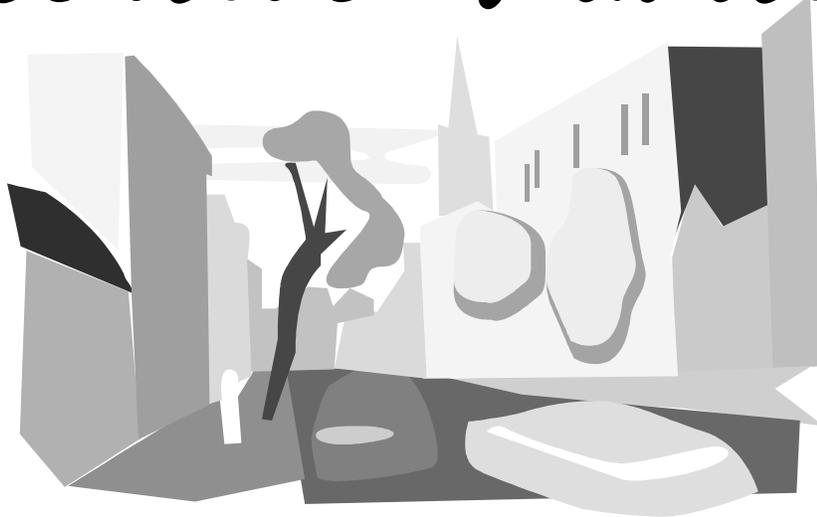


# Incentive Taxation



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### Land Value Taxation - Titusville, Pennsylvania

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Thank you for this opportunity to address the City of Titusville with this study to determine if lower tax rates on all improvements and higher tax rates on all land has made sense. The Center has also undertaken to examine the assessments provided by Crawford County.

The Center for the Study of Economics (CSE), a non-profit educational foundation, has been working with United States cities since 1980; the city assessor and several council-members in Pittsburgh founded our parent organization in 1926. Such respected elected officials as Mayor Joseph Bendel, Jr. of McKeesport and Councilman Anthony Coughlan of Fairfax, Va. have served as directors of CSE.

### The Idea

What is LVT? LVT is a responsive, flexible form of the traditional real property tax. Under a land tax *regime*, the taxing jurisdiction reduces or eliminates the tax on all improvements. To ensure that the taxing jurisdiction receives the same amount of revenue, it increases the tax rate on land.

Why should a community do this? The property tax is, in fact, two separate and distinct taxes. The property tax falls on land and on improvements (buildings) to land.

The present property tax - the school property tax for example - makes a city worse than it has to be:

- ⊕ If someone improves the city by building a new structure or improving an older one, his or her taxes go up.

- ⊕ If someone lets a building go to rack and ruin, they can go to the assessor and get an assessment reduction and the taxes go down.
- ⊕ If someone owns vacant land, they are barely taxed and have no incentive to build. The real incentive in the present system is to hold the land idle; hoping that the city (or their neighbors) improves the area and the vacant land will increase in value. The low holding cost encourages land speculation.

**The present property tax penalizes those who improve the city and rewards those who hold it back. That’s exactly backwards.**

It is an economic axiom that buildings – a product of labor and capital – can flee high rates of taxation in much the same way that taxes on sales, wages, personal property and inventories have fled some of our more highly taxed jurisdictions. It is also an axiom that the taxation of land has no such downside. Land is immobile; the supply cannot be taxed out of existence. As Will Rogers said, “They ain’t making any more of it.”

In addition, unlike labor and capital, the value of land is directly related to government investment in infrastructure. Many claim – with some justification - that it is inappropriate to tax that which people produce on their own time and their own dime. Yet, it is just as easy (and ethical) to permit government to recoup in taxes what it has created: land value.

Therefore, the philosophy behind land taxation is clear:

- ⊕ a tax on land will not distort economic decision-making.
- ⊕ a tax on land frees the market to exploit the locational advantages of the community.
- ⊕ a tax on land best encourages highest and best use of land.

**Why 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.

**Titusville’s Current Land Value Tax**

In Titusville (with a rate of 53.10 mills on land and 13.35 mills on buildings), 36% of real property tax revenue comes from land values. This is an improvement over the alternative flat rate of 18.33 mills each on land and buildings, because then only 12% of tax revenue would derive from land values. Yet, this low rate of land tax blunts what incentive impact exists of the land value tax.

The current LVT ratio of tax rates means 64% 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 marketed by a city and its Economic Development, individuals take the plunge and maintain their properties.

**In the City of Titusville, CSE suggests that 50% of tax revenue come from buildings, 50% from land. That means adopting tax rates of 73.879 mills on land values and 10.465 mills on improvement values.**

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

Titusville 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 Titusville neighborhoods, it is reasonable to expect that this process would be repeated.

### **LVT targets land waste**

Titusville appears to have 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. There is indeed vacant land in Titusville: 410 parcels, in other words 16% of all taxable parcels, and 11% of all assessed land value.

**This number does not include condemned or abandoned properties.** 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

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

LVT works 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 of “missing the boat” can be lessened by a general (albeit smaller) program of tax reduction for improvements. In addition, when the period of exemption is over, LVT will cushion the financial blow from a sudden increase in taxable building/improvement value.

As one can surmise, LVT is very useful when combined with abatement programs. Mayor Anthony Spossey of Washington, Pa. stresses that fact when he speaks to the success of LVT in his city. Both LERTA and KOZ programs become more successful when the building comes off abatement and is not hit with a higher tax rate on buildings.

### **LVT had lowered taxes for most people**

Although LVT 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 or business owner will be modest at first:

- ❖ Residential properties (Code 1000) now experience an annual 5.57% drop in tax liability.
- ❖ Commercial parcels will see an annual 4.10% increase in tax liability, keeping in mind that 20% of those parcels are vacant.
- ❖ Vacant Parcels, the bane of any community, see the only class increase. With a 50/50 revenue split, the annual increase is 38%.

**Titusville, 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 Titusville what the impact of land based real property taxation would have. This office is grateful to the City Manager Nau for her swift action in providing the necessary data.

After tax-exempt properties were removed from the roll, there were 2,564 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 Titusville. By dividing the assessed value of improvements by the assessed value of land, a ratio of 7.1237:1 is derived. Simply, any parcel with a B: L above 7.1237:1 would save on their property taxes. Conversely, a ratio of less than 7.1237:1 would pay

**Findings**

- ◆ When the whole property roll is examined, 1,480 properties would save. That's 58%. 674 properties with at least some structure pay more (26%). 410 parcels are vacant and would pay more (16%)

	Parcels	Percent
Vacant	410	15.99%
Pay	674	26.29%
Save	1480	57.72%
Total	2564	100.00%

- ◆ Residential properties fare better. Of 1,798 parcels, 1,296 save. That's 72%. Of parcels with at least some structure, 485 pay (27%). The 17 (1%) vacant residential parcels of course all pay more.

	Parcels	Percent
Vacant	17	0.95%
Pay	485	26.97%
Save	1296	72.08%
Total	1798	100.00%

- ◆ Of 276 commercial properties, 54 save, (20%), 471 with at least some structure (50%) pay more; vacant commercial parcels are 83 (30%).

	Parcels	Percent
Vacant	83	30.07%
Pay	139	50.36%
Save	54	19.57%
Total	276	100.00%

- ◆ Of 410 vacant parcels all, of course, would see a rise in liability. **These few parcels make the 11.4% of land value in Titusville.**

**Tax Rates - How LVT Works**

*The following example is not a mandate about what tax rates should be adopted. We recognize that the Council and the Finance staff in Titusville know best what rates to set.*

As it stands now, Titusville gets 36% 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. An expansion of two-rate land taxation, a drop in the building rate by about 27% would raise the revenue from land to a more sensible 50%.

To achieve this, Titusville could adopt a building tax rate of 10.465 mills. In order to ensure revenue-neutrality, the land tax rate will be to 73.879 mills. Our study showed revenue neutrality. However, it must be kept in mind that any number of tax rate scenarios is possible. For example, Allentown, Pa. elected to bring in a 50/50 revenue split between buildings and land in gradually with five-year increments.

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 Titusville as well as greatly enhance its economic development arsenal.

## **The shifts from classes will be small, except for vacant land**

### **Changes within classes**

- ❖ The current average residential tax bill savings will drop \$21; the average increase will be \$21.
- ❖ The current median residential tax bill savings will drop \$14; the median increase will be \$10.
- ❖ The current average commercial/industrial tax bill will drop \$206; the average increase will be \$138.
- ❖ The current median commercial tax will drop \$69; the median increase will be \$73.

From the political and economic standpoints, it would appear that Titusville would be able to take more advantage of the land based two-rate real property taxation without adversely affecting the city economy or taxpaying ability. LVT, if expanded, would provide an impetus to further infill rehabilitation of existing properties, and will provide tax relief to homeowners, to balance the impact of school property taxes.

### **Final Comments About LVT**

**It costs nothing to implement this idea.** Only a software change is necessary. The idea offers the idea of urban rejuvenation without added taxation or government programs. No state or federal aid is necessary.

**Everybody get as “tax break.”** It is common for a state or municipality to offer tax breaks to encourage development in a particular location. The problem is that the taxes not paid by the favored few must be paid by everyone else. LVT includes an incentive to everyone – whether their taxes go down or up – to improve the community.

**A land tax is a very stable tax.** It is more stable than a tax on improvements. Cities need a stable tax base. It allows them to plan more easily when they have a consistent tax base.

**Taxing land more than buildings discourages speculation.** People who speculate in land do not contribute to the community. They hold land off the market, out of use, waiting for the value to rise. They take no action nor make any investment to make the value rise. They simply wait for the community to grow, which makes land more valuable. Land held out of use denies opportunity to those who might use that land to improve themselves and thus the community.

**Taxing land more than buildings discourages sprawl.** When land is taxed lightly there is little incentive to use it. Land in the city has all the infrastructure and utilities, but if held off the market, people have to “hopscotch” over this land, out into the countryside to find available land. This leads to loss of green countryside and farming.

**The land tax is progressive.** The poor own little or no land and use very little. They will pay the smallest share of land tax. The middle class owns the land under their homes. They will pay modest land taxes. Corporate, absentee or wealthy individuals own the most valuable land. They will pay the higher share of a land tax.

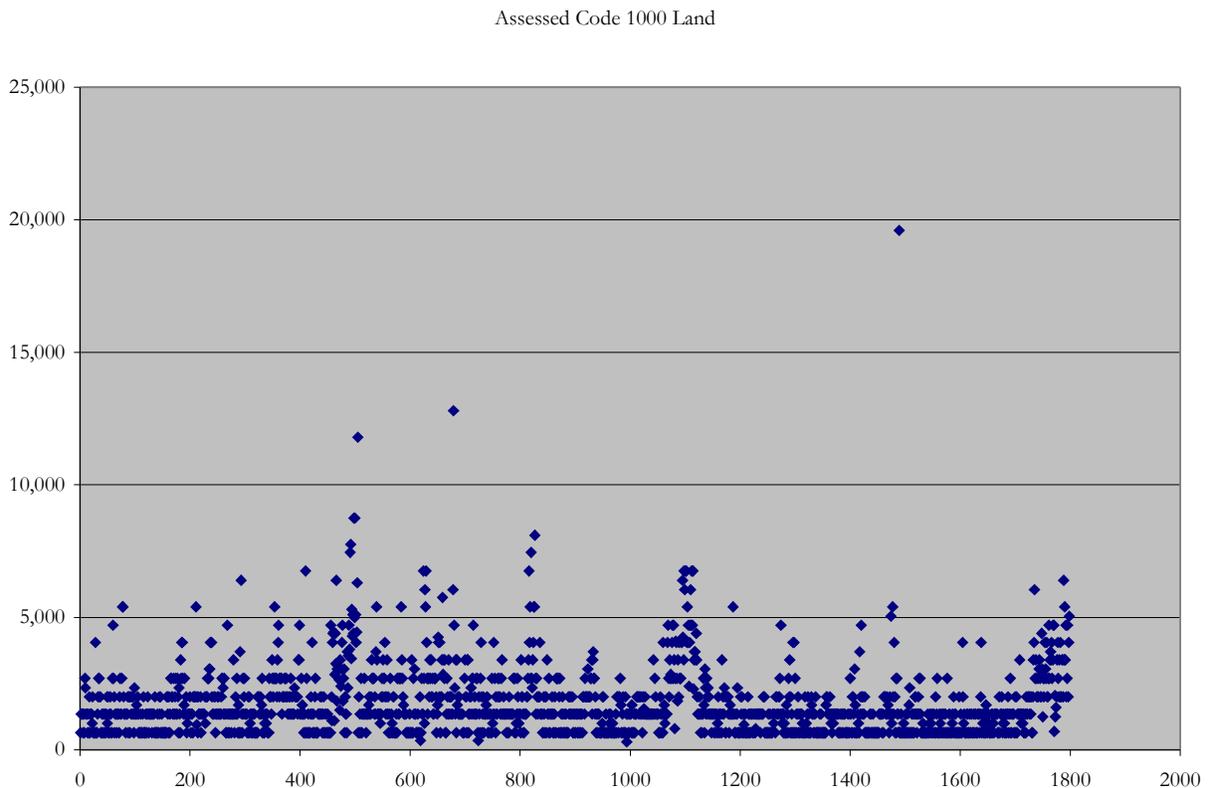
## Assessments and Assessed Values

Like the standard property tax, it is possible to use LVT in a context where property values are outdated or indeed inaccurate. Yet, considering the primitive aspects of Crawford County's assessment database, deeper analysis is called for.

### Current Values – Residential

As logic and appraisal reality dictate, building values may cover a wide range of values indeed. A better guide to accurate assessments, given the paucity of data provided is to look for consistency in land values, by their location in the city, and then by land use.

Broadly speaking, the consistency of land values for the Residential Code 1000 is apparent. A scatter chart of all of these land values, by parcel, sorted by map ID number demonstrates:

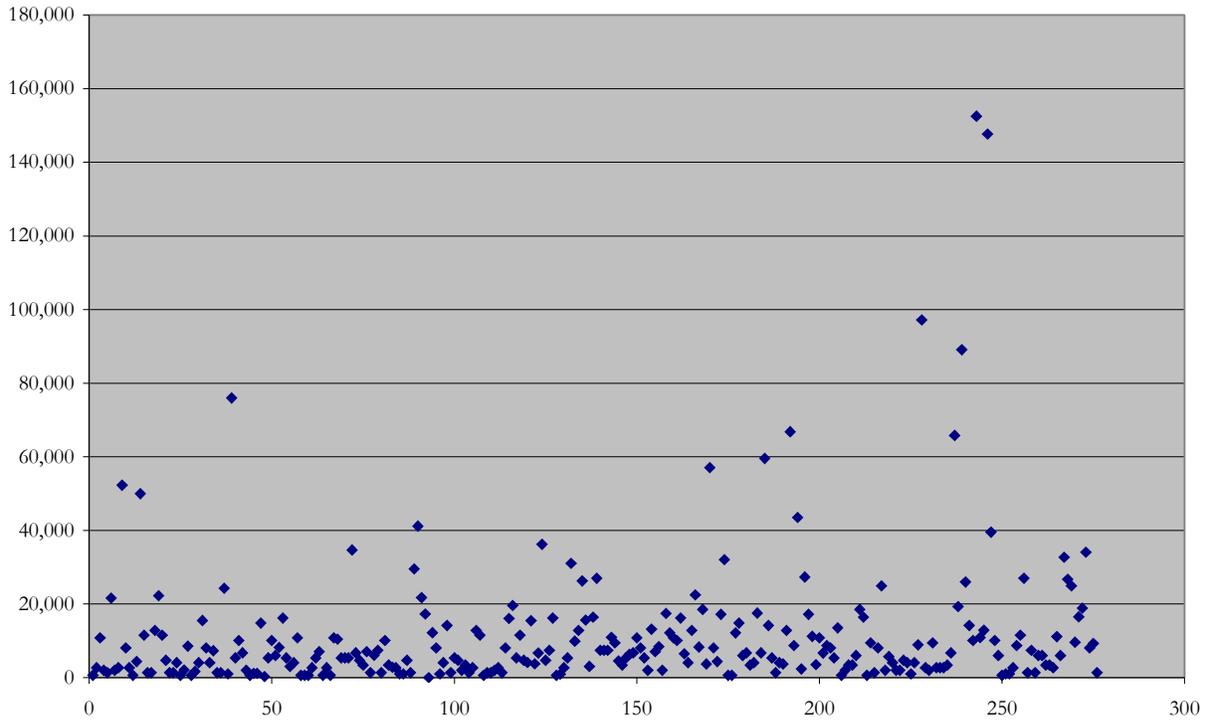


Where further study is needed, and the data needs to be procured by the city, is in a study of land value by size of lot (land values per square foot would be the best measure of accuracy), and a study of building value per square foot, by type of building. The Center for the Study of Economics believes that the city of Titusville (as well as Meadville and some of the boroughs) are over-assessed and paying more than their fair share of county tax. The Center also believes that there is a real possibility that residential, especially low-valued residential properties are paying more than their fair share of city/school and county tax.

### Current Values – Commercial

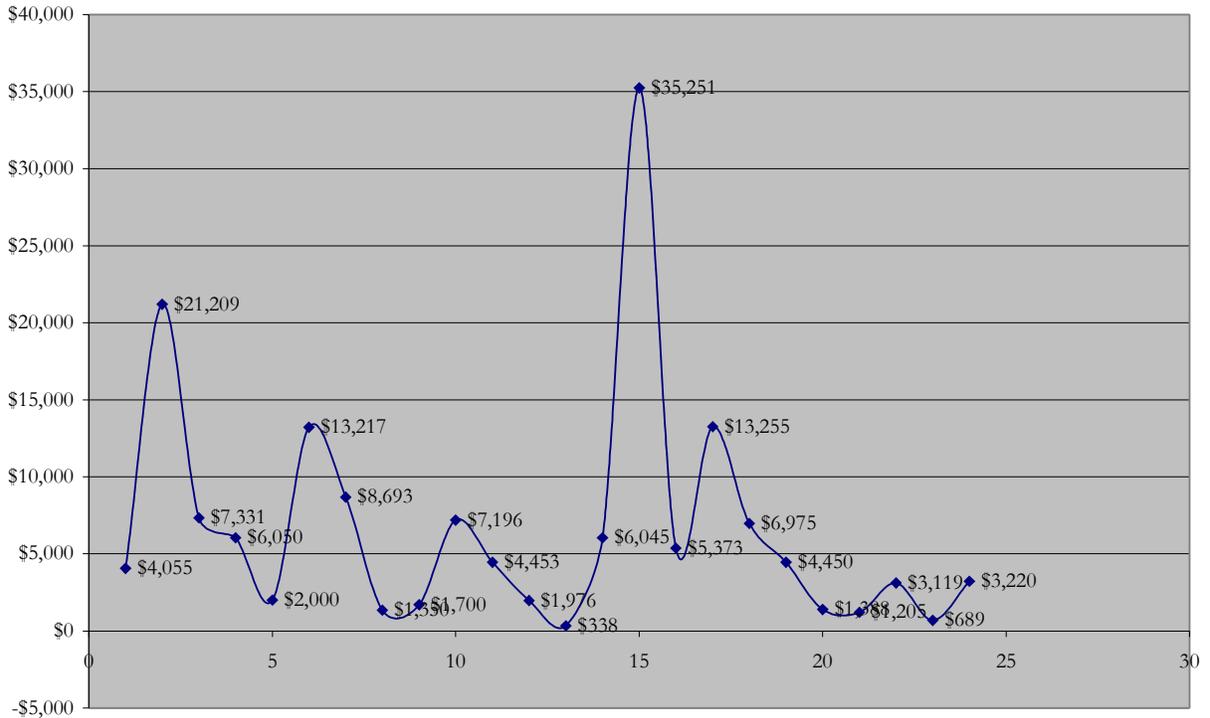
Theory and appraisal reality would expect more divergent land values, and that is just what a scatter chart indicates:

Commercial Assessed Land



The problem worth further study is that land values when measured per acre for Commercial/Ind use are very divergent indeed, but the available data is too small a sample. Again, The Center will need the official measures of area for each parcel.

LV per Acre



Conclusion: The Center for the Study of Economics ask that the City of Titusville request the full assessment roll from Crawford County, or any GIS data from the County Planning Department. We'd like to study the values ascribed to Titusville's residential, commercial, industrial and vacant parcels to look for:

1. Land Value consistency among similar type lots
2. Building Value consistency compared to sales price data.
3. Fairness between residential and non-residential properties.