

# Just Economics

## A TAX SHIFT FOR PROSPERITY, SUSTAINABILITY & EQUITY

By Rick Rybeck\*

If property owners construct or improve buildings, we punish them with higher taxes. If owners allow buildings to deteriorate, we reward them with lower taxes. Owners of vacant lots pay much less tax than neighbors with buildings even though it costs communities about the same to construct and maintain streets, sidewalks, sewers and other utilities in front of similarly-sized lots regardless of whether they are developed or vacant. Does this make sense?

**Some jurisdictions have remedied these upside-down incentives by reducing the property tax rate on privately-created building values while increasing the tax rate on publicly-created land values.**

The lower tax rate on buildings makes it cheaper to construct, improve and maintain buildings, reducing rents for residents and businesses. (The typical property tax on buildings is only 1% or 2%, but has the economic impact of a 10% to 20% sales tax on construction labor and materials.) Surprisingly, the higher tax on land values reduces land speculation and helps keep land prices low. Thus, **without new spending or revenue loss, this tax shift can make both buildings and land more affordable!**

Typically, we create infrastructure to facilitate development. Yet, the resulting inflation in nearby land prices can drive development (particularly affordable development) to cheaper but more remote sites. We then extend infrastructure to these remote sites only to have the process repeat. Infrastructure created to facilitate development ends up chasing it away. We run after sprawl with more infrastructure, but never catch up. Sprawl destroys the countryside and local budgets as communities end up with much more infrastructure than they would need if development was more compact.

If we return publicly-created land values to the agencies that created them, infrastructure can become financially self-sustaining. **Landowners who benefit from infrastructure pay in proportion to benefits received.** Additionally, the tax shift encourages infill development on high-value land near transportation facilities and other infrastructure. This is where communities want development. Inducing infill development makes communities more compact. It facilitates walking, cycling and transit. **It keeps taxes low while preserving rural areas for agriculture, recreation and conservation.**

This **tax shift** concentrates development near existing infrastructure. It makes **housing more affordable**. It **creates jobs** by making it cheaper to improve and maintain buildings, and by reducing business rents.

See <https://www.shareable.net/land-value-return-and-building-a-more-equitable-economy/> . Michigan is considering the tax shift. See <https://detroitmi.gov/departments/office-chief-financial-officer/land-value-tax-plan> . **Can we help your state become more prosperous, sustainable and equitable?**

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