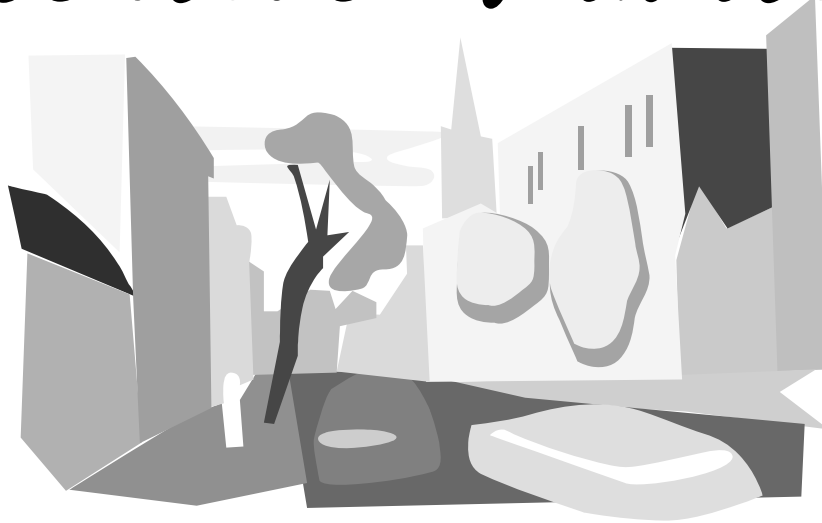


# Incentive Taxation



## Land Value Taxation

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### **Land Value Taxation – September 2003 - St. Mary's, Pennsylvania** Joshua Vincent, Executive Director

Thank you for this opportunity to address the City of St. Mary's government with this proposal to lower tax rates on all improvements and increase tax rates on all land.

This is a new program for some of you. It may be confusing at first, but I will attempt to address those questions as well as to show why this would be a good idea for St. Mary's.

#### **What is Land Value Taxation (LVT)?**

LVT is a flexible form of the real property tax. In Pennsylvania, land and building assessments are determined separately. That means we have an opportunity to see how much tax falls on each component of someone's home or business. In St. Mary's (with a rate of 28.34 mills) 15.5% of real property tax revenue comes from land. So what?

That means that 84.5% of your revenue comes from buildings. In other words, if someone fixes up their house, their assessment goes up accordingly and their tax bill goes up accordingly.

That's a disincentive to go ahead with such a project. If buildings are taxed less, the city will have more and better buildings. When LVT is used and promoted by a city, individuals take the plunge and maintain their properties.

### **LVT is in accord with ability-to-pay**

St. Mary's has a population that is aging. LVT is far more preferable to senior citizens than the standard property tax. Since senior citizens keep up their homes, and since, therefore, most of their tax bill comes from the structure itself, they would assuredly see a decrease in their taxes with LVT. For families just starting out, a lowered tax bill means lower monthly mortgage payments.

### **LVT attacks blight**

Harrisburg, Pa., has employed and marketed LVT to great success. They have pushed the idea hard, especially to homeowners and homesteaders. In 1982, Harrisburg had 4,200 vacant structures. Today, there are less than 500.

In the older neighborhoods of St. Mary's, it is reasonable to expect that this process would be repeated. By keeping these areas healthy, the new developed areas can avoid higher tax bills down the road.

### **LVT targets land waste**

St. Mary's has a lot of under-used, potentially profitable (for both business and government) land. A program of higher tax rates on land will provide an incentive to develop or to sell to someone who will.

The situation is especially egregious when it is understood that the current city tax system does indeed:

- \* subsidize private land banking for those from outside the community,
- \* hike taxes for more productive citizens,
- \* lead to polluting and ugly properties,
- \* take away development opportunities (at least two projects in the last eight months).

### **LVT complements other incentive programs**

LVT is enacted within existing frameworks of planning, zoning and abatement/exemption programs. For example, a program to exempt improvements to houses for a period of years is a good one. Yet what if some homeowners have already fixed up their homes before the program takes effect? The possible resentment "missing the boat" can be lessened by a general (albeit smaller) program of tax reduction for improvements. Also, when the period of exemption is over, LVT will cushion the financial blow from a sudden increase in taxable building/improvement value.

### **LVT will lower taxes for most people**

Although LVT should be (and has been) implemented with a slow, gradual shift to an emphasis on land taxes, homeowners and many businesses will see an immediate reduction in their tax bill. The savings shift for the average homeowner will be modest at first.

It should also be kept in mind that many of those properties that pay in the other Pennsylvania city studies usually have absentee owners. They have little or no stake in maintaining an attractive, economically competitive St. Mary's. Further research with mailing addresses for tax bills would provide a resolution of that question.

## LVT is the Right Thing to do

I've been gratified by the attitude of the several council people present tonight who know that this program is also an ethical (or, at least, MORE ethical) system of taxation. I am glad we agree that there is a sea change coming in the way governments at all levels raise revenue. From a policy standpoint AND from an ethical standpoint, a jurisdiction can do no better thing than to tax land values.

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### St. Mary's, Pa.

#### Summary of the Effects of Two-Rate (Land Value) Property Taxation

This summary is to inform elected and administrative leaders in the City of St. Mary's what the impact of land based real property taxation would have. This office is grateful to the Assessment Department for their swift action in providing the necessary data. The Assessment Department should also be quite proud of its work. The assessments appear to be some of the most accurate and realistic of any jurisdiction we have studied.

After tax-exempt properties were removed from the roll, there were 7,717 parcels. The first order of business is to determine how many properties would save and how many would pay more with two-rate. This is done by determining the building-to-land ratio (B:L) of St. Mary's. By dividing the assessed value of improvements by the assessed value of land, a ratio of 5.4492 is derived. Simply, any parcel with a B:L above 5.4492:1 would save on their property taxes. Conversely, a ratio of less than 5.4492:1 would pay.

#### Findings (see attached tables for all results)

- ◆ When the whole property roll is looked at, 4,500 properties would save. That's 58.3%. Of developed properties, 1,653 pay more (21.4%). 1,564 are vacant (20.2%). They of course would see increased liability. ***With vacant land removed from the equation, 73% of all properties save and 27% pay.***
- ◆ Residential properties fare better. There are 5,320 residential parcels. 4,058 save (or break even). That's 76.3%, one of the better results ever measured by this office, even in some of the more successful Pennsylvania two-rate cities. 1,268 parcels (29%) pay more.
- ◆ Of 326 commercial properties, 229 - or 70.25% - save and 97 parcels - or 29.75% (some vacant) - pay.
- ◆ Of 82 Industrial properties, 59 save (72%) and 23 pay (28%).
- ◆ Vacant land is the fourth biggest class in terms of value in St. Mary's, with 1,498 of all parcels in the city. This astounding figure is tempered by the fact that much of it is undevelopable and also reflects the recent amalgamation.

#### Tax Rates - How LVT Works

*The following example is not meant to be a mandate about what tax rates should be adopted. It is recognized that the Council and the Finance staff in St. Mary's know best what rates to set. (see attached table for all tax rate options)*

St. Mary's now collects 15.5% of its real property tax revenue from land. For a town in economic competition with surrounding county land and towns, that's not an effective way for the city to get the highest and best use of its land. For example, with two-rate land taxation, a drop in the building rate by 20% would raise the revenue from land to a more sensible 32.4%.

To do that St. Mary's could adopt a building tax rate of 22.74 mills. In order to ensure revenue-neutrality, the land tax rate would then be raised to 59.414mills. Our study showed a revenue-neutrality. However, it must be kept in mind that any number of tax rate scenarios is possible (see attached).

For example, Allentown, Pa. elected to bring in a 50/50 revenue split between buildings and land in gradually with five-year increments. St. Mary's could also likely go to that structure more quickly, because of the amount of vacant land. CSE has used projections, therefore, that posit a 50% split of revenue from land and buildings.

In one move, the city would signal its friendliness to development (and re-development), cutting taxes for those who have already made their stake in St. Mary's as well as greatly enhance its economic development arsenal.

**The shifts from classes will be small (for all shifts see attached charts)**

- Presently, residential properties pay 70.79 % of all real property taxes; that would drop to 65.91%.
- Commercial will drop, from 11.08 % to 9.16%.
- Industrial will drop from 11.17 to 9.03%
- Vacant land will increase from 3.08% to 9.79%

**Changes within classes (for all changes, see attached table)**

- ◆ The MEDIAN residential tax **decrease** would be \$39. The AVERAGE drop would be \$47.
- ◆ The MEDIAN residential tax **increase** would be \$39. The AVERAGE hike would be \$59.
- ◆ The MEDIAN commercial tax **decrease** would be \$74. The AVERAGE drop would be \$237.
- ◆ The MEDIAN commercial tax **increase** would be \$52. The AVERAGE hike would be \$87.
- ◆ The MEDIAN industrial tax **decrease** would be \$234. The AVERAGE drop would be \$935.
- ◆ The MEDIAN industrial tax **increase** would be \$149. The AVERAGE hike would be \$192.

From the political and economic standpoints, it would appear that St. Mary's would be able to take advantage of land based two-rate real property taxation.