

TABLE 2.—STATE-LOCAL USE OF THE PROPERTY TAX, 1976-77—Continued

	All State and local property tax revenues per capita	Property taxes as a percentage of all State and local tax revenues
North Central:		
Illinois.....	\$243	37
Indiana.....	318	37
Iowa.....	291	39
Kansas.....	299	41
Michigan.....	332	38
Minnesota.....	271	30
Missouri.....	193	31
Nebraska.....	357	46
North Dakota.....	224	33
Ohio.....	249	39
South Dakota.....	307	49
Wisconsin.....	299	34
West:		
Alaska.....	1,318	57
Arizona.....	317	38
California.....	458	42
Colorado.....	314	39
Hawaii.....	167	17
Idaho.....	205	32
Montana.....	362	47
Nevada.....	286	32
New Mexico.....	113	18
Oregon.....	353	45
Utah.....	191	29
Washington.....	255	31
Wyoming.....	402	41

SOURCE.—Computed from *Governmental Finances in 1976-77*, "Per Capita Amounts of Financial Items for State and Local Governments, by State," Governments Division, Bureau of the Census, cited in Compact Cities hearings, p. 206.

Gaffney describes the process of shifting from existing low-intensity to high-intensity land usage as an on-going economic battle. He defines the *renewal gap* as the difference between the value of the land and buildings in their present use (defender value) and the value of the land and future improvements as its potential use (challenger value.) Renewal takes place when the renewal gap is eliminated; that is, when the challenger value of the parcel exceeds its defender value.⁸² The property tax widens the renewal gap, slowing down or even halting the revitalization of urban centers.

How can the property tax be both too low and too high? It is because the property tax is really two taxes combined as one, and the two taxes have strong but contradictory effects. First, the property tax is a levy on land. Second, it is a levy on man-made improvements on the land—homes, office buildings, factories shops, barns, and such. The land tax is too low, the building tax, too high.

Because the improvement tax rises with the value of a building, land owners are inclined to build less or not at all. The magnitude of this discouragement effect is obscured because the tax is paid over the life of a building rather than in a lump sum after construction. Sales taxes are paid on an item only once, not year after year like property taxes. Income taxes are paid only on net earnings or profits, while the property tax is levied against the full worth. The higher the tax on buildings, the greater the disincentive to construction and maintenance. Deteriorated buildings receive tax advantages over well-maintained neighbors.

The land tax, on the other hand, tends to stimulate more appropriate investment on land as the tax increases. Since the tax does not change the productivity of the site or the quantity of available land,

⁸² Ibid., p. 241.