



The City of Baltimore is rich in history and culture and has successfully reimagined its port and other areas into bustling, economically vibrant centers of activity. Despite these immense accomplishments, however, many of the City's neighborhoods are experiencing disinvestment and blight, and a large proportion of residents are failing to earn or amass the kind of wealth held by those living and working in Maryland's neighboring counties.

Current conditions derive from a variety of factors, one of the most significant and pernicious stems from Baltimore's taxes. Simply put, people and businesses who choose the City as their home are subject to cumulative tax burdens that far outweigh those of surrounding areas, while failing to receive the kinds of high-quality public services available elsewhere. This reality represents an underlying, almost invisible driver of Baltimore's cycle of poverty and disinvestment.

In this brief, we explore the pitfalls of the City's current tax structures and explore how a single tax intervention – Land Value Tax – could halt the cycle of disinvestment and decline, while still producing a stable and sufficient revenue stream for the City.

#### Baltimore's Income Tax

With its eight income tax brackets, Maryland's state income tax is now somewhat progressive. Baltimore County, in contrast, relies on a flat tax, so even the first dollar earned is affected, a condition which disproportionately and negatively affects low-income workers. A glance at Figure A illustrates that Baltimore's median household income falls well below its neighboring counties, and Figure B shows income tax rates that equal or far outpace those same locations.

The narrative here is a familiar one: residents with the money to leave are drawn from the City by the superior services available in the wealthier neighboring communities, taking their high tax revenues with them. Those who cannot or will not move are left to shoulder the financial burden of City services,

forcing local government is forced to do more with less and the already financially stressed residents to surrender a growing portion of their household pie in taxes.

### Maryland's Personal Property Tax

Maryland is one of the few states that still imposing a business personal property tax, which covers business machinery and other big-ticket items needed to operate a store or production facility. As Figure C illustrates, Baltimore's personal property tax rate is significantly higher than neighboring counties, creating an inhospitable business environment that compounds the effects of the County's other taxes, and renders nearby locales even more appealing to the very businesses Baltimore so desperately needs to attract and retain.

### Baltimore's Property Tax

It is well known that in a distressed city like Baltimore, property tax burdens have the undesirable tendency to spiral up as wealth flows out and disinvestment increases. Together with Baltimore's taxes, this produces a sort of "a snake eating its tail" where shrinkage of the tax base yields higher tax rates in a compounding fashion, putting additional pressures on the real assets the City needs most: its businesses, buildings, and neighborhoods.

Figure D evidences this phenomenon quite starkly. Baltimore County's property tax (which represents a combination of state and county taxes) far outpaces that of surrounding localities. At 2.36%, owners of property in Baltimore pay a higher effective rate than the average for New Jersey, a state renowned for having the highest property taxes in the nation. Yet where highly-taxed New Jerseyans enjoy quality schools and other public services, Baltimore residents fail to realize similar benefits.

The corollary decline in home values has also been manifest in Baltimore for decades. As illustrated in Figure E, at just over \$127,000, the median home sales price in Baltimore is the second-lowest in the state.

### So What Now?

Clearly, Baltimore's tax structure is working against efforts to revitalize struggling neighborhoods throughout the City, but the current situation results from decades of compounding social and economic forces. Could a single intervention stem or even reverse the worst impacts of these trends? In a word, "yes," but only if that single intervention were sufficient to correct for the underlying weaknesses in today's tax systems. Which brings us to Land Value Tax (LVT).

LVT is a conceptually simple approach to the property tax that places the lion's share of the burden on land while taxing improvements very little, or not at all. The logic behind LVT is that a city like Baltimore wants to attract developments, not penalize it with increased tax bills; and that a large portion of the value of land is a reflection of the access it gives its owners to community-provided amenities, so it makes sense that the associated tax should be structured so as to recapture that value and make it available to support the very services from which it was derived.

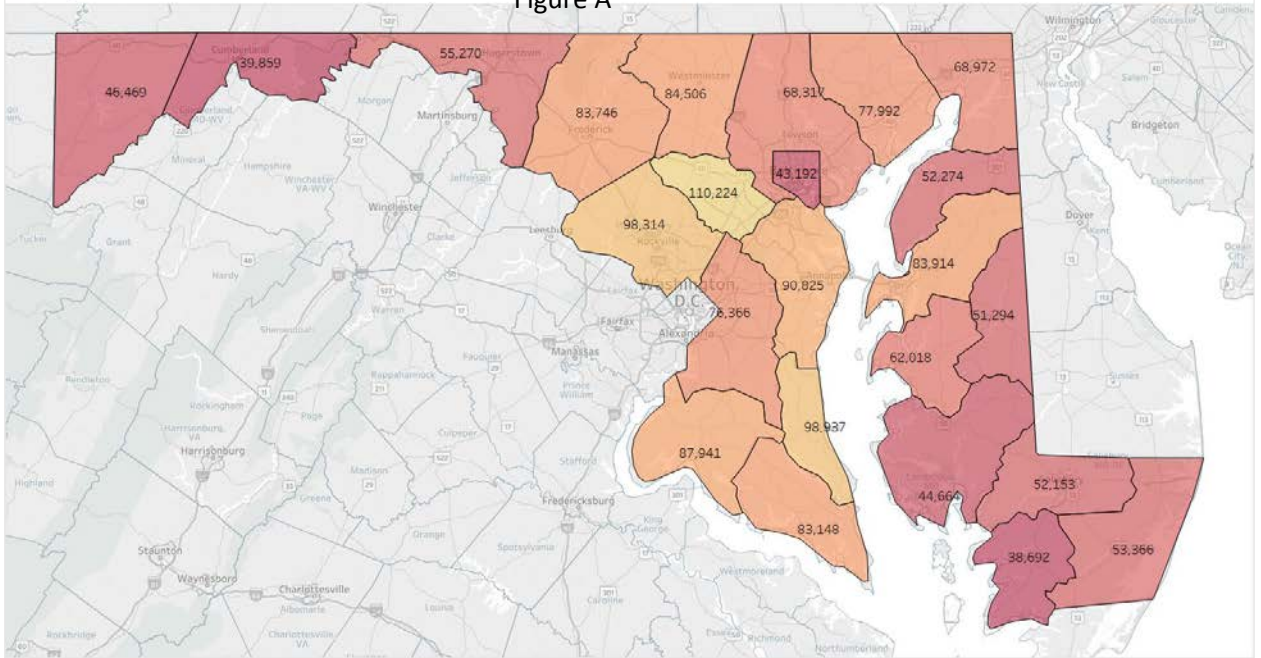
LVT makes use of existing property tax assessments and can be conceived to be revenue-neutral or even revenue-positive. It can function as a simple substitute for traditional property tax, or it can be used in place of other levies, which in the case of Baltimore, should arguably include the personal property and income taxes. And implementing LVT on a city-wide basis can immediately redistribute the tax burden away from the lowest income residents and businesses, as Figure F makes clear.

#### Why is LVT Right for Baltimore?

LVT offers the opportunity to stabilize and grow local revenue streams while maintaining a “light touch” approach to wage earners and businesses. It contributes to personal wealth retention and creates new opportunities to generate wealth down to the block level. It also attracts self-funding projects and keeps Annapolis and D.C. out of the mix. And finally, LVT allows the City to reap the benefits of its sound planning practices, providing a transparent mechanism to return the resulting value directly to the community.

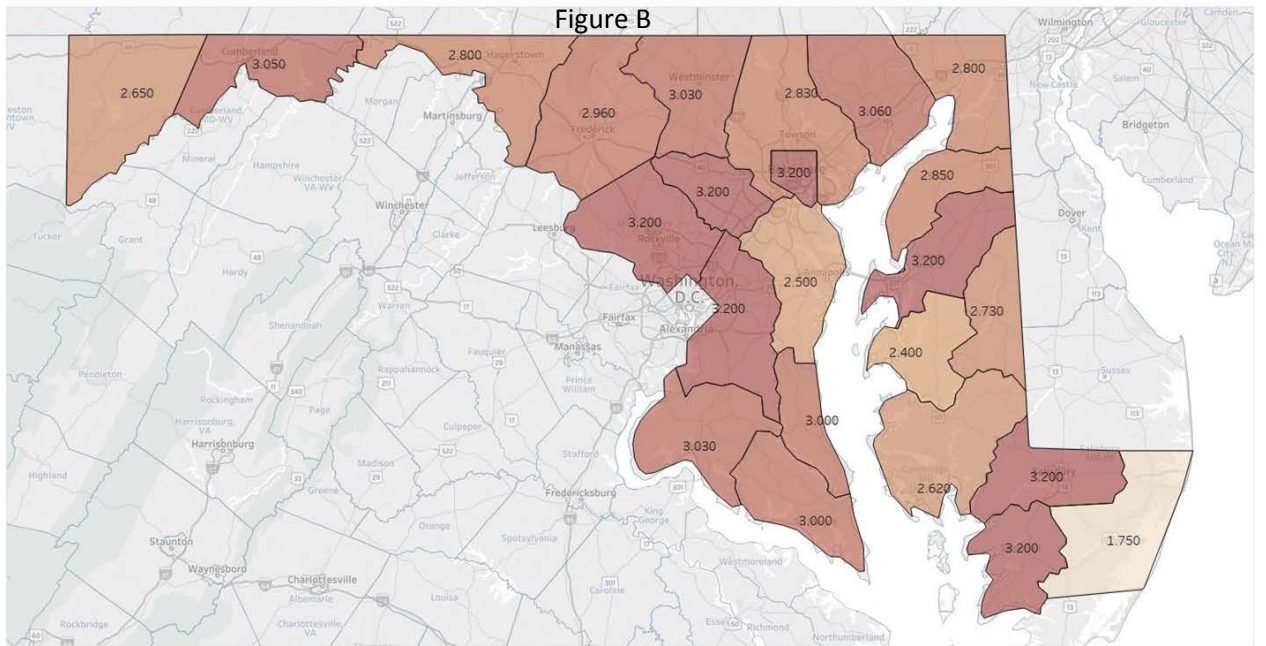
County Median Income

Figure A



County Income Tax Rates

Figure B





County Median Home Sales Price

