

## A Comprehensive Introduction to Land Value Taxation

An effective market-based tool to eliminate the problems of vacant properties, poor land use, speculation, and the resulting blight is to shift city property taxes (including municipal and school taxes, as well as sales, income or business taxes) to the land value structure. By taxing the value of land as opposed to the buildings that exist there, we'll have multiple benefits of more than sufficient sources of public finance, the recapture of this revenue when spent for public services, incentives for major building improvements, an end to poor land use, increases in employment and business activity, rapid economic recovery, and the prevention of having land used as a speculative commodity. Though some might think this "sounds too good to be true", hundreds of empirical studies support these claims.<sup>1</sup>

Consider four similar (yet all hypothetical) properties in the same neighborhood, which we'll name A, B, C, and D. We'll use these four properties to explore how our current property tax is actually counterproductive to neighborhood revitalization. Property A is owned by a productive citizen who has spent many years investing in their property's upkeep. Property B is owned by someone out of town, who has been renting (but hardly maintaining) the property for 12 years. Property C is an abandoned, boarded up house owned by a local landlord who cannot afford to repair it, and since the city's real estate market is on a slow but steady upswing, plans to sell after the market rises. Property D is an empty lot left after a fire destroyed the house, with the owner having collected the insurance payout and skipped town.

Based on their condition, each of these properties has either been helping or hurting the city, and we'll look at these effects from three different standpoints: how did they help or hurt progress during the past decade, how (if they remain the same) will they help or hurt now, and how (if using a land value tax) things could change in the next decade. To evaluate this, let's first review their current value and taxes. Right now, property values are assessed based on the combined value of both buildings and the land they occupy. In this case, we say that they are "evenly taxed" at the current city property tax rate of 10.4 mills. In such a case, the assessed property value and the resulting property tax for our examples would be as follows:

	<b>Property A</b>	<b>Property B</b>	<b>Property C</b>	<b>Property D</b>
Assessed Property Value	\$80,000	\$64,000	\$30,000	\$12,000
Resulting Property Tax	\$832.00	\$665.60	\$312.00	\$124.80

*Table 1: Current Property Value Assessment and Taxes*

As you can see from the table, there is a significant difference in the value (and resulting assessment) based on the quality of the property. The better condition the property is in, the

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<sup>1</sup> See <http://www.urbantools.org>

higher the assessment (and resulting tax revenues). In general, these four properties can be categorized as the “good,” the “bad,” and the “ugly.” Let’s look at their contributions over the past decade.

Property A is a good property. The owners take pride in their home, frequently renovating the interior and exterior, repairing any deterioration, maintaining the front and back yards, and keeping the sidewalk and curb clean and safe. Also active in the neighborhood, they participate in the neighborhood watch and neighborhood council, showing a strong concern for their community and the well-being of their neighbors. Their efforts certainly pay positive dividends, too: investing in their home and neighborhood builds increased value for them, increases the quality and value of the other properties in the neighborhood, and provides higher tax revenue for the city.

Property B is considered a bad property; although it’s being productively used, it is in poor ways that are negatively affecting the neighborhood. The owner isn’t very responsible about the condition of the property, which needs constant maintenance due to its age. The exterior is in bad shape, with peeling paint, crumbling steps, a sagging porch, a leaking roof, and a yard filled with litter and weeds. The interior is just as bad, with old wiring, poor plumbing, water damage, and general wear. Each of the two units are rented out to low-income tenants (often with youth), who seem to only stay for 2 or 3 years and rarely are active in neighborhood affairs. There have been numerous complaints about the property, including noise, trash, and reports of drug activity. A long-time neighbor moved out because of the problems, which culminated with a water leak that was traced to property B’s roof and hadn’t been fixed in a year. Because the owner lives out of state and only saw a photo of the property when he first bought it, there is little connection to the condition of the property and neighborhood, and the only concern is receiving rents on time. This owner also has over 10 other properties in similar condition in other areas of the city.

Property C is literally an ugly property. A run-down apartment like property B for many years, the problems grew so bad that it became uninhabitable. Although the landlord originally planned on restoring it, the money never materialized so the property sat. In the several years that followed, weather and vandalism continued to damage the exterior, trash was dumped in the yard, and there were reports of drug activity inside, forcing the owner to board it up. Besides being an eyesore, the vacant property seemed to encourage an increase in vandalism and crime. As the trash piled up, pests like mice, rats, and roaches began to appear. Because of the problems and sharp drop in local property values, several more homeowners in the neighborhood decided to sell. Due to her negligence, the owner has lost tens of thousands of dollars on the property, so rather than sell it, decides to let it sit and wait until the next real-estate market boom.

Property D is also an ugly property. After a fire destroyed the house, the owners saw little reason to remain in the neighborhood (especially with the problems created by properties B and C). After the debris was cleared, all that remained was an empty lot. Because there seemed to be little demand for new residential construction in the city, especially on a single property, the lot became vacant. Shortly after, trash and tire dumping became a constant problem and a neighbor’s old car began to sit in the rear of the lot. Now in this condition for almost 5 years, the property is practically useless, undesirable to buyers, and its apparent low value yields little revenue to the

city in taxes.

Let's think about all this for a moment. Can you imagine which properties helped and which hurt the condition of the city over the past decade? Which properties should be rewarded for their condition, and which should be penalized? Which types of properties would you want in your neighborhood? Which types of these properties actually are in your neighborhood?

Now let's imagine in the present a growing movement to revitalize the city. The downtown district is making a comeback with new building projects, existing businesses are expanding their operations and new businesses are opening up, and a plan to restore the waterfront is getting underway. City Hall is getting tough on crime and blight in the neighborhoods, and the quality of life is expected to improve. Due to these efforts, the real estate market is responding with more "SOLD" signs and rising property values. What kind of changes might we expect with our four properties?

Property A's direction is uncertain at this point, which is not good for the city. Although conditions look like they might get better, this has happened before and failed (with the neighborhood getting worse each time). In the past decade, more properties in the neighborhood have become rentals, and blight and crime have hurt the owner's investment in their property significantly. Their family doesn't feel as safe anymore, and many neighborhood friends have left because of the problems. There doesn't seem to be much incentive to continue improving the home if the neighborhood doesn't improve. Other neighbors talk about how although more properties are being sold, it's mostly to landlords from out of state looking to make easy money here in the city.

Property B continues to operate as it was, perhaps undergoing a few cosmetic improvements to get the city inspectors off its back. Due to the increase in property value from the community's efforts at reinvesting in and improving the neighborhood, the landlord—who personally did nothing to improve his properties—is able to squeeze more rent from the tenants. One of the tenants was recently evicted because he couldn't afford the higher rent. His low wages weren't rewarded as part of the local boom, and sometimes he thinks about selling drugs—just a little bit, he says—on the side to make ends meet. Now that he's getting kicked out of his apartment, he doesn't know what to do or how he'll be able to keep his new job. He wonders if perhaps he started dealing he wouldn't have to worry about money, could have a better place, and maybe even that car he loves ... seems like everybody's doing it anyways, right? The landlord is seeing dollar signs of his own, and decides to grab up ten more properties in the city, bringing the number owned to 20.

Property C's owner is also seeing dollar signs. In what's now become a gamble too expensive to lose, she is counting on the rising market to deliver a much higher selling price for the property. She read about several similar properties being bought and restored because of their historical value, and thinks that if she plays her cards a little longer—maybe a year or so, she might be able to get another \$5,000-10,000 more if the neighborhood keeps improving (although she doesn't plan on spending any time or money contributing to the effort). With the vacant property still on the block, the neighbors are still stuck with the related problems and their home values increase less than in nicer areas, despite their efforts.

Property D isn't in better shape. A vacant lot with weeds, trash, and an abandoned vehicle, the space that could be a family's new home, a shop, or some other productive use continues to lay wasted, weighing down surrounding property values and denying the city coffers well-needed revenue. The owner, who all but forgot about the land until the city tax department tracked him down, is now interested in gaining a substantial profit off the sale of the land and is speculating like the owner of property C. Because the taxes on the land are so low and there is no building to maintain, there is little reason not to hold on to the property until demand peaks and he can cash out. He even heard that because of redevelopment of nearby areas, the value of the land itself has risen significantly, and he sees the property as money in the bank, gaining serious interest.

Although the properties are fictional, these are all very real scenarios of what often happens during economic boom cycles. Because so much personal wealth is tied up in property, it is one of the first things to respond to the change. Our real estate market is so distorted however, that the outcome is often the reverse of the goal. Good property owners may decide to leave town, bad property owners decide to buy up the town, and speculators continue to sit on the fence, further distorting the market. This mismanagement of the land can result in a subsequent economic failures, as happened with redevelopment efforts of the past. If we want to correct our problems of the past and prevent these kinds of problems in the future, we need to foster a real estate market that efficiently rewards good and prevents bad and ugly land management. This can be best accomplished with the land value tax (LVT).

A LVT works to separate the two distinct parts of the property tax: (1) a tax on the value of the land, and (2) a tax on the value of buildings and other improvements on that land. Instead of taxing the two at the same rate, the amount taxed on land increases as the amount taxed on buildings decreases. Eventually, most of the property tax is levied against the value of land, with little or no tax on buildings and other improvements. Let's try to break apart these two concepts and see how they relate to each other.

Land value – not deed or title - is considered to be owned by the community within which it resides, and any value gained by that land is generally due to the improvements and other activities by the community as a whole, such as streets, sidewalks, waterworks, energy sources, schools, businesses, mass transit stops, police and fire protection, parks, and its proximity to other value-creating mechanisms in the area. In other words, the value of a piece of land is created by the market demand for it. This is why otherwise identical houses can be worth more in one neighborhood and worth far less in another.<sup>2</sup>

Most increases in land value are the result of government services paid for by tax money, although the personal contributions made by individuals can also improve (or damage) the value of the community as a whole. This is also why the value of highly developed land in the center of the city will almost always be worth more than less developed land on the edge, and why downtowns are usually full of businesses, tall buildings, large institutions, and apartments, and outlying neighborhoods are mainly homes, small shops, and more open spaces. Because of the

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2 *Time* magazine reported in the November 3, 2003 edition on how the same house worth \$121,400 in Binghamton, NY is worth \$610,375 in Chicago, IL, and \$1,362,375 in La Jolla, California. It isn't the cost of houses which so widely varies across the country, as a building tends to cost the same regardless of where it's built, it's the value of land, based on natural utility, public investment, and market demand, which varies wildly.

nature of land and the origin of its value, these improvements and investments should be returned to the community as taxes, not absorbed and lost in the rising value and rent gains of individual properties.

Buildings and improvements to land, on the other hand, like the labor necessary to create them, are the rightful property of the people that spend the time and money to produce such things. Because the community as a whole had no productive part in the process, taxing these forms of private property is like confiscating personal wealth for the unfair use of others. If a property owner invests \$10,000 into her house, the value of her house will rise, but then so will her taxes. That increase in value should remain with the owner, not be taxed away by the community.

Likewise, the value created by the million dollars spent by the city to increase the quality of life in the neighborhood should return to the city (i.e. the whole community), not to property owners (especially absentee landlords). A LVT corrects this misallocation of investment value and provides a wide range of additional benefits impossible through current tax schemes.

A LVT is the most fair, neutral, and stable source of public finance, as well as the most effective way to balance government budgets. Taxes on businesses, sales, labor, tourism, people, and other sources only serve to drive these critical foundations of the tax base out of town. Many of these taxes and their rates are arbitrary and regressive, meaning that they are less likely to be based on the “ability to pay” rule of taxation, which can lead to tax policy becoming highly politicized.

Taxes on commerce such as the business/occupational privilege and sales tax hurt local economic development, an essential for revitalization. Taxes (not to mention gambling, a pseudo-tax on the poor), are highly unstable and political, and require costly administration and oversight. In contrast, taxes on land simply reclaim existing value from public investment, are based on free-market activity, cannot be sheltered like income, and—properly administered—are highly progressive in regards to ability to pay.

If a government is running a budget deficit, it could tap into the full value of its investment in the land by taxing it at a larger rate instead of going into debt, floating bonds or cutting vital public functions. Since government budgets are generally a small fraction of the total amount of taxable annual value of land in a community, taxing land at a higher rate is the “smartest” way to balance the budget without damaging economic growth.<sup>3</sup>

A LVT is also the most fair and often beneficial tax for taxpayers. Shifting property taxes by increasing rates on regressive taxes like the sales, income, and per-capita taxes provides no relief at all, as the cost of the tax increases are easily passed back to the taxpayer through higher prices for goods and services, rent hikes, reduced investments, and lower wages, especially for those we

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3 Based on data from the 2002 Reading LVT study and a 2006 city fiscal report, the total taxable land value for the city is \$436,799,100, the projected 2007 city budget is \$61,174,036, and the estimated 2007 budget deficit will be \$7,062,699. Using a rough calculation of  $\$7,062,699 \div \$436,799,100$ , the city would only need to increase the tax on land values 1.6169 mills to meet this deficit. This means that the city is only tapping 14% of its land value, and by raising the tax rate on land enough to balance the budget, only another 1.6% of the total land value would be necessary. Since this community as a whole is the rightful owner of the land value, the land should be the first (and only) source for public financing. Any other tax increase would be detrimental to the progress made during the past few years, and beginning to reduce these other taxes will only accelerate redevelopment.

need to help most: seniors, the poor, the disabled, and other low- or fixed-income citizens. Taxes on land values, however, cannot be passed along by those on which they fall because of the competitive economic nature of the tax. In addition to shifting the tax rate off of improvements such as buildings and onto land, a LVT also shifts the actual tax burden from owners that have invested in and maintained their property in “good” condition, who should actually see their property taxes drop, more evenly to owners of “bad” and “ugly” properties, who—after getting tax breaks long enough—will see their taxes steadily rise with the value of the land, regardless of the poor condition of the buildings.

By pressuring owners to manage their land effectively, we can nearly eliminate the damage done in every corner of the city by blight and speculation. A 2004 study of the City of Reading, PA conducted by the University of Pennsylvania’s Fels Institute of Government identified a total of 1,241 buildings and 174 lots determined to be vacant in the city. Although the report provides an excellent analysis of many factors contributing to the building vacancy problem and will be useful in developing additional solutions, it unfortunately failed to identify the tax structure as being one of the largest contributors to this state of affairs.<sup>4</sup> The city of Harrisburg, PA, once plagued by more than 4,200 vacant structures, now has fewer than 500 thanks largely to their LVT. If the often deadbeat or absentee owners of the many bad and ugly properties are unwilling or unable to utilize their land to its best potential and afford the taxes, then they shouldn’t hold onto it. The financial pressure of higher taxes on these vacant lots will help put them back on the market and ensure the land end up in more productive hands; hands that could restore any buildings or even knock them down and start fresh, if appropriate.

More properties for sale will also make the real-estate market more competitive, causing properties to become more affordable for use as homes and businesses. This could then trigger a large increase in homeownership, building permits, new businesses, job creation, and other reinvestment which would certainly benefit property values and public revenue. With increased public funds, the city could begin reinvesting in more quality services and infrastructure, which will lead to further property value increases, economic development, and tax base gains. Because better government services and infrastructure increase the value of the land, having a LVT will ensure this increased value will be efficiently recaptured as compounded tax revenue, instead of being capitalized and absorbed by private land owners.

Combined with reductions in taxes on the productive private activities of commerce, a LVT will actually stimulate further economic development. Like a permanent abatement on improvements (a temporary strategy often used by cities to attract home and business redevelopment), the lower rate on buildings will encourage both new construction and renovations while rewarding compact, vertical, and otherwise efficient use of land. Instead of vacant lots and ground-level parking, urban areas encourage multi-level office complexes and condominiums, which will attract more high-income jobs and residents to the city center. Every building downtown would become premium real-estate, instead of sitting empty for a decades. The entire length of business districts would be in demand. Homes and businesses in neighborhoods will also be encouraged to improve, especially with financing assistance and attractive tax credits.

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4 Coincidentally, Samuel Fels (the founder of Fels Institute of Government) had a brother named Joseph Fels who was a major leader of the Single Tax (or land value tax) movement in the early 20<sup>th</sup> century.

To better understand the LVT and its benefits, we can analyze and discuss some of the technical implementation details using our example properties, then consider how this new dynamic could effect revitalization efforts. In order to move to a LVT, we must separate the value between buildings and land in the city. Most states ( Pennsylvania and Connecticut) already legally require land and improvements to be separately assessed. In most states the counties have an Assessment Registry with each property’s land and building values, which municipalities currently tax at the same rate. For example, a property assessed at \$65,000 total might have a building value of \$55,000 and a land value of \$10,000.

With the values of buildings and land split, the next step is to adjust the tax rates. We will use a tax rate 10.4 mills, using the current system where the rate is applied equally to both the building and the land to determine each property’s tax bill.

Because we want to begin shifting the tax off of buildings and onto land, the tax rate on buildings must be decreased and the tax rate on land must be increased. It is important to slowly phase in the change for the sake of taxpayers who will see an increase, so a common rule-of-thumb is to decrement the building tax rate by 20% and increment the tax rate on land enough to ensure that the shift remains revenue neutral.<sup>5</sup> This shift occur annually until we reach the desired rates. Let’s apply the first phase of this shift to our example properties:

	<b>Property A</b>	<b>Property B</b>	<b>Property C</b>	<b>Property D</b>
Assessed Building Value	\$68,000	\$52,000	\$18,000	\$0
Assessed Land Value	\$12,000	\$12,000	\$12,000	\$12,000
Resulting Property Tax	\$762.32	\$629.20	\$346.32	\$196.56

*Table 2: Building and Land Assessment and Taxes*

The first thing you’ll notice in Table 3 is that instead of one property value, there is now two: one for the assessed value of the building, and one for the assessed value of the land (because the four properties are on the same block, we assume that the land values are the same).

Additionally, instead of simply taxing both at the same rate of 10.4 mills, we’ll use two rates: 8.32 mills for buildings and 16.38 for land.<sup>6</sup> This rate will allow us to drop the building rate and tax land at a rate that keeps the total tax revenue neutral with the \$1,934.40 levied against the four properties when using the original rates.<sup>7</sup> Notice that the tax on buildings has dropped 2.08 mills (20%) and the tax on land has increased by 5.98 (57.5%). To get the final tax, we calculate the two rates and values separately and add the results together, using the formula

$$\text{property tax} = ((\text{building value} \div 1000) \times \text{building rate}) + ((\text{land value} \div 1000) \times \text{land rate})$$

There is another important difference to recognize, as well. By shifting the tax off buildings and onto land, each property saw a change in the final bill. Property A’s tax dropped 8.38%, a savings

<sup>5</sup> Revenue neutral means no revenue will be lost in shifting from buildings to land.

<sup>6</sup> Contact the Center for the Study of Economics for assistance in determining rates: [www.urbantools.org](http://www.urbantools.org).

<sup>7</sup> Of course, we would need to reexamine all city property parcels and the projected city budget to determine the official revenue-neutral rates.

of \$69.68. Property B's tax also saw a small drop of 5.47% and a savings of \$36.40. Property C gets a tax increase of 11%, adding \$34.32 to the tax bill. Most importantly, property D experienced the most significant change, with the tax increasing 57.5% or \$71.76. As you can see, taxing land actually cuts taxes for most productive properties and increases taxes for unproductive ones, shifting the tax burden off our good properties and onto the bad and ugly ones.

One of the original criticisms of this proposal in 2002 was that the changes weren't significant enough to immediately influence good properties to apply for building permits and ugly ones to be sold off, but research from municipalities in PA with a LVT prove the opposite. The market elasticity of supply and demand in response to tax rates is well-documented; in fact, each time city council discusses increasing the tax rates there seem to be more residents, businesses, and workers reconsidering whether to remain in the city, especially when general conditions seem to continually worsen. To better understand the reactions of a property tax shift, Dr. Steven Cord, Professor Emeritus of Indiana University of Pennsylvania and long-time advocate of LVT in the state, has collected 237 empirical studies on land value taxation, each with positive results. Here are some of his findings:

- 45 studies show that municipalities adopting LVT see a spurt in new construction and renovations. This includes Allentown, Washington, Connellsville, Clarion, Oil City, and especially Aliquippa, who experienced a 97% increase within three years.
- 63 studies show that these municipalities outperformed their neighboring communities in such redevelopment. In the three years after adopting LVT, Allentown experienced a 32% growth (in dollar value) of construction and restoration activity, 1.8 times more than Bethlehem (who received substantial federal grants in the same time period).
- 83 studies determined that most voters paid less during the revenue neutral building to land tax shift, and in only two the majority experienced a slight increase.
- Since Pittsburgh dropped the LVT in 2001, the city experienced a 19.57% decline in construction and renovation, a 54% increase in the number of property owners paying higher taxes, and a significant increase in overall space-rent for non-landowners.

Because the incentives and long-term effects created by initially moving to a LVT might still be hard to imagine, let's consider what would happen in the subsequent years of shifting the building tax onto land. Each year for the next five years, the building rate would be dropped and the land rate raised to maintain government revenue neutrality. The resulting projected 5-year tax rates can be seen in Table 3.

Year	Bldg. Rate	Land Rate	Property A	Property B	Property C	Property D
2006	10.400	10.400	\$832.00	\$665.60	\$312.00	\$124.80
2007	8.320	16.380	\$762.32	\$629.20	\$346.32	\$196.56
2008	6.240	22.360	\$692.64	\$592.80	\$380.64	\$268.32
2009	4.160	28.340	\$622.96	\$556.40	\$414.96	\$340.08
2010	2.080	34.320	\$553.28	\$520.00	\$449.28	\$411.84

*Table 3: 2006-2010 Tax Rates During Shift from Buildings to Land*

As you can see, the results become much more dramatic as the shift to land continues. Property A, who has had a great deal of value invested into it, is finally rewarded with a 33.5% tax cut and a savings of \$278.72. Property B, though not in the best of condition, is given a 21.9% cut and a savings of \$145.60 (which will hopefully encourage them to renovate further). Property C's unfair tax break finally ends, and the owner is now responsible for a 44% increase of \$137.28. Property D will rightly experience the severest increase of 230% and \$287.04, a just penalty for withholding unproductive land from the market in order to speculate on rising land values, to the detriment of the community and economy.

Good properties like property A should be rewarded for their responsible and productive use of land. Owners that maintain, renovate, or even rebuild their properties will no longer be penalized for such improvements, and the tax savings should encourage them to add even more value to their properties. These homes, businesses, and other properties have remained the faithful bedrock of the city's neighborhoods and economy, so supporting and expanding this core will be essential to redevelopment. Lifting the tax burden they have had to bear should help to raise their spirits, giving them a renewed sense of hope and a reason to reengage and reinvest in the city's future. By adopting a LVT and implementing the local economic development strategies in Part II, the city will be well on its way to restoring high levels of home ownership, stable neighborhoods, and a large middle-class population.

Bad and ugly properties, both active and inactive, should receive both pressure and incentive to improve their condition. If an owner is struggling to keep their property functioning, perhaps it should be sold to someone more capable of keeping it productive (and perhaps profitable). While a LVT will certainly drive more landowners to put idle or deteriorating properties on the market, the community should also help those who wish to hold onto their property and manage it responsibly (but need assistance) by providing financial resources such as a Community Development Financial Institution. If the property is an abandoned building or vacant lot, the problems of speculation and "cashing out" on the public value of land through higher rents and sale prices can be prevented with a significant LVT. Because many of these properties are the major source of some of our biggest community problems and are often owned by non-residents who have little concern for the condition of their property or its effect on the neighborhood, addressing them must be a top priority towards positive and lasting change. A LVT is the first and best strategy to tackle these fundamental challenges, ending the tax breaks that inadvertently subsidize the blight, slums, poverty, and crime that continue to hold the city back.

To make the property tax even more efficient, effective, and especially equitable, the city must

also address the long-running problem of property reassessment. It is important to understand that land values aren't fixed; instead, they're based on real activity of the local real estate market and the ever-changing conditions of the community. Buildings, on the other hand, tend to depreciate in value as they age or become less desirable due to their particular design, size, or utility. Reassessments are necessary to adjust property valuation for taxation purposes, and if not conducted regularly can lead to significant distortions both in public revenue collection and private real-estate activity, often by greatly under-assessing land and over-assessing buildings, or under-assessing wealthy areas and over-assessing poor ones.

Unfortunately, a reassessment is often resisted due to the political upheaval that results. One of the main reasons is that many counties suffer severe levels of sprawl, which cause older suburbs and even rural areas to explode in residential and commercial development and consequently, rising demand and property value. Owners of properties built since the last reassessment tend to pay more property taxes than existing owners, even after an equalization reduction of almost 10% of market value. Some of these new owners think that having higher taxes because their building is valued often up to \$20,000 more than similar existing properties is unfair, and call for the county to reassess all properties so that older and undervalued properties pay their fair share.

The owners of older property, who are often also older voters are an electoral force and don't welcome the rapid growth and problems it brings, and accuse the newer owners of living beyond their means. Such a situation presents a serious problem to any elected county leader seeking another term.

Assessments "lag" creates problems within cities as well. Over the past few decades, the land value in a city might have rapidly declined as demand for city properties dropped and new suburban development grew. The built environment may also have experienced reductions in value over time, mainly due to the fact that most buildings and other structures are over a century old and most residents cannot afford major renovations. In Reading, PA, for example, the city's property values have lost over 50% of their overall value; while the average property elsewhere in the county is worth over \$250,000, the average city property is valued under \$80,000.

Recent activity may increase these values, but the less city properties are assessed, the less government revenue will be available from true land values. Undervalued land assessment will also weaken a LVT's ability to collect higher amounts from bad and ugly properties, which will reduce the city's ability to shift taxation off of good properties and commerce and limit the amount of idle properties pressured back into the market and used for productive uses. In addition to increasing blight, when valuable land in developed areas such as cities remains idle due to speculation and negligence it also forces the outward expansion onto previously undeveloped land, putting more farms and open space at risk for sprawl.

The controversy over assessments brings up an important issue regarding property taxes. When new policies such as a LVT are introduced to a community, some people understandably worry about the negative effects of such a major change, especially for the most vulnerable people such as seniors, the unemployed, and low- or fixed-income residents. If an older owner lives on highly-valued land, will they be forced from their home if they cannot afford the higher taxes? Will the LVT pressure landlords to sell off rental properties or raise rents if the building is on

extremely valuable land?

This is one of the reasons why there is so much opposition to the school property tax, especially from seniors. In its current form, the property tax pits one generation against the next; a tragic situation to be prevented, yet eliminating the property tax is not a real solution. Instead, adopting the LVT and enacting an additional policy to protect against displacement is the best approach.

Other reforms such as increasing the sales or income tax only work to harm the very economies that both generations rely on, and the apparent tax relief is simply passed back as part of other costs in even more regressive forms than before.

It is important to understand that even by itself, a LVT actually lowers housing costs by putting more properties back in the market and tempering price inflation due to speculation. This is true even for the cost of space-rent in apartment buildings. In addition, Dr. Cord's studies of the LVT in Pennsylvania municipalities shows that the number of tax defaults actually decreased after shifting the property tax to land. When enough of the land value is taxed, other taxes can be reduced and eliminated, saving even more money for responsible property owners.

Beyond the many positive market dynamics that make the LVT a highly progressive tax, the government can further protect vulnerable citizens' right to affordable housing. In PA, the Homestead Property Exclusion Act allows municipalities to exclude from taxation a fixed portion of assessed property value. The Senior Citizens Rebate and Assistance Act provides a rebate for low-income seniors of up to \$500, with the state legislature likely to increase the rebate amount soon. The Real Estate Tax Deferment Program Act allows municipalities to defer property tax increases for poor, elderly, and unemployed homeowners by attaching a lien on the property (similar to a reverse mortgage). For other taxpayers, the city could ease the change by splitting the tax bill into several payments throughout the year. By taking these kind of steps, we can better address any remaining concerns related to the LVT and gain stronger public support for the reform.