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Testimony prepared by Arthur P. Becker,
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I wish to thank Senator Albert S. Rodda and other members of the Senate Revenue and Taxation Committee for giving me the opportunity of testifying on behalf of reforming the property tax in the direction of land value taxation. The benefits of such a reform are so many and the difficulties so few that the scale tips overwhelmingly in favor of land value taxation. I have set forth most of my reasons for supporting land value taxation several years ago in an issue of Tax Policy entitled "Land Value Taxation: Pro and Con."^{1/} In that particular article I identified forty reasons why the enactment of land value taxation would benefit our society. These benefits are in the form of greater equity, economic advantages, lower public expenditures, and improved land use and environmental quality. I do not plan to go into most of these reasons in my prepared testimony, however, I will submit a copy of that publication along with my testimony and will be happy to discuss any of these reasons later should any member of the Committee desire me to do so.

I will therefore limit my prepared statement by addressing myself to some of the issues often raised by skeptics of land value taxation. The issues and my answers follow:

^{1/} Arthur P. Becker, C. Lowell Harriss, Manuel Gottlieb, and A. H. Schaaf, "Land Value Taxation: Pro and Con," in Tax Policy, Volume XXXVII, Nos. 9-12, Tax Institute of America (Princeton, September-December 1970).

Issue #1. Is it possible to achieve economical and accurate land assessment?

Answer: Dr. J. F. N. Murray, former Valuer General of Australia writes that (1) equity in valuation can be more easily achieved when the rating is based on land rather than a combination of land and buildings; (2) considerable economies can be achieved if the valuer general does not need to maintain records on the character of buildings; (3) most of the errors in valuation involve buildings and not land; and (4) use of cadastral maps not only readily permits equalization of land values but reference to such maps makes it very simple for an aggrieved owner to determine whether he is treated equitably. Furthermore, he strongly advocates land value taxation because of its simplicity and the relative ease with which inexperienced civil servants can be trained to do the job.^{2/}

We are also given assurance by assessors that these same benefits can be realized in the United States. Mr. Kenneth Back, Finance Officer of the Government of the District of Columbia has written, "If it can be assumed that what is sought in site value taxation is current market value of land, then I see no insurmountable valuation problems."^{3/} Another

^{2/}See A. M. Woodruff and L. L. Ecker-Racz, "Property Taxes and Land-Use Patterns in Australia and New Zealand," in Land and Building Taxes, Arthur P. Becker, editor (Madison, 1969), p. 180.

^{3/}Kenneth Back, "Land Value Taxation in Light of Current Assessment Theory and Practice," in The Assessment of Land Value, Daniel M. Holland, editor (Madison, 1970), p. 41.

distinguished assessor sees it entirely feasible to achieve economical, accurate and current land assessments is Mr. Ted Gwartney, former Deputy to the Assessor of Sacramento County, later Assessor of Hartford, Connecticut, and currently the Deputy Assessment Commissioner of the newly created British Columbia Assessment Authority, has written how he has achieved more economical, accurate and current assessments of both land and improvements with modern techniques.^{4/}

^{4/} See Ted Gwartney, "A Computerized Assessment Program," in The Assessment of Land Value, op. cit.

Issue #2. Will land value taxation produce an excessive density of population and capital structures in urban areas to the detriment of the area because of lack of social amenities, excessive vehicular traffic, and air pollution?

Answer: Land value taxation will improve the maintenance of present structures and increase investment in improvements, especially in those areas where social amenities are the greatest. The demand for land is the strongest and investment opportunities are the greatest where social amenities abound. Land will tend to be used more efficiently and less wastefully. However, whether the increased incentive in the production of capital structures will lead to excessive structures and population density is doubtful.

Land in most municipalities is generally developed far below the levels permitted by zoning ordinances. The amount of increased capital development subsequent to the introduction of land value taxation will be limited by the supply of available capital and the demand for facilities. While some extremely well located sites may attract intensive capital improvements, I do not see this occurring generally throughout an entire urban area. Average land use will very likely still fall far short of zoning limits.

Excessive vehicular traffic and air pollution is the result of sprawling urban development which requires persons

to drive long distances to effect their normal linkages between their homes, jobs, shops, schools, and recreation. Land value taxation would gradually reduce these driving distances, or at least place some restraint upon the many forces that are causing these distances to grow ever greater, forces which have increased our dependency upon motor vehicles and their use, which in turn has resulted in the present state of vehicular congestion and air pollution.

Issue #3. Do not studies of the probable effects of land value taxation on tax payments indicate a shift of the tax burden to low-income housing in urban areas where the ratio of land value to total assessed value is greater than average? Is not, also, another probability, a tax shift away from residential housing in the suburbs where the ratio is below average? If such is the case, what justification is there from the perspective of tax equality for site value taxation?

Answer: Land value taxation will increase tax liabilities, more or less, on housing for all income levels where the ratio of assessed land value to total assessed value is greater than average. Conversely, land value taxation will decrease tax liabilities, more or less, on housing for all income levels where the ratio of assessed land value to total assessed value is less than average. There is no evidence that land value taxation will cause a shift of the tax burden to low income housing generally. In fact, there is some evidence that tax burdens in the core of our largest cities may well decrease.

The impact on residential housing in the suburbs will depend upon whether the land value tax is enacted by the suburb and other taxing jurisdictions with the same boundaries or by a government with a broader geographic jurisdiction such as the county. In the former case, no shift in tax burden would occur. In the latter case, the average tax increase may be minor, and a very large minority, say 40 to 45 percent of the taxpayers, may actually have their taxes fall.

The equality or equity inherent in and derived from land value taxation is based upon a number of reasons. No other is more important than the fact that land is a gift of God. Furthermore, the value of land is not determined by the land owner, but rather the quantity and quality of local public improvements and service as well as the very presence of the other persons in the community. A third basic reason for regarding land value taxation as equitable relates to the untaxing of improvements which removes a substantial tax burden from the fruit of man's labor.

However, much of the equity of land value taxation is based upon the numerous beneficial effects which would accumulate over the long run. These equitable benefits include an increase in the quantity and quality of new housing as well as an improved quality and longer retention of existing housing except where it is replaced by a new structure. Corollary benefits include increased activity and employment in the construction and building materials industries.

In order to avoid potential opposition from homeowners whose taxes would increase, two measures may be taken. They are:

1. The circuit-breaker--a device which provides tax credit and/or tax payment for low income recipients of any age. Since this measure deals with low-income persons, it provides assistance where needed and not in a general and indiscriminate fashion.

2. Tax relief only for those home-owners whose taxes would increase with land value taxation, say up to \$100. This tax relief should apply only to home owners as of the date that land value taxation was enacted. This tax relief should continue until:

- a. the property is sold;
- b. the property is leased;
- c. the land is improved by a substantial amount, in which case the amounts of tax relief shall be reduced appropriately until total improvements rise to that level which indicates that the ratio of improvements value to land value is equal to the community average at the time of the enactment of land value tax. The rationale for the cutoff of tax relief at this point is based on the fact that any owner of property with an improvements value to land value ratio equal to the community average would not have experienced an increase in his taxes, and therefore would not have been eligible for tax relief. This is in accordance with the sound tax principle that taxpayers in essentially the same circumstances should be treated alike.

Issue #4. If capital improvements are eliminated from the property tax, obviously the effect of the property tax on land use will be changed; otherwise, there is hardly a substantive argument in favor of land value taxation. The question is: Will the impact of land taxation be more socially desirable or is it not possible that land taxation will produce a more intensive development of land directed toward the maximization of the return from land, the effect of which will be to eliminate such non-competitive uses of land as are provided by historic structures, restaurants, retail stores, etc? If the latter is the case, how can a socially desirable tax impact effect be achieved if land value taxation is introduced? Would more effective land use planning and zoning be the answer?

Answer: While land value taxation will tend to produce a more intensive development of advantageously located sites, the extent of such development will be limited by the demand for facilities. The land value tax is neutral with respect to development, whereas the real property tax is detrimental to development. The total supply of housing will rise and make available more and better housing at lower cost for the poor as well as for middle and high income persons. The supply and quality of other facilities such as retail stores and restaurants will rise and their rentals will fall. Thus, land value taxation will bear more kindly upon marginal users of housing and business facilities.

Moreover, under the real property tax many older structures that are used for housing the poor and marginal business enterprises are often demolished in order to save the taxes on improvements without plans for redeveloping the site with another structure. This incentive for the pure demolition of older structures, including historic buildings will disappear under land value taxation, since the razing of these structures will not lower the owners' taxes.

If a building of considerable historic value occupies a site of great economic value even the real property tax may not save it. Thus, under either the real property tax or the land value tax the community is faced with two options: either removal, that is relocation, of the structure to another site, or the granting of tax exempt status to the property.

Issue #5. Would the change effected by land value taxation on non-urban land operate in such a manner as to increase the intensity of land use in scenic areas, such as Lake Tahoe? Would more intensive land use produce adverse effects on the environment and scenic beauty? If so, how can such effects be prevented or mitigated? Why are some conservationists against land value taxation?

Answer: It is very likely that pressures will increase for a more intensive use of scenic lands that are popular. However, the present extensive use of land in popular scenic areas may produce even more adverse effects on the environment and scenic beauty. In order to prevent or mitigate such effects it is necessary and desirable even now with the real property tax for land use in scenic areas to be properly planned and effectively zoned.

Conservationists sometimes oppose land value taxation because they mistakenly regard the more intensive use of land as being anti-conservation. As a matter of fact, land is utilized more efficiently when it is used intensively, and conservationists should advocate a more efficient use of resources, including land, and a less extensive or wasteful use of resources.

Issue #6. What is the probable effect of land value taxation on the costs of local government which are associated with the provision of land-related government services--streets, transportation, power, sewage, water, etc?

Answer: The costs of local government which are associated with the provision of land-related government services have expanded in an explosive manner since World War II. If urban growth continues, land value taxation will promote a more orderly development of urban land from rural land and will result in greater efficiency and lower costs in the provision and operation of various distributive facilities such as streets, and water, sewer, electric power, and gas mains.

Not only does the real estate tax promote inefficient and costly horizontally urban development, it is also prejudiced against and punitive against vertical development in urban areas. Vertical distributive facilities such as stairways, elevators, escalators, water and sewer pipes which run between floors of buildings not only must be privately owned and financed but are even taxed.

The land value tax would remove the tax on vertical distributive facilities and thereby establish a tax neutrality as to the direction of urban development. As a consequence, even though the government continues to stand willing to provide more horizontal distributional facilities at great public expense, many owners will prefer to provide their own distributive facilities vertically at their own expense, thus saving taxpayers a great deal of money.

Issue #7. What is the relationship between land use planning and land value taxation? Is it more positive than the existing property tax base? Can one reconcile site value taxation with effective master planning and zoning of land?

Answer: Dr. F. Stuart Chapin, Jr., one of this country's foremost educators in planning, states that "A knowledge of the structure and functioning of the urban economy is fundamental to all land use planning analyses. The destiny of an urban center is controlled by the extent and character of its productive and income-producing activity and by its general vitality."^{5/} Now, under the real property tax the true extent and character of an urban economy's productive and income-producing activity is partly camouflaged and not in clear evidence. However, since land value taxation is neutral in its effect on economic productivity, it cannot camouflage or mislead citizens or planners as to the true extent and character of productive and income producing activities as well as its basic economic vitality. Thus, the planners would have a clearer picture of the economic forces that determine land use, forces that must be reckoned with if planning is going to be sound and effective. Successful planning works with economic forces and guides them in ways that are compatible with community objectives.

^{5/}F. Stuart Chapin, Jr., Urban Land Use Planning, Second Edition, (Urbana, 1965), p. 107.

Vacant land, poorly used land, abandoned land, and sprawling development of urban land use all undermine the effective planning of land use. Land value taxation will reduce such wasteful land use and therefore improve the chances of successfully implementing land use plans and allow them to play a more meaningful role than that which they play under the real property tax.

Issue #8. Since the elimination of the tax on improvements will tremendously benefit the providers of utility services, railroads and power, for example, what justification is there for such an outcome? If there is, what action may be taken to offset the tax shift?

Answer: The heavy tax burden that is traditionally levied on public utilities and railroads is passed on to consumers if market conditions permit. This was decided many years ago by the United States Supreme Court ^{6/} Therefore, one might very well question the rationale of making consumers of utility services finance public improvements and services in accordance with their consumption of utility services. Fortunately, the regulation of public utility earnings is fairly effective in many states and any tax reduction for public utilities and railroads arising out of land value taxation should and probably will be passed on to consumers in the form of lower rates if the tax impact leads to unreasonably high earnings.

^{6/} Galveston Electric Company vs. Galveston, 258 U.S. 388 (1922).

Issue #9. Will the application of site value taxation result in a tax shift to agriculture and, as a consequence, adversely affect that industry? Is it reasonable to argue for arable land use restrictions in order to provide a land assessment based on land use restricted to agricultural production?

Answer: If the standard for assessing agricultural land is market value, the application of land value taxation by a county, in which the land is devoted partly to urban and partly to agricultural uses, may cause taxes to rise on agricultural land that is generally adjacent to rapidly growing urban areas. Other agricultural lands including cattle ranches and dairy farms further removed will enjoy lower taxes.

If arable land use restrictions were applied to agricultural land directly in the path of such vigorous urban growth for the purpose of preventing assessments and taxes from rising, then the demand for additional urban land will be forced out to more remote agricultural lands and their prices, assessments and taxes will increase. Now, if land use restrictions were placed on all agricultural land throughout the county, this would bid up the price of land in the urban areas and make it less available to those who must use it. This disadvantage will be partially offset, however, by the untaxing of improvements in the urban areas as well as in other parts of the county.

Since land value taxation will result in a more efficient use of land, the application of the tax throughout a county will allow a certain amount of population growth in urban areas to be accommodated within the boundaries of urban municipalities and remove some of the pressures on adjacent agricultural land that now leads to higher assessments and taxes.

Inasmuch as urban sprawl is so extensive in many parts of California, land value taxation can be somewhat more successful in curbing sprawl in California than in many other states. As a consequence, land value taxation may be quite effective here in relieving tax pressures on agricultural land, i.e., both on bona fide farmers as well as land speculators. Accordingly, land value taxation will reinforce the goals of the Williamson Act, *as stated in paragraphs (a), (b), (c), and (d) in Section 51220 of the Government Code.*

Issue #10. Is there evidence of theory to indicate with reasonable assurance the impact of land value taxation on the taxation of industrial and commercial property vis-a-vis owner-occupied residential homes?

Answer: The comparative impact of land value taxation according to urban land use does not always follow set patterns. However, there is at least one exception, namely, that taxes on vacant land will rise by a factor which is the ratio of the aggregate assessments of improvements over the aggregate assessed values of land in the community. Conversely, land that is utilized will on the average enjoy lower taxes. To illustrate, in a recent study that I concluded in Milwaukee, I found that if land value taxation had been enacted in 1972, taxes on vacant land would have risen by 253 percent, whereas aggregate taxes on improved real property would have fallen by 4.1 percent.

Moreover, as a rule, a substantial percentage of properties in all classes of land use will have their taxes both rise and fall. The magnitude of change in tax liabilities is ordinarily less for most owner-occupied residential properties than is the case of owners of commercial and industrial properties.

Whether commercial and industrial properties will have their taxes increase or decrease will be determined by the dominant character of most of these holdings.

For example, if most industrial property in a given county is heavy manufacturing with large investment in improvements on relatively inexpensive land, such property as a class will enjoy tax reductions. If a county is characterized by extensive commercial and industrial development in which the value of land so utilized is high compared with the improvements on them, it is entirely likely that residential property will enjoy a lower tax in the aggregate, especially if most of the residential property is owner-occupied.