

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

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- *From:* The Trucker <[mikcob@xxxxxxxxxxxx](mailto:mikcob@xxxxxxxxxxxx)>
  - *Date:* Sat, 26 Apr 2008 17:48:12 -0700
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On Wed, 19 Mar 2008 00:13:34 -0400, RogerDodger wrote:

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](mailto: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.

Nope. It is more costly to the land owners. The "administrators" actually derive income from the system. As such, the administrators need to be held in check by honest data and honest elections.

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).

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It is important to put a "who" on the flow of income; to discover the beneficiaries of the system.

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.

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](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..

But was this caused by the shift or was it always that way as the owners sought to increase the "depreciation" allowance on the entire bundle? It may be that there was an increase in the value shifting because the incentives to such shifting were enhanced, but the value shifting was always there due to the tax benefits gained through depreciation. The "secret" is to minimize or eliminate the benefit of the shifting.

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!

You have no point here. Good government is not cheap government. But it really gets down to who pays and who benefits from the payments. If the general public is not being well served by the assessors then new assessors are needed. That is why we have elections. Unfortunately, the size of electoral districts prevents adequate representation of the people and hence, representation of the common good. And this is why the system is busted. No tax system can work unless it is more transparent than the

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current system. If changes are revenue neutral or designed and advertised to produce predictable revenue then much of the problem can be avoided. We do not know if that was the case and we also do not know the real effects on appeals as caused by the change. You seem to want to condemn the tax shift by citing the number of appeals that were there BEFORE the shift. We have no data that would support any claim concerning the number of appeals increasing or decreasing due to the shift. We only see data that show that transaction taxes such as sales and income taxes are not challenged as much as value assessments. That is supported by the data and nothing else is. We also have a claim that the administrative costs are higher with a value assessment system. That claim implies that the society incurs the increased costs and this is not true, or not necessarily true. If the land owners pay the costs then there is no cost to the society.

<http://www.greatervoice.org/essays/LaborTheoryOfCost.php>

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.

This is a religious proposition as opposed to any real exercise in logic: The statement indicates that the appeals were not caused by the shift in taxation basis and that the controversies were always present. But the implication is that the tax shift caused the problems. Regardless of whether the basis shift occurred, there will have been a continuing effort to shift value from land to structures due to the effects of depreciation in the income tax. It should be obvious to all concerned that if the income tax did not exist and all revenue had to be realized by a tax on land values that the attempt to shift land value to structure value would simply result in a higher ad valorem tax rate. The cost of government is not going to change based on the tax system if the cost of appeal is born by the land owners when the courts find against them. Land owners contribute little or nothing to the real economy and the reduction or elimination of them has no adverse effects.

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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.

And this is exactly what is done now due to the effects of "depreciation". The "value" of the land is typically the value of a vacant lot in the same general area; the value of the LOCATION. Otherwise, the construction costs as depreciated are used to estimate the structure value which is then removed from the total value and what remains is the land value for tax purposes. It is not difficult but a major problem exists when the bundle is sold because the structures are again reflated and depreciated. Even if the income from the sale of the structure is taxed at the rate of 25% (depreciation recapture) the differment of the yearly taxes compounded at the discount rate far exceeds the recapture tax.

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.

I wonder what you think your point might be, here.....

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

Yet this is EXACTLY what is currently done so as to maximize gains from DEPRECIATION.

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?

Yes... We are. The appeals happen because of the desire of the owners to reduce their taxes. This already happens in business properties because

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of the depreciation advantages. When there is a change in tax policy that increases the tax on land by an amount that will compensate for the reduction or elimination of taxes on improvements then attempts to shift value from land to improvements will increase. But if the land tax is the only means by which the local government can support itself then the attempts to shift value will not be tolerated; cannot be tolerated. The apparent cost of appeal must therefore be born by the owners of land regardless of how it works out; regardless of whether the cost is born by unsuccessful appeals or by increasing the rate of tax. This is not some unintended side effect or an accident. It is part of the design. There is no real "value" imparted to land by "owners". Land has value as it is and the private ownership of it accomplishes virtually nothing.

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.

Yet another strawman. You seek an equitable and economically stimulative tax system or you don't. The dollar cost of that system is what it is. So long as the cost is born by the land owners then there are no real economic costs because land ownership makes no economic contribution to general welfare. Any "cost" that paid by a land owner is merely a reduction in the land rent that would have inured to the owner. No "cost" to the society.

<http://www.greatervoice.org/essays/LaborTheoryOfCost.php>

With a building, once you get through all the cost, trouble and appeals of valuing it you pretty much have its value semi-permanently.

But if government does not tax the value of the building then they do not care what the value of the building might be.

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.

Pointless gibberish.

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

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falls).

Amazing how you run around to whatever side of the elasticity claim serves your current subject. You have scrambled eggs for brains. I once had a Republican tell me that "being able to hold several contradictory thoughts in ones mind simultaneously is a sign of intelligence". It is actually a sign of idiocy.

Thus the \*entire\* weight of change in demand, up and down, results in change in price, up and down. Sharp and big.

A true statement. Price will vary according to REAL value. But the value is not due to the price. The price is the \_effect\_ and the value is the cause. More land is not made available as land prices increase. The "reservation price" of particular owners is exceeded by the demand price and an exchange takes place. The amount of land has not been increased at all by this process. That is not the case with things that are PRODUCED. As the demand for watermelons increases then more watermelons will be PRODUCED.

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.

That is true. But it is rather irrelevant.

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

Yes. Always. Regardless of the shift to land tax only from taxes on land and structures at the local level. But what if you lose the argument? In that case I am of the opinion that you must pay the cost of the appeal. There are otherwise too many free riders. Look at it as an exercise in the "creation of jobs". Government is not free.

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

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assessment costs themselves \*and\* appeals from assessments.

But that is the case whether or not the land and the improvements are taxed or just the land is taxed. And taxing the transactions will suffer the same adverse effects in a declining market. As prices deteriorate then so too do the tax revenues regardless of how the tax system is structured. Recessions are a problem.

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

The assessment system was the problem in that the land was undervalued or the tax rate was insufficient. The politics of this situation are obvious: The wealthy land owners will propagandize to protect their privileges. The common people are misled and misinformed with the help of the neoeconomists. It has been working that way for a very long time.

In 2001 its land assessors raised the assessed value of land by 80% from what it was in 2000. Well, land value is volatile, and that was a boom economy year -- land value went up a lot!

This is ridiculous. The proper method of tax shift is illustrated in my presentation at <http://greatervoice.org/essays/lvt.php> The shift MUST be revenue neutral. The only people that are harmed by such a shift are those who are holding land off the market in expectation of higher prices, i.e. speculators. In my own county in Washington State the requisite tax revenue is determined by the projected costs of government services. The government does not attempt to "save up tax proceeds" from one year to the next. In the event that a shift of taxation from the whole package to just the land is revenue neutral, the only loser is the owner of unused land being held off the market for speculative purposes. Actual users of the land are not harmed at all and the builders of structures benefit from the tax relief on the improvements. A high land tax merely confiscates unproductive rents.

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

Not impossible at all.

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

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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 is quite typical of privilege lovers. They will fight for the preservation of their privilege especially if it is free or if by tying things up in court they can differ the taxes without interest or penalty.

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! ;-)

The use of the word BIG is not to be ignored here. In any situation where BIG changes are used to increase revenue you will get this exact problem. But a shift of ad valorem tax from the combined real estate to just land value is not that. The only complaints will be from land speculators that are holders of land as opposed to users of land. All others will pay the same amount of LOCAL taxes plus rents as they did before. Unused land will be reduced in market price. The sales price of the land will fall and that increases the actual value of the improvements or the usability of the land (the real value). Such increase affords even more "depreciation" than it otherwise would have. The direct result is less federal tax income and more local tax income from transaction taxes (sales tax etc.). That secondary effect is a different shift caused by the increased use of land and the increased transactions that result therefrom.

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. ;-)

You seem to do that.

if you recover all the rent.

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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. ;–)

The reassessment is simple and the "appeals" are probably not due to a tax  
shift but rather due to an overzealous tax collector attempting to  
increase tax revenue as opposed to simply changing the base.

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

Honest economists always speak of a tax shift as opposed to an increase.

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.

The shifting of taxes from improvements to land value WILL tend to  
diminish the "advertised" sale prices as well as the actual sales prices  
of land. That is why honest assessment is necessary. It is also important  
to shift slowly so as to prevent a calamity such as what you claim  
happened in the case you are so much in love with. It is unknown whether  
there was an attempt to increase tax revenues or just to shift the basis  
of the tax. But from what you have put forth the tax rate should have been  
reduced in the face of escalating land values caused by real economic  
growth. That sort of assessment is a little more difficult. And the  
shift should probably occur over a longer time period (a phase in).

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.

Yes. there is no doubt that the sales price of the land is reduced by the  
shift of taxes from improvements to land. If that is "value" then  
they are correct. But sales price or market price is not the same as value.

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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'.

It is a diversionary question. If land tax is the only tax and government cannot deficit spend then the amount collected will be what is necessary to finance government. If that means a tax rate of 90% then so be it. There is, therefore, no advantage to shifting the claimed values. That is the point of the "single tax" that always seems to be ignored. Again I cite the method of ad valorem tax used in my own neighborhood: The tax revenue must be adequate to the support of the local government and there is no "saving up". If the values of land increase due to economic development then the tax rate is brought down. Decisions about what will be done (streets, schools, fire department, etc.) are made by elected officials. If such people can only get revenue from the annual ad valorem land tax then there will be no shifting of value that will not be met by a change in the tax rate. And if the local government then builds a "stadium" that was not desired by the common people then the officials should be voted out of office.

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\*.

Irrelevant. It only matters who pays these costs. If the supposed costs are born by land owners then there is no real cost. All real costs are labor costs.

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

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There is no doubt that land owners will attempt to shift values. But if they must pay the costs of the shifts then there is no cost to the society.

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

A false representation in that the methods of implementation were doubtless faulty -- too fast or an attempt to increase revenue as opposed to a revenue shift. etc.

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.

Most of us are rational and logical. Neonomists are neither. They exist as whores of the privileged and that is what they are and will remain. Adam Smith was the first such whore as he attempted to legitimize the flow of land rent into the hands of the nobility.

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"I know no safe depository of the ultimate powers of society but the people themselves; and if we think them not enlightened enough to exercise their control with a wholesome discretion, the remedy is not to take it from them, but to inform their discretion by education." – Thomas Jefferson  
<http://GreaterVoice.org/extend>