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GROWTH AND EQUALITY: WHY KENTUCKY SHOULD ENACT A LAND VALUE TAX

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The property tax is a maligned tax.[i] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn1) Yet, it is a critical component of the Commonwealth of Kentucky's revenue stream. In fact, during fiscal year 2021, Kentucky raised more than 317 million dollars through its tax on real property.[ii] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn2)

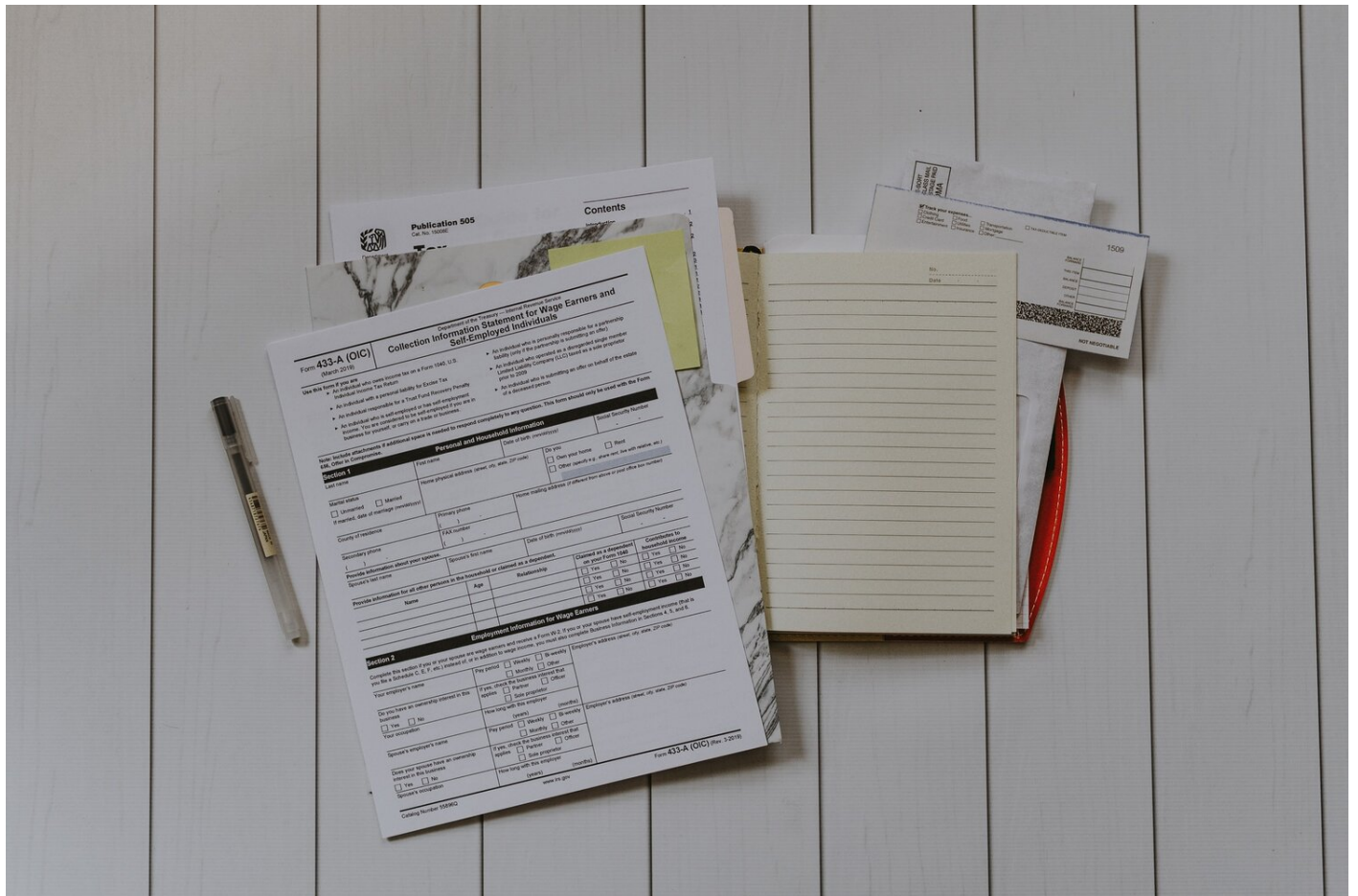
Still, Kentucky should repeal its current real property tax and replace it with a tax on the unimproved value of land. Such a tax is commonly known as a land value tax. The land value tax rate must be set high enough to ensure that the reform is revenue neutral. Currently, Kentucky imposes a property tax of 11.9 cents for every 100 dollars of assessed value on real property.[iii] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn3) And since the total value of unimproved land is less than the value of property subject to Kentucky's real property tax, the land value tax's rate must be higher.

Placing a higher tax rate on a smaller base does not make the land value tax less desirable. This indifference to the higher tax rate is justified because land value taxation does not hamper economic growth.[iv] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn4) Taxing improvements on land discourages landowners from making investments on that land.[v] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn5) In contrast, taxing only land does not create a deadweight loss because its supply is fixed.[vi] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn6) In fact, by discouraging land speculation, a land value tax would increase economic growth.[vii] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn7)

The positive economic growth effects of a land value tax is not merely theoretical. In the United States, a plethora of localities in Pennsylvania have split-rate taxes.[viii] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn8) Split-rate taxes tax both land and improvements on land, but tax the land itself at a higher rate.[ix] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn9) In fact, Pittsburgh's split-rate tax is credited with spurring that city's economic renewal during the 1980's.[x] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn10) If the Commonwealth adopted a land value tax, it would similarly spur economic growth.

But the benefits of land value taxation do not stop with faster economic growth. Enacting a land value tax would likely reduce wealth inequality in the Commonwealth. As economist Joseph Stiglitz has demonstrated, a substantial portion of the increase in wealth inequality – documented by

economists such as Piketty, Saez, and Zucman – is driven by the increase in land values.[xi] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn11) And land value taxes depress the value of land by imposing additional costs on holding land.[xii] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn12) Land value taxes also recapture economic rents obtained through land ownership.[xiii] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn13) So the government can redistribute unearned wealth to the public-at-large through its expenditure programs.



The tax has broad ideological support as well. Milton Friedman described the land value tax as the least bad tax.[xiv] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn14) Peter Orszag, who served as the Director of the Office of Management and Budget during the Obama Administration, also supports imposing a land value tax.[xv] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn15) Additionally, adopting a land value tax would not make Kentucky's tax system unusual. In fact, more than thirty countries have enacted land value taxes.[xvi] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn16)

Difficulties in separating the value of land from the value of improvements on that land – cited by some as shortcomings of land value taxation – can be disregarded for three reasons.[xvii]

(applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn17) First, several methods exist for separately valuating land and improvements on that land.[xviii]

(applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn18) In fact, one example is to evaluate the value of land by using a Geographic Information System method.[xix]

(applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn19) Since any of these methods could theoretically be used, the Commonwealth could experiment with different methods to try to determine the most accurate one. Second, as far back as 2002, twenty-nine states have required localities responsible for valuating land and improvements to do so independently of the other.[xx] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn20) Third, even with minor inaccuracies in assessing the value of land and improvements, the land value tax is more economically efficient than the current property tax.[xxi] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_edn21)

In summary, the Commonwealth of Kentucky should replace its real property tax with a land value tax for three reasons. First, its adoption would spur economic growth. Second, the tax would reduce wealth inequality. Third, the tax has broad support. Further, arguments against the land value tax – like the tax would be difficult to administer because of problems with separating the value of land and improvements – do not hold weight.

[i] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref1) Tracy Gordon, *Critics Argue the Property Tax is Unfair. Do They Have a Point?*, Tax Policy Center (Mar. 9, 2020) <https://www.taxpolicycenter.org/taxvox/critics-argue-property-tax-unfair-do-they-have-point> [<https://perma.cc/4598-AVXW>].

[ii] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref2) Press Release, Off. of the State Budget Dir., Gen. and Road Fund Receipts Reported for Fiscal Year 2021 (July 9, 2021), <https://osbd.ky.gov/Publications/Tax%20Receipt%20Reports%20%20Fiscal%20Year%202021/2106TaxReceipt.pdf> [<https://perma.cc/6JTR-APWS>].

[iii] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref3) Press Release, Ky. Dep't. of Revenue, 2021 State Real Property Tax Rate Drops to 11.9 Cents (July 6, 2021), <https://revenue.ky.gov/News/Pages/2021-State-Real-Property-Tax-Rate-Drops-to-11.9-Cents.aspx>

[<https://perma.cc/2NHZ-CTSK>].

[iv] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref4) *The Time may be Right for Land-Value Taxes*, *The Economist* (Aug. 11, 2018), <https://www.economist.com/briefing/2018/08/09/the-time-may-be-right-for-land-value-taxes> [<https://perma.cc/29AJ-M8R9>].

[v] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref5) *Id.*

[vi] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref6) *Id.*

[vii] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref7) Joseph E. Stiglitz, *The Origin of Inequality, and Policies to Contain It*, 68 *Nat. Tax J.* 425, 443 (June 2015), <https://www8.gsb.columbia.edu/faculty/jstiglitz/sites/jstiglitz/files/2015%20Origins%20of%20Inequality.pdf> [<https://perma.cc/53WT-59TN>].

[viii] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref8) Henry Grabar, *The Land Taxers of Fairhope*, *The Slate Grp.* (May 14, 2015, 2:05 P.M.), <https://slate.com/news-and-politics/2015/05/the-land-tax-what-happened-to-towns-like-fairhope-alabama-that-tried-georgism.html> [<https://perma.cc/L8NV-L2Z7>].

[ix] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref9) *Id.*

[x] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref10) Wallace E. Oates & Robert M. Schwab, *The Impact of Urban Land Taxation: The Pittsburg Experience*, 50 *Nat. Tax J.* 1, 2 (1997), <https://www.ntanet.org/NTJ/50/1/ntj-v50n01p1-21-impact-urban-land-taxation.pdf?v=%CE%B1> [<https://perma.cc/9BZX-2Z8H>].

[xi] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref11) Stiglitz, *supra* note vii, at 431, 442.

[xii] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref12) *The Economist*, *supra* note iv.

[xiii] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref13) E.S.L., *Why Henry George Had a Point*, *The Economist* (Apr. 2, 2015), <https://www.economist.com/free-exchange/2015/04/01/why-henry-george-had-a-point> [<https://perma.cc/4HPX-FH6M>].

[xiv] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref14) Justin Fox, *Why Economists Love Property Taxes and You Don't*, Bloomberg Opinion (Nov. 28, 2017, 7:00 A.M.), <https://www.bloomberg.com/opinion/articles/2017-11-28/why-economists-love-property-taxes-and-you-don-t> [<https://perma.cc/XFC9-AZG4>]

[xv] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref15) Peter R. Orszag, *To Fight Inequality, Tax Land*, Bloomberg Op., (Mar. 3, 2015) <https://www.bloomberg.com/opinion/articles/2015-03-03/to-fight-inequality-tax-land> [<https://perma.cc/6FS8-2M8F>].

[xvi] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref16) *Id.*

[xvii] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref17) Jeffrey P. Cohen & Cletus C. Coughlin, *An Introduction to Two-Rate Taxation of Land and Buildings* 370 (Fed. Reserve Bank of St. Louis 2005), <https://files.stlouisfed.org/files/htdocs/publications/review/05/05/CohenCoughlin.pdf> [<https://perma.cc/QC55-YTRM>].

[xviii] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref18) Richard F. Dye & Richard W. England, *Assessing the Theory and Practice of Land Value Taxation* 25 (Lincoln Institute of Land Policy, 2010), https://www.lincolnst.edu/sites/default/files/pubfiles/assessing-theory-practice-land-value-taxation-full_0.pdf [<https://perma.cc/JY83-TX7Q>].

[xix] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref19) *Id.*

[xx] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref20) *Id.*

[xxi] (applewebdata://44154F0D-7AFB-4B45-B918-321A67F0E4DB#_ednref21) Matthew Yglesias, *Property Taxes are a Barbarous Relic: Tax the Value of Land Instead*, The Slate Grp. (June 14, 2012, 10:32 A.M.), <https://slate.com/business/2012/06/property-taxes-are-a-barbarous-relic-tax-land-instead.html> [<https://perma.cc/P6F4-5H6W>].

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