

the owner usually cannot shift the land tax to tenants or customers. If the land tax is too low, as in Alabama, owners have little pressure to make the best possible use of their sites.⁸³

It is now clear that the property tax is more appropriately viewed (with apologies to Dickens) as the best of taxes and the worst of taxes. The tax on land values is constructive and equitable, but its other half, the tax on improvements, is ammunition for killing the goose that lays the golden eggs. Most localities have the worst of both worlds—relatively low land taxes combined with high improvement taxes.

To get optimum social results from the property tax while retaining its essential revenue-producing function requires application of combinations of the following options: (1) Putting assessments in order, (2) providing temporary abatements to encourage rehabilitation or new construction, (3) taxing buildings less and land more, and (4) adopting tax base sharing.

b. Putting assessments in order

In most states, land and improvements are both supposed to be assessed on the same basis (full market value or some specific percentage thereof), then added together, and finally taxed at the same rate. Few laws or constitutional requirements are more frequently violated. Study after study shows that it is commonplace to assess vacant land and deteriorated property at less than their true market value.⁸⁴ This is an invitation to poor land use.

The pervasiveness of tax discrimination against intensive land use is evident in Table 3. Throughout the United States, commercial and industrial properties (land and improvements together) are assessed at rates 32 percent higher than vacant, platted lots. Therefore, a business person who puts a building on his vacant urban lot will be taxed not only on the new investment; he will also experience a tax rate increase of 32 percent, on average. In Alabama, commercial and industrial property are assessed 135 percent higher than vacant lots; in Pennsylvania, 84 percent higher; in West Virginia, 79 percent higher; and in Iowa, 212 percent higher. In California and Vermont, however, commercial properties are assessed only 4 percent and 19 percent higher than vacant lots, respectively.

TABLE 3.—ASSESSED VALUE AS A PERCENTAGE OF SALES PRICE BY TYPE OF PROPERTY IN SELECTED STATES, 1976

	All types	All residential	Single-family residential	Multi-family residential	Acreage	Vacant platted lots	Commercial and industrial
United States ¹	31.0	30.8	30.7	32.2	22.3	27.0	35.7
Alabama ¹	10.8	10.7	10.6	12.2	5.3	7.1	16.7
California ¹	17.2	17.7	17.7	17.6	13.1	16.4	17.1
Iowa ¹	70.0	71.8	71.8	77.5	46.5	26.4	82.4
New York ¹	27.2	25.7	23.7	32.3	29.9	27.4	35.2
New Hampshire ¹	58.9	61.4	61.1	65.4	42.4	42.0	58.2
Pennsylvania ¹	17.9	17.2	16.8	23.4	12.2	15.1	27.8
Vermont ¹	31.8	31.9	32.2	29.2	30.6	25.3	31.3
West Virginia ¹	25.4	25.4	24.4	33.5	15.7	21.9	39.3
Wisconsin ¹	49.3	50.4	44.5	62.1	41.3	33.4	64.1
South Carolina ^{1,2}	3.3	3.2	3.2	4.5	1.9	3.4	4.8

¹ Statewide, size-weighted average.

² Manufacturing properties assessed by the State, rather than the locality.

Source: 1977 Census of Government, Vol. 2, Taxable Property Values and Assessment/Sales Price Ratios, U.S. Department of Commerce, Bureau of the Census.

⁸³ Ibid., p. 197.

⁸⁴ Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax*, Washington, D.C., 1963; CED (Committee for Economic Development), *Modernizing Local Government*, Washington, D.C., 1966; National Commission on Urban Problems, *Building the American City*, Washington, D.C., 1969.