

## ASKING QUESTIONS TO LEAD TO SOME ANSWERS: HOUSING AFFORDABILITY

Comment posted on LandCafe@yahoo.com Dec. 10, 2017 in response to Wyn Achenbaum's TaxShift@yahoo.com post 12-9-17 post about a recent article, <http://www.care2.com/causes/majority-of-californians-have-considered-moving-due-to-high-housing-costs.html> that this might be useful for someone doing social media and other writing.

edod08034@comcast.net posted: I tried to post a comment to this article, but was required to set up an account which I did not wish to do. Here is what I wrote, which may be useful to others:

In an effort to slow the rise in property taxes back in the 1970s, Californians chose the worst solution possible with the passage of Proposition 13. A far better answer would have been to adopt a "circuit breaker" that allowed occupants of a residential property to apply to have their annual tax PAYMENT capped based on affordability. The amount owed but not paid would accrue as a lien against the property to be paid at time (continued on page 9)

### ASKING QUESTIONS (from page 3)

of resale or transfer of ownership via inheritance. A key administrative function is for property assessments to be kept up-to-date based on current market values.

More fundamental from the standpoint of economic policy, property improvements should not be taxed at all. A building is a capital good that depreciates over its life. Taxation of capital goods penalizes owners for plowing financial reserves into the property for ongoing maintenance, modernization and system replacement. The tax on a house is equivalent to imposition of a sales tax year after year.

Exempting property improvements from the tax base, relying only on the value of land, greatly simplifies the assessment process (reducing costs dramatically). The amount of annual tax on land value should equal or come close to the potential annual rental value of the location. The logic is simple. Every parcel or tract of land has some potential annual rental value. This value is not created by any individual owner. It is a function of demand, and demand is a function of locational advantages. Some advantages are provided by nature, such as ocean-frontage; and, the value of these and all locations is enhanced by the quality of public goods and services brought to the location. Thus, the value of locations is publicly created and is the appropriate source of public revenue.

These measures need to be implemented over a sufficient period of time to permit property owners to respond. I suggest a minimum of five years and a maximum of ten years. At the end of this period, land prices will stabilize and begin to fall to levels affordable to most working families and individuals. At the same time, local communities will see revenue for schools and other public goods increase, as land owners will have a strong financial incentive to develop the land they own to its highest, best use, or sell to someone who will. <<