

Land tax -- appraisals, the worst tax mechanism (Re: RoyL, Lysander - LVT question.

Source: <http://sci.tech-archive.net/Archive/sci.econ/2008-03/msg00156.html>

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 - *Date:* Wed, 19 Mar 2008 00:13:34 -0400
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On Tue, 11 Mar 2008 17:24:20 GMT, royls@xxxxxxxx wrote:

On Mon, 10 Mar 2008 21:53:01 -0500, Les Cargill <lcargill@xxxxxxxx> wrote:

Roy, has anybody done a good study of costs of administration of an LVT versus say, the IRS?

Sure, there's tons of data -- just compare today's property tax systems to other taxes: income, payroll, sales, etc.

Any appraisal-based tax system -- real estate property tax being by far the biggest -- involves an appraiser valuing each unique property separately, with the property owner having many arguments to contest the appraisal, and the right to appeal it up through a tax appeals system all the way to and through the courts.

Very little common sense is needed to divine this is a **hugely** more costly administratively than any other tax -- payroll tax, income tax, sales tax, etc.

And any Georgist who is interested in facts can verify this common sense intuition in just a couple minutes (though I never saw one who bothered).

For instance:

~~quote~~

The Massachusetts Appellate Tax Board (ATB) ... hears and decides cases on appeal from any state or local taxing authority.

Ninety percent of the petitions filed at the Board are appeals of local property taxes.

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The remaining cases are appeals by taxpayers regarding all state taxes, including the income tax, sales and use taxes, the bank excise tax, the corporate excise tax, and others.

http://en.wikipedia.org/wiki/Massachusetts_Appellate_Tax_Board

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Property taxes in Mass. produce about 28% of state and local revenue, let's say 30%.

Yet property tax appeals account for \*nine times\* the number of appeals from all other kinds of taxes combined — 10% of appeals come from all the other taxes that produce 70+% of tax revenue..

Those capable of arithmetic can deduce from this that property taxes result in \*21 times\* as many appeals per \$1 of tax collected as all other taxes.

So common sense and factual reality agree — fancy that!

It's very little different from running an ordinary property tax system,

Well yes — see above. Only worse — see below.

but you don't have to value improvements,

Obviously false.

Under the common system where the rental value of a whole improved lot is taxed, you just value the whole thing — that's \*relatively\* simple — though complex enough to result in 21X more appeals per each \$ of tax collected than all other taxes combined, of course.

However, to tax \*just the land\* one must value the whole lot, then value the improvements on them separately, and then subtract their value to get the value of the land as a residual.

This is because in developed urban areas with the highest land prices and the great bulk of land value, land is almost \*never\* owned or sold without improvements, and even more rarely than that sold without leases, cross-leases, easements etc, on it, which have the effect of improvements and change market price.

Valuing just improvements entails "cost segregation analysis" which is very costly to taxpayers, hugely complex, and generally impenetrable to tax assessors.

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For example, the value of each \*component\* in a building, the total of which is used to determine its total value, may be determined by: cost, or depreciated cost, or replacement cost, or expected revenue allocable to it — (which of course is extremely subjective and arguable) or obsolescence, or the depreciation category it is allocated to ... etc., etc. All of which both the appraiser and the taxpayer can argue about all the way up to and through the courts.

Are we getting an idea of where that 21x appeals per revenue dollar comes from?

And that's without going through the separate step of valuing the land itself.

Land values are extremely volatile — much more so than building valuations.

With a building, once you get through all the cost, trouble and appeals of valuing it you pretty much have its value semi-permanently. So when property values are mostly attributed to buildings, reappraising only once every few years is fairly equitable. And that's the norm most everywhere.

But land — like any item in inelastic supply — is highly volatile as to market price. This is because supply doesn't vary with demand (increasing to mitigate price rises, declining to mitigate price falls). Thus the \*entire\* weight of change in demand, up and down, results in change in price, up and down. Sharp and big.

This is econ 101 and is absolutely unavoidable with items in inelastic supply. It the other side of the Georgist coin of "land is in totally inelastic supply, so..."

Thus, if your tax system is focused on \*land value tax\*, you can't just appraise its value once every few years like you can buildings. You have to appraise it \*every year\*, in light of land price volatility. Otherwise your tax values are bogus.

And, of course, as each plot of land is unique, you can always argue about and appeal its appraisal.

I'll skip the cost to the government of lost revenue in years when land prices sharply fall — when land prices are rising, you have to assess them on every lot every year. Costwise, this multiplies both assessment costs themselves \*and\* appeals from assessments.

Consider the meltdown of the land tax assessment system in Pittsburgh, the only decent-sized US city that's ever tried it.

In 2001 its land assessors raised the assessed value of land by 80%

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from what it was in 2000. Well, land value is volatile, and that was a boom economy year — land value went up a lot!

The result was over 170,000 appealed assessments on the city's 500,000 properties. Of course that was \*impossible\* to manage.

Many politicians said the assessors had to be systematically wrong. There were law suits. The courts ordered studies, which took time, halting tax collection. The studies said the assessment methods were systematically correct, land values had gone up like that — \*but\* of course, the assessors could be and were wrong in many individual cases, so all the 170,000+ individual appeals had to continue to be processed. More than four years later, tens of thousands of them had not been resolved yet, remaining in litigation.

This fiasco made the Massachusetts property tax assessment appeal cost of 21x that of all other taxes look like \*a free lunch\*!

It was impossible. Pittsburgh repealed its land tax.

Oh, yeah, there's nothing simpler or less expensive than imposing a big land tax! ;—)

than half as much per property to administer, or roughly 1/10 as much per revenue dollar...

Some people create their own worlds to live in. Let's hope they enjoy residing there. ;—)

if you recover all the rent.

Remember, it costs the same amount to value a land parcel whether the tax rate on that value is 0.01% or 100%.

Although the higher the tax, the more often you have to assess and the higher the appeals rate. ;—)

If Pittsburgh's land tax rate was higher, it surely could have had a good deal more than 170,000 appeals.

Another thing that goes up with the tax rate, of course, is land tax \*evasion\* by shifting value from land to the buildings on it (and into other backroom deals, etc.) Remember all that cost segregation analysis.

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Sticking to pro-land tax authorities, Michael Hudson says 50% of land value is eliminated this way now. Mason Gaffney says more, a huge amount.

The head of the land tax assessment system in Pittsburgh, George Donatello, claimed that a big part of the problem leading to all the assessment appeals was "People in the past kept land values low, artificially low, because of the way the tax rate was structured.?"

This all is with only a modest tax penalty on land — not confiscation.

How many times have I asked here for the Georgists to say how *\*their\** appraisal system is going to keep the Hudson/Gaffney/Donatello shift of land value to other assets from happening??

Well, I've asked several times — no answers yet that aren't mere denial and dreamin'.

I just keep reading how the Georgist system will be "very little different from running an ordinary property tax system" today — except that the result will be *\*entirely\** different! ;-)

So an appraisal-based tax system, summed up:

- \* The worst administrative expense per dollar of revenue, *\*by far\**.

- \* The worst for evasion and value shifting — nobody pretends that income tax, payroll tax, etc. are underassessed by anything like the Hudson/Gaffney 50%+

- \* When combined with volatile land tax is *\*even much worse yet\** — see the self-immolation of the Pittsburgh land tax.

As evidenced by all the data, examples and experience of the real world.

Georgists who are unimpressed by same are of course free to continue living in their own.

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