

Land Tax Presentation Synopsis

In case you missed it, last week City Council invited Josh Vincent from the Center for the Study of Economics to come talk about an alternative way of taxing property. It turned out to be a very insightful discussion about how the manner in which taxes are calculated on property can influence the way that property is maintained or in many cases neglected.

I'll do my best to summarize what I thought were some of the more interesting points.

1. Our Tax Structure Matters --

Main Point: it's not how much tax is raised but how that tax is raised that matters; and the City's current property tax structure assesses taxes in a way that encourages property deterioration and discourages reinvestment.

The way our current property taxes are calculated, Portage County sets a value for the building constructed on a lot and sets a value for the land under it, adding the two together for a total property value. The City then has a millage rate or tax rate that is applied to that total to generate your annual property tax.

Currently in Kent, nearly 80% of the tax payment comes from the value of the house or building and only 20% comes from the land value. What that means is that most of your property tax comes from the value of your house so if you make an improvement to your house, your assessed value is likely to go up, and you'll pay more taxes. That means you do the right thing and you get punished from a tax perspective.

Likewise, if you let your house deteriorate, your assessed value is likely to go down, so you'll pay less taxes. From a tax perspective then, there is incentive to let your property deteriorate so you can pay less.

Josh says that this is a particular problem for Kent due to the large number of rental units some of whose owners have figured out that the less money they spend on upkeep the more money they'll be able to keep in their pockets -- and as long as the housing demand is strong enough they can still fill the rental units even as the condition declines. Josh noted that this makes perfect sense from a business perspective but over time it tends to lead to neighborhood blight and gradually contributes to more home owners deciding to move out of these neighborhoods which in turn leads to more rentals in a downward cycle.

2. Shift to Land Value Tax --

Josh described a number of cities (most in Pennsylvania) that faced similar circumstances and rather than applying one tax rate to the total value (building + land) they created two rates, one for the land and one for the building. What they did was to apply a high tax rate to the land and a lower tax rate to the building in order to reverse the current 80%/20% split between house/land. The overall impact is generally revenue neutral, meaning it doesn't generate new tax revenues in total. However, it does remove the tax disincentive to maintain and improve your buildings (which we want people to do more of) because improvements will only have very small impacts on your taxes and likewise letting your building decline no longer has much of a tax benefit.

Better yet, by placing more tax liability on the land, property owners will not be inclined to just sit on property and let them stay vacant and in decline because under the shift the land tax is much higher. As a result, "deadbeat" property owners will have to either sell the land to someone who wants to improve it or improve it themselves in order to afford the higher taxes on it.

Generally speaking Josh reports that most homeowners will see their property taxes stay the same or decline slightly while larger land owners who aren't doing anything with their land or have let it decline will be facing higher taxes which he reports usually inspires them to reinvest or sell to someone else who wants to reinvest, both of which are critical to revitalizing downtowns.

While this tax concept raises some very interesting possibilities that seem particularly attractive to cities with older downtowns and older neighborhoods like Kent, it is a long way off in Ohio. First of all it is not clear whether the Ohio Constitution even allows the differential taxing of the building and land separately. And also it's important to remember that 93% of the property tax in Kent goes to the schools, with 4% of the city share going to parks and recreation leaving only 3% going towards city services -- a pretty small amount that will not come close to solving our current financial shortfalls.

In the end, I'd say that Josh gave us some good ideas to think about, and we need to keep talking to as many smart people as we can, but it's probably not going to have enough immediate viability to help us dig out of our current budget trouble.

You can read more on the Land Value Tax concept at: www.urbantools.net