

CLASS SUICIDE

How property owners bite the hand that feeds them



Proz Oz's Communications Officer, **Gavin Putland** (now promoted to full-time — onya, Gav!) here argues that, by opposing taxes on unearned increases in land values, property owners are blocking the financing of infrastructure that would increase their wealth and income.

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1. The miracle of the land market

If you are to share in the benefit of a public infrastructure project, such as a new freeway or bus route or state school, you must reside or do business in the area served by the project. For this purpose you need access to the *real estate* in the area. Hence the benefit of the project, as measured by the market, is the ensuing **uplift** in property values in the affected area.

If the infrastructure project is worthy of funding, the benefit exceeds the cost; so the cost can be covered by reclaiming only *part* of the benefit through the tax system, leaving the rest of the benefit is a *net windfall* for the owners of property in the affected area, but *without burdening other taxpayers*. If the reclaimed part of the benefit is *greater* than the cost of the project (but still less than the total benefit), the project is a net source of public revenue. This not only ensures that the project goes ahead — so that the property owners get the ensuing windfalls — but also

allows cuts in other taxes for the benefit of *all* taxpayers whether they own property or not.

N.B. The implementation of this funding mechanism does *not* require any initial increase in tax receipts, and any *subsequent* increases in tax receipts are due solely to expansion of the tax base — not increases in tax rates.

2. Five loaves and two fishes

The funding of a public project through increases in property values is attractive to property owners provided that the additional tax payable on each property due to the project is *less* than the benefit for the property owner due to the project. This requirement is met by a form of site value taxation.

A **site** is a piece of ground or airspace, including any *attached rights* to construct buildings on that ground or into that airspace, but *excluding* any actual buildings. The value of a site reflects the value of its location even if no buildings (yet) occupy the site. So, to the extent that infrastructure increases "property values" in a certain area, it actually increases **site values** in that area.

The simplest site value tax or "land tax" is a per-annum percentage of the (lump-sum) site value, payable by the owner of the site. If the land tax has a **threshold**, the taxable value is not the entire site value, but the margin by which the site value exceeds the threshold. If the threshold is the site value at the time of introduction of the tax (i.e. the "initial" site value), adjusted for inflation, the result is a tax on the subsequent *real increase* in the site value. If the threshold is reduced below the inflation-adjusted initial site value, the additional revenue from the land tax allows other taxes to be reduced or abolished on introduction of the land tax. In particular, one can abolish existing recurrent property taxes and set the threshold on *each* site so that the new land tax initially replaces the recurrent property taxes previously paid by the owner of *that* site; the threshold is then called a **site threshold** because it varies from site to site. Let's call this last arrangement an **incremental land tax (ILT)**.

the site value does not increase unless, in the judgment of the market, the owner is better off in spite of the tax

An ILT reclaims only *part* of the benefit of an infrastructure project, because the tax on a property does not increase unless the site value does, and the site value does not increase unless, in the judgment of the market, the owner is better off in spite of the tax implication. While the same is true of any holding tax on lump-sum site values, the ILT has the added feature that *property owners do not suffer any change in total tax liabilities when the ILT is introduced*.