

PENNSYLVANIA

TAXING LAND AND BUILDINGS AT DIFFERENT RATES

In Pennsylvania, an arcane property tax structure is credited with helping revitalize communities, put vacant and underutilized land to use, and improve housing affordability, for both renters and homeowners.

✓ Taxing land and buildings at different rates

The land value tax, also called a two-rate property tax and a split-rate property tax, is currently in use in 16 municipalities in Pennsylvania. A typical property tax assesses taxes on land and the improvements on the land at the same rate. In contrast, land value taxation places a higher tax on land while reducing or eliminating the tax on improvements.

Henry George, a late-19th century economist, advocated the idea of taxing land in the interest of fairness. He believed that an increase in the “natural value” of land (or the unimproved value) is unearned, making landowners speculators. Therefore, he believed taxing this value would not affect productivity. Similarly, proponents of the land value tax today believe that taxes on the improvements on land place the tax burden on those who generate economic growth.

Land value taxes may improve housing affordability and revitalize declining cities

The Center for the Study of Economics, a Philadelphia-based nonprofit started in 1980, advocates for land value taxes in communities around the country. Joshua Vincent, the Center’s executive director, explained that a land value tax implemented to be revenue neutral (to leave overall property tax revenues unaffected) improves housing affordability in two ways.

First, it reduces property taxes for most homeowners. “Most people getting a first house don’t take advantage of benefits to homeownership, like the mortgage deduction, because their incomes aren’t high enough [to itemize and claim the mortgage deduction],” Vincent said. In contrast to the mortgage deduction,

reducing property taxes for homeowners improves affordability regardless of income.

Second, Vincent describes a land value tax as a “stick” that encourages development by increasing the expense of holding vacant or underutilized land. The land value tax encourages denser development, because unlike a property tax that assesses land and improvements at the same rate, there is no disincentive to develop the property. This includes denser residential development, which can be more affordable than new construction on large lots.

“This flips the script by punishing disinvestment and rewarding investment,” said Vincent. However, for a land value tax to have an impact on development in a community, Vincent says the tax on land must be at least five times higher than the tax on buildings.

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-Joshua Vincent

For example, Harrisburg, PA, had a moribund downtown when the land value tax was first implemented in 1975. The tax on land was about twice the rate of the tax on buildings until 1982, when one observer ranked Harrisburg the second most distressed city in the country. The tax on land was increased incrementally until it was six times the tax on buildings, where it remains. Since then, there has been an 85 percent reduction in the number of vacant properties, and there were 3.5 times the number of businesses on Harrisburg’s tax rolls in 2003 as there had been in the early 1980s.⁸⁸

Vincent cautions that a land value tax does not work quickly: “It generally takes five to ten years to see results,” he said.

Communities with vacant and underutilized property are ideal candidates for a land value tax

The Center for the Study of Economics conducts research on the land value tax and assists communities interested in implementing the tax. Once the tax is in place, the land value tax is not administratively complicated. “Towns of 6,000 people – they manage to implement it,” he said.

According to Vincent, the best candidates for a land value tax are communities with high numbers of substandard housing units and buildings and vacant or underutilized lots. “If there’s an abundance of these, that’s an indicator that we should implement a land value tax,” he said. In addition, the tax should result in property tax savings for most residential parcel owners.

Savings to homeowners on property tax bills vary widely by community. Vincent says the highest savings to homeowners are in communities with high building values relative to land values. In general, he said homeowners can expect to save about 25 to 40 percent annually on their property taxes.

Of course not every property owner is better off under a land value tax. In Philadelphia, Vincent says opposition to the tax is led by parking lot owners. Other types of commercial property, such as gas stations and convenience stores, which are more land intensive than building intensive, also pay higher taxes.

Adopting a land value tax can be controversial

A typical approach to evaluating whether a land value tax will work in a community involves calculating the change in property taxes for each parcel in the community and providing an assessment of the revenue impact for the city and each parcel. “The city looks at the implications: if they see that our productive citizens, those keeping up their property, will be rewarded, they adjust the property tax ordinance,” said Vincent.

Vincent says adoption of a land value tax is often done quietly, without much community outreach or involvement. Although voters aren’t typically involved in adoption of the land value tax, Allentown, PA, provides evidence that voters can enthusiastically support an issue that can be difficult to explain. In Allentown, after contentious debate and a great deal of lobbying by opponents, a land value tax ordinance on the ballot passed with 60 percent of the vote in 1996. An effort to repeal the tax about a year later, led by a small number of commercial landowners including owners of a large fairground in the city center, was overturned.⁸⁹

However, a significant challenge to organizing support for a land value tax is that the relatively few property owners who will face substantially higher bills as a result

of the tax are typically better organized than individual homeowners, who do not have as much at stake financially.

To date, the Center for the Study of Economics has focused its efforts in Pennsylvania. “Now we’re trying to spread the word elsewhere,” said Vincent. The big island of Hawaii also uses a land value tax, but most states do not have enabling legislation authorizing municipalities to implement a land value tax.

Vincent expects state enabling legislation to be introduced in Connecticut, New York, Minnesota, and possibly Indiana during the next legislative year.

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