



Center for Property Tax Reform
www.centerforpropertytaxreform.org

Testimony relevant to HB1320 March 9, 2021

Dear Members of the House Ways and Means Committee:

My name is Josephine Faass, Ph.D. and I am the Co-Director of the Center for Property Tax Reform. I am writing to highlight some of the reasons to consider moving to a split rate property tax, as would be permissible in Baltimore City should HB1320 pass into law.

Under a single rate tax such as is currently in place in Baltimore City, the bulk of a property owner's tax bill is derived from the value of their improvements. This creates a perverse incentive - in the form of low tax bills (i.e. low carrying costs) - to hold land in vacant and/or blighted condition for extended periods, presumably until such time as extant community investments make either the development or sale of said parcel(s) a profitable proposition. Conversely, owners inclined to make improvements, whether in the form of new construction, or renovations or expansions of existing structures, are discouraged from doing so by the knowledge that their annual tax obligations will increase as a result. In these ways, traditional property taxes can exacerbate some of the most detrimental trends in urban land use, including land speculation, blight, sprawl, and a paucity of quality affordable housing, many of which are already manifest in Baltimore City.

Conversely, a two-rate tax, which places the emphasis on land value and reduces the tax burden stemming from improvements; or a true land value tax, which bases the entirety of the property tax bill on the value of land, leaving improvement value untaxed, encourages quite different behaviors among land owners. Absent the tax "penalty" for improvements, owners are more likely to make them. Speculators find themselves no longer able to hold onto land cheaply, and must choose between either paying full freight for their properties (and appropriately funding the public goods and services provided by the taxing jurisdiction in the process); improving their properties such that their use merits the new, higher tax bills; or selling to someone who will put the land back into active use. Any one of these scenarios is arguably a boon for the affected neighborhood and community.

The above claims make theoretical sense, and research has shown that they hold in practice, as well. Recent studies of the 16 Pennsylvania cities, towns, and school districts that have used a two-rate or land value tax show a variety of community benefits. Included among these demonstrable effects are increases in residential property values, accelerated rates of new business formation, and diminutions in the percentage of properties entering tax arrears. Other studies, including those conducted by the Center for Property Tax Reform, have also shown that moving from a tax on (primarily) improvements to one focused on land value typically enhances the progressivity of the property tax, reducing the bills of lower income residents and smaller businesses by shifting more of the burden to the owners of vacant and blighted properties, as well as land-intensive use types, such as surface parking lots and mini storage facilities, that do little to contribute to a City's quality or culture.

Thank you for giving me the opportunity to present this information.

Sincerely,
Josephine Faass, Ph.D.
Co-Director, Center for Property Tax Reform