.

### State and Local Respondents

The first survey focused on state legislators who served on committees with primary responsibility for tax policy and local government finance during the period January–June 2003. There were 106 such committees in the 50 state legislatures, but I excluded those in Pennsylvania and Virginia. Since those states have either adopted or authorized graded tax systems, I assumed that their legislators would be more familiar with the concept and could bias the results.

For the second survey I chose city and county officials from 15 randomly selected local jurisdictions within the 25 largest metropolitan areas in the U.S. To insure a national perspective, I also included city council members from the largest city in each state.

Again I focused on officials with primary responsibility for implementing and administering public finance policy and excluded all jurisdictions in Pennsylvania and Virginia.

The survey questions were sent to 1,284 legislators, of whom 780 responded (see Brunori 2003 for more information on methodology). An identical survey was sent to 3,298 city and county officials, of whom 430 responded. The response rate for the state legislators was far above national standards, and the response rate for the local officials was considerably below national standards, but both were statistically significant.

Before revealing the results of the survey research, I must confess that I entered this project with a bias. Having worked in the state and local tax field my entire professional life, as a lawyer, teacher and journalist, I think about tax policy more than any sane person should and have come to know many state legislators and local public officials. In my experience, these government officials are quite capable of finding revenues to pay the bills, but they generally have little in-depth knowledge of the more philosophical and theoretical underpinnings of tax policy. So I assumed that few of them would understand what I was talking about when I began asking questions about land taxation. After all, I did not think most politicians were using their spare time to read Henry George's classic book, *Progress and Poverty*. I was quite surprised at the responses.

## The Results

In a country where there are virtually no land tax policies in place, the survey results show that a vast majority of elected political leaders do know about land and split-rate taxation (see Table 1). More surprising, to me at least, most political leaders are aware of the benefits of adopting land tax policies. More than 70 percent of the state legislators and 65 percent of the local government officials responded that they were either very or somewhat familiar with the concept of land value taxation, and 67 percent of state legislators and 65 percent of local officials were very or somewhat familiar with split-rate taxation.

The single most important policy goal (after public safety) that concerns American politicians is economic development. When asked about the relationship between the economy and land taxation, more than 62 percent of state legislators and 76 percent of local government officials replied that adopting a split-rate tax system would promote economic development. About one-quarter of both state and local officials thought that taxing improvements at a lower rate than land would have no effect on economic development. These results are arguably consistent with the conventional view that land taxation would have a benign effect on economic decision making. Only 5 percent of the state legislators and no local officials believed that taxing land at a higher rate would deter economic development.

One of the common misperceptions about land taxation is that it will lead to more sprawl, and many, but not a majority, of the respondents shared that misperception. Forty-one percent of surveyed state legislators and 46 percent of local officials said they believed

that adopting a split-rate tax system would lead to more suburban sprawl. About 51 percent of the state legislators and 53 percent of local officials surveyed said that split-rate taxation would have no effect on sprawl or would deter sprawl. The fact that so many respondents believe that split-rate taxation would foster more sprawl, presumably by encouraging development of open space in suburban and rural areas, should be troubling to advocates of land taxation.

Finally, a surprisingly small number of elected political leaders have been contacted by constituents regarding land taxation. Eleven percent of state legislators and 9 percent of local government officials said an individual constituent or organization had contacted them regarding the issue of land-based or split-rate taxation, and all were supporters of the idea.

### What Does It All Mean?

What originally sparked my interest in this research project was the disconnect between scholarly opinion about land taxation and political action to promote it. I thought this discrepancy might be the result of ignorance of the concepts of land taxation on the part of state and local political leaders. If state legislators and city council members were unaware of land or graded taxation, then they could not be expected to champion such reforms.

The survey results show, however, that this discrepancy cannot be resolved by looking at level of awareness alone. Most state legislators and local officials involved in public finance and taxation issues are familiar with both land taxation and split-rate taxation, and they know that moving to a split-rate tax system would have a positive effect on economic development. Moreover, a slight majority of those surveyed believe that graded taxes would have no negative effects on sprawl.

Since state and local officials know about land taxation and believe it could lead to positive policy outcomes, why are so few local governments using this method of public finance? It is difficult to answer that question without eliciting views on more technical aspects of land or split-rate taxation. Implementation of land taxation raises complex issues as to the feasibility of adopting major property tax reforms, the effects on other revenue sources, and the administration of a land tax system, particularly with respect to valuation. Solving the mystery as to why more jurisdictions are not exploring the policy of taxing land at a higher rate than improvements may lie in analyzing these important operational factors.

### References

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