

THE UNIVERSITY OF MANITOBA

IS OPPOSITION TOWARDS THE SITE VALUE TAX WARRANTED?

A QUESTION OF REDISTRIBUTIONAL IMPACT

BY

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A THESIS
SUBMITTED TO THE FACULTY OF GRADUATE STUDIES
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
DEGREE OF MASTER OF CITY PLANNING

DEPARTMENT OF CITY PLANNING

WINNIPEG, MANITOBA

FEBRUARY, 1983

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A thesis submitted to the Faculty of Graduate Studies of
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ACKNOWLEDGEMENTS

First and foremost I would like to express my appreciation to Dr. Greg Mason, Director of the Institute for Social and Economic Research, for his contributions and guidance in assisting the completion of this work. As my advisor, Dr. Mason's suggestions and encouragement proved invaluable in ensuring that both standards and schedules were maintained and that the thesis did eventually achieve its intended purpose.

I would also like to acknowledge the assistance of thesis committee members, Professors Mario Carvalho and Basil Rotoff, for their comments and suggestions.

Finally, I would like to thank Mr. Les Hopko, Field Supervisor with the Provincial Assessment Branch in Selkirk, for his time and efforts in supplying information and the answers to many of my questions.

To Nancy

For your support, understanding and
patience: Fuer die unterstuetzung und die
kraft die du mir gabest.

CHAPTER I
INTRODUCTION

1.1 The Problem Defined

A comparison of historical data will reveal that the importance of the property tax as the prime revenue source for Canadian municipalities has declined appreciably over the past decades. Whereas sixty years ago, revenues from the property tax accounted for over 90% of all local government income, today these revenues only represent approximately 33% of all municipal income. Although the value of the property tax has declined proportionately in relation to other revenue sources (particularly senior government grants), its importance as a large, independent revenue source to the municipality cannot be overlooked especially in light of present-day operating expenses and efforts to maintain balanced budgets. Furthermore, with the basic infrastructure underlying the property tax already in place and seemingly well-established, and being the only form of taxation even remotely resembling a tax on wealth, there appears little reason to believe that the property tax will be displaced by an alternate tax system in the near future. This is not to imply, however, that the present structure of this tax is inefficient and beyond improvement. Rather, the present real property tax has long been considered to be a

somewhat less than efficient and equitable tax contributing, in many ways, to an array of urban problems. Since there is no reason to accept the negative attributes of this tax as an unfortunate consequence of its use, it should appear logical that the system of property taxation adopted be the most effective, efficient and equitable system available. As such, suggesting reform measures to improve the present system of property taxation will become the focus of this thesis. To be more specific, these reform measures comprise the adoption of a site value tax coupled with a market value system of property assessment.

Though the idea of a site value tax is not a new one, it has been--in this writer's opinion--a proposal which has been unjustly criticized and opposed because of the misconceptions and uncertainty surrounding it. This opposition, forming the "political will", appears to be composed of resistance stemming from several sources, particularly: from policy makers who have come to rely on the present real property tax as a safe, proven and guaranteed revenue sources; from property and homeowners who fear the worst from a switch to site taxation; and from politicians who fear certain retribution from the above individuals for initiating such actions. All signs therefore appear to indicate that it is the public which represents a significantly important and powerful force which must be dealt with in any attempt to alter the property tax and it is this

group then, which must be convinced of the benefits resulting from such tax reform.

In essence, the purpose of this thesis will be to explore the theory that opposition towards the site value tax is not warranted by examining the redistributive impact of such a tax on a community and to evaluate this impact with respect to the planning function. It is hypothesized that the employ of a site value tax will result in a positive redistribution of tax responsibility serving to aid the residential sector of a community while also supporting basic planning objectives calling for a more rational and compact form of urban growth. Therefore, the first step in easing opposition towards the site tax will be to demonstrate that such a taxing scheme not only works, but works "better" than the present real property tax, particularly as far as the largest tax-paying group (i.e., the homeowner) is concerned. Since the "political will" appears to be fashioned to a large degree by the public's perception of this tax's impact, it is essential that the redistributive impact of the site tax--with respect to income and wealth criteria--be shown to be positive.

1.2 Site Value Taxation Defined

Briefly, the concept of site value taxation came to the fore as a result of Henry George and his work dealing with the "single tax". Stemming from his 1879 publication of Progress and Poverty,¹ George advocated the taxation of the unearned increment which accrued to land as a result of public action. From his analysis of poverty, through to his analysis of the three economic inputs of land, labour and capital, George focused his attention on land and its rent which he believed was the ultimate source of all major problems in his day. Realizing that land values were artificially increased through speculation and through public inputs of labour and capital, George advocated appropriating the rent of the land for the common benefit by means of a site value tax. So strongly did he believe in the strength of appropriating land rents that he asserted all other forms of taxation could be eliminated in favour of this single tax. While present-day proponents of the site tax no longer consider it to be the single tax cure for most of our social ills, they still regard it as a seemingly viable and preferable alternative to the present real property tax.

1 Henry George, Progress and Poverty: Complete Works of Henry George (New York: Doubleday Page & Co., 1904).

In terms of structure, the site tax differs from the real property tax in one important aspect: it is a tax levied on only the land (site) component of property as opposed to both the land and improvement (building) components.² However, this simple distinction has as its justification several points which may foster important changes within the urban environment. First, land is an unusual resource in that it cannot be created or destroyed: its supply--in a pure sense--is fixed. Its value though is often determined by factors relating to its useage and location which, as George indicated, are often the products of public expenditures. The ethical basis of the site tax follows, therefore, that since increases in the value of land held by private individuals are unearned, they should be returned (i.e., taxed) for the "general good". Second, since the supply of land can be regarded as being fixed, the impact of taxing land could be considered as being neutral in that it would not reduce the amount of land available for use. Private landowners could therefore not threaten to withdraw land from the market for doing so would not ease their tax liability. Rather, they would be induced to utilize the land in a manner which maximizes its return in an effort to minimize the impact

2 In Manitoba, under the present real property tax, land is taxed at 100% of its assessed value while improvements are taxed at 66.6% of their assessed value. Under a site tax, it is proposed that land be taxed at 100% of its value while improvements be excluded from taxation altogether.

of the tax. A tax on improvements, by comparison, is not neutral in that it decreases the return on the investment in buildings and may result in an eventual reduction in the supply of improvements. That is, under the present tax system, large users of improvements (such as homeowners and industry) are penalized with higher tax rates while, by the same token, being rewarded with lower tax assessments for allowing their properties to deteriorate. It is primarily for this reason that the real property tax has been criticized for being a major underlying factor in aiding the spread of current urban problems. That is, by rewarding those individuals (with lower taxes) who allow their properties to deteriorate, the real property tax serves to hinder the improvement and reconstruction of properties thereby inducing further deterioration; by penalizing intensive land use with higher taxes, the real property tax promotes extensive land use in the form of sprawl; and by failing to adequately tax the under-utilization of land, the real property tax promotes speculation. Thus the real property tax may, in part, be deemed responsible for the present dilemma facing urban centres today.

1.3 The Site Value Tax and the Planning Function

From a planning perspective, the site value tax draws its appeal from two sources: its possible redistributive impact; and its capacity to aid in achieving basic planning objectives. As will be explained later in this thesis, the redistributive impact of the site tax is both the key to its acceptance and an integral part of any planning strategy. Since past studies have generally indicated the redistributive impact of the site tax to be positive by reducing the tax responsibility on properties least able to manage large tax burdens and by increasing the tax responsibility on properties most capable of absorbing tax increases, the site tax presents the planner with the potential to perform a socially important redistributive function. This is a main point to consider in that planning is essentially distributional: through planning strategies, planners do affect who gains and who loses. By employing a site value tax therefore, planners have the means of achieving sought after goals in a progressive and positive manner.

From the physical and economic aspect of planning, the site value tax draws its appeal from its capacity to affect both directly and indirectly the quality and character of land use decisions and possibly investment and renewal decisions as well. By penalizing the under-utilization of urban land and rewarding a general increase in the quality and magnitude of

the improvement on any given site, planners could finally have at their disposal a positive planning aid to stimulate and guide development. That is, under a site tax scheme developers would be encouraged to maximize site development to the extent allowable under established zoning by-laws. Coupled with the proper zoning therefore, the site value tax could be seen as a means of setting a generalized performance standard for urban development and thereby--because of the relationship between zoning, land values and site taxation--necessitate more effective and efficient city planning.

1.4 Methodology

While the implementation of any new tax scheme will undoubtedly necessitate changes within the present tax system, it appears both these changes and the uncertainty of the impact of these changes seem to form the basis for most of the opposition towards site taxation. Apparently, it is feared that a change-over to a site value tax will bring with it a number of negative side-effects, not the least of which is a negative shift in the redistribution of the tax burden upon the residential sector of a community. This thesis will therefore attempt to examine the grounds of this opposition by discerning whether a shift in tax responsibility will occur, and if so, who will eventually shoulder the burden of this new tax. The thesis, as such, will be presented as follows.

Chapter II will form the groundwork of this thesis by presenting and discussing the concept of site value taxation and the related planning, economic, physical and social impacts associated with implementing such a tax. As well, the legal and political implications of adopting this tax will also be discussed.

Chapter III, in turn, will focus on the specific impacts associated with the site tax by examining its actual incidence and redistributational effects. This will be accomplished by means of a case study involving replacing the present real property tax of a community with a calculated site value tax, and then observing the exact nature and magnitude of the tax shifts occurring on all property types.³ Moreover, the impact of the site tax will also be tested using two different assessment bases (i.e., using both the current assessed value of land and the market value of land as possible assessment bases).

In Chapter IV, the actual findings of the case study will be briefly assessed with respect to the propositions postulated in Chapter II in an attempt to determine their validity.

Finally, Chapter V will offer some concluding remarks as well as some recommendations concerning the adoption of a site value tax.

3 It should be noted that this paper will only be concerned with the property tax and not with the impact of other tax forms normally associated with the property tax: e.g., education and business taxes and other special levies).

CHAPTER II

IMPLICATIONS OF ADOPTING A SITE VALUE TAX

2.1 Introduction

Chapter II will, in part, form the groundwork underlying the rationale in selecting the site value tax as a replacement for the existing real property tax, discussing the reasons for and the implications associated with its adoption both in terms of legalities and political opposition, and in terms of its impact upon the planning function and the physical landscape of a community. The discussion will therefore entail an examination of the impacts--both negative and positive--related to site value taxation, as well as of the factors which have been responsible for limiting its popularity and success. As such, this chapter will be subdivided into several sections, namely: the economic impact of adopting a site value tax; the political and legal implications associated with site value taxation; and the impact of site value taxation on the planning function.

The economic section will be further divided into two sub-sections dealing with micro and macro economic impacts. Micro impacts, for example, will examine the specific effects of site value taxation on the residents of a community, while macro impacts will examine the more general overall effects

of this tax on the community at large with respect to physical and social criteria. The site value tax will be presented as a suitable replacement for the real property tax on the basis of being a fairer, more equitable and efficient tax by serving to minimize tax constraints on homeowners, inducing more intensive land use within the community, and generally aiding to further planning objectives.

The following section will examine the basis for present day opposition to the site value tax while making reference to the possible legal stumbling blocks which may hinder its adoption. Many of the arguments against site value taxation which seem to underlie the "political will" will also be noted and discussed. Much of the opposition towards this tax, it will be demonstrated, is based to a degree upon misconception and uncertainty.

The final section of this chapter will examine the relationship between site value taxation and the planning function by noting the degree to which this tax can aid in furthering basic planning objectives. Through its influence as a public finance tool, site value taxation will be shown to support the planning process. Moreover, effective use of this tax should necessitate "better" planning.

2.2 The Economic Impact of the Site Value Tax

The site value tax is, like most other tax forms, a public finance tool whose use can be manipulated to such a degree as to elicit both long-term and far-reaching impacts. As such, one must become familiar and certain of not only the possible range of changes and impacts associated with its use, but of its adequacy as a replacement for the existing property tax as well. This then, will become the subject matter of this section. As noted, the discussion will be broken down to examine the tax's micro effects on the community (i.e., the effects on the citizenry) as well as its macro impacts (i.e., the effects on the community as a whole).

A. Micro Impacts of the Site Value Tax

While the attainment of general overall objectives may constitute an important aim in regards to planning directives, planners should not choose to ignore possible localized impacts that may prove detrimental to certain specific groups. For example, in advocating a move to adopt a site value tax in order to achieve certain physical and economic standards deemed desirable for the community at large, planners must be certain of the impacts incurred by all sectors in this change-over. Final objectives may prove unattainable or even undesirable if certain members of the community (e.g., the homeowners) are negatively affected by the switch. In such a

case, the adoption of a site tax would prove not only politically unpopular, but would also go against the raison d'etre of the planning function.¹

(a) The Concept of Tax Incidence

The first point to consider therefore, is the incidence of the site value tax: i.e., the effect site value taxation has on the distribution of income.² The aspect of incidence that has had the greatest attention thus far, and appears to be of most concern when dealing with policy formation, is the extent to which the taxation of real property is regressive. Although the debate is far from finished, it seems reasonably safe to conclude that the taxation of property is less regressive than has been traditionally thought. This seems especially true if wealth (as in ownership of property) is considered as a measure of well-being as opposed to merely income. To some economists, such as Richard Bird for example, wealth is as relevant an index of capacity to pay taxes as current income. Unfortunately, as with many theoretical debates, the final outcome is not always clear nor fully understood being subject to the basic assumptions made in

1 Hence, this paper's emphasis on examining the re-distributional impact of the site value tax.

2 Or more commonly put, "who pays the property tax".

formulating the initial case.³ If viewed as a tax on wealth however (i.e., as a capital tax), then even the present real property tax has been demonstrated to be somewhat progressive. For example, Mason Gaffney claims that ownership of real estate wealth is so concentrated that 43.5% of its value is owned by the richest six percent of the people,⁴ and it is conceded this fact becomes even more apparent when land only (excluding improvements) is considered.⁵ This seems to suggest that a tax on property, especially land, actually is a tax on wealth making the site tax appear to be anything but regressive.

There is yet another issue related to the incidence and mechanics of site value taxation, that being the concept of equity. Quite simply, equity in taxation refers to justice or fairness and, as related to site value taxation, has a very simple ethical basis namely, that,

3 For a more complete discussion of the theories of property tax incidence see Richard Bird, "The Incidence of the Property Tax: Old Wine in New Bottles?", Canadian Public Policy, II Supplement (1976): 323-334.

4 Mason Gaffney, "What is Property Tax Reform?", American Journal of Economics and Sociology 31 (April 1972): 139-49.

5 Richard Lindholm, "Twenty-one Land Value Taxation Questions and Answers", American Journal of Economics and Sociology 31 (April 1972): 157.

A major share of the value of land, other than used in extractive industries, is not the consequence of actions by individual landowners, but instead stems from population growth and general community improvements--some publicly financed and some, such as utility services, privately financed but paid for by the community at large. The community therefore has every right to recapture as much of this 'unearned increment' as it chooses ... 6

That is, the site value tax is considered equitable in that land values (theoretically) reflect the ability of the owner to pay the tax. Natural economic behaviour is not distorted because ability to pay is directly related to the benefits (services) received. No adverse economic consequences stem from the taxing of land values which are the result of public inputs (i.e., synergism): the site value tax simply collects this increase in land values.

There is one fundamental equity problem associated with site value taxation though, namely that this "unearned increment" is not necessarily in the hands of those who presently own the land in that many present owners have paid for it out of savings: to them the land value represents nothing unearned.⁷ However, this problem will be discussed in a later section of this thesis.

6 Dick Netzer, Economics of the Property Tax (Washington: The Brookings Institute, 1966): 208-209.

7 Davenport, "The Single Tax and the English Budget" Quarterly Journal of Economics 24 (February 1910): 284.

As unclear as the issue of tax incidence may be though, it nonetheless is still important in terms of its role in aiding policy formation, especially concerning the immediate tax shifts which may occur under a new tax scheme and how these shifts may alter tax burdens in different income groups.⁸ This is a particularly important issue with respect to formulating any case for site value taxation since major tax shifts are assumed to occur with its implementation. Studies completed by Rawson, Gaffney, and Popp and Sebold have indicated that tax shifts associated with site value taxation will generally come to mean lower tax rates for residential properties with corresponding higher rates for underutilized, derelict and centrally located properties. The study by Popp and Sebold, for example, notes that a conversion to such a tax scheme would seriously affect the tax liability on vacant acreage followed next by under-improved properties which generally neighbour more developed sites. This would seem to include older and less expensive homes, derelict sites and commercial/industrial properties with low valued improvements.⁹ In short, the distribution of tax liabilities would change to

8 See for ex., Charles McClure, "Taxation and the Urban Poor in Developing Countries", World Bank Staff Working Paper (Washington, October 1975): 13-14.

9 Dean Popp and Frederick Sebold, "Redistribution of Tax Liabilities Under Site-Value Taxation", American Journal of Economics and Sociology 31 (April 1972): 139-49.

favour those areas where intensive site development has taken place. Since residential properties generally have a large portion of their value in improvements (dwelling), the system of exempting improvements from taxation should result in lower taxes for the majority of homeowners. However, how the site tax affects various income groups in terms of ability-to-pay remains a more complex question that will be addressed in Chapter III.

These are important points to consider though because much of the opposition towards site value taxation is based upon preconceived notions the impact such a tax would have in terms of tax liability. It therefore becomes apparent that the public (and political bodies) must be totally convinced that the site value tax is in fact a better tax than the present real property tax in terms of its overall redistributive impact.

It should be noted, however, that what actually does occur in practice will ultimately depend upon the composition of the tax base, the location and size of the site, the condition and age of the buildings, and the stage of growth within the community.¹⁰ This being the case, all changes

10 Frederic Finnis, An Introduction to Real Property Taxation (Toronto: Sir Issac Pitman (Canada) Ltd., 1972): 65.

associated with the site value tax may not necessarily be positive or desirable. This was confirmed by Manuel Gottlieb with results of a study undertaken in Calgary which indicated that it would also be those individuals living in older homes located on valuable lands and the "respectable poor" which would be subject to increased tax burdens.¹¹ Such pressure brought to bear on these owners to keep their buildings in good repair or to replace them by modern structures suitable to their valuable sites would definitely be unmanagable. However, if this system of taxation was aligned with a proper system of zoning so that tax rates reflected the desired land use, this pressure may not develop.

Homeowners may also benefit from a site value tax in another manner, namely from its relative neutrality.¹² Since a site tax is unaffected by the type or size of improvement on the site, homeowners (along with other types of property owners) with improved properties need not have their decisions biased against further improving their properties for fear of incurring higher property taxes: improvements can occur without the penalty of higher taxes.

11 Manuel Gottlieb, "Site Value Taxation and Urban Renewal, Part I", Assessors Journal, 1969.

12 That is, the degree to which a tax affects investment, economic and development decisions. Refer to the Macro Impact Section or see Bails, "An Alternative: The Land Value Tax", American Journal of Economics and Sociology 32 (July 1972): 286.

In sum then, if we were to consider the net impact of a site value tax on the most important tax paying group within a community--the homeowner--we would generally have to regard its impact as being positive for several reasons. First, homeowners should on average, realize a decrease in their property tax bill due to their generally high improvement to land value ratio. Second, structural improvements to one's property will not result in higher property taxes. And finally, using property as an indicator of well-being, the site value tax--in comparison to the real property tax--has been shown to be anything but regressive.

B. Macro Impacts of the Site Value Tax

It is a generally well known and accepted fact that there are immense difficulties in the financing of local government activities associated with urban problems. Although many complex and diverse problems do exist within the city, they seemingly can be categorized under three basic headings, namely:

- (i) the economic obsolescence and decay in the core area
- (ii) the increasing ineffectiveness and inefficiency of land use and development
- (iii) the increasing inability of local governments to finance demanded public services (both in terms of "hard" and "soft" services).

As was outlined in the last chapter, site value taxation has been presented as a means of mitigating some of these noted maladies. For example, through the taxing of land values, there will be greater emphasis in putting vacant or under-utilized inner city sites to work to minimize this new tax burden. Increased holding costs (in the form of higher taxes) and the wish to maximize returns from land investments will induce individuals owning land to increase the intensity of site useage and, as Dale Bails notes, penalizing the under-utilization of land should also reduce the speculative attractiveness of holding land, freeing what appears to be a scarcity of inner city sites.¹³ Furthermore, while more intensive development would be in keeping with the aims relating to the concept of the compact city, it would put the onus on the planners for more efficient and effective city planning: a site value tax would in fact necessitate more planning.¹⁴

13 Dale Bails, "Two Municipal Revenue Sources Contrasted: The Land Value Tax and the Property Tax", American Journal of Economics and Sociology 33 (February 1974): 188.

14 Ibid., pp. 189-90.

(a) The Incentive Effect of a Site Value Tax

Naturally, the degree or extent of development of inner city land will be dependent upon a host of factors, not the least of which is the existing state of economic conditions. However, Arthur Becker has postulated four basic incentives associated with the site value tax which may stimulate economic development, these being: the capitalization effect; the holding-cost effect; the fixed-cost and the unburdening effects.¹⁵

The capitalization effect, according to Becker, occurs when an additional tax burden on land values is capitalized into lower land prices making land acquisition more feasible. In theory, it is generally agreed that taxes on the value of bare land rest solely on the owners of that property at the time the tax is initially imposed. The tax, it is assumed, cannot be shifted due to the fact that the supply of land is, for all practical purposes, perfectly inelastic, not reproducible and has no production costs. Individual landowners will therefore not respond to a site tax by withdrawing their sites from the market since doing so will not affect their tax liability; nor can they pass this tax on to subsequent purchasers or tenants of this property. The affect of

15 Arthur Becker, "Principles of Taxing Land and Buildings for Economic Development", Land and Building Taxes (Madison, Wisconsin: The University of Wisconsin Press, 1969): 24-30.

capitalization then is to decrease the value of land by the capitalized value of the tax. However, though the existence of this phenomenon has been confirmed, at least in part,¹⁶ its impact may be tempered for a number of reasons. For example, the principle underlying capitalization is based upon a fixed supply of land. Unfortunately the notion of a fixed quantity of land does not necessarily hold true as communities increasingly come to rely on annexation to increase the size of their boundaries. Taking the opposite view, by limiting the physical expansion of a community and therefore actually fixing the available supply of land, any increase in demand for land may in fact cause prices to rise. Also, as Netzer notes, it is possible for property values to rise rather than fall given that the proceeds of the tax are used to enhance the property in question by devoting more public services to it.¹⁷ However, given the fact that high land prices are still very much an issue in the urban context, the importance of the capitalization effect should not be overlooked.

The holding-cost effect, as the name implies, refers to the cost of holding land. Under a site value tax, the taxes

16 R. Bird, Canadian Public Policy, II Supplement (1976): 325.

17 D. Netzer, The Economics of the Property Tax, pp. 34-5.

on a parcel of idle or semi-idle land will rise, thereby automatically increasing the expense of holding such sites. Depending upon the degree of taxation, the owner will either be forced to improve his property to minimize his costs, or sell to avoid these costs altogether.

The fixed-cost effect on the other hand, refers to the fact that the amount of tax on a parcel of land under a site tax bears no direct relation to the extent of development on that particular site, but rather is dependent upon such factors as location and accessibility. As such, the owner will be encouraged to develop his land to capacity knowing full-well that his tax liability will remain fixed.

The unburdening effect--its impact being similar to that of the fixed-cost effect--refers to the elimination of taxes on improvements. Both effects work in a similar manner in that total tax charges as a percentage of improvement value will decrease as improvement value increases, encouraging the landowner to intensify the site's use to its most profitable level allowed. Both effects are also based on the site value tax's relative neutrality towards development decisions and its relative bias against idle sites. In principle, however, the unburdening effect of the site tax has another important impact as it relates to commercial or industrial properties. Reducing the tax on improvements, for example, can be likened to reducing the cost of enterprise. That is, by not taxing

the capital improvements of a business, the operating costs of that business can be reduced. Taken together, therefore, it is assumed that these four effects working in conjunction will instigate greater economic development.

It has also been argued that a simple reduction in the present real property tax would work to achieve the same ends. In all likelihood though, a decrease in the rate of the present tax would--aside from reducing tax revenues--only serve to reduce the operating expense of property owners and help increase their profits without necessarily inducing them to further develop or improve their properties.¹⁸ However, one could go one step further and question whether a property tax of any kind has any real effect on development decisions. While the theory and fact underlying the answer to this question is far from conclusive, there are those who believe market forces, particularly demand for land, tend to override most of the impact property taxation may have on development plans.¹⁹ Others feel the impact of the property tax is unduly underestimated in that it not only influences the developer's

18 Bureau of Municipal Research, Property Taxation and Land Development (Toronto: Civic Affairs, No. 2, 1973): 11.

19 See for ex.; Finnis, An Introduction to Real Property Taxation, pp. 51-6 and Miligram, Property Taxation, Housing and Urban Growth, W. Rybeck ed., pp. 16-17.

decision to build but also affects the scale and quality of the final structure.²⁰ For example, Lowell Harriss cautions against underestimating the property tax's influence on development decisions by stating that property taxes exert a subtle pressure which influences long-range financial planning. A case in point is the effect a property tax may have on industrial location decisions. That is, while past studies²¹ have agreed that the property tax plays only a minor role in the initial location decisions of an industry, they have also discovered that once a decision is made to locate or relocate to a particular area, the property tax becomes an important determining factor: i.e., the correlation between tax rate and location becomes much stronger as the future location becomes more specific. Once the issue narrows to which part of a metropolitan area shall be chosen, the decision will probably conform to "Gresham's Law": all things being equal, firms will tend to gravitate to low tax areas.

20 See for ex.; Becker, Land and Building Taxes, pp. 25-47 and Prentice, American Journal of Economics and Sociology 35 (July 1976): 361-71.

21 See for ex.; C.R. Beaton and V.P. Jown, The Effect of Property Tax on Manufacturing Location (California: 1968).

(b) The Physical Impact of a Site Value Tax

There is also the question of how a site tax will affect the physical characteristics of a community. As indicated in the first chapter, proponents of such a tax espouse a number of positive benefits that would accrue with its implementation which, if proven true, would certainly complement and coincide with basic planning objectives favouring a more compact and improved form of urban growth and development. Presently, while there are few incentives to encourage developers to focus their concerns towards the inner city, there are even less (if any) disincentives to deter developers from considering outlying suburban lands for development purposes. By taxing the under-utilization of inner city land however, the site value tax could in fact become both the disincentive to suburban development as well as the incentive for inner city development by "freeing" presently idle sites and making them available for development purposes.²² In opting for the limited physical expansion of the city and by redirecting growth towards the inner city areas there would be a tendency

22 That is, an artificial shortage of available and developable land is created through the process of land holding and speculation. By increasing the holding-cost of these sites through higher taxation, landowners will either be forced to develop their lands to minimize the impact of this tax or sell them in order to avoid this tax altogether. A greater quantity of available sites may therefore appear on the market and at a somewhat lower price due to the capitalization effect.

towards higher density developments associated with a higher intensity of land use. While in the past high density developments were associated with a deterioration in the quality of living standards, it has been shown that with proper planning this need not be so. Numerous examples of recent high density developments abound where planners and developers have made a concerted effort to incorporate higher residential densities with more efficiently designed living accommodations--coupled with adequate amenities--to maintain good quality residential areas.²³

Moreover, economists such as Mason Gaffney believe that the present real property tax is delaying downtown renewal by at least thirty years due to its inefficient and inequitable manner of operation. By employing a site value tax, for example, a greater share of the property tax burden would fall on downtown properties which comprise some of the most valuable real estate available within the city. This could, however, be viewed as having a positive impact in that decay in the downtown has too long been subsidized by local under-taxation.²⁴ It is claimed that by using a site value tax

23 For example, the False Creek development in Vancouver and the Lawrence Park development in Toronto.

24 P. Prentice, American Journal of Economics and Sociology 35 (July 1976): 368-70.

scheme, the tax shift would reduce the tax on "good" buildings while increasing the tax burden on dilapidated buildings and vacant sites. Therefore, by not penalizing downtown rebuilding by overtaxing improvements, and by putting heavier tax pressure on downtown landowners to put their prime locations to better use, it is believed redevelopment will be fostered to a much greater extent.

Aside from the magnitude of the tax and the period of implementation, the economic climate of the community the site tax would be established in would imaginably also become an important factor determining its effectiveness. Daniel Holland notes, for example, that the site value tax may function best in cities that require it the least such as in high growth areas which could easily respond and adapt to a switch to site taxation because of their already high demand for land and development.²⁵ While site value taxation may, in theory, prove beneficial to slow-growth areas, the fact that there is little or no present demand for land for development purposes may render the tax ineffective, or at worst, even damaging by increasing the number of tax delinquent properties. Should this occur, the local government may find

25 Daniel Holland, Property Taxation, Housing and Urban Growth, W. Rybeck, ed., p. 14.

itself as the prime beneficiary of a land bank composed of tax defaulted properties.

(c) The Social Planning Impact

The notions discussed above, particularly regarding the reduction of land prices and the utilization of idle inner city sites, could also have an important influence on the social planning function as it relates to housing. While the social objective was at the root of Henry George's²⁶ work in dealing with the single tax, it also remains at the fore in present day work relating to the site value tax. Though now not being touted as the "panacea for all social ills" as the single tax once was, proponents of the site tax still state that many positive benefits can accrue from its use, ranging in nature from its ability to induce both more and better housing, to its capacity in aiding urban renewal and rehabilitation.

In Winnipeg for example, as with many other urban centres, a long-standing goal of city planners has been to increase the availability of inner city housing by utilizing existing vacant properties and by improving the quality of the existing housing stock worth repairing. While there are an array of

26 H. George, Progress and Poverty.

social and economic problems associated with the objective of increasing inner city housing stock, there are three, in particular, which seem to limit the success of any such plan, these being:

- (i) the speculative nature of individual land holdings within the city
- (ii) the high prices associated with the purchase of these properties
- (iii) the constant increase of housing stock in the suburbs.

As discussed in the previous sections, site value taxation has been presented as a means of combatting all three deterrents to inner city rehabilitation and renewal by penalizing vacant and under-utilized lands with higher tax rates. In much the same manner, it is argued that owners of derelict housing will be penalized with higher tax rates under a site tax scheme (because of their low improvement value to land value ratios), forcing them to improve their properties to maintain their former income levels while attempting to minimize the impact of the land tax. Whereas these owners are given incentives not to improve their properties under the existing property tax (via lower assessments), under a site value tax scheme these same owners will generally be faced with an increase in tax rates. As indicated by Prentice, shifting the tax from improvements and on to land could improve the housing stock by: speeding the renovation of housing worth renovating;

speeding the abandonment and demolition of housing that is hopelessly bad; and making land now preempted by junkers available for more desirable and more profitable reuse.²⁷

A noted side-benefit may be that this form of renewal could basically be carried out by private concerns and thereby save the public from being saddled with the total cost of renewal and rehabilitation programs.²⁸ Moreover, besides possibly stimulating the private sector into action, renewal and infill would also complement a move towards more compact growth.

As previously mentioned, a possible side-effect of shifting to a site tax would be to find an increase in the number of tax defaults occurring, with the result being the local government body may suddenly find itself as the chief recipient of a land bank. However, this need not be an entirely negative event if put to proper use. For example, most low income housing operatives--both public and private--have been severely limited in their attempt to construct housing because of the prohibitive cost of land. This inherited land bank could therefore be used to double

27 P. Prentice, American Journal of Economics and Sociology 35 (July 1976): 365-6.

28 Mary Rawson, Property Taxation and Urban Development: Effects of the Property Tax on City Growth and Change (Washington: Urban Land Institute, Research Monograph 4, 1961): 28.

advantage: to provide land for low income housing at a minimal cost or rental fee, the revenues of which could, in turn, help offset the initial loss of tax revenue associated with the tax defaults.

As emphasized earlier though, site value taxation does not work magic: there would be no instant rebuilding of cities and no instant solutions to the present housing dilemma. However, there should be something said for setting goals and then striving to attain them even if the means employed seem less than dynamic as seems to be the case with the site value tax. For as stated by Rawson,

It is easy to underestimate the effects of small pressures over long periods, and similarly it would be easy to underestimate what a fundamentally more rational policy of taxation might accomplish over time. 29

Taken as a whole therefore, both the direct and indirect economic impacts associated with the site value tax appear to closely parallel and support basic planning objectives. Though a tax change may produce some initial negative effects, externalities of the site tax generally appear positive in that the overall welfare of the community seems to benefit from such a changeover.

2.3 The Political and Legal Implications of Adopting a Site Value Tax

As has been noted, property taxation, along with planning, zoning and the location of public improvements, may very well be an important force in shaping the growth and character of an urban community. It is surprising then, that very little has been written on the politics of taxation, or on the reactions and strategies used by various tax paying groups-- such as homeowners--in regards to taxation policies. Even in a narrower sense, the politics of site value taxation and its impact on the nature of growth and change, and of wealth and income redistribution on the community have seemingly been overlooked. Ernest Engelbert hypothesizes that the reason no well-defined political framework exists for the property tax system is due partly to the ignorance of the average person in regards to the tax system, and of the perception the average taxpayer has of the property tax.³⁰ This seems particularly true in the case of site taxation, for as Engelbert notes, each taxpayer has different political and economic interests, as well as varying outlooks over land use, making it difficult to formulate any political concepts for

30 Ernest Engelbert, "The Political Aspects of Real Estate Taxation in Relation to Metropolitan Growth and Planning", Land and Building Taxes: Their Effect on Economic Development, A. Becker, ed., (Milwaukee: University of Wisconsin Press, 1969): 100-101.

property taxation or for wise community planning. Richard Lindholm has also observed that while the use of site value taxation appears to rest solidly on two of the three legs of good economic policy (namely that it is efficient and ethical), the third leg, public acceptance, is weak and has prevented the adoption of this tax. In Toronto for example, as that city moves towards reforming its own tax system, the public concerns being raised are based on what "reform" will come to mean on the next tax bill as opposed to the mechanics of the tax or the reasons why the city wants to impose such reform measures. This seems to support Laszlo Ecker-Racz's two axioms regarding the chances of tax reform. He states, for example, that given a choice, most people will vote with their pocketbooks while politicians, in order to garner support for re-election, will concern themselves with obtaining immediate results for decisions taken prior to the next election and not years down the road.³¹ It is for these exact reasons that he believes site value taxation has never been fully allowed a true opportunity to be tested for he continues by noting that,

31 Laszlo Ecker-Racz, Property Taxation, Housing and Urban Growth, W. Rybeck, ed., (Washington, D.C.: The Urban Institute, 1970): 45.

This political issue is important, if for no other reason, because as you look at the experience elsewhere, ... you'll be convinced by the truism that the moment a land tax becomes effective and works ... it becomes a political liability ... because important groups are adversely affected. Then the problem is resolved by providing exemptions for them through legal channels ... [which] is one reason why we can never tell, on the basis of what's happened in the past, how this land tax works ... its never been allowed to work anywhere without compromising the principles. 32

A. Political Opposition

In questioning what type of pressures--both political and legal--will come to bear on the success of any tax reform movement, it appears several can be identified at the outset. First, any inference to changing the present real property tax, no matter how minute, would instantly create a major furor. It is after all one of the oldest, most familiar and albeit, least liked tax forms known. This cloud of suspicion surrounding the public's perception of the real property tax could very easily prove to be an important factor in effectively blocking the adoption of the even less understood site value tax by creating a number of future legal bottlenecks. Site value taxation has, for example, been associated with

the socialization of land rents,³³ a concept which seems to be most identifiable with Henry George's notion of making land common property: a concept which, it may be added, many people find highly disagreeable. Individuals have come to regard property (i.e., land) and its benefits as their own private reward, regardless of the fact that the value of their land has been, for the most part, the basic product of public inputs. Site value taxation, in concept at least, will then most likely be seen as a definite threat to the values most people hold dear.

As such, a shift to site value taxation would not entail a simple or minor changeover: the process of change would most likely be an arduous one, consisting of involved public forums, informal appeals and formal litigation procedures. Public acceptance of site value taxation has obviously been weak in the past and has therefore prevented the implementation of such a tax scheme. Again, we must assume one of the causes of the failure of site taxation to gain the support enjoyed by other taxes (for example the income tax) has been that the public has perceived the other taxes--including the present real property tax--as being more efficient and ethical than a

33 That is, capturing the "unearned increment" in the rise of land values for the public rather than the private purse.

tax based solely on land.³⁴ In many ways therefore, it certainly appears that notions of tax equity almost always outweigh considerations of economic effects in that a tax change would be assessed in terms of the public's perception of fairness as opposed to the possible economic benefits this change may produce.

Then there is also the problem of "fiscal inertia": i.e., the reluctance of government officials to revise or alter a tax system which has successfully generated guaranteed revenues in the past.³⁵ As Frederic Finnis notes,

... once a (tax) system is firmly established ... change to another system is inadvisable unless there is irrefutable evidence that change would bring benefits that would greatly outweigh the dislocation, inequities and expense involved in changing. 36

Naturally, even before the necessary legislation could be considered to being in a site value tax scheme, the array of effects and impacts, both on the citizens and on the community, must be fully considered. For example, the relative tax burden

34 Richard Lindholm, "Public Choice and Land Tax Fairness", American Journal of Economics and Sociology 39 (October 1979): 351-2.

35 Bureau of Municipal Research, Property Taxation and Land Development (Toronto: Civic Affairs, No. 2, 1973): 7.

36 Frederic Finnis, An Introduction to Real Property Taxation (Toronto: Sir Issac Pitman (Canada) Ltd., 1972): 65.

borne by each class and sector within a community is a fundamental element of tax policy. Procedures to change these relative class burdens (as proposed under a site value tax) should therefore involve a fair and open process where the results can be seen to be justified in terms of the community's objectives of fairness and equity. In principle, reforming the system to meet these objectives appears straight forward. In practice, however, it is more complex, both because determining who pays and who benefits as a result of changes in the tax system is not always a simple matter, and because it is often difficult even to define equity and land use objectives in such a way that unambiguous inferences for tax policy can be drawn. This is an extremely important point though: opposition to or acceptance of the site value tax is to a large degree determined by the political will which is in itself fashioned by the mood of the public at large. To win support for the site value tax therefore, it must be shown that the fears of the public towards this tax have no basis. Since the homeowner constitutes the largest and one of the most powerful forces in this group, it is imperative that homeowners be convinced that the site value tax will not increase their present financial burden. In short, the task is to prove that the site value tax is in fact a "better" tax than the present real property tax.

Finally, there is also the matter of forcing individuals, particularly professionals, to accept change. We are creatures of habit as the saying goes so it should come as no surprise that any sort of change is usually not a welcomed condition. Individuals who in the past have worked and developed an expertise with the present property tax (such as financial and tax officers, appraisers and even planners) may detest being put in a position of having to learn new concepts, thereby possibly forming an opposition to the new tax scheme.

B. Legal Barriers

If implementation were to be seriously considered though, there are a number of other potential legal problems to be confronted. It is often claimed, for example, that a site tax, if enacted, would be an "unjustifiable discrimination against investors in land."³⁷ Opponents of this tax feel that many of the present land holders are purchasers of their property in that they have paid for the land out of savings and as such the land value represents to them nothing unearned. Implicit in this argument however is the idea that society is under some obligation to make no changes in tax policy which would be detrimental to land owners, thereby effectively destroying any hope for reform. Any new tax, or any change in the present

37 See, for example, C.L. Harriss, "Transition to Land Value Taxation: Some Major Problems", The Assessment of Land Value, p. 213 or D. Bails, "An Alternative: The Land Value Tax", The American Journal of Economics and Sociology 32 (July 1973): 283.

tax system, will involve some form of "injustice" because it imposes a burden which most people have not included in their expectations. It can therefore be expected that large land-owners, or for that matter, any individual who stands not to gain by a switch to site value taxation, will mount stern (legal) opposition to such a scheme in our courts of law. It can be properly argued, however, that society owes nothing to the owner who has kept land in use much below its potential: withholding a resource scarcely seems to justify compensation. As such, the phasing in period of the site tax and the period of inconvenience and adjustment would undoubtedly be of considerable importance.

Since a site value tax would place greater importance upon the respective definitions of land and real estate than now exists, definitional variation would become a determinant of tax liability and could impede the adoption of such a tax. Consequently, the necessity for drawing a proper legal distinction between "land" and "improvements" would be required for terms of clarity and understanding.³⁸

Also, as previously noted, the final word regarding the adoption of a site value tax would ultimately be put into the

38 Arthur Lynn, "Legal Problems and Obstacles in Assessing Land for Site Value Taxation", The Assessment of Land Value (Madison Wisconsin: The University of Wisconsin Press, 1970): 149-50.

hands of the legislature since it is the provincial government which sets the provisions limiting the authority of local municipal governments to levy taxes, including property taxes. In Manitoba, for example, the municipalities receive their power to raise revenues from basically two legal statutes handed down from the provincial government-- The Municipal Act (M225 S.M.) and The Municipal Assessment Act (M226 S.M.)--both of which were enacted in 1970. Under Section 2(1) of the Municipal Act, the Act declares both the allowable tax bases as well as the assessment levels for the tax on property. In this case, both would have to be changed under a site value tax scheme.

In sum then, for a tax to be politically acceptable by the government imposing it the tax should be several things. It should be productive and consistent; be exclusively controlled by the political authority doing the taxing; and be administered by procedures which are understandable to the taxpayers and elected officials. Finally and probably most important, the key to final acceptance of a site value tax lies with its related impact on income and wealth redistribution. If it can be demonstrated that the shift in tax responsibility associated with the site value tax will not fall on the shoulders of the residential sector and in turn, will not have a dire impact on the business community, the basic grounds for opposition towards the site value tax will be nullified.



2.4 Site Value Taxation and the Planning Function

The question that partially still remains to be considered is how a site value tax would affect the planning process. Although this question has in part been addressed in previous sections, a brief summary may help to explain this relationship.

To begin with, the property tax, like any tax system, is both a revenue system and an instrument of public policy. As does any form of taxation, it has effects and implications which may be used to regulate specified activities in order to achieve social, economic and political purposes. In the case of the site value tax, for example, it has been indicated to affect both directly and indirectly the quality and character of land use decisions and possibly investment and renewal decisions as well. It is due to the extent of this tax's impact on a community then, that the site value tax can be considered as forming the basis of an important policy tool to aid the planning function. For example, by penalizing the under-utilization of urban land and rewarding a general increase in the quality and magnitude of the improvement on any given site, planners would finally have at their disposal a positive planning aid to stimulate and guide development as opposed to the present basic negative controls (in the form of zoning and development restrictions) generally employed to restrict or limit development. That is, under a site value

taxation scheme, developers would be encouraged to maximize site development to the extent allowable under established zoning ordinances, particularly on presently idle sites. Needless to say, greater emphasis will have to be placed on proper zoning since land values (and hence, tax rates) will come to reflect a site's potential capacity for development. Proper zoning practices then--besides serving to guide development--may also be used to protect certain areas from initial development advances and hence, possible increases in land value which could prove detrimental to the existing area because of increased tax rates. In this manner, site value taxation would necessitate more effective and efficient city planning. The implementation and proper utilization of a site value tax could also come to represent a form of political power. This may be so for several reasons. First, property taxation, equated as a form of public finance, is already important politically to the municipality in terms of its revenue producing ability and to the citizenry in terms of its overall rate and burden. Any change in the product or rate of this tax will immediately affect the finances of both groups. Second, as indicated in Chapter I, the use of property taxation as a planning tool to achieve certain objectives may inherently involve a re-allocation of resources. In this case, changes in the tax burden associated with the site tax may possibly affect the income and wealth distributions of the

citizenry. Third, as just noted, site value taxation could give planners a positive tool for influencing the private (land use) market and in guiding private development decisions, thus expanding their effective powers of implementation. Proponents of site value taxation also insist that the private land market should not be allowed to determine freely the time or extent of development of a parcel of land. Instead, these individual- suggest that public authorities--such as the planners--who have a better view than private investors of how and when land should be optimally used, be allowed to intercede in development plans if they are deemed not to be in the best interest of the community. Often, for example, increased budgetary demands may occur on a community as a result of premature or untimely developments which may lead to "mercantilist zoning competitions" amongst urban centers. That is, communities may be tempted to compete for high-base, low-cost taxpayers (such as shopping centres and light industry) through tax incentives and special zoning allowances at the expense of low-base, high-cost residential developments. Suburban tax shelters and industrial enclaves are thereby created which results in suboptimal and distorted land use not to mention cases of over-building (e.g., too many shopping centres to the detriment of the downtown). In sum however, as stated by Gaffney,

The land tax does not turn the planner into an overcentralized administrator or petty tyrant dictating specifics ... Rather, it sets a generalized performance standard, cutting off options beyond a certain degree of slothfulness and disregard for the public cost of giving land its latent value, but leaving wide latitude for individual discretion. 39

The intention thus far has been to indicate the positive manner in which the site value tax may serve--either as a catalyst or stimulus--as an aid in achieving sought after planning goals. While the actual results of a site value tax may not match the enthusiastic claims purported by many of its supporters, it has in many ways indicated itself to be a "better" tax than the present real property tax. This was, after all, the purpose of its inception. Site value taxation was not conceived as just a narrowly defined technical doctrine: its purpose was to subordinate certain private rights to the public in an effort to ease many of the problems associated with private land ownership.

In terms of impact, however, the question of site value taxation and its affect on income and wealth distribution has not yet been fully explored. This, as mentioned, is at the root of this inquiry, for not only does it form the basis for present-day opposition to the tax, but it also underlies

39 Mason Gaffney, "Land Planning and the Property Tax", AIP Journal (May 1969): 182.

the degree to which expected benefits associated with the site value tax and the planning function will occur. As such, the notion of income and wealth redistribution is one that will be pursued in the following chapters of this thesis.

CHAPTER III

THE IMPACT OF SITE VALUE TAXATION: A CASE STUDY

3.1 Introduction

While the purpose of the preceding chapter was to introduce the site value tax as a replacement for the current real property tax and outline some of the purported impacts related to its use, the purpose of the present chapter is to examine the specific effects associated with implementing such a tax on an urban community. Since the notion of income and wealth redistribution lies at the heart of this analysis it became necessary to determine the exact nature and magnitude of the tax shifts occurring under the site tax. Determining who would shoulder a larger share of the property tax burden as a result of these tax shifts became an essential issue of this thesis if the claims made in Chapter II were to be supported. Since not every property is equally capable of responding to an increase in the tax rate--particularly in terms of residential property--it was important to discern what types of properties would face tax increases, the extent of these increases, and if the impact of these increases would affect the aims of site value taxation. To examine the nature of the site tax's impact then, a study area was selected

in the form of a medium-sized community; its property was categorized; the tax applied and the results noted. In presenting the results of this study, the chapter will be sub-divided into several sections, each section focusing on the tax's impact on a particular property type, these being; vacant, nonresidential and residential properties. As well, the chapter will begin with a discussion of the method employed in the analysis.

Very briefly, the results of this study generally seem to indicate that the overall impact of the site tax is relatively positive. As submitted in Chapter II, a large share of the tax burden was shifted from developed sites to vacant lands and underutilized properties. Moreover, under the site value tax scheme, approximately 44% of all commercial/industrial sites received tax decreases, while in the residential sector this number increased to over 65%. However, there were also some corresponding points of concern associated with the site tax's implementation which will be examined below.

3.2 The Study Site

Chosen as the case study site, the Town of Selkirk is a relatively small community of approximately 11,000 residents located 29 km north of the City of Winnipeg, Manitoba. Though maintaining a relatively diverse economy based on the steel, light manufacturing, agricultural and service industries, the town functions primarily as a bedroom community to Winnipeg.

However, in terms of its selection as the study site for this analysis, Selkirk has several prominent features which make its choice preferable. Its modest size, for example, while ensuring that it is not too large a centre making data collection both difficult and costly, also ensures that many of the trends and characteristics identifiable with most larger urban centres inherently are also found here. That is, Selkirk is a community composed of definable components: it has a distinct CBD and very definite residential, commercial and industrial sectors which are, in themselves, comparatively diverse in terms of structure, size and costs. The housing sector, for example, contains a wide array of accommodations ranging in terms of the dwelling type (i.e., single family and multi-unit developments) to the diversity of dwellings in terms of age, size and cost which lends itself well to any study. The Town, in general, also appears to be relatively stable, registering modest gains in terms of both population and economic growth over the past two decades: i.e., there

are no "unusual forces" to contend with which may affect the results of the analysis. Selkirk, more notably, also suffers from an array of urban maladies common to most other centres: it must contend with a high ratio of vacant land within its built-up area while continued development is fostered at its periphery; large tracts of agriculturally zoned land are being withdrawn from production and held idle by development firms; areas of decay can be found scattered throughout the bounds of the community and so forth.

Furthermore, and for the purpose of this thesis, the Town also appears to have a relatively progressive, conscientious assessment staff which has attempted to ensure property assessments remain comparatively accurate and up-to-date. Although a few discrepancies were noted, average sales/assessment figures for the properties proved to match closely available sales and appraisal data. In short, the Town of Selkirk seemed an appropriate site to test this thesis' hypothesis.

3.3 Methodology

The basic information required to undertake this study was obtained from the 1982 (October, 1981) real property tax assessment roll listings for the Town of Selkirk. These assessment rolls proved to be an invaluable information source in that they not only contain a complete listing of all

properties in the community (both residential and nonresidential) but also include a complete legal description of all sites, their size or front footage, the nature of each property's use, plus the type of improvement (building) situated on each site. Most important though, the assessment rolls also display the total current taxable assessment for each property (based on a 1975 value) including the individual assessments for the land and improvement components as well.

Since the study attempted to assess the site value tax's impact on all sectors of the community, all properties were separated into three categories, these being:

- (i) vacant properties (including both residential and nonresidential sites)
- (ii) nonresidential properties (composed of commercial and industrial sites)
- (iii) and residential properties (including single family dwellings and multiple-unit dwellings).

The impact of the site tax was then studied separately for each category. While computations concerning the first two groups proved to be rather straight forward, both being of relatively manageable size, the third group, consisting almost entirely of homeowners, proved to require special consideration. This was so for namely two reasons. First, because the effect the site value tax would have on the residential component was seen to be one of the key elements underlying the tax's relative success in being implemented, the homeowner was deemed to merit a more detailed analysis of the redistributive

impact associated with such a tax, particularly in regards to wealth and income criteria. Secondly, since approximately 82% of the nearly 3,700 properties listed on the tax roll were residential sites, it became necessary to reduce this number to a more manageable size which would still, however, be representative of all residences in Selkirk.

A sample size of 280 residential properties was eventually selected by using comparative tests for standard deviation (based on total property assessments) and a random sampling technique. That is, the sample size was achieved by calculating the number of properties necessary so that the standard deviation of the sample would not decrease significantly with the addition of extra properties to the frame. These 280 properties were then selected by using a circular systematic sampling technique. (See Appendix 1 for a complete discussion of the sampling technique.)

Since this analysis also attempted to consider the effect of utilizing a site tax based on the market value of property as opposed to merely its current assessed value, it became necessary to establish the market value for each of the 280 properties in the sample. The market value for each property--including the value of the land and improvement components--was primarily arrived at by using average sales/assessment figures for different values of property. That is, market values were calculated by dividing the current

assessment of each property by the average sales/assessment figure given for that value of property. Because of the degree of error that could be incurred through such a method, calculated market values were compared to both available sales data and recent property appraisals available through the Manitoba Land Titles Office. Unfortunately, owing to the present state of economic conditions, only a limited amount of recent sales data was available. However, in most comparisons, the calculated market values approximated the selling price or appraised value of the same property. (For a more complete discussion of the methods employed see Appendix 2).

To examine further the results of implementing a site value tax then, all data were coded and run on a SPSS computer program.

3.4 Implementing the SVT: Three Scenarios

Adding further to the general confusion surrounding the site value tax, it should be noted that there are several ways in which a site tax can be administered, all quite possibly serving to elicit differing results. Most notable, a site value tax can:

- (i) be administered as a single tax rate (i.e., with equal mill rates) on both residential and commercial/industrial sites.

- (ii) be administered as a differentiated tax with separate and specific mill rates for both types of property.
- (iii) be applied to sites based on current assessed land values.
- (iv) be applied to sites based on the market value of land.

The application of a site tax as a single mill rate on both residential and nonresidential properties has seemingly been the most preferred method employed in past studies.¹ The effect of this, as was discussed in Chapter II, was to shift the tax burden from residential to nonresidential and income producing properties which had a tendency to be located on larger, more expensive sites (thus effectively serving to reduce their improvement value to land value ratio as compared to residential properties). As can be seen in Figure 3.1, this tendency basically held true to form in the Selkirk case in that the residential sector had a higher portion of its property value in improvements (5.7:1) than did the commercial/industrial sector (4.6:1). However, the differences in the value invested in improvements between sectors was actually not as great as indicated in past studies. While improvements accounted for 85.1% of the total value of residential property, the nonresidential sector trailed only slightly with 82.2%

1 See Rawson, Popp and Sebold for example.

FIGURE 3.1
IMPROVEMENT VALUE TO LAND VALUE RATIOS

<u>Sector</u>	<u>Land Values</u>	<u>Improv.Values</u>	<u>Ratio Improv:Land</u>
Residential	\$2,268,860	\$12,972,290	5.72:1
Commercial/ Industrial	\$1,152,810	\$ 5,313,060	4.61:1

Composition of Property Value

Improvement Value	85.1%	82.2%	Total Property Value
Land Value	14.9%	17.8%	
	Resid. Property	Nonresid. Property	

of its total property value being composed of improvement value. As such, the application of a site tax based on an equal mill rate would have a slightly less noticeable impact-- in terms of a tax shift between sectors--than recorded in previous studies.

Also, as is common in many cases--Selkirk being no exception--the tax structure often reflects differential mill rates for both residential and nonresidential properties. In Selkirk, for example, there exists a 17.7% difference between mill rates for both classes of property.² Taking these last two points into consideration then, the application of a single rate site value tax on both property types in the Selkirk study would have served to actually shift part of the total tax burden from nonresidential to residential properties: i.e., homeowners would have been faced with paying a larger percentage of the total property tax requirement! (See Appendix 3). Therefore, the differentiated tax structure now in place was maintained, the only difference being that a site value tax was calculated and applied to each sector independently to replace the present real property tax. (For calculation of mill rates, see Appendix 3). An important result of this though, was that it negated the possibility of any tax shift occurring between sectors. However, there were

² Taxes on the residential sector are based on a mill rate of 159.17, as compared to 193.37 mills for ind/com property.

still significant tax shifts within each sector and these will be explored later in this chapter.

Finally, the assessment base to which the site value tax can be applied may vary as well. For instance, a site tax can be established using the current assessment value for land or its market value. The rationale behind using a market value approach, for example, as compared to a current assessed base is relatively evident. A site tax based on market values could reflect a more efficient and equitable tax system in that the tax for each site would indicate its true current value. Changing property (and land) values, due to areas aging and decaying or being faced with increasing development pressures, could immediately be reflected in the land values and hence, the property tax. A tax system based on assessed values, on the other hand, would continue to display certain inequities that may develop in such a system.³ Moreover, with the advent of computerizing all assessment records, it is possible for current and accurate assessments to be maintained based on a continuous flow of sales data.

3 This is certainly evident in Winnipeg where assessments, being based on 1957 values, do not reflect the changing pattern of property values. As a result, certain areas of the city continue to pay taxes in relation to their value 25 years ago although values may have actually dramatically increased or decreased. The north side of Portage Avenue is one such example.

Unfortunately, for several reasons, Selkirk did not prove to be the best site to test this hypothesis. First, since the reassessment of properties in Selkirk was fairly recent (i.e., 1975) the assessments seem to closely reflect the market value of the properties based on current sales/assessment ratios. Furthermore, since there have been relatively few land and property transactions over the last few years, this has also served to temper any major price increases, helping to keep values in line with their assessments. However, while it was indicated that several areas had declined to the point where their assessments were out-of-line with actual values, the lack of recent recorded sales data made determining a market value for the land very difficult. Therefore, as a result of using market values based on current assessments, the end product proved virtually identical to the system based on current assessments: only the applicable mill rates differed significantly. The results, however, can be noted in the analysis below.

3.5 Implementing the SVT: Study Results

A. Vacant Land

Selkirk, not unlike so many other urban centres, has not managed to confine or overcome the problem concerning vacant sites. While the existing problem in Selkirk may not quite be of the magnitude associated with most larger centres, the

figures are nonetheless fairly significant particularly for a community this size. Presently, of the 3,700 properties listed in the assessment rolls, some 16.4% lie completely idle, void of any form of development. The Town of Selkirk, being the largest single property owner in the community (controlling a minimum of some 800 acres of vacant land), owns approximately 35.8% of these sites. The remaining 64.2% consists entirely of privately owned lots--composed of both residential and commercial properties--which represents 10.2% of the dollar worth of all the assessed land in the community.⁴ Respectively, vacant residential and commercial/industrial properties account for 70.3% and 29.7% of these lands, representing 7.5% and 15.4% of the assessed dollar value of all lands within their particular sectors. These percentages are particularly noteworthy for apart from the sheer quantity of vacant sites, these figures have a noticeable impact on local tax revenues. For example, vacant properties presently account for \$61,300 in property tax revenue; residential properties accounting for \$27,000 and nonresidential \$34,300.⁵ Individually, these sums represent 1.1% and 2.7% of all

4 That is, $\frac{\$0.347 \text{ million (assessed vacant land)}}{\$3.421 \text{ million (total assessed land)}} = 0.102$

5 (Residential =) $\$170,100 \times 159.17 \text{ mills} = \$27,075 +$
 (Com/Ind =) $\$177,130 \times 193.37 \text{ mills} = \$34,252.$

residential and nonresidential tax revenues collected; both being relatively minor sums when actually considered in terms of the burden this represents to the owners of the property and in terms of revenue to the local government.

However, a rather dramatic change occurs when a site value tax is applied in this situation. Using the calculated mill rates for the site tax based on current assessed values,⁶ taxes on vacant residential properties, for example, will increase by 571.8%, raising the total tax payments to \$181,900 from the previous \$27,000. This now represents 7.5% of the total residential tax revenue, an increase of 6.4%. For vacant nonresidential properties, the application of a site tax will cause taxes to increase by 460.9%, raising the amount collected to \$192,000 from \$34,300. This in turn represents an increase of 12.7%. Therefore, while there will not be any shift in tax responsibility between these two sectors (because of the differentiated tax structure), there will be a noticeable shift in tax burden within each sector. In the case of the residential sector, a total tax shift of 6.4% will occur from developed to undeveloped properties, while in the nonresidential sector, an increased burden of 12.7% will be shifted from developed to idle sites. Table 3.1 displays the effect the site value tax will have on individual (vacant) sites in Selkirk.

⁶ Residential = 1069.3 mills; Nonresidential = 1086.4 mills
- see Appendix 3.

TABLE 3.1

The Effect of Site Value Taxation on Vacant Properties

Residential Sites

<u>Address</u>	<u>Current Assessment</u>	<u>Present Taxes</u>	<u>SVT</u>	<u>Difference (%)</u>
123 Eveline	\$1230	\$196	\$1315	+570.9
140 Edstan	480	76	513	+575.0
220 Mclean	420	67	449	+570.1
367 Main	640	102	684	+570.6
405 Dufferin	370	59	395	+569.5

Com/Ind. Sites

<u>Address</u>	<u>Current Assessment</u>	<u>Present Taxes</u>	<u>SVT</u>	<u>Difference (%)</u>
203 Mclean	\$ 840	\$ 162	\$ 911	+462.3
321 Main	8160	1578	8850	+460.8
457 Main	3220	623	3492	+460.5
301 Superior	310	60	336	+460.0
632 Dufferin	560	108	607	+462.0

Although present property taxes on vacant lands seem unrealistically low, proving in no way to be an inducement in bringing these sites into production, sudden massive tax increases may create undue economic hardship on the owners of these properties. As such, both the manner and period of implementation--as in the form of a graduated tax program over a specified time frame--must be carefully considered. However, while these and other problems regarding the adoption of a site value tax will be discussed in the following chapter, there are some interesting features regarding vacant land ownership in Selkirk which should be considered when assessing the possible impact a site tax may have. For example, approximately 51.5% and 42.6% of all vacant residential and nonresidential properties are in the possession of absentee landowners: i.e., owners not residing in Selkirk. Many vacant commercial properties, for instance, are owned by large provincially or nationally established firms. Even when observing the ownership patterns of locally owned sites, approximately 30% are held by individuals or business entities controlling at least several vacant sites. Depending on the circumstances surrounding the ownership of these vacant properties then, most of these owners appear financially able to absorb such tax increases if prepared for a gradual changeover.

Several development firms are also major landholders in the community, maintaining in total approximately 350 acres of vacant land. These lands however, whether zoned for agricultural or residential use, not only pay very little in the way of property taxes, but are generally held from production too. Ensign Homes of Winnipeg, for example, which currently owns well over 120 acres of vacant property in Selkirk, pays an incredibly modest yearly tax bill of \$127 on one of their 34.9 acre sites which has been assessed at a current value of only \$800! The implementation of a site tax in this case, however, could not be seen to impose any type of economic threat to the developer, especially if based on current assessments only. For even with a "massive" 573% tax increase, yearly tax payments would still not amount to more than \$855. Were a market value based assessment system used, however, reflecting the true value of the property, the effect of a site tax would be much more dramatic. It is doubtful then, that a site tax based on current assessments would have any significant influence on land holdings at the periphery of the community. As indicated though, the adoption of such a tax scheme would cause a greater share of the tax burden to fall on undeveloped properties, serving to reduce taxes on developed sites. *

B. Commercial/Industrial Properties

As was stated in the previous chapter, one of the primary functions of the site value tax is to induce a higher intensity of site useage by penalizing underutilized property. This is in fact what was seen to occur in the prior section where it was demonstrated that an increasing percentage (12.7%) of the total nonresidential tax burden would be shifted from developed to undeveloped properties. In much the same fashion, a certain degree of tax shifting could also be expected to occur between various levels of developed commercial/industrial properties: i.e., between sites which are developed to the maximum allowable under zoning regulations and those which remain underutilized. In short, the ^{*}degree and nature of the impact associated with the site tax will be dependent on ~~primarily one single element namely, the improvement value to~~ land value ratio. However, as will be demonstrated below, there are several factors which may also influence this ratio such as improper assessment practices and undue development pressures both of which can easily affect noted land values.

Before beginning with the analysis though, it should be noted that all of the approximately 206 developed commercial/industrial properties in Selkirk were included in the study. Furthermore, for the purposes of this thesis, these properties were also separated into four categories delineating specific ownership and size qualities: i.e., these commercial properties

were distinguished in terms of whether or not they were locally owned and whether they were large or small business entities.⁷ As with vacant properties, it was felt that certain types of commercial/industrial properties might respond or adapt differently to a site value tax and should therefore be assessed under these conditions. A summary of the results associated with the implementation of the site tax is displayed in Table 3.2.

In turning to the analysis, possibly the first result that should be noted is the percentage of nonresidential properties realizing either an increase or decrease in property taxes. As indicated in Table 3.2, clearly 43.7% of all these properties in Selkirk will experience a decrease in their tax payments while 56.3% will sustain an increase. Moreover, the average reduction for those properties benefitting from a decrease is 43.5% while in comparison, the remaining properties experienced an average increase of 77.2%. Though the results which emerge from this data may initially appear to occur in a pattern similar to that depicted in Figure 3.2, interpreted entirely in such a fashion

7 A commercial or industrial enterprise was judged to be "large" if, for example, it was part of a larger operation (e.g., an Esso service station or Eaton's retail outlet), was a major employer, or had high valued improvements (i.e., assessed at approx. \$100,000 or more).

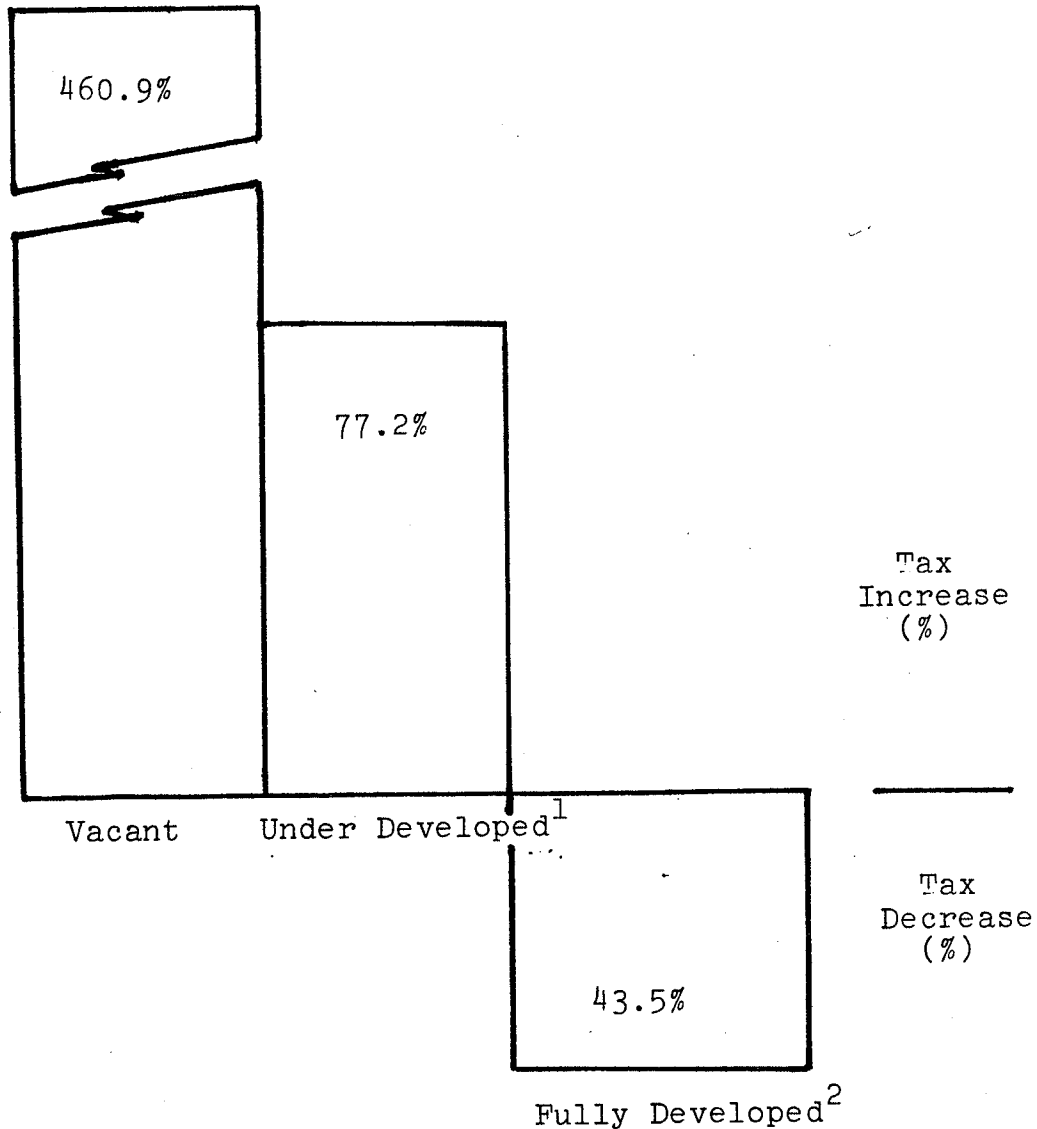
TABLE 3.2

A Summary of the Results of Applying a SVT
on Developed Nonresidential Properties

	<u>% of Prop. Sustaining a Decrease</u>	<u>Average Decrease (%)</u>	<u>% of Prop. Sustaining an Increase</u>	<u>Average Increase (%)</u>	<u>% of Sample</u>
Locally Owned Commercial	42.7	43.2	57.3	78.5	76.6
Com/Ind. Property Not Locally Owned	46.8	44.3	53.2	72.8	23.4
Small Businesses	40.5	41.1	59.5	74.9	82.7
Large Businesses	<u>60.0</u>	<u>50.8</u>	<u>40.0</u>	<u>99.3</u>	<u>17.3</u>
Total Sample	43.7	43.5	56.3	77.2	100.0

Figure 3.2

The Percentage Tax Shift on Nonresidential Property
Associated with the SVT



- 1 Properties also included in the "under developed" category are those which suffer from over-assessed lands or under-assessed improvements serving to reduce their improved land value ratio.
- 2 Properties also included in this category--benefitting from major tax decreases--are those which are fully developed and those that have high improved land value ratios as a result of under-assessed land values and over-assessed improvements.

they would tend to be somewhat misleading. That is, although the impact of the site value tax is governed to a large degree by the improvement to land value ratio, there are several factors which can, in turn, influence and affect this ratio as well. As was the case, it was not always the underdeveloped property per se which was faced with a tax increase. Rather, developed properties which were deemed to be "underdeveloped" relative to assessment standards shouldered an increasing percentage of the tax burden: the site value tax seemed to accentuate the effect of inaccurate assessments. Considering the high percentage of properties which sustained some tax increase then, it is important to examine what factors actually lead to these increases and how they affected different commercial/industrial properties, particularly the smaller, locally owned businesses.

Generally, all property tax increases for nonresidential property under the site value tax were the result of any combination of high land values and low improvement values. For any commercial/industrial property to experience an increase in its tax rate, its value of improvements, as a rule, must have been less than 4.6 times the value of the site it was situated on.⁸ Not surprisingly, the properties

⁸ That is, the average improvement value to land value ratio for nonresidential property was 4.61:1. Properties above this ratio generally benefitted from a decrease in property taxes, while properties below this ratio sustained increases.

which received the largest tax increases were those which required large sites and/or prime business locations, coupled with a disproportionately low investment in improvements. Indicative of the type of businesses found in this group were surface parking lots (which experienced tax increases averaging 450%), service stations (+142%), car dealerships (+140%), restaurant drive-ins (+112%), car washes (+20%) and other such properties which put a low use to generally valuable lands. In a number of cases however, businesses with high valued improvements also sustained property tax increases. Several banks and supermarkets, for example, received tax increases in the 8% to 43% range as a result of being located on some of the most valuable real estate in the community.

The degree of tax increase or decrease, it was discovered, is often very subjective being primarily dependent on the accuracy of improvement and land assessments. The over-assessment of land values, for example, has a definite detrimental effect on property tax payments and nowhere is this more evident than along Manitoba Avenue in Selkirk. Assessed land values along Manitoba Avenue--which the assessment staff admitted were far too high--are amongst the highest in the community even though the area is in the process of declining and the majority of remaining businesses are small, older, locally owned commercial operations. As a result of

this over-assessment, virtually all of the businesses along Manitoba Avenue sustained tax increases averaging 97%.

The impact the site value tax had on business properties was also affected by another factor; the inclusion of major industrial and commercial properties. Though the majority of business properties in Selkirk are relatively small, with the average property being assessed at under \$30,000, there are approximately a dozen very large firms whose assessed value is in the \$350 - \$500,000 range: a disproportionate percentage of this value being composed of the improvement value. In looking at the six largest firms, for example, the sum of their improvement values represents 34% of the total nonresidential improvement value, while the sum of their land values constitutes only 13% of the total nonresidential land value. Clearly, being so large in comparison to the majority of other firms, their inclusion in the calculation of the site tax will cause average improvement to land value ratios to rise, serving to increase the number of properties which will experience a tax increase. Not surprisingly, these major properties--composed of firms such as the Manitoba Rolling Mills--are also the prime beneficiaries under the site tax scheme, receiving property tax reductions of up to 64%.

In examining Table 3.2, several other interesting patterns seem to emerge. For example, as just noted, the larger business firms appear to benefit the most from a site tax with 60.0% of these properties experiencing an average property tax decrease of 50.8%. The remaining 40.0%, which received property tax increases averaging 99.3%, were composed primarily of service stations and some banking and supermarket operations, and were primarily branches of rather large, multi-national companies which should readily be able to absorb such increases. Unfortunately however, it was the small and the locally owned business properties as a group which appeared to fare the worst under a site value tax scheme. The fact that over one half of these enterprises would face tax increases in the 75% to 79% range is certainly cause for concern. The situation appears less negative though when those properties known to be over-assessed (such as those along Manitoba Avenue) are omitted, the result being that average tax increases for small and locally owned businesses drop into the sixty percent range. In a similar fashion, the same pattern holds true for the total sample percentages. Omitting the known over-assessed properties along with those properties associated with extreme tax increases (eg., service stations) the average property tax increase for those remaining properties experiencing an increase will fall into the mid-fifty percent range.

In short therefore, the impact the site value tax will have on commercial/industrial properties is less severe than initial results seem to indicate. Moreover, since the site tax seems to accentuate inaccurate assessments--serving to amplify the inequities between certain properties--the situation could also be further improved through proper and accurate assessment practices.

C. Residential Properties

As was indicated at the outset of this paper, the residential sector underlies the key element in the site value tax's eventual acceptance or rejection. This is not to say the impact the site tax may have on the commercial/industrial sector is unimportant, seeing that it is commerce which fuels the economy of the community and which may, in turn, be driven away because of high taxation. However, being composed of income producing properties, this sector might be seen to respond or adapt more readily to a site value tax given the implementation is a gradual one. The homeowner on the other hand, must fully absorb all tax increases and regard this as not only an extra (prohibitive) cost of home ownership, but as a decrease in disposable income as well. This in turn, may lead to other corresponding impacts if the tax is severe enough to create undue financial hardship on the homeowner possibly leading to tax delinquency. For example, the

residential sector in Selkirk is currently the main revenue source for the local government, accounting for approximately 66% of all property tax revenue. Any decrease of revenue from this source would therefore certainly have a constraining effect on the local government budget and the cause of this decrease then, would very much become a political liability. The site tax could also become a political liability in another fashion in that the leaders responsible for adopting such a tax scheme may be ousted at the next election. This being the case, the impact the site tax may have on the residential sector must be fully explored. In terms of format, the following presentation will be divided into two sections reflecting the two basic components of the residential sector namely, the tax's impact on the homeowner (i.e., single family dwellings) and on multiple-unit developments.

(a) The Homeowner

As did occur within the nonresidential sector, an increasing percentage of the total residential tax burden will be borne by vacant properties. In this case, for example, an extra 6.4% of the total residential tax burden (representing approximately \$155,000 in taxes) will be shifted from developed residential sites to vacant residential properties. After this initial tax shift, however, any other changes in tax responsibility will occur between developed sites, the degree of which will be

determined primarily by the improvement value to land value ratio. And, in a fashion again similar to the nonresidential sector, this ratio will be influenced by several factors ranging from the accuracy of the assessments to the location of the site (and hence, value of the land).

To begin the analysis however, Tables 3.3 and 3.4 display the composition of the 280 randomly selected residential properties. These two tables indicate the range and distribution of the type and value of properties included in the sample, extending from the distribution of land values (Table 3.3) to the distribution of property values (Table 3.4). Table 3.3, for example, indicates that 40.4% of the properties are situated on lots valued between \$6,001 to \$8,000, these generally being the average, standard-sized⁹ residential lot. While there are a large number of properties located on smaller or less expensive sites, a substantial percentage (13.2%) are located on relatively large or expensive lots. In many cases, these lots are not associated with more expensive housing but rather, maintain older, low-valued housing which did serve to crease some inequities when the site value tax was applied. (This trend can be seen in Table 3.6.) Table 3.4 on the other hand, indicates that the largest group (25.4%) of all residential

9 That is, basic lots with a front footage of between 50 and 60 feet and average depth.

TABLE 3.3
Distribution of Land Values

<u>Market Value of Land Component</u>	<u>% of Sample</u>
\$ 4,000	17.9
\$ 4,001 - \$ 6,000	17.9
\$ 6,001 - \$ 8,000	40.4
\$ 8,001 - \$10,000	7.1
\$10,001 - \$12,000	3.6
\$12,001 +	<u>13.2</u>
	100.0%

TABLE 3.4
Distribution of Property Values
(Inc. Land & Improv.)

<u>Market Value of Property</u>	<u>% of Sample</u>
\$25,000	21.4
\$25,001 - \$35,000	16.8
\$35,001 - \$45,000	15.7
\$45,001 - \$55,000	25.4
\$55,001 - \$65,000	11.4
\$65,001 +	<u>9.3</u>
	100.0%

properties are of middle-value, ranging in value between \$45,001 and \$55,000. Surprisingly however, 21.4% of the sample included properties valued at under \$25,000. Although housing and land prices are generally lower in Selkirk than in other larger centres, these figures merely reflect the large number of older and smaller residences which exist in Selkirk. As such, this sample appears to reflect adequately the general property characteristics in this community.

The first important result stemming from the application of a site value tax is that 65.4% of all residential properties experienced a decrease in their property tax as opposed to 34.6% which experienced some gain. Table 3.5, which exhibits the percentage distribution of these tax increases and decreases, indicates that 44.0% of all properties will experience up to a 35% decrease, with the main decreases occurring in the 21% - 35% range. By comparison, the largest single percentage of increases (11.1%) will occur within the 1% - 20% range. However, of concern are the 4.6% who will face tax increases of over 101% in a switch to a site value tax. Upon investigation, it was noted that this particular group was composed chiefly of properties whose large tax increases were due to:

- (i) small, older low-valued properties located on large or expensive sites
- (ii) sites being over-assessed in relation to their current market value.

TABLE 3.5

Distribution of Tax Increases; Decreases

A. Tax Increase

<u>% of Increase</u>	<u>% of Property in each Category</u>	<u>% of Total Sample</u>
1 - 20	32.0	11.1
21 - 40	25.8	8.9
41 - 60	13.4	4.6
61 - 80	8.2	2.9
81 - 100	7.2	2.5
101 +	<u>13.4</u>	<u>4.6</u>
	100.0%	34.6%

B. Tax Decrease

<u>% of Decrease</u>	<u>% of Property in each Category</u>	<u>% of Total Sample</u>
1 - 20	28.4	18.6
21 - 35	38.8	25.4
36 - 50	24.0	15.7
51 - 65	8.2	5.4
66 - 80	--	--
81 +	<u>0.5</u>	<u>0.4</u>
	100.0%	65.4%

This is in effect what is reflected in Table 3.6 which compares the market value of improvements (i.e., housing) with the corresponding market value of land. That is, Table 3.6 indicates that some very inexpensive housing is located on some very valuable land. While some of these sites had high assessments because of their large size, other high assessments were the result of location; being located next to prime commercial property, for example. In other cases, the high land value was the result of over-assessment which did not reflect the declining nature of the properties (such as along Manitoba Avenue). While the last two problems could be remedied through proper assessment and zoning practices, the penalty associated with owning a large and expensive lot cannot otherwise be overcome except by increasing the value of the improvement or selling part (or all) of the site.

The partial effect of this shift in tax responsibility-- as compared under the three different tax schemes¹⁰--is reflected in Table 3.7 which displays the distribution of the tax amount paid by the homeowners under all three schemes. The first observation which should be considered is the relatively similar results displayed for both site value taxes.

10 That is: the current real property tax; a site tax based on current assessments; and a site tax based on market values.

TABLE 3.6
 Relationship Between Land Value
 and Improvement Value

Market Value of House	Market Value of Land					
	\$4800	\$4801- \$6800	\$6801- \$8600	\$8601- \$10,500	\$10,501- \$12,500	\$12,501+
\$21,000	45.1	31.0	11.3	5.6	2.8	5.2
\$21,001-\$28,500	25.0	36.1	25.0	8.3	2.8	2.8
\$28,501-\$35,500	38.5	34.6	15.4	7.7	-	3.8
\$35,501-\$42,500	5.8	53.6	20.3	7.2	2.9	10.1
\$52,501-\$49,500	5.3	23.7	36.8	13.2	2.6	18.4
\$49,501+	-	<u>25.0</u>	<u>27.5</u>	<u>--</u>	<u>15.0</u>	<u>32.5</u>
Column Total	20.4	35.7	21.4	6.8	4.3	11.4

TABLE 3.7
 The Pattern of Tax Changes
 Under Various Property Tax Schemes

Property Tax	I Real Prop. Tax %	II SVT (Assessed Values) %	III SVT (Market Values) %	% Diff. Between I & III
\$ 500	16.1	18.6	19.3	+ 3.3
\$ 501-\$ 700	18.6	19.3	18.6	-
\$ 701-\$ 900	11.8	38.2	38.2	+26.2
\$ 901-\$1100	23.9	5.4	5.7	-18.2
\$1101-\$1300	16.4	3.6	3.6	-12.8
\$1301-\$1500	6.8	8.2	7.9	+ 1.1
\$1501 +	6.4	6.8	6.8	+ 0.4

Although there were some minor variances between the two, the degree of difference hoped for by using a site value tax based on the market, as opposed to assessed value of land, did not materialize precisely for the reasons given in Section 3.4. However, the comparison between the amount of taxes paid under the real property tax versus site value taxation in general, proved to be more revealing. In keeping with the results of Table 3.5, there is a noticeable shift towards lower taxes for a number of properties under the site value tax schemes. For example, under the existing real property tax, only 46.5% of all residences currently pay less than \$900 in property taxes, while under the site tax, this percentage increases to 76.1%. Particularly noticeable is the percentage decrease in the \$901 - \$1100 and \$1101 - \$1300 tax ranges.

However, it should be noted that this total shift is not as neat as it initially appears in that increases or decreases do not necessarily reflect simple jumps from adjacent tax categories. This is again due to the amount of low-valued housing located on large or expensive sites and high-valued housing located on small or inexpensive lots as depicted in Table 3.6.

Table 3.8 on the other hand, compares the actual magnitude of these tax changes by directly comparing the amount homeowners in each tax category (under the present tax system) will pay under a site value tax scheme. For example, we can

TABLE 3.8

Specific Tax Changes Associated With the SVT

Tax Amount Presently Paid	Tax Amount Paid Under a SVT (%)							Row Total
	\$500	\$501-\$700	\$701-\$900	\$901-\$1100	\$1101-\$1300	\$1301-\$1500	\$1501+	
\$ 500	64.4	15.6	15.6	-	-	4.4	-	16.1
\$ 501 - \$ 700	21.2	28.8	32.7	9.6	3.8	1.9	1.9	18.6
\$ 701 - \$ 900	24.2	24.2	30.3	3.0	9.1	6.1	3.0	11.8
\$ 901 - \$1100	7.5	23.9	56.7	6.0	-	4.5	1.5	23.9
\$1101 - \$1300	2.2	2.2	58.7	10.9	4.3	6.5	15.2	16.4
\$1301 - \$1500	-	15.8	36.8	-	5.3	21.1	21.2	6.8
\$1501+	-	11.1	5.6	5.6	11.1	38.9	27.8	6.4
Column Total			38.2	5.7	3.6	7.9	6.8	100.0

observe what happens to the group of homeowners who presently pay between \$901 - \$1100 in taxes (under the current real property tax) when a site tax is applied. As can be seen, while 6.0% will pay an amount approximately equal to before, 88.1% of this group will find themselves paying less tax under the site tax scheme. Only 6.0% will experience some increase. Of the highest tax paying group--those presently paying over \$1500--72.2% will benefit from lower property taxes. However, it appears to be the homeowners in the two lowest tax-paying categories which seem to benefit the least from such a switchover. For example, 35.6% and 49.9% of the individuals in the less than \$500 and \$501 - \$700 tax categories will respectively face increases under the site tax.

Unfortunately, the use of present tax payments is not necessarily a good indicator of the ability of these individuals to pay property taxes. That is, it tells us nothing about the homeowner, or of his ability to absorb tax increases. However, using the available property data in the sample, there are two methods that can be used to ascertain some rough measure of the homeowner's financial standing. The first method, based on Richard Bird's suggestion, uses wealth as an indicator of financial well-being: wealth in this case being represented by total property worth which all too often remains a hidden, unaccounted asset according to Bird.¹¹ Table 3.9 therefore,

11 Bird, Canadian Public Policy, II Supplement (1976): 333.

TABLE 3.9

The Impact of the SVT on the Homeowner in Relation to "Wealth"

Distribution of Present Tax Payments (%)

Market Value of Property	\$500	\$501-\$700	\$701-\$900	\$901-\$1100	\$1101-\$1300	\$1301-\$1500	\$1501+
\$25,000	100.0						
\$25,001-\$35,000		100.0					
\$35,001-\$45,000			100.0				
\$45,001-\$55,000				100.0			
\$55,001-\$65,000					100.0		
\$65,001+						100.0	

Distribution of Tax Payments Under a SVT (%)

Market Value of Property	\$500	\$501-\$700	\$701-\$900	\$901-\$1100	\$1101-\$1300	\$1301-\$1500	\$1501+
\$25,000	70.0				+30.0		
\$25,001-\$35,000	-19.1	63.8			+17.1		
\$35,001-\$45,000	-50.0		38.6			+11.3	
\$45,001-\$55,000	-81.7			8.4		+9.8	
\$55,001-\$65,000		-68.8			12.5		+18.8
\$65,001+			-34.6			65.4	

*Note: See Appendix 4 for the complete percentage breakdown of these categories.

using the total market value of property as an indicator of wealth, compares which homeowners will benefit and which will suffer in a switch to a site value tax scheme. The trend, however, indicates that once again it is the two lowest categories (i.e., the least "well-to-do") which will shoulder an increased tax burden, with 30.0% and 17.1% of the respective homeowners in these categories facing increases. While most "well-to-do" homeowners will experience some decrease in their tax payments, it is the homeowners in the \$45,001 - \$55,000 property value category--possibly representing the middle-class--who benefit the most under a site tax, with 81.7% experiencing a decrease. As demonstrated by this table then, a portion of the residential tax burden will be shifted on to the less expensive properties.

The second method of indicating financial well-being is to use the value of the dwelling as a rough measure of income earning capability.¹² That is, while there are high income households situated on small sites, there are also a large number of low income households located on large and expensive sites which may serve to distort any estimates of financial well-being. This may be so for a number of historical reasons:

12 Unfortunately, accurate income figures were not available for the households in this study or for the community in general.

land may have been plentiful or inexpensive when these individuals bought their property and with current property taxes on land generally being low, these same individuals can afford to maintain such large lots. By comparison, however, the value of the dwelling (i.e., the house) should, as a rough rule, generally reflect the status or income earning capability of the owner.¹³ If there is some validity in this assumption, we can see that the pattern displayed in Table 3.10 is virtually identical to that displayed in Table 3.9 in that it is again the least well-to-do (in this case, the lowest income earners) which will shoulder tax increases. However, the results in Table 3.10--which compares house value with tax payments and the effects of changing to a site value tax--are somewhat more dramatic in that actual percentage differences are accentuated. For example, the percentage of homeowners in the lowest (income) category who will face a tax increase is greater (36.5% versus 30.0%), while the number of homeowners in the highest category who will experience a tax reduction is also greater than before (42.5%

13 Granted, there may be a few exceptions particularly if the homes of the retired or disabled are considered, but these exceptions can then be assessed in accordance to their wealth factor. As Bird once questioned, is there really any difference in the ability to pay taxes between a retired couple who have fully paid for their home and a young working couple struggling to meet mortgage payments?

TABLE 3.10

The Impact of the SVT on the Homeowner in Relation to "Income"

Market Value of House	Distribution of Present Tax Payments (%)						
	\$500	\$501-\$700	\$701-\$900	\$901-\$1100	\$1101-\$1300	\$1301-\$1500	\$1501+
\$21,00	98.6			1.4			
\$21,001-\$28,500		100.0					
\$28,501-\$35,500			100.0				
\$35,501-\$42,500					100.0		
\$42,501-\$49,500						100.0	
\$49,501+							100.0
		46.5%				53.5%	
Market Value of House	Distribution of Tax Payments Under a SVT (%)						
	\$500	\$501-\$700	\$701-\$900	\$901-\$1100	\$1101-\$1300	\$1301-\$1500	\$1501+
\$21,000	63.4			+36.6			
\$21,001-\$28,500	22.2	58.4			+19.5		
\$28,501-\$35,500	-57.7		38.5			+3.8	
\$35,501-\$42,500		-79.7		7.3			+13.0
\$42,501-\$49,500		-65.9			34.1		
\$49,501+		-42.5				57.5	
		76.1%				24.0%	

* Note: See Appendix 4 for the complete percentage breakdown of these categories.

versus 34.6%). While the impact on the mid-value categories also corresponds closely with those in Table 3.9, the percentage increases and decreases seem somewhat more moderate and evenly spread. However, in general, the pattern again seems to suggest that an increasing proportion of tax responsibility will be shifted to the less well-to-do groups; a pattern which is reinforced with the results in Table 3.11. As is demonstrated in this table, the lowest (income) category contains the largest percentage of homeowners who will experience over a 100% increase in their property tax. Moreover, only in the two lowest categories will more homeowners experience an increase than a decrease in tax payments: the majority of the homeowners in the other categories will benefit from reductions. In fact, in the highest (income) category, more than nine times as many homeowners will experience a decrease in taxes than an increase.

It must be remembered, however, that only 34.6% of all residences will face property tax increases, with the majority of these increases being in the 1% - 20% range. Although it also appears that the less expensive properties will be burdened with a higher percentage of the tax load it should be noted that a large percentage of this shift will be borne by vacant properties. Viewed in this light then, the effects of a changeover to site value taxation seem even less imposing.

TABLE 3.11
Distribution of Tax Increases/Decreases
in Relation to "Income"

A. Distribution of Tax Increase

Market Value of Dwelling	Tax Increase (%)						% of Sample
	1-20	21-40	41-60	61-80	81-100	101+	
\$21,000	20.8	25.0	14.6	10.4	6.3	22.9	17.1
\$21,001-\$28,500	42.9	33.3	9.5	9.5	4.8	-	7.5
\$28,501-\$35,500	75.0	-	25.0	-	-	-	1.4
\$35,501-\$42,500	36.4	18.2	9.1	9.1	18.2	9.1	3.9
\$42,501-\$49,500	33.3	44.4	-	-	11.1	11.1	3.2
\$49,501+	50.0	-	50.0	-	-	-	1.4
% of Sample	11.1	8.9	4.6	2.9	2.5	4.6	34.6

B. Distribution of Tax Decrease

Market Value of Dwelling	Tax Decrease (%)						% of Sample
	1-20	21-35	36-50	51-65	66-80	81+	
\$21,000	69.6	-	17.4	13.0	-	-	8.2
\$21,001-\$28,500	40.0	33.3	26.7	-	-	-	5.4
\$28,501-\$35,500	31.8	27.3	31.8	9.1	-	-	7.9
\$35,501-\$42,500	19.0	60.3	15.5	5.2	-	-	20.7
\$42,501-\$49,500	13.8	55.2	24.1	3.4	-	3.4	10.4
\$49,501+	22.2	25.0	36.1	16.7	-	-	12.9
% of Sample	18.6	25.4	15.7	5.4	-	0.4	65.4

(b) Multiple-Unit Developments

Since the impact a site value tax will have on a given property is basically regulated by the improvement to land value ratio, it should come as no surprise that the majority of multiple-unit developments in Selkirk experienced some decrease in their property tax owing to the general value of their improvements and intensity of site useage. As can be seen in Table 3.12, apartment blocks were the prime beneficiary of a switch to a site tax, noting tax decreases of up to 58.7%. Moreover, many duplex developments (and side-by-sides) had a similar range of decrease owing to the value of their improvements and their smaller, less valuable sites. While a few of the smaller developments did experience an increase in property taxes, most increases were small being generally less than 20%. Condominium and townhouse developments were also seen to benefit from the site tax with substantial tax reductions for each unit, as indicated in Table 3.12. In general then, owners of these developments would be seen to benefit from a switch to a site tax although how renters will be affected remains questionable depending on the rental market and the owners of the property.

In total, the results associated with the site value tax appear to be relatively positive although there are several points of concern. However, these issues will be discussed in the following chapters in an effort to discern how they

will effect the aims underlying both the site tax and the planning function.

TABLE 3.12

An Example of the Impact the SVT had on
Multi-Unit Developments

<u>Address</u>	<u># of Units</u>	<u>Present Tax</u>	<u>SVT</u>	<u>(%) Difference</u>
232 Maple	13	\$ 8,641	\$4471	-48.3
165 Main	29	18,402	8697	-52.7
65 Main	32	20,864	8608	-58.7
128 Reid	6	1,168	1274	+ 9.0
606-612 Selkirk	4	4,309	1554	-63.9
601 Moody	2	1,267	660	-47.9
206 Vaughan	2	1,541	894	-41.7
Condo.Development (Ex. of 1 Unit)		754	479	-36.5

CHAPTER IV

THE IMPACT OF THE SITE VALUE TAX: A SYNTHESIS

4.1 INTRODUCTION

Thus far, this thesis has served to present the concept of site taxation and the rationale underlying its selection as an improved alternative to the present real property tax. In Chapter II, for example, the effect of implementing a site value tax was examined with respect to its economic impact on the community and its influence on the planning function (based on both the theory and the results of past studies) in an effort to determine whether opposition to this tax has any factual basis. Chapter III, in turn, focused attention on the empirical results obtained as a consequence of applying a site tax on a specific community in a further attempt to lend credence to the argument formulated in Chapter II. In this chapter then, the actual findings of the case study will be briefly assessed with respect to the propositions put forth in Chapter II in an attempt to determine the validity of the argument for site value taxation.

To briefly sum the findings, the results stemming from the case study generally appear to be both positive and to coincide with past studies of the site tax relating to criteria of equity and economic efficiency. Although a differentiated

tax structure was used in this study, serving to negate any possible tax shifts between the residential and the nonresidential sectors of the community, the site tax still held true to form in that a greater share of the tax burden was shifted on to vacant and underutilized sites and particularly, those sites which were centrally located (see Table 4.1).

TABLE 4.1

A Summary of the SVT's Impact on Selkirk

<u>Class of Property</u>	<u>Present % of Total Tax Burden</u>	<u>% of Tax Burden Under SVT</u>
Vacant Residential	0.7	5.0
Developed Residential	65.3	61.0
Vacant Com/Ind	0.9	5.2
Developed Com/Ind	<u>33.1</u>	<u>28.8</u>
Total	100.0	100.0

Though the site tax's impact on the commercial/industrial sector appeared less extreme than recorded in past studies (owing to the differentiated tax structure), its impact seemed positive with respect to the residential sector. While almost two-thirds of all residential properties in the community benefitted from the associated tax shifts, there was some concern, however, that a portion of this tax would fall on those property owners least able to manage an increase in taxes. Moreover, some possible weaknesses in the site value

tax also became evident in that the proper functioning of the tax was seen to be inherently dependent upon proper and accurate zoning and assessment practices. Assuming these weaknesses are noted though, the redistributive impact of the site tax generally appeared superior to that of the real property tax.

4.2 SITE VALUE TAXATION AND THE RESIDENTIAL SECTOR

As is indicated in Table 4.1, the affect of employing a site tax was seen to reduce the total tax burden on developed residential properties. In particular, almost 66% of the homeowners in Selkirk did benefit from a reduction in property taxes--as did the majority of multiple-unit housing and apartment complexes--with the move exempting improvements from taxation. Moreover, average tax decreases for single family residences ranged over 31%, and over 45% for multiple-unit developments. As a consequence, several related benefits could be seen to stem from these results. For instance, since the property tax constitutes a noticeable cost of homeownership, decreasing the rate of taxation may serve to make housing somewhat more affordable by reducing operating expenses and/or increasing disposable income. Second, due to the mechanics of site taxation, the fear of incurring higher property taxes as a result of property improvements will also be removed serving possibly to induce homeowners to upgrade their properties

and, at the same time, spur minor construction. Third, the present-day trend towards more compact lots should be reinforced through site value taxation which generally supports the full utilization of sites through proportionately lower tax rates. And finally, because of the major tax reductions for large residential complexes (eg. apartment blocks), it is possible--depending on the rental market and vacancy rate, and upon the actions of the owners--that these tax savings may be partially transferred to renters in the form of rent reductions.¹ Of course these tax reductions may also be absorbed by the owners in an effort to reduce operating expenses and aid in increasing the profitability of maintaining such apartment developments. Moreover, the prospect of increased profits may, in turn, also encourage further entry into the rental market, serving to increase the total supply of available apartment units. In general then, the results of the case study should serve to temper some of the concerns voiced by various factions regarding the site tax's assumed negative impact on the residential sector.

Although the majority of residential properties were seen to benefit to some degree from the employ of a site tax,

1 Based on the average total property tax reductions each apartment complex received, it was calculated that these tax savings equated to be approximately \$300 per rental unit.

there were those properties which did not fare as well. For example, while any residential property in Selkirk with an improvement to land value ratio of less than 5.7:1 would face an increase in property taxes, it appears that the single most negatively affected group of properties were those of lowest value. That is, of the properties with a market value of less than \$25,000, 30% experienced some increase in property tax payments under the site value tax scheme. However, it was apparent from the study that there were several contributing factors which influenced this situation. For example, the majority of these properties maintain smaller and often decrepit older dwellings which often are situated on large or valuable sites contributing further to their already low improvement to land value ratio. The impact of the site tax on many of these properties also seems distorted and accentuated because of inaccuracies inherent in the assessment process. That is, the assessed value of many of these sites often appear to be over-valued in relation to other properties in the community, especially considering the condition and character of the area these properties are located in. This is one of the prime reasons a market value assessment approach was stressed in this thesis in that not only would using such a system prove to be more efficient and equitable, reflecting the true value of the site, but it would also implicitly involve an initial redistribution of the tax burden as over-

and under-assessed properties were brought into line with one another.

Although it appears that the percentage of residential properties experiencing a tax increase under the site tax may decrease somewhat given proper valuations (and in a few cases, a reduction in lot size), the unfortunate fact remains that an increasing proportion of the tax burden would be shifted on to low value properties. Moreover, if property value is used as a rough measure of wealth,² it is the least well-to-do, as a group, who will be burdened with the main percentage of tax increases. By comparison, the more well-to-do appear to be the prime beneficiaries of a move to a site value tax: i.e., the owners of more valuable properties, which generally have a high improvement to land value ratio, received major tax reductions. Whereas most of the properties sustaining tax increases are located in the older central areas of the community, the majority of properties benefitting from the site tax are situated in newer subdivision developments which correspondingly have a large portion of their value in improvements. It should be noted, however, that while some of these less valuable properties will face a general property tax increase, they will not shoulder the complete proportion

2 See Chapter III, Section 3.5, C.

of taxes shifted from the more developed residential sites. Rather, the main tax increase accompanying the tax shift will be borne by vacant properties.

Aside from its affect on some of the lower valued properties though, the site tax's impact on the residential sector as a whole generally does seem positive. Even with respect to the lower valued and underutilized properties, the site tax's impact on this sector merely indicates that it functions as intended: i.e., to intensify land use and induce or promote the availability of better quality housing through rehabilitation and redevelopment. Should equity become an issue though (with regards to the impact on the less well-to-do), it could be argued that the site tax be applied and allowed to operate as intended and, given there are those that are negatively affected, property tax relief to those requiring assistance be left up to the welfare system rather than distort the purpose of the tax to comply with everyone's wishes which in the past has resulted in the site tax's downfall.^{3,4}

The fact still remains that the majority of homeowners could benefit under a site value tax scheme which is an

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- 3 J. Johnson, "Municipal Tax Reform--Alternative to the Real Property Tax", Canadian Public Policy: 335-45.
- 4 L. Ecker-Racz, Property Taxation, Housing and Urban Growth: 45.

extremely important point with respect to public (and hence, political) acceptance of this tax. That is, given that a tax change would be assessed in terms of the public's perception of fairness--as opposed to the possible economic effects such a change may produce--and noting that public acceptance of the site tax has historically been the weak link concerning its adoption, the noted changes in tax distribution within the residential sector could lead to a greater willingness to accept such a reform measure.

4.3 SITE VALUE TAXATION AND THE COMMERCIAL/INDUSTRIAL SECTOR

While a sizeable percentage of the total nonresidential tax burden will be shifted from developed to vacant and underutilized sites (see Table 4.1), the general overall impact of the site value tax on commercial/industrial properties could be summarized as being composed of a few large gainers (in the form of large industrial properties) and a large number of small losers (in the form of small and local businesses). Although the percentage of nonresidential properties that sustained an increase in taxes (56%) was very nearly equal to those that experienced a decrease (44%), the range of these increases and decreases varied dramatically indicating the possibility that some equity problems may be created. As was discussed in Chapter III, there were two contributing factors influencing the range and character of these tax shifts namely,

inaccurate assessments and the inclusion of large industrial firms in the calculation of nonresidential mill rates which tended to bias the average improvement to land value ratio upwards. While it should be possible to mitigate both concerns through the use of proper assessment procedures and by establishing two separate tax categories for commercial and industrial properties, the affect the site tax had on these properties in lieu of these changes should still be examined.

To begin with, it was demonstrated that a large share of the tax burden would be shifted primarily onto both smaller and locally owned businesses. For the average business operation in Selkirk assessed with higher taxes, the implementation of a site value tax would come to mean an approximate \$1,000 to \$2,000 increase in yearly tax payments. The manner in which such an increase would effect the business, however, would seem to depend entirely on two factors: the type of business and its market base (indicating whether costs can be shifted to the price of the final product); and possibly, the financial standing of the business (i.e., is it a marginal operation?). Generally, unless the firm is a "border-line" operation, these tax increases should not prove to be overly burdensome especially if the tax is applied gradually over a specified period. At the same time, these tax increases will not be popular, indicating that opposition to the site tax could be

expected from this segment of the business community. However, it should also be noted that the operations which will sustain the highest tax increases more often than not are branches of large national companies which should be able to absorb such increases without any detrimental effects. On the other hand, the degree of property tax reductions experienced by a number of firms (particularly the large industrial firms), serving to reduce total operating expenses, could prove to be a positive factor in enticing new commerce to the area.

As a result of this change in tax distribution, increasing emphasis will be placed on redeveloping idle commercial sites, especially those sites which are centrally located and will face major tax increases because of their valuable location: i.e., an increase in tax responsibility will be shifted from peripheral to central sites because of their higher per front footage assessments. As well, (re)development of vacant or idle sites may also be encouraged through the mechanics of the capitalization, holding-cost, fixed-cost and unburdening effects which are associated with the site tax (see Chapter II, Section 2.2B) and will, it is assumed, prompt the property owner to further develop his property in order to maintain his profit level or minimize the impact of the tax. Of course the degree to which this does occur will depend on the demand for land, the rate of taxation and ultimately, the rate of economic growth. As stated earlier, there is very little that

can be expected of the site tax given there is no economic growth. Careful consideration should therefore be placed on the implementation of the tax to avoid any possible negative repercussions that may arise from the changeover. However, this should not serve to prevent or postpone the adoption of reform measures. Rather, if past trends are any indication, an eventual upturn in the business cycle--followed by economic expansion--usually precedes the land and development problems associated with growth periods. This, unfortunately, appears to be the only period when serious attention is focused on the means of solving these problems. And, as usual, solutions are put forth too late to be of any immediate use and are forgotten as development pressures again subside.

4.4 SITE VALUE TAXATION AND VACANT PROPERTIES

As was indicated earlier in this paper, the effect of applying a site value tax to vacant or underutilized land was seen to support certain planning objectives which attempt to bring idle lands into full production. However, the same mechanism which works to penalize vacant property (through the socialization of land rents) can also be seen as becoming one of the important issues threatening the acceptance of the site tax: i.e., such a tax would appear as an "unjustifiable discrimination against present investors in land."⁵ The

5 D. Bails, "An Alternative: The Land Value Tax", *American Journal of Economics and Sociology* 32 (July 1973): 283.

associated tax redistribution would, in this case, affect the financial expectations for which owners of land had sacrificed other alternatives. Raising taxes on the existing value of land would generally work against present landowners in that over the long run, landowners would get less of the increment in land values while the public would receive more. In this fashion, the equity results commend themselves: socially created values would go for public rather than private uses. While the owners of these lands may argue that they have some claim to "favouritism", it appears obvious that society need not reward the owner for keeping his land below its potential use.

However, even with the sizeable percentage tax increase placed on vacant land as a result of the site value tax, it must be remembered that actual dollar increases may be less significant than initially inferred because of the often under-assessed nature of vacant land (see Chapter III, Section 3.5A). For example, most of the peripheral lands in Selkirk being held for future development are assessed so low that even a six-fold increase in the property tax rate will not create any immediate incentive to bring these sites into productive use. However, as indicated earlier, the significance of small, subtle pressures over a longer period of time should not be under-estimated in that while the tax may not constitute an immediate economic threat to landowners, an attempt will

undoubtedly be made to minimize the impact of this tax as quickly as possible.

It should also be noted that the 8.5% increase in tax liability on vacant land will be shouldered primarily by absentee landowners and local business and speculative interests. That is, rather than falling entirely on the local citizenry, the tax burden will be shifted primarily on to business entities, developers and investors who presently control over 80% of the private land market in Selkirk and also appear to have the financial capacity to manage such tax increases.

In short therefore, while it will be vacant sites which will be most heavily penalized under the site value tax scheme, the burden of these taxes will fall primarily on income producing entities rather than the citizenry of Selkirk, making the site tax appear generally more progressive in nature.

4.5 THE INFLUENCE OF ZONING AND TAX ASSESSMENTS

While the results of the case study appear to support the main thesis of this paper, particularly in terms of equity and economic efficiency, the proper functioning of the site tax was seen to be inherently dependent upon proper and accurate zoning and assessment practices. For example, as with any property tax scheme, the key to an efficient and equitable tax system is an accurate assessment process. This is especially

true for a tax scheme based on the value of one single component in that there is a greater chance of inaccuracies being accentuated. As was demonstrated in Chapter III, applying a site tax to properties whose land assessments were incongruous with the character of the area and with the value of the improvements associated with the site often resulted in a totally inequitable tax distribution. That is, a greater share of the total tax burden was shifted on to those sites whose land component was over-assessed in relation to the value of the entire property. It is imperative therefore, that assessments serve to define and reflect the true (and often changing) value of an area: and it is for this exact reason that a market value based assessment system--coupled with the site value tax--was proposed to replace the existing current assessment procedure. For instance, as assessed values fall further behind real values, the relative positions of different classes of taxpayers are often distorted. Revaluations associated with a market value approach may then implicitly involve a redistribution of the tax burden and, to the extent that past variations have been (or may be) capitalized in the price paid by present landowners, such assessment reform may produce a number of gainers and losers. Nonetheless, taxpayers may view such a tax system as being more equitable in that it would at least ensure uniformity for classes of property and thereby reduce a number

of inequities currently present. Moreover, in terms of the influence of zoning, the rights of the property owner are presently restricted by zoning by-laws; as these by-laws are changed they add to, or detract from, the value of the property by changing the alternate uses to which it can be put. Not only should these changes be fully reflected in the assessments of the properties rezoned, but in the value of neighbouring properties which also stand to gain or lose in value though their zoning remains unchanged.

Finally, since local decision-making tends to be focussed unduly on the only source of revenue that can be said to be exclusively municipal (i.e., the property tax), zoning and assessment practices can be seen to indirectly affect the social and physical components of a community. For example, the decision to improve the municipal tax base through rezoning, effectively removing low taxable properties (e.g., low value housing) in favour of high tax properties (e.g., shopping centres), is frequently made solely on the grounds that it might result in an increase in tax revenues. The fact that such decisions might also have undesirable social or economic consequences (as in the form of an inadequate supply of low cost housing for example), is frequently minimized because of the more alluring prospect of an expansion of the property tax roll. Therefore, in an effort to achieve the benefits associated with the site value tax, it is

imperative that use of this tax be coupled with the proper use of tax assessment and zoning procedures.

CHAPTER V

THE SITE VALUE TAX:

RECOMMENDATIONS AND CONCLUSION

The purpose of this thesis has been to explore the theory that political opposition towards the site value tax is not warranted by examining the redistributational impact of such a taxing scheme on a community and to evaluate this impact with respect to the planning function.

As an inquiry into the state of site value taxation (from a planning perspective) the basis for this thesis was established by questioning why this form of taxation has not been seriously considered as a replacement for the existing real property tax. Because the claims made by proponents of the site tax have yet to be disproved, the answer seemed to lie in the nature of the opposition towards the tax which, in itself, appeared to be couched in terms of uncertainty and misconception. This opposition, forming the "political will", appears to be composed of resistance stemming from several sources particularly, from property and homeowners who fear the worst from a switch to site taxation, and from the political authorities who fear possible retribution from the above individuals. Therefore, the first step in easing public

opposition towards the site value tax is to demonstrate that such a taxing scheme not only works, but works better than the present real property tax.

Clearly, the results of this study indicates the site tax to be an improved form of property taxation based primarily in terms of equity and economic efficiency criteria: i.e., increases in the value of land are captured for the "public good"; land is encouraged to be utilized in a manner which maximizes its return; and the supply of improvements is not penalized through direct taxation. In short, the site tax's economic and physical impact appears positive by promoting compact and intensive site development while penalizing both the underutilization of land and the needless peripheral expansion of the urban community.

However, probably the most important test for the site tax (especially with regards to the planning function) relates to its redistributational impact. As previously noted, planning decisions inherently involve the reallocation of scarce resources thereby affecting who gains and who loses. As a policy tool the site tax is no different in that the tax shifts associated with its implementation generally will affect income and wealth distributions.¹ In terms of this study, the results

1 Certainly both income and wealth can be considered as "scarce resources".

again indicate the redistributational consequences of the site value tax to generally be positive while remaining supportive of basic planning objectives underlying rational urban development. Whereas both vacant and underutilized sites were the main losers under a site value tax scheme, the brunt of the tax shifts were seen to fall on income producing entities which own or control the majority of these idle lands. This is not to say that all income producing properties did not benefit from a site tax. Rather, reducing the tax on improvements served to lower the cost of doing business. Furthermore, businesses could expand or upgrade their facilities (i.e., structures) within limits established by zoning by-laws without being penalized by incurring higher property taxes. Generally however, the main gainers in a switch to a site tax were the homeowners (owing to their generally intensive use of land and their high improvement to land value ratios) who benefitted by receiving substantial reductions on their property tax bill. On the whole, increased tax responsibility was incurred by those most able to absorb tax increases while being shifted from those least able to manage such increases. It should be noted that while some residential properties did experience an increase in their property tax payments, many did so because of the large value/size of their site in relation to the value of their dwellings. However, if land ownership can be considered as a form of wealth, taxing these

land rich properties should not be construed as being entirely regressive.

Though the site value tax has been shown to be an improved form of property taxation and a generally positive policy tool from a planning perspective, the chances of this tax being approved and implemented must be realistically assessed. That is, the gains associated with the site tax must be compared with the transition costs associated with moving from the existing real property tax to a site tax. Since there are no actual estimates regarding the costs of making this change the immediate future for major tax alterations does not appear bright especially in light of current economic trends which emphasize conservatism and "fiscal inertia".² However, given that both the public and political authorities are made fully aware of the positive attributes of the site value tax, opinion regarding tax reform may warrant a closer look at changing the present tax structure: opportunities to improve upon the present tax system should not be overlooked, but seized, in an effort to overcome existing inequalities.

Therefore, in proposing the adoption of a site value tax, such a scheme should be first considered in view of the following recommendations.

2 That is, the tendency for governments to remain with a proven, guaranteed tax revenue source.

1. To further increase the efficiency and effectiveness of the site tax, the tax should be based on the market value of land rather than its current assessed value. Since current assessments are often based on historical values they may have a tendency to distort present assessments and introduce inequities through the assessment system. Moreover, the adoption of larger provincial assessment units to attain a degree of tax conformity, and the use of data processing equipment to aid reassessments by maintaining actual property values through continuous sales information, should also contribute in making the site tax more efficient and equitable. This assessment function will be particularly important in the early stages of site tax implementation because of the changes in land values that no doubt will follow the initial move to establish, and then tax, land values only. A move to a market value assessment system should also have certain positive psychological advantages: not only will market value assessments appear fairer and easier to understand to the average taxpayer than the use of current assessments,³ but they will also help avoid the high numerical mill rate increases normally associated with the site tax. That is, since the

3 According to Bird, the way the tax is actually administered remains important not only to the incidence of the tax but also to how citizens perceive the tax and react to proposals to change it.

assessed values for property will be higher under a market value system, mill rates can be reduced while maintaining tax revenues.

2. To avoid the equity, economic and possible legal problems that may occur with a rapid changeover, implementation of a site value tax should be graduated over a specified time frame consisting of a series of staged tax increases for land values and equal tax reductions for improvements. The actual time frame selected for the changeover period should also take into consideration such factors as future development demands, current growth rates and the availability of land which could affect the market's responsiveness to a site value tax. However, once the basis for such a tax has been established, a five year changeover period may prove to be the most desirable and practical time frame, allowing for an adjustment period while also ensuring a constant, uniform transition.

3. One of the most important elements in ensuring that the site value tax is accepted and implemented with minimal opposition is to develop a program serving to inform and educate the public in regards to this tax. Due to the misconception and uncertainty already surrounding the site tax, it is important that the municipality deal with an informed public to avoid delays and opposition brought about because of confusion while attempting to market the site tax as a superior replacement for the present real property tax.

4. While the site value tax appears to be more equitable than the current real property tax, there will still be those homeowners who will be negatively affected by property tax increases. More often than not, this group consists of the elderly and the less well-to-do who, because of either the location, size or value of their lots, will be faced with an unmanageable tax burden. However, two approaches could be taken to aid this particular group of homeowners. First, a moratorium could be established on these properties effectively protecting these individuals from the full impact of the site tax: i.e., the site tax could be staged in so that it would not come into effect until the property is sold or changes ownership. Second, rather than distort the purpose of the site tax by minimizing its tax impact, financial aid (if required) could be left to the welfare system.

5. In order to avoid inequitable assessments which may arise as a result of including a few extremely high valued properties within any property category--serving to raise the average improvement to land value ratio for that particular category of properties--a differentiated tax structure should be adopted consisting of separate mill rates for single family residences, multiple-unit residential complexes, commercial and industrial properties. In this manner, taxes on the average residential or commercial property will not be biased

upwards by the inclusion of a small number of properties which have a substantially large percentage of their property value invested in improvements (e.g., large apartment blocks or industrial complexes). This would seem to be particularly important in a smaller community, such as Selkirk, whose limited assessment base could be noticeably affected by the inclusion of a single large, high valued development.

6. Finally, aside from proper assessment procedures, effective use of the site value tax will also depend on proper planning to direct growth within the community and to accommodate (or control) demands that may arise for types of land use ultimately affecting land values and hence, the level of property taxation.

In conclusion therefore, the results of this thesis appear to support the premise that the site value tax is a more than suitable replacement for the real property tax, especially on the basis of efficiency and equity criteria, and in terms of its redistributive impact. The results of this study also indicate that much of the opposition directed towards the site tax is unjustified, being based primarily on misconception and uncertainty. As a policy tool to aid the planning function, the site value tax also appears to support basic planning objectives that underlie limited peripheral expansion while encouraging intensive land use within the build-up areas of

the community. Moreover, because of the site tax's redistributive impact, planners have at their disposal the means to intervene in a positive socially redistributive manner to alleviate certain existing inequalities (presently associated with the real property tax) while striving to attain the aforementioned goals. Though the results achieved by applying a site tax on a smaller community such as Selkirk may not exactly reflect the results attained when applied to a larger urban centre, it is anticipated that the characteristics or trends associated with such a taxing scheme will still prove to achieve the same ends. Finally, although the eventual success of the site value tax will be dependent upon such factors as growth rates and demand for land, land vacancy and accuracy of tax assessments, the main problem regarding its adoption still relates to the unknown cost of a changeover. Reluctance to adopt the site value tax appears certain unless all costs associated with the changeover are made known. However, with several provinces in the process of considering reforming their property tax systems, a more opportune time to consider full reform measures which include a fundamentally more rational form of property taxation in the guise of a site value tax cannot be suggested.

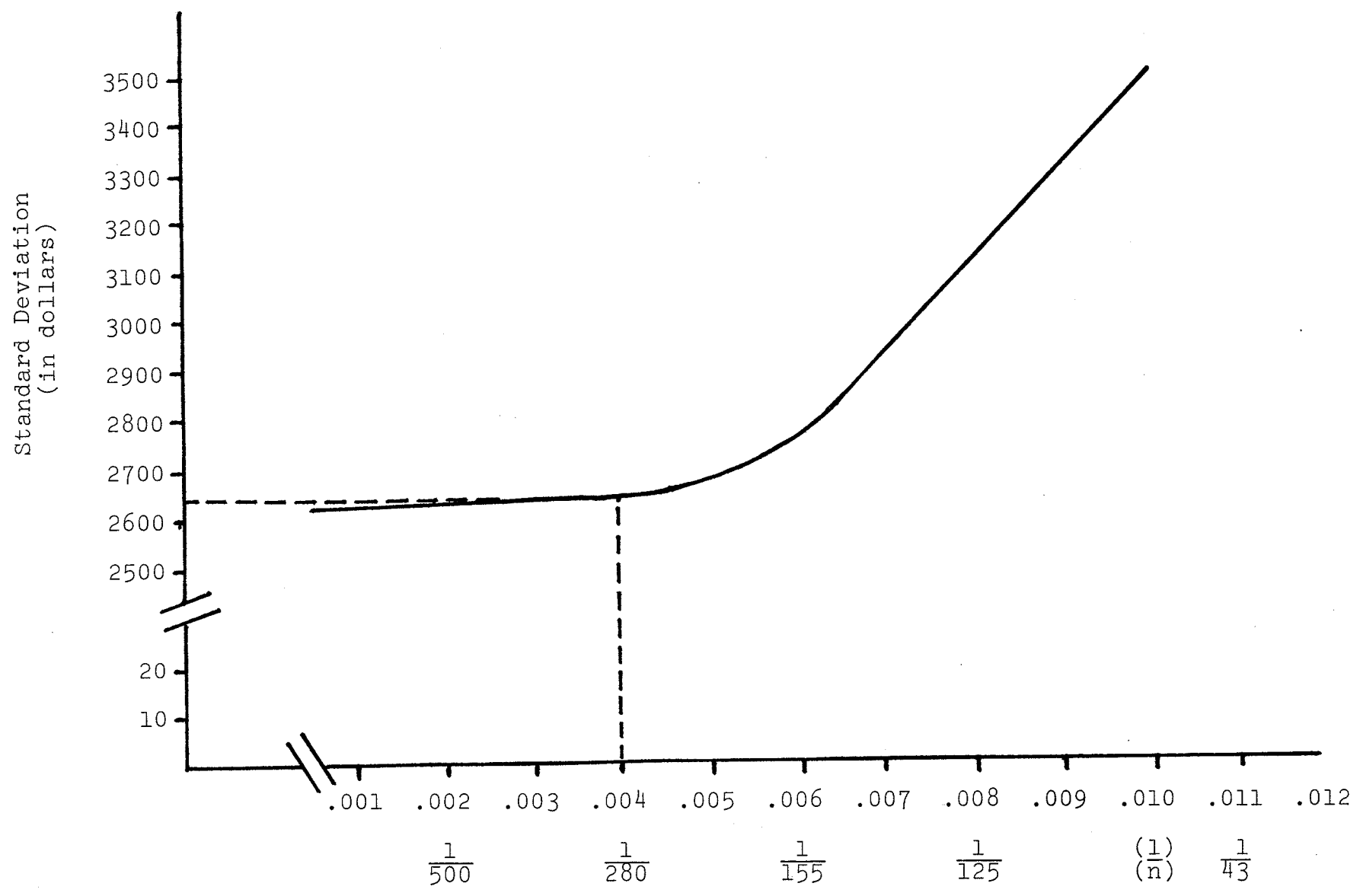
APPENDIX 1

Estimation of Sample Size

The sampling objective was to obtain a representative mix of residential properties from the Town of Selkirk. The selected sample size was estimated by calculating the number of properties necessary so that the standard deviation of the sample (based on total property assessments) would not decrease significantly with the addition of extra properties to the sample frame: i.e., the smallest sample allowable would be selected which would still be representative of the residential sector as a whole.

The following format was adopted:

- (i) the standard deviation had to be calculated for a number of sample sizes beginning with 500 properties and working down in increments of 75 to 50 properties.
- (ii) the initial and subsequent samples were selected by using a random circular systematic sampling technique: i.e., $\frac{N}{K} = n$
- (iii) the standard deviations were compared to find that point (number of properties) where the standard deviation "levelled-out" (see below).



APPENDIX 2

Calculation of (Residential) Market Values

The calculated market values for bare land and for developed residential properties were based primarily on four sources:

- (i) recent sales data
- (ii) recent appraisals through the Manitoba Land Titles Office
- (iii) assessment/sales data from the assessment staff at the Town of Selkirk
- (iv) assessment/sales ratios computed by the (W. Weir) Manitoba Assessment Review Committee (1982) for various priced properties in Selkirk (see below)

<u>Price</u>	<u>Average</u>	<u>Assessment</u> <u>Sales Ratio</u>
\$20,000	\$ 2,905	13.7
25,000	3,365	13.5
35,000	5,020	13.9
50,000	7,360	13.5
75,000	11,130	14.4

Market Values were thus calculated: $\frac{\text{Current Assessment}}{\text{Sales Ratio}} = \text{M.V.}$

Unfortunately, since no indication was made of the variance within each sales ratio, calculated market values were further compared to available sales and appraisal data to test for accuracy.

APPENDIX 3

Calculation of SVT Mill Rates

<u>Sector</u>	<u>Assessed Land Value</u>	<u>Assessed Improv. Value</u>	<u>Total Current Assd. Property Value</u>
Residential	\$2,268,860	\$12,972,290	\$15,241,150
Nonresidential	<u>1,152,810</u>	<u>5,313,060</u>	<u>6,465,870</u>
Totals	\$3,421,670	\$18,285,350	\$21,707,020

Present Mill Rates: Residential = 159.17 mills

Nonresidential = 193.37 mills

Present Tax Revenues:

Resid. = 159.17 mills X \$15,241,150 = \$2,425,934

Nonresid. = 193.37 mills X \$ 6,465,870 = \$1,250,305

\$3,676,239

SVT (Single Mill Rate)

$\frac{\text{Total Tax Revenue}}{\text{Total Land Assessment}} = \frac{\$3.7 \text{ million}}{\$3.4 \text{ million}} = 1074.39 \text{ mills}$

SVT (Differential Mill Rates)

Resid. = $\frac{\text{Resid. Tax Revenue}}{\text{Resid. Land Assessment}} = \frac{\$2.4 \text{ million}}{\$2.3 \text{ million}} = 1069.3 \text{ mills}$

Nonresid. = $\frac{\text{Nonresid. Tax Revenue}}{\text{Nonresid. Land Assessment}} = \frac{\$1.3 \text{ million}}{\$1.2 \text{ million}} = 1084.6 \text{ mills}$

SVT Residential Mill Rate (based on Market Value of Land)

= $\frac{\text{Resid. Tax Revenue}}{\text{Market Value of Land}} = \frac{\$ 2.4 \text{ million}}{\$21.7 \text{ million}} = 111.79 \text{ mills}$

Tax Shift Occurring Between Sectors (with a SVT based on a single mill rate)

Mill Rate X Current Assessed Land Value = Tax Revenue

Resid. = 1074.39 mills X \$2,268,860 = \$2,437,663

Nonresid. = 1074.39 mills X \$1,152,810 = \$1,238,579

This then, represents a shift of \$11,726 from the commercial/industrial sector to the residential sector: i.e., total taxes have increased (decreased) for the residential sector (nonresidential sector) by \$11,726.

One thing that should become apparent from the above calculation of site value tax mill rates is that improvements on, and to, land do affect the site tax. Though it has at times been argued that a site value tax should only be based on the "pure" value of land (i.e., its value as if in an undeveloped state), this assertion merely adds confusion and complexity to a relatively basic ideal since it becomes most difficult to estimate the value of land without consideration of improvements. Moreover, as indicated throughout the text, this assertion may also prove to be somewhat unnecessary since site values have been shown to be a function of location and the quality and magnitude of the structures on or near the site. That is, improvements do influence land values by affecting income expectations, desirability and so forth. In general therefore, as the value of structures (improvements) within a community

are increased (whether through up-grading or replacement), raising average improvement to land value ratios, increasing pressure will be placed on the lowest-ratio developments as a result of the gradual improvements and consolidation of development in the community.

APPENDIX 4

The Impact of the SVT on the Homeowner in Relation to "Wealth"

Market Value of Property	Distribution of Present Tax Payments (%)						
	\$500	\$501-\$700	\$701-\$900	\$901-\$1100	\$1101-\$1300	\$1301-\$1500	\$1501+
\$25,000	75.0	25.0	-	-	-	-	-
\$25,001-\$35,000	-	78.5	21.3	-	-	-	-
\$35,001-\$45,000	-	-	52.3	47.7	-	-	-
\$45,001-\$55,000	-	-	-	64.8	35.2	-	-
\$55,001-\$65,000	-	-	-	-	65.6	34.4	-
\$65,000+	-	-	-	-	-	30.8	69.2
Column Total	75.0	18.6	11.8	23.9	16.4	6.8	6.4

APPENDIX 4, Continued

Distribution of Tax Payments Under a SVT (%)

Market Value of Property	\$500	\$501-\$700	\$701-\$900	\$901-\$1100	\$1101-\$1300	\$1301-\$1500	\$1501+
\$25,000	55.0	15.0	21.7	1.7	1.7	3.3	1.7
\$25,001-\$35,000	19.1	31.9	31.9	8.5	6.4	2.1	-
\$35,001-\$45,000	22.7	27.3	31.8	6.8	2.3	4.5	4.5
\$45,001-\$55,000	2.8	15.5	63.4	5.6	2.8	5.6	4.2
\$55,001-\$65,000	-	3.1	56.3	9.4	3.1	9.4	18.8
\$65,001+	-	15.4	7.7	3.8	7.7	38.5	26.9
Column Total	19.3	18.6	38.2	5.7	3.6	7.9	6.8

APPENDIX 4, Continued

The Impact of the SVT on the Homeowner in Relation to "Income"

Market Value of House	Distribution of Present Tax Payments (%)						
	\$500	\$501-\$700	\$701-\$900	\$901-\$1100	\$1101-\$1300	\$1301-\$1500	\$1501+
\$21,000	63.4	35.2	-	1.4	-	-	-
\$21,001-\$28,500	-	75.0	25.0	-	-	-	-
\$28,501-\$35,500	-	-	92.3	7.7	-	-	-
\$35,501-\$42,500	-	-	-	88.4	11.6	-	-
\$42,501-\$49,500	-	-	-	7.9	81.6	7.9	2.6
\$49,501+	-	-	-	-	17.5	40.0	42.5
Column Total	16.1	18.6	11.8	23.9	16.4	6.8	6.4

APPENDIX 4, Continued

Market Value of House	Distribution of Tax Payments Under a SVT (%)						
	\$500	\$501-\$700	\$701-\$900	\$901-\$1100	\$1101-\$1300	\$1301-\$1500	\$1501+
\$21,000	45.1	18.3	22.5	4.2	2.8	4.2	2.8
\$21,001-\$28,500	22.2	27.8	30.6	5.6	8.3	2.8	2.8
\$28,501-\$35,500	30.8	26.9	30.8	7.7	-	3.8	-
\$35,501-\$42,500	5.8	21.7	52.2	5.8	1.4	5.8	7.2
\$42,501-\$49,500	5.3	5.3	55.3	10.5	2.6	5.3	15.8
\$49,501+	-	12.5	37.5	2.5	7.5	27.5	12.5
Column Total	19.3	18.6	38.2	5.7	3.6	7.9	6.8

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