

other words, the tax is neutral with regard to land use decisions. Since the present property tax, on both land and improvements, is *not* neutral but tends to discourage investment in buildings, a switch from the present tax to exclusive site value taxation (or to a tax heavily weighted on the land portion) would tend to have strong land use effects.

Provided that demand permits, it would encourage owners to develop their sites more intensively, in an effort to minimize tax liability as a percentage of current receipts, since additional investment in buildings would not increase tax liability. Within individual urban jurisdictions, taxes on vacant land would tend to rise, thereby increasing the holding costs of vacant land and making the speculative withholding of land from development a less attractive proposition. Thus, a switch to site value taxation is likely to have its maximum impact in two parts of a metropolitan area—in the central areas, where it would encourage more investment in buildings, and in the outlying sections, where it would tend to discourage land speculation and the resulting patchy patterns of land development (less “leapfrogging” over sites withheld from the market).

In theory, there are few if any legitimate economic arguments against site value taxation. On an operational level, there are grounds for hesitation.

First of all, one may doubt the actual strength of the positive tendencies associated with a switch to site value taxation. It is, after all, a major institutional change, and major institutional changes should not be pressed unless their positive effects are also expected to be major in extent. However, it should be noted that effective property tax rates in most American metropolitan areas are high and rising. The negative land use effects of the present tax are likely to become increasingly apparent in time, and the likely benefits from a change in the basis of taxation will correspondingly increase.

Second, there is some question about the revenue adequacy of site value taxation. Some calculations suggest that the present yield of property taxes on nonfarm realty substantially exceeds the total rental value of privately owned nonfarm land. Thus, even a 100 percent site value tax might not yield enough to fully replace the existing property tax (on real property, exclusive of personalty). This suggests that only a partial, rather than a complete, shift is possible, diluting the possible advantageous land use effects.

Third, there are administrative problems if both land and buildings are taxed, but at differential rates—the “graded tax” concept applying in Pittsburgh, Hawaii, and western Canada, for example. This makes it very important to accurately value land and buildings *separately*. Under a pure system of site value taxation, the building value is irrelevant. Under the conventional property tax, the distinction between land and building for any individual site is also irrelevant, although the statutes may require the assessor to make some statement about the notional separation. It seems likely that joint administration of the two different types of taxes will produce bad administration of the site value tax, in that assessors will tend to relate land and building valuations as they often do at present. Therefore, the proposal here is for a *separate* system of land value taxation, levied and administered, if possible, over a wide geographic area—a whole State or SMSA.