The Land Tax - An Overlooked Planning Tool?

Thomas J. Shepstone

Controlling sprawl and stimulating economic development are two of the most vexing problems perpetually facing planners. The conventional instruments of change, indeed, are unreliable, vulnerable to politics and often little more than low impact Rube Goldberg bureaucratic mechanisms. New tools designed to work with economic forces and not against them, tools that can actually make a difference, are demanded. The land tax, an old idea first promulgated by Henry George in 1879, may be such a tool. It's already in use in Pennsylvania.

The land tax is simply what the name implies - a property tax assessed either on land value alone or at a lower rate on improvements than on land. It sheds lights on the dark shadow of the property tax, its depressing impact on incentives to improve land, the fact that every such improvement is immediately and forevermore penalized with a tax increase. A land tax, however, turns this disincentive on its head and puts the property owner in the position where the easiest way to reduce his or her property taxes is to improve land, thereby spreading tax overhead and generating revenue to pay for it. Only sitting on a property and doing nothing with it is discouraged under a land tax.

The significance of this effect to stimulating economic development in depressed areas, particularly downtowns, should be obvious. What better incentive could be offered to a landowner, developer or investor than to guarantee there will be no tax increase now or in the future as a result of their efforts to upgrade their property? The scaled property tax incentives state legislatures have typically offered (e.g., 50% abated the first year, 45% the second, etc.) are but faint imitations of the land tax and its value. Moreover, when developers are encouraged to put downtown land to its highest and best use, the thrust of urban sprawl is blunted. Instead, there are compelling reasons to first develop the highest-value land found near population centers.

Henry George's concept of the land tax, first advanced in his classic text, "Progress and Poverty," advocated it as a means of giving labor its due and redistributing wealth through capitalism. He offered, as an analogy, the example of Mohammed Ali who found that imposing a tax on date trees "caused Egyptians fellahs to cut down their trees; but a tax of twice the amount imposed on the land produced no such result." George's "remedy" to the situation he found in 1879, the side by side existence of enormous wealth and hideous poverty in the midst of the American Industrial Revolution, was a tax that would raise revenue without discouraging production.

While property taxes have certainly caught on since then and his book was quite popular at the time, the concept he envisioned did not take root immediately. It ran counter to the interests of barons who wished to clearly hold land in speculation until governmental investments in infrastructure increased its value, a challenge which still faces land tax adherents. Nonetheless, there are now real-life examples indicating that Henry George was right - the land tax sets the stage for economic development in downtowns and this can discourage sprawl.

Pennsylvania communities have provided the leadership on this issue. The Commonwealth has, since 1913, authorized the use of two-rate property taxation whereby buildings are taxed at lower rates than land for certain classes of municipalities and there are now several legislative proposals to extend this privilege to other communities as well. The evidence from the dozen or so cities who have applied the concept is quite positive. Among them is Harrisburg, Pennsylvania's capitol.

Harrisburg adopted a split-rate system in 1975 that taxes buildings at one-third the rate of land and it collects 36% of all city real estate tax dollars from land. According to its Office of Business and Industrial Development, the number of vacant structures, some 4,200 in 1982, has now dropped to less than 500 and over $700 million in new private investment has been attracted. It was, in fact, voted the No. 2 "best investment" city in the Eastern U.S. two consecutive years in a national banking institution poll. Crime and fire rates have dropped while businesses, private sector jobs and homes have increased in number after 3 decades of decline. The City's Mayor, Stephen Reed, writing to an Allentown Home Rule Charter Commission member (that city recently chose a 2-rate tax by referendum), stated "our two-tiered rate policy has specifically encouraged vertical development, meaning high-rise construction as opposed to low-rise or horizontal development that seems to permeate suburban communities and which utilizes much more land than is necessary."

Additional data can be gleaned from a number of readily available sources and for those who wish to obtain more information or to further examine the underlying philosophies regarding the land tax, the Center for the Study of Economicsis an excellent starting place (**www.urbantools.net**). The land tax is finally gaining some momentum after a century or so of consideration.

Why has it taken so long? The vested interests of land speculators are an obvious reason. They ridiculed George's ideas when he pronounced them and were in a position to control events. This obstacle remains, but the more serious hindrance is lack of knowledge. The conventional property tax is taken as a given and politicians forever seek to "increase the tax base," ignoring the costly impacts of sprawl and resorting to such unimaginative and devastating alternatives as local sales and wage taxes when they no longer dare to raise rates.

We planners, too, have been ignorant. We preach against sprawl and cite facts to prove residential properties are tax-losers, but our solutions of regulation, special incentives and grant-funded projects seldom work the way we hope and usually have but limited effects. They are typically more complicated than need be and not very cost-effective. Our voices also fail to carry the influence we desire because we've sometimes let the profession become associated with anti-growth interests. Worse, we act as if land planning has nothing to do with land economics, as if the former could be imposed upon the latter, when the opposite is more often the case.

If we hope to make a difference, we must become more knowledgeable in land economics and taxation and put that learning to work in helping elected officials devise revenue-raising methods which do not topple that for which we stand. The land tax is such a method and we need to infuse budgeting debates with understanding of its principles and the land use consequences. The groups who have kept alive and promoted the concept are not likely to carry it forward very far because they've, too frequently, made it part of fairly radical environmental and labor agendas. Such methods will not serve to mainstream or sell the land tax concept and fail to acknowledge the very practical benefits the tax offers or the fact it frees property owners to make more productive use of their capital as well as labor.

As planners we are in a position to both see and explain those benefits and we must do so. Sprawl is a community disease and our number one enemy. The land tax, by encouraging the development of downtown and higher-valued properties with existing infrastructure first, provides a real antidote to complement our zoning placebos. It also, thereby, serves as a non-regulatory tool to lower the pressure on rural open spaces and agriculture land. Some will fear land taxes could encourage the development of these areas and want to piggyback open space and agriculture preservation programs onto them, but that is easily done and only serves to enhance both efforts.

The land tax should also be advocated by planners as a tool which can be used to effectively stimulate downtown revitalization without the necessity of large public investments. Conventional property tax increases, wage and occupational taxes and special sales taxes all serve to chase business out of the downtown and discourage building improvements but the land tax has no such negative impacts. It is the perfect assist for enterprise zones and Business Industrial Districts, provided they encompass entire jurisdictions and don't promote intra-community competition.

The land tax, finally, offers a unique opportunity to pull together the often disparate interests of economic development and environmental groups. Opportunity abounds for both in pursuing this remedy. It should be included in land use and economic development elements of Comprehensive Plans and it has much to offer fence-riding politicians as well. They can raise revenue with no negative impacts on development and they get to offer something to both their pro-growth and anti-growth constituencies.

The task facing planners presents challenging new ground. It is an opportunity to lead. Partnerships with research groups are needed to do more land value taxation studies of individual municipalities. The concept cannot be advanced unless citizens and leaders have facts in front of them to know how others have fared and how they will do under land tax and how it might be phased in. Planners must start analyzing land tax options as part of the Comprehensive Planning process and incorporate their research into those efforts. The gains to be had are many and despite all our well-intentioned best efforts at planning, we must admit the rewards of our conventional regulatory and grantsmanship approaches have been limited. It can be a frustrating profession, but the land tax is one tool which holds the promise of making plans into reality and we ought to take a long hard look at it.

To comment on ***The Land Tax - An Overlooked Planning Tool?*** **CLICK HERE**.