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## **Untax Buildings, Uptax Land**

**Frank deJong**

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*GroundSwell*, 2003]

Developers usually get the blame for the horrendous suburban sprawl that has characterized development for the last 50 years. But this is only scape goating. There is a deeper problem better able to explain how land use went so terribly wrong.

Developers are not ideologically or genetically pre-disposed to turning cornfields into suburbs and malls. They would just as happily make their living doing infill, renovating run-down buildings in the city core, or building pedestrian-friendly communities. But for planning ideas like these to be attractive to developers, they have to be backed up by appropriate economic signals.

The current structure of our property tax system sends the wrong signals. Generally speaking, municipalities calculate property taxes based on the value of the land and the buildings sitting on them. This means that anyone who builds on a vacant site in an existing urban area or renovates an abandoned building back to health pays more taxes than if they just left the land or building vacant. This is a tax on smart growth. And it's not smart.

That tax structure fuels the land speculation that drives sprawl. On the outskirts of cities, cheap land gets snapped up by speculators who then wait for the suburbs to move closer, driving up land values. When that happens, the speculator then sells the land to a developer, who puts up buildings quickly and cheaply to maximize profit — creating unimaginative and inefficient suburbs

rather than livable communities.

At the city core, speculation works the other way around. Speculators buy run-down properties and deliberately keep them in poor condition, further driving down community property values. If speculators don't receive lower assessments from a city for their neglected buildings, they demolish them. These underused lots deprive cities of much-needed tax revenue. [Run-down or abandoned buildings are also fire hazards, and trash-strewn lots are a haven for drug sales.]

Instead, we should allow market mechanisms to curb sprawl by shifting property taxes off buildings and onto land. If buildings were taxed lightly or not at all and land taxed more heavily, building sprawl would become more expensive than building infill. The invisible hand of the market would do the rest:

- the amount of affordable housing available would increase, even without involving subsidies, since builders could avoid higher land costs by building efficiently on small lots (row houses, low-rise, semi-detached);
- housing stock and rental units would improve since renovations, additions and other improvements would not incur increased taxation while adding rental and resale value to property;
- the amount of vacant land, parking lots and other urban land uses that bring in minimal revenue would be reduced since property owners would be able to develop this land without tax penalty; and
- suburban sprawl would decline since servicing new developments would incur high land taxes whereas higher density infill would avoid taxation.

Municipalities could gradually make the shift to a land- or site-based tax. Assessors would, as now, continue to appraise buildings independently of the land they are built upon. And zoning for various types of land use would remain unchanged. However, city hall would set one tax rate for buildings and another for land. Over the years, the rate for buildings would be reduced and the rate for land increased to make up the difference. The shift could be partial or entire, depending on how seriously the municipality wished to reduce sprawl. This tax "split and shift" is meant to be revenue-neutral: overall taxes for the average residential property owner would not increase or decrease.