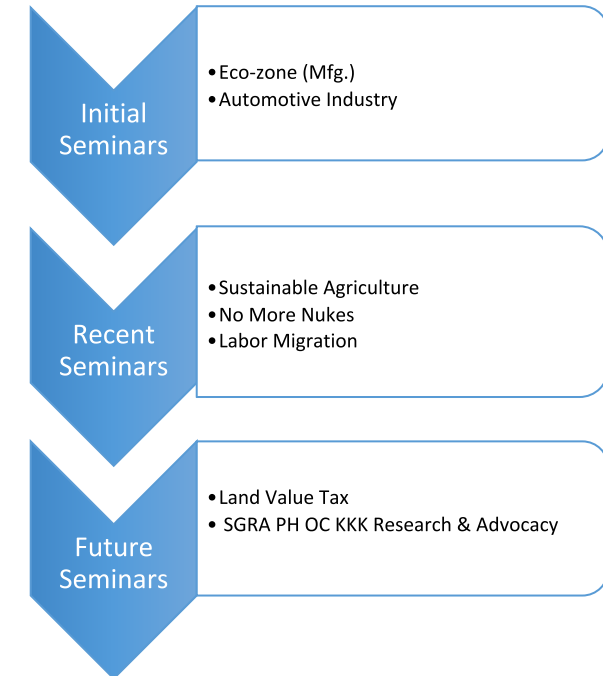
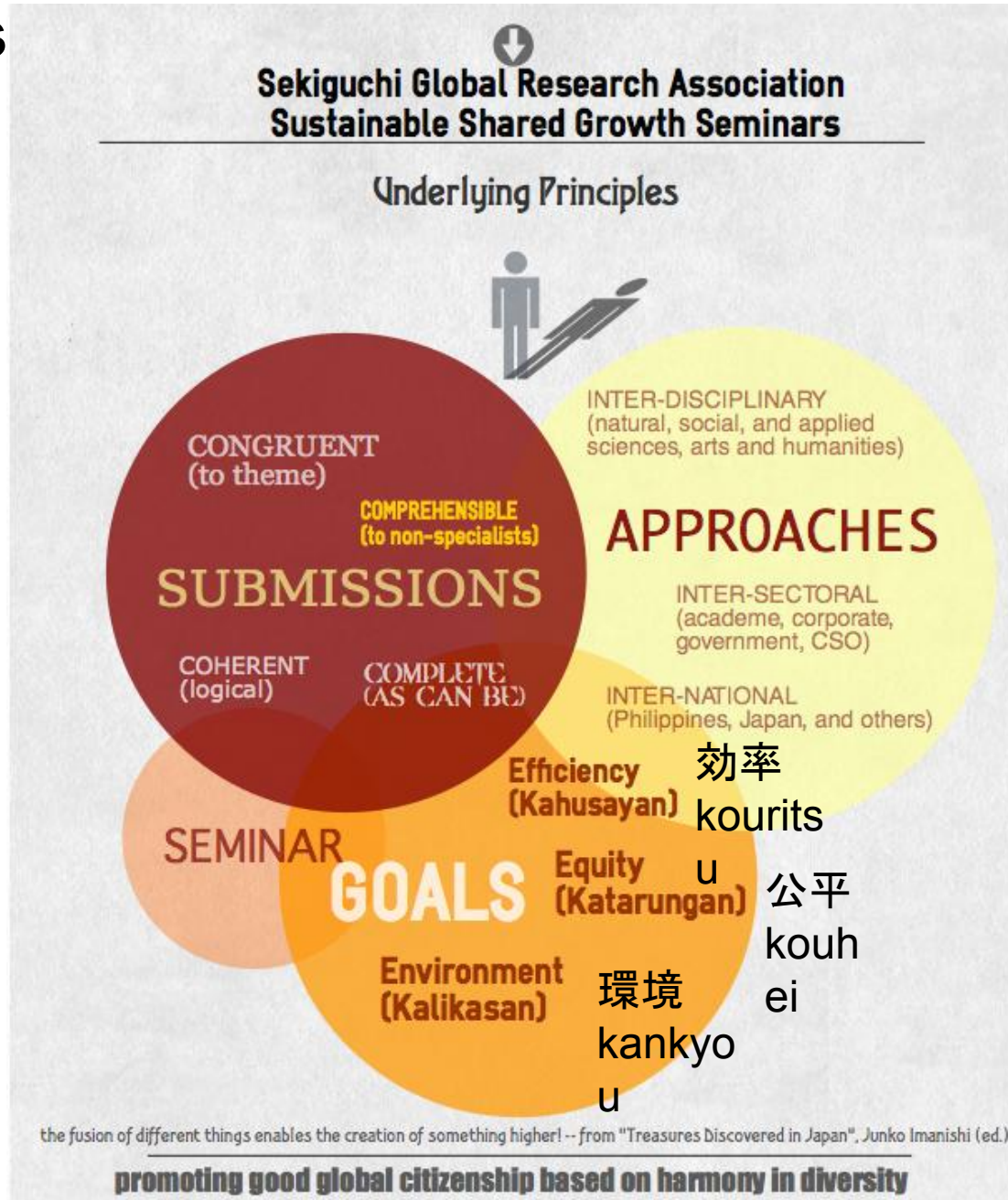


24th Sustainable Shared Growth Seminar
September 23, 2017
Sydney, Australia

Land Value Taxation: A Survey of the Theory, Evidence, and Practice

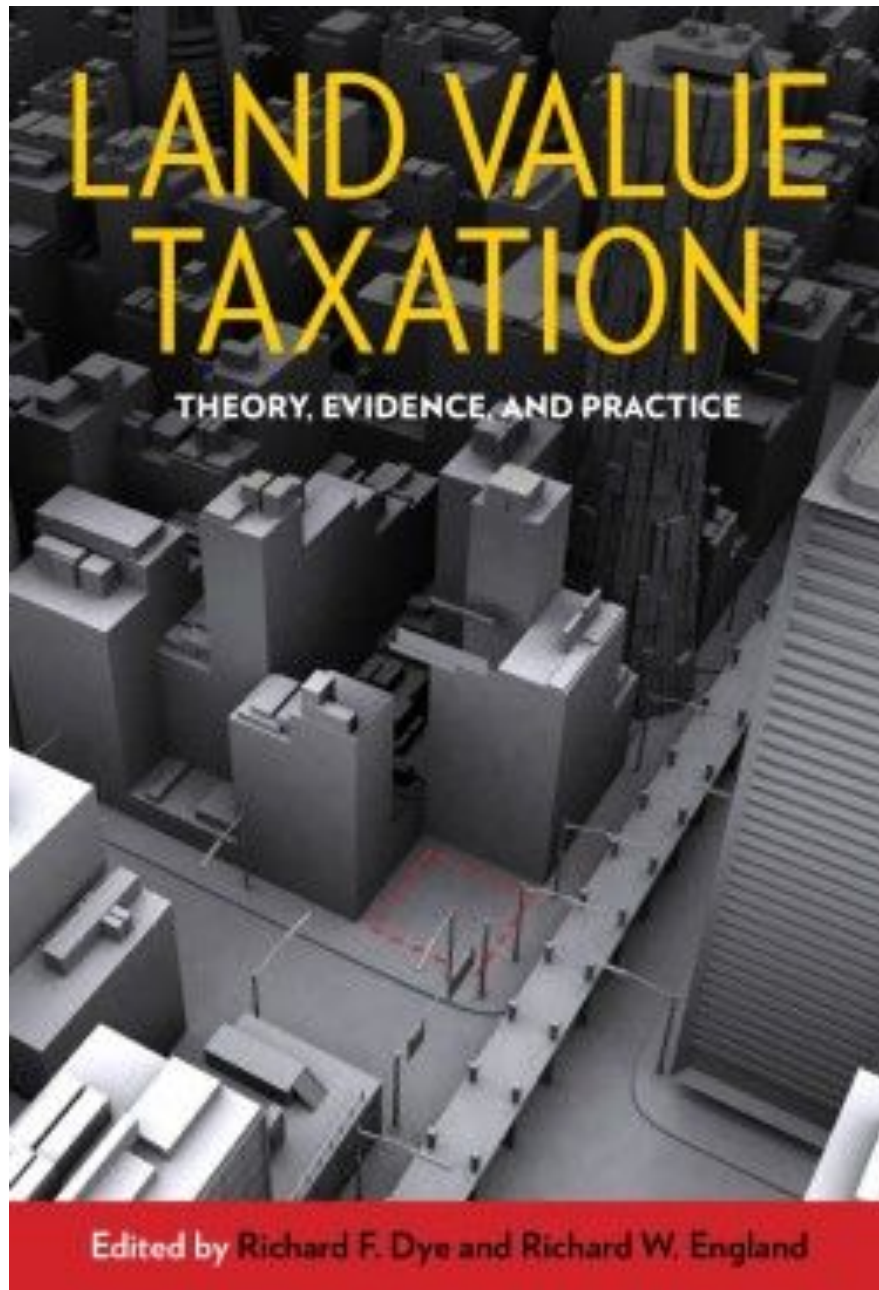
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20 seminars since 2004



Background

- Overarching theme of SGRA Philippine Seminars
 - Search for mechanisms to achieve sustainable shared growth
 - Efficiency x Equity x Ecology
 - Philippines is in dire need of sustainable shared growth
- Joffre came to Tokyo, and impressed on me the ability of LVT to be a mechanism for sustainable shared growth
- We invited him to make a small presentation on the 20th Sustainable Shared Growth Seminar in the Ateneo de Manila University
- I complemented this with a brief run down of the KKK features of the LVT
- This 24th KKK seminar is part of our continuing efforts to deepen understanding of LVT and to seek out ways by which it could be applied to the Philippines, perhaps with some help from the AFGG



For this seminar, we review:

Land Value Taxation

Theory, Evidence, and Practice

Edited by [Richard F. Dye](#) and [Richard W. England](#) (R&E)

May 2009

English

Lincoln Institute of Land Policy

Theory: Efficiency

- D&E recognizes the lack of a Deadweight Loss (inefficiency) in the case of an LVT
- Taxes normally distort market prices
 - Increases the effective price paid by the buyer
 - Decreases the effective price paid to the seller
 - Less quantity bought and sold vis-à-vis a market without tax
- Leads to
 - Loss in buyer welfare
 - Lost in seller welfare
 - Cannot be compensated by the increase in tax revenue

Theory: Efficiency

- In the case of an LVT, deadweight losses are minimal if not non-existent
- Due to fixed supply of land
- LVT leads to
 - Increase in land prices, without change in quantity
 - Loss in consumer welfare
 - Fully compensated by increase in government tax revenues

Theory: Efficiency (Comments)

- D&E introduces another definition of “non-distortionary”: revenue neutrality of tax reform
- Split-Rate Tax
 - LVT + Property Improvement Tax
- Increase LVT + Decrease PIT, such that tax revenues does not change
- Helpful in convincing society to support a tax reform – necessary!

Theory: Equity

- D&E cites two definitions of equity
 - Inter-income equity
 - Equity across income brackets
 - Progressive or Regressive
 - LVT-based tax reform program that is progressive is equitable
 - Inter-tax equity
 - Equity across different types of tax
 - LVT is more equitable vis-à-vis income-based taxes (e.g., income tax, corporate profit tax)
 - LVT is tax on unearned income
- D&E puts more emphasis on the former

Theory: Equity

- Comments

- Inter-income equity would help in bringing tax payers on board with the tax reform
- Inter-tax equity is the definition of equity used in identifying LVT as a sustainable shared growth mechanism
- R&E, however, puts a lot more emphasis on the inter-income equity definition
- Possible conflict not discussed by D&E
 - LVT is NOT inter-income equitable (regressive), but it is still inter-tax equitable (e.g., in the case when land value/ownership is a small part of the wealth of the richer)
 - Do we abandon LVT or not?
- Plausibility of this conflict is an empirical question (depends on the share of land in the richer citizens' wealth)
- But should the conflict arise, D&E would likely be against LVT—given their normative emphasis on inter-income equity, despite LVT being inter-tax equitable

Theory: Ecology

- D&E cites Breuckner and Kim (2003) for the theoretical effects on urban sprawl of a revenue-neutral shifting to a split-rate tax from a uniform property tax
 - Households consume less housing due to the higher price of housing, hence, less land is needed for a fixed population
 - Encourages improvements per land area, hence, increasing population density for a fixed population
- Both effects lead to a reduction of urban sprawl




Theory: Ecology

- Comments

- Reduction of urban sprawl is the feature of LVT that makes it ecological
- Not discussed by D&E, but reduction of urban sprawl could enhance the bio capacity of a given land area
- This assumes that non-urban area is the source of life-sustaining environmental services
 - Provision of natural resources
 - Absorption of waste produced by human activity






Evidence: Efficiency

- Computable General Equilibrium Models

Author/Study Region	Findings	Supports LVT
Growling (1981) Metropolitan Boston 1980 Switch to split rate tax from a property tax:	↑ land prices generating sufficient revenue; population densities; wages; improvements per acre ↓ land rents; housing prices; spatial area covered by urbanization	
Haughwout (2004) NYC Eliminate city's sales, income, property, and general corporate taxes, while retaining the tax on land at its current rate (2.83%)	substantial increase in private output, land values, private capital stock, and population	
Follain and Miyake (1986) Jamaica Using LVT to replace 20% of income tax revenue	requires a 100% equivalent tax rate on land rent -- effective confiscation of land	

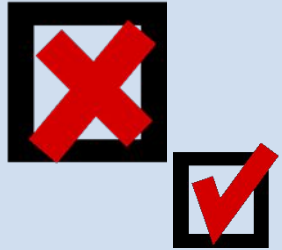

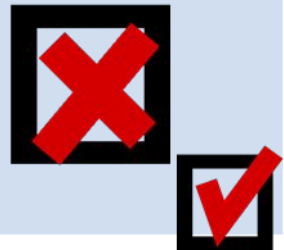
Evidence: Efficiency

- Multivariate Regressions

Author/Study Region	Findings	Supports LVT
Mathis and Zech (1983) Pennsylvania municipalities	no significant tax effect on the value of construction (not much variation only three cities had land tax exceeding improvement tax)	
Bourassa (1990) three Pennsylvania cities Bourassa (1987) focused on Pittsburgh and got same results	Pittsburg: Decreasing improvements tax rate has a significant effect on the value of building permits, changes in land tax rate have no significant effect McKeesport and New Castle: no effect	 
Schwabb and Harris (1997) tax regime change in Pittsburgh and 15 surrounding cities	LVT did not cause a building boom in Pittsburgh, but it did allow the government to avoid policies that might have undercut the boom	 

Evidence: Efficiency





- Multivariate Regressions

Author/Study Region	Findings	Supports LVT
Pollakowski (1982) examines property transactions in Pittsburg between 1977 and 1981	(change in land tax rate between 1978 and 1980: land tax rate is 4 to 5 x improvement tax rate -- used to be only 2x) led to an increase in the probability of parcel of land being transferred but it was small	
Plassmann and Tideman (2000) Pennsylvania cities 1980 to 1994 increase in tax differential	increases the number of building permits significantly Tax differential = (land tax - improvement tax)/(average assessed value / sales value)	
Lusht (1992) 53 local government authorities or communities in Melbourne	Higher flow of new housing in communities using LVT vs capital tax (but may have selection bias: LVT communities tend to be closer to the business center of Melbourne)	

Evidence: Efficiency (Comments)

- CGE results tend to support the LVT, while the regression results tend not to
- Theoretically, CGE models are better in tracking inter-sectoral effects of LVT, vis-à-vis single equation regression analysis
- At the same time, the CGE simulations for Metropolitan Boston and NYC bode well also for inter-tax equity and urban sprawl reduction

Evidence: Equity

Author/Study Region	Findings	Supports LVT
Lewis (1980); Geisler (1993, 1995) for the US	Real estate ownership is concentrated among the wealthy, but real estate value represents a smaller percentage of household's total net worth as income increases	
Cahill (2002); Muellbauer (2007); Banks, Smith, and Wakefield (2002) for the UK	Same as in the US	
Subramanian and Jayaraj (2006) for India Li and Zhao (2007)	Wealthier households concentrate more of their wealth in land (India) Land is less important for wealthier households (China)	 

Evidence: Equity (Comments)

- Evidence suggest that LVT might be:
 - Regressive in US and the UK
 - But may be mixed in developing countries
 - Progressive in India
 - Regressive in China
- Note: D&E cite a number of studies on the distributional effects of an LVT
 - Focus is on inter-income equity
 - Plagued with problems
 - Poor data on land value and socio-economic characteristics of landowners
 - Assumes no change in change in land values after an LVT is implemented
 - Do not estimate how taxes would be shifted to other groups in the long run

Evidence: Equity (Comments)

- Focus on inter-income equity of D&E is perplexing
 - Calls for justice to the wealthy, in the case of the US and UK
 - Worries about the ability of unjustly burdened groups, though they may be a minority, could be powerful enough to lobby government against the LVT
 - Propose some kind of tax relief to the unjustly burdened groups, but warn that this might divert tax revenues from welfare support programs to the poor
 - Seems to have forgotten about the need for revenue-neutrality of LVT
 - Ignores ability of inter-tax equity to compensate the losers

Conclusion

- The mission of the Sustainable Shared Growth seminars of the Sekiguchi Global Research Association is to research and advocate mechanisms for sustainable shared growth. Thus far, this search has shown that such mechanisms are few and far between.
- I am very grateful, however, especially to the Association for Good Government, for being able to make this review of Dye and England's book on a mechanism where I feel the (KKK) force is strong.
- Needless to say, this review has deepen my understanding of Land Value Taxes, and has made me much more prepared to face the general cynicism that drowns it and other mechanisms of sustainable shared growth.
- Our end requires us to promote the implementation of such mechanisms. In cooperation with you, we hope that we could see the successful and even widespread practice of LVT in the Philippines, where we badly need to achieve sustainable shared growth.