

Our Article in Plan Canada Magazine: Can Land Value Tax Promote Housing Affordability?

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CAN LAND VALUE TAX PROMOTE HOUSING AFFORDABILITY?

Examining The Impacts of Shifting Property Taxes Exclusively to Land

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SUMMARY

As Canada's housing crisis intensifies, interest in Land Value Taxes (LVT) is rising. LVT is often proposed as a mechanism to encourage the development of underutilized properties and reduce disincentives in the current tax code, thereby lowering housing prices and increasing supply. An LVT that replaces property taxes may offer the potential to address roadblocks constraining housing supply, namely: funding infrastructure, diminishing individual gains and losses from zoning changes, and reducing the investment incentive distorting the type of housing being built. While not a cure-all, LVT could complement other policies aimed at enhancing housing availability and affordability.

SOMMAIRE

Alors que la crise du logement s'intensifie au Canada, l'intérêt pour les taxes sur la valeur foncière (LVT) s'accroît. La taxe sur la valeur foncière est souvent proposée comme un mécanisme visant à encourager le développement de propriétés sous-utilisées et à réduire les effets dissuasifs du code fiscal actuel, afin de faire baisser les prix du logement et d'augmenter l'offre. Une taxe sur la valeur ajoutée remplaçant l'impôt foncier pourrait permettre de lever les obstacles qui limitent l'offre, à savoir : le financement des infrastructures, la diminution des gains et des pertes individuels liés aux changements de zonage et la réduction des incitations à l'investissement qui faussent le type de logements construits. Bien qu'il ne s'agisse pas d'une panacée, la LVT pourrait compléter d'autres politiques visant à améliorer la disponibilité et l'accessibilité des logements.

As the housing crisis in Canada deepens, and policymakers search for more tools that they can use to increase the supply of homes and improve affordability, interest in Land Value Taxes (LVT) has grown in recent years. Proposed 100 years ago by economist Henry George, this policy is gaining renewed attention. In the past several years, LVT proposals have been championed in opinion columns,¹ advocated for by municipalities,² and featured prominently in public policy forums.³ Indeed, the Deputy Prime Minister announced in October 2024 that the Government is holding consultations on the creation of a version of LVT applied to vacant land. The promise underlying much of this renewed interest is that this policy can promote new development of the right type where it is needed.

Fundamentally, LVT are public levies applied to the value of land without regard to its structures or improvements. Like any tax, there exist countless variations in its application and rate, but it is primarily advanced in developed economies as a means to offset other taxes such as those on property or income. While the arguments for taxing the value of land are numerous, they can be distilled to their core moral, economic, and practical propositions: that land value is created by the community and thus can be rightly returned to a community through taxation; that land cannot be created nor destroyed and thus its taxation is non-distortionary; and that as an immovable good, it is an ideal tax base that can replace more distortionary taxes and the disincentives that they create.

While some LVT proposals are quite ambitious, the more near-term are those which would gradually shift taxes off structures and onto land – the sometimes-called split-rate tax. It is this version that drives much of the interest in Canada today, and for which there exists the most evidence in support of its ability to promote housing supply and affordability.

Such a shift, applied at the municipal level, enacted by provinces and territories, and potentially mandated or supported at the federal level, could have sweeping impacts to how housing is financed, built, and transacted in this country. Replacing property taxes that apply to the entire property value with a LVT that applies

exclusively to the land value could lower the purchase price of property and reduce the cost of building homes. Its adoption could fix the speculative market incentives which have produced the conditions for the present housing crisis and improve the effectiveness of other policies, such as zoning reform and transit investments.

HOW LVT COULD PROMOTE HOUSING AFFORDABILITY

By increasing the carrying cost of holding land, LVT encourages landowners to either make higher productive use of their property or sell it to those who will, increasing the availability of land for development, particularly in the urban core. By decreasing taxes on structures, it can lower the cost of building and the disincentive that current property taxes impose on densifying improvements.

Though its causes are myriad, the roots of the present housing crisis are no doubt found in the distortion of supply caused by the investment incentive. The pricing out of young families, immigrants, and low-income households from the housing market has led to a supply of new homes catering primarily to investors, rather than to those who actually need housing – the so-called financialization of housing. This dynamic has resulted in a glut of small, single-bedroom condos that are more attractive as investments than as places to live and

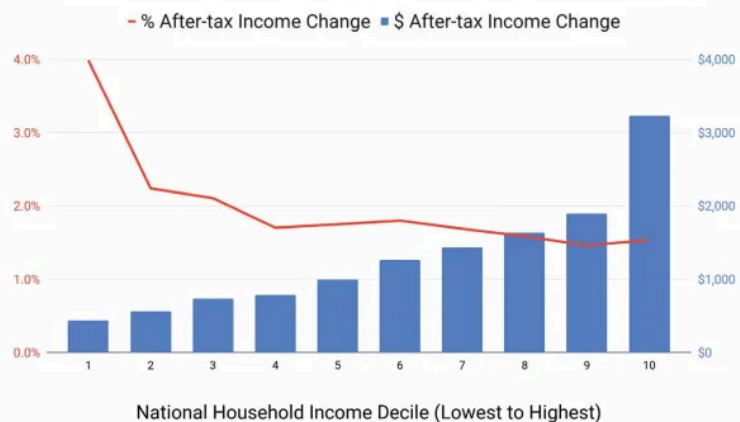
a dearth of family homes. As one recent CBC report noted, "Some of these places don't even have closets... investors aren't generally very choosy about whether the floorplan works... they just want the best value for their money."⁴

LVT can help address this problem by reducing the asset value and appreciation of land, which would lower the upfront cost of purchasing property, or, when introduced incrementally, functionally stall price growth.⁵ Lower land prices would reduce the financial barrier, credit requirements, and debt loads required for families to buy homes. This in turn could shift the composition of buyers in the market. Instead of investors driving demand, more households would be able to participate, sending a market signal that there is demand for family-sized homes, mixed-use developments, and other types of housing that better meet the needs of end-users. By making the primary cost of property (i.e., land) cheaper, LVT can help align the types of housing being built with the needs of households, resulting in better-designed homes and more equitable housing outcomes.

Even if this shift were designed to be as allocatively neutral as possible, there would still be winners and losers. In general, those who hold a higher-than-average percentage of land value relative to structure value would pay more, while those who own less

Distributional Impact of a 2% Residential Land Value Tax replacing Property Taxes

*This chart represents an illustrative case whereby a national LVT is adopted at a rate sufficient to replace all property taxes



than average would pay less. For nearly all families though, this is good news.

The chart on the previous page outlines such a case, whereby an LVT on residential land was adopted of sufficient size to replace the nearly \$64 billion raised nationally from residential property taxes. To do so, the rate would have to be set to around 2% of the land value after accounting for its price drop. One might further imagine similar revenue-neutral changes made to agricultural, commercial and industrial properties, but for the purposes of examining the distributional impacts on Canadian families, we limit this example to residential land. In this hypothetical case the average household in each decile would pay less in LVT than they currently do on property taxes, and therefore see a relative income gain.

This simplified example⁶ obscures the reality that the majority of low-income households rent and thus do not directly pay property taxes – nor would they pay LVT. It also averages highly variable property tax rates and land values despite the fact that a practical reform would be applied locally, with respect to those differences, by a municipality or province. It does, however, demonstrate that such a shift would generally be a progressive change. Though higher income households would experience a greater absolute gain (blue bar) due to their more valuable land holdings, lower income households would see a higher relative income gain (red line). This is due to the fact that lower income households spend a higher proportion of their income on housing and property taxes. Under this scenario, a near-average home valued today at \$675,000 would pay approximately \$4,500 in LVT but see a \$7,000 reduction in property taxes. While this may seem too good to be true, underdeveloped properties, land held speculatively, and corporate residential land holdings, including those owned by mom-and-pop investors, would generally pay more.

HOW LVT CAN ALLEVIATE DEVELOPMENT BOTTLENECKS

Just as important as the way in which LVT might directly induce new housing supply and improve housing affordability, are its second-order effects on bottlenecks within the development process. Perhaps the most glaring example is funding for the infrastructure requirements of new

housing projects, from sewers to transit. The Canadian Federation of Municipalities estimates that it will take an additional \$600 billion of new infrastructure by 2030 to support the housing targets set by the federal and provincial governments.⁷ Cities are clearly struggling to meet these requirements, causing long delays in the creation of housing supply today. Their limited ability to raise these funds, which largely rely on growth-pays-for-growth taxes like developer fees, artificially increases the cost and disincentivizes

the construction of the very homes the infrastructure is meant to support.

LVT provides an alternative to this model by converting the cost of infrastructure into an ongoing fee tied to land values generated by virtue of that very same infrastructure. A slightly higher LVT than the example given above could create a stable, long-term revenue stream for municipalities while reducing the reliance on one-time fees that distort the housing market. In effect, it would transform infrastructure funding into a user fee that applies in



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perpetuity, making it a more sustainable solution to the infrastructure challenge.

LVT may also alleviate regulatory bottlenecks that impede housing development. Zoning and approval processes are often slow and contentious, largely due to the financial stakes involved. Landowners who stand to gain or lose substantial sums from zoning changes have a strong incentive to resist reforms that could promote higher-density development. Indeed, such changes often result in large windfalls that the community views as patently unfair. By taxing land, LVT reduces the speculative gains or losses that landowners can realize from such changes, thereby lowering the financial stakes of these decisions. As a result, municipalities may find it easier to implement zoning reforms that would otherwise be opposed by those who believe the reform will materially impact their wealth.

With so many advantages, why has Canada not moved in the direction of Land Value Taxes? Possibly because enacting such a change, while simple in principle, requires support from all levels of government and an acknowledgement that their present policy prescriptions are failing. Municipalities could, however, take the lead, petitioning

their provincial governments to empower them to apply differing rates to land and structures. Provinces could begin to accurately and regularly assess land values (something only British Columbia presently does). The federal government could provide a national framework for LVT and reduce the risks for the early adopters. Land Value Taxes are by no means a panacea for our present crisis, but they are a complementary, if not essential, tool for the reforms that the nation's housing markets sorely need.

ENDNOTES

- ¹ Contributor, Peter Wills. 2023. "Land value tax could make housing more affordable." *Toronto Star*. September 2, 2023.
- ² "Restoration of Land Value Tax | Union of BC Municipalities." 2017. *Ubc.ca*. 2024.
- ³ Kulikow, Kristina. 2024. "Hunter Prize: Why Introducing a Land Value Tax Is the Key to Solving Canada's Housing Affordability Crisis." *Thehub.ca*. The Hub. October 29, 2024.
- ⁴ CBC News, "Why are so many big-city condos sitting empty? | About That," June 20, 2024, video, 12:18.
- ⁵ Estimate of an LVT capturing 30% of annual rental income (approximately

1.75% land asset value) introduced linearly over a period of 40 years. For more information visit: commonwealth.ca/research/lvt-sensitivity-analysis.

- ⁶ This chart was generated with data from the Statistic Canada's National Balance Sheet Accounts 2023 Table: 36-10-0580-01 and a custom tabulation of The Survey of Financial Security 2023 Table: 11100021.
- ⁷ Federation of Canadian Municipalities, "Backgrounder: New research-Canada's Housing Challenge is also an Infrastructure Challenge," November 23, 2023.

Floyd Marinescu is the CEO and co-founder of C4Media, a news and education company serving the software development community. He is also the founder and principal donor of two non-profits: Common Wealth Canada, which promotes land value taxes and returning publicly created wealth to Canadians; and UBI Works, which advocates for basic income. **Liam Wilkinson** is the Director of Research at Common Wealth Canada. **Ken Yang** is the Director of Media at Common Wealth Canada. ■

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