

## Tax Reform and Urban Renewal

By STEVEN CORD

MANY URBAN RENEWAL AUTHORITIES have advocated, as an aid to solution of the problems of urban renewal, the gradual exemption of improvements from real estate taxation with municipal revenue derived instead from a heavier tax on land. How would this reform of the real property tax work?

The present real estate tax bears equally on land and buildings. In order to accomplish the transition to land value taxation in, say, ten years, the tax rate on buildings must be lowered to 0.9 of the land tax rate in the first year, 0.8 in the second year, then 0.7 and so on. At the end of ten years, there will be no tax at all on improvements—they will be completely tax exempt—and the municipality's revenue will be derived entirely from a tax on assessed land values. During this whole time, the total tax intake may have to be lowered or raised to suit the changing revenue needs of the municipality. But the ratio between the tax rate on land as compared to the tax rate on buildings will change according to the year as indicated.

Notice that the tax is applied locally, just as is the present real estate tax. Notice, too, that it is introduced gradually, in order to allow individual real estate owners enough time to adjust to the new tax situation. As will be seen, those owners who have been under-using their land will need this time to avoid financial hardship. Lastly, the land value tax must not exceed the annual rental value of a piece of land (otherwise the tax will start to bear upon the improvement). Perhaps an example will clarify the matter.

Imagine two adjacent pieces of land, both worth, say, \$10,000. One is vacant and the other has a \$50,000 building on it. If the real estate tax rate is 3 per cent, then the empty lot owner pays a tax of \$300 a year and his neighbor pays \$1,800 (you may well ask why the latter should be fined for improving the community and for providing extra housing). Because the building will gradually become tax-free under land value taxation, the empty lot owner would eventually be paying the same tax as his neighbor (and thus would be impelled to improve his land without suffering any tax penalty for so doing). The municipal real estate tax

would be levied entirely on land. Since land rent is usually about 6 per cent of land price, the land value tax on each lot could be increased to \$600 plus whatever is now being collected in land value taxation by the present real estate tax (assuming no changes in market values, of course). Beyond that figure no land value tax ought to go.

Allusions have been made to certain alleged benefits of land value taxation. They might now be sketched out.

In the first place, the tax would be quite easy to administer, or so the Australian, New Zealand and Pittsburgh experiences would definitely indicate. It is easy to see why: buildings are more difficult to assess than land, and eventually their assessment would become unnecessary. The real estate tax assessor's problems would be approximately halved.

Even more importantly, a tax on land values forces land to be put to full economic use. The land user must erect improvements that will at least yield an income to pay the tax, plus enough left over for profit. Rickety buildings on valuable land—*slums*—would therefore be strongly discouraged, and so would urban sprawl. Uneconomic use of the land would gradually disappear. Land use would be directly geared to land need!

Lastly, it can eliminate the burdensome taxation that falls on buildings and other improvements. This burden is borne by homeowners, factory owners, and tenants; in the case of commercial property, it is ultimately borne by consumers. We want new construction, and yet we tax buildings. We want to encourage new industry, and yet we tax factory buildings. We have run-down central-city cores, yet we heavily tax much-needed developmental efforts. Have not our tax policies contributed to urban blight in America?

Many people think that because cities need tax revenue, we have no alternative, but one does exist—land value taxation. It is the only tax that doesn't inhibit production but increases it. Who could keep land idle or underused if he had to pay a heavy tax on land values? Tax buildings and you discourage construction; tax land, and you force more of it onto the market! (Land is limited in supply but man-made wealth is not.)

These are not the only benefits of land value taxation, of course. There are others. But these are highly persuasive, I think.

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