Greening the Property Tax

by Kris Nelson, Salem, OR

Imagine a change in property taxes that would cut taxes for most homeowners and business tenants, stimulate building and jobs, save farmland and open spaces, and reinvigorate our urban centers. A dream? Maybe, but it is a dream that is working in several US cities and in entire countries.

Oregonians' distaste for property taxes makes economic sense. Property taxes discourage housing and business improvements and home ownership. Property taxes stifle lending and boost inflation. They feed land speculation, the scourge of growth management.

While the property tax deserves its bad reputation, we have mistakenly included its close cousin, the tax on locations. The bothersome property tax is really two opposing taxes in one: a levy on structures and a levy on the location below. Taxing buildings versus levying sites yields quite different results.

Improve the value of the structure, the tax increases. But for land values, location is everything. Nothing the owner does to the structure increases the land value. Its worth rises when actions by others - government, neighbors, and society - changes the market value of a location.

If a plot in Portland has doubled in value in five years it's because so many people have poured into a desirable place. As lone owners, we cannot do much to raise land value. Land has value because nature made it useful and because many people want to call it their own.

Low property taxes may seem like a boon to all, but who it really benefits is the speculator, the owner who is not improving now but is waiting for the price of the location to go up. When it does, the speculator cashes in, big time. It's money for nothing, meaning somebody else is getting nothing for money. Who might that loser be? Society at large, the residents responsible for driving up local land values in the first place.

Since land speculation is not productive, pushing development to marginal locations, the trick is to eliminate the property tax on housing and business improvements and increase the tax rate on the land itself. This gives an added incentive to build in downtown and urban areas since the tax penalty is removed for building in vacant or under-used lots. Speculation becomes too expensive in urban areas. To pay the higher levy, owners would put their sites to the highest and best use - or sell to someone who will.

Shifting property taxes off structures and onto land produces economic and social benefits. First, the most valuable sites in urban and suburban centers are developed. Yes, density happens. It increases the quantity of homes, just as untaxing them increases the quality of homes. More homes means lower home prices, letting more renters buy in. Pittsburgh, along with 15 other towns in Pennsylvania, taxes land higher than buildings and enjoys a higher rate of owner occupancy than most major cities. With its stable neighborhoods, it has a crime rate rivaling that of a small town. A region of owners, as Thomas Jefferson noted long ago, is healthy for democracy.

Second, most people would get a tax cut. If property taxes were replaced by a revenue-neutral shift to land-value dues, studies of Washington's Clark and King Counties found that tax levels would more than double on parking and vacant building lots and increase by up to one fourth on car-oriented commercial strip development. It would reduce taxes moderately on pedestrian-friendly neighborhood shopping areas, by one-third on apartments, condominiums, and industrial sites, and by five percent for single-family residences.

Overall, the tax burden shifts relative to the intensity of land use. If the location is used to its potential based on area market value, the tax burden decreases. While land-value taxes bridle sprawl, we need controls such as zoning for ecologically sensitive areas. A minute portion of the land-value increases from government givings can support a conservation easement fund similar to Metro's Open Spaces. So could a land purchase deposit system that works like a conservation and equity insurance policy.

Third, not only would this tax shift bolster growth management, it would also shrink the size of local government. Since land-value assessments do not require building appraisals, rates can be set without armies of assessors. As area market values of land matter, not individual sites, taxpayer disputes become rare. That relieves another office of tax arbitrators and attorneys.

Over 40 years Pittsburgh clearly has weathered the political debate around shifting to a land tax. Could it be that this tax reform enjoys bipartisan support because it is both just and efficient? Rick Rybeck of the Washington, DC, Department of Planning says, "Increasing taxes on land returns to the public economic values that are largely created by public expenditures in the first place." So it can be truthfully called a land dividend, not a tax.

Nationally a land-value dividend is known to have lasting economic benefits. Three of the four "Asian Tigers," Singapore, Hong Kong, and Taiwan, have enjoyed the multiple effects of land-value dividends. Taiwan used it to create family farms and feed millions. Hong Kong even forgoes a corporate tax while collecting land dividends.

Isn't it time Oregonians explore this alternative to property taxes?