Resource Justice

RSF ROBERT SCHALKENBACH FOUNDATION

PRIMER: A LAND VALUE TAX FOR NORTH CAROLINA

Policymakers in North Carolina are locked in a budget debate as they search for a way to simultaneously cut income taxes, maintain the state's fiscal health, and invest in education and innovation. This short primer explains how a small statewide land value tax can achieve all three of these objectives, provides some preliminary revenue estimates (with options for deploying these funds), and concludes with guidance on next steps.

LAND VALUE TAX: A "GOOD TAX"

As the conventional wisdom goes: tax something, you get less of it. Taxes on income penalize productive work; corporate taxes reduce investment and innovation; sales taxes raise prices and cause employment to shift out to neighboring states; and taxes on buildings discourage construction. However, there is one exception: taxes on land. Because the amount of land in each location is physically fixed (land cannot be moved to avoid a tax), taxes on land do not distort economic activity or discourage growth.

One policy tool that leverages land's unique characteristics is the land value tax (LVT): a recurring levy charged against the market value of land. LVT is similar to a property tax, except that homes and other structures are wholly exempt from taxation. In the next section, we provide an example of how LVT would be calculated for a typical home in Raleigh.

LVT has many desirable features. Shifting the tax base onto land can boost housing construction and maintenance, stimulate entrepreneurship, and raise overall property values. Property taxes in general, and LVT in particular, are significantly better for economic growth, income and consumption than are corporate and personal income taxes. LVT can reduce per capita energy use and carbon emissions, as well as incentivize efficient local governance. Crucially, LVT does not get passed on to tenants in the form of higher rents; rather, it reduces inequality by directly capturing the economic rents of land and its location.

Best of all, LVT can help policymakers to shift the tax base onto land rents while achieving current budget objectives of giving tax relief to hard working North Carolinians, and while promoting an attractive business environment and maintaining fiscal health. It is for these reasons that land value taxes have been supported by a wide range of thinkers, economists and policy institutions, including Albert Einstein and Adam Smith.

WHAT CAN BE ACHIEVED WITH A 1% LVT IN NC?

So let us examine how a statewide LVT would work and what revenue possibilities it would create, by considering a revenue-neutral land tax rate of 1% (i.e. an annual tax obligation of $1 per $100 of assessed land values). The average single family home in Raleigh is valued at $477,000, of which $235,000 is land value, this corresponds to an annual tax obligation of around $2,350 if the LVT revenues are used to cut more harmful taxes.[1]

Expanding our view to calculate statewide revenues, we note that there is no single data source which sums up assessed land values (LV) from each of NC's 100 counties. However, we apply three estimation methods (explained in the appendix) and obtain values of $389 billion, $494bn, and a central estimate of $424bn of land value in NC, with which we proceed.[1] We anticipate that NC policymakers will use the LVT revenues to reduce other taxes. Such a revenue-neutral 1% LVT would generate at least $4.2bn in revenue[2], equivalent to 13% of 2022 revenues into the State General Fund. This demonstrates how a small tax on land values can produce significant tax revenues.

While there are many ways in which these revenues could be deployed to provide tax relief to NC's workers and businesses, we explore two options here. First, statewide individual income taxes could be cut by fully one-quarter from their current levels, enabling the income tax rate to be slashed from its current 4.75% level to 3.60%, immediately achieving all of the reductions planned through to 2026, and then some.

As a second option, NC could use this 1% LVT to abolish the corporate income tax (which currently generates $1.6bn) and still have sufficient revenue left over to cut individual income taxes by 15% relative to their current levels, to a tax rate of 4.04%. This approach would significantly boost North Carolina's attractiveness as a place to invest and do business, while simultaneously providing tax relief to hard working families.

[1] This statewide LVT would be charged in addition to existing county and municipal property taxes, which are around $5,200 for our example Raleigh home. However, note that these households are also likely to enjoy reductions in their income taxes, as we discuss above.
[2] This is equal to 32% of the total property value of $1,335bn reported by NCDOR. For the purposes of this analysis, we ignore exclusions, exemptions & deferments.
[3] Here we assume that cutting income taxes will maintain LVs at their previous levels, while noting that the real effect is likely to be a small increase, generating more than the stated $4.2bn of revenue.

STEPS TOWARDS IMPLEMENTATION

While a LVT is relatively simple to implement, we explore a few administrative issues that can help to pave the path forward.

Currently, each of North Carolina's 100 counties are responsible for maintaining their own property assessments, with significant differences in valuation techniques across jurisdictions. To be implemented fairly, a statewide LVT would require uniformity in assessments throughout NC. Therefore, we recommend the creation of an office responsible for ensuring that land is valued accurately and consistently across the state. This could be achieved either by maintaining and enforcing strict valuation standards across county assessors, or preferably by the office conducting its own land valuations or contracting this function to an independent firm specializing in mass appraisal techniques.

We do not anticipate any legal issues surrounding the implementation of a statewide LVT in North Carolina, as the Constitution grants the General Assembly the power to determine property classifications for tax purposes, NCDOR already considers land to be distinct from buildings for the purposes of assessment, and our proposal is for a uniform statewide LVT rate. However, a legal review should be conducted to confirm the constitutionality of this proposed LVT, with particular consideration of the uniformity clause in Art. V Sec 2(2) which requires that each class of property be taxed at the same rate across a given jurisdiction (further discussion here). One alternative strategy would be to implement a statewide property tax in combination with a universal exemption of the value of structures, similar in principle to the property exemptions applied in most counties.

The evidence above indicates that a land value tax is a promising policy option for North Carolina, by summarizing the myriad economic and social benefits of LVT and demonstrating the ways in which revenues could be deployed to achieve current budgetary objectives. We encourage interested parties to pursue further investigation into the potential of this powerful policy tool, to which the Robert Schalkenbach Foundation is eager to contribute its expertise. Such studies could consider questions like how the tax burden is distributed across households, and could precisely estimate the likely impacts on outcomes such as construction rates, business formation, employment, house prices and tax compliance.

APPENDIX: LAND VALUE ESTIMATES

Our estimates of aggregate land value across all parcels in NC derives from three approaches:

1. NCDOR data provides total taxable property values, of which $939bn (70%) is residential, $321bn (24%) is commercial, and $75bn (5%) is industrial & other. We need to estimate what proportion of each of these comprises land. We use Regrid data for a sample of counties (Wake, Mecklenburg and Guilford) to estimate a 30% land share for residential properties, 35% for commercial, and 40% for industrial & other. Applying these values to the total property values in the NCDOR data, we obtain an estimate of $424bn of land value.[1]

1. Albuoy, Ehrlich & Shin (2018) estimate urban land values for 384 US metros, including 10 MSAs in NC which cover 60% of the state's population.[2] These have a combined land value of $285bn. Assuming the LV per person was identical for the remaining 40% of the state's population produces a LV estimate for NC of $494bn. However, this is likely biased upwards as LV per person is likely to be lower in the less urbanized parts of NC which were not included in the Albouy et al. dataset.

1. Davis et al.'s (2021) Supplementary Data S3 provides LV as a share of property value for single family zoned land in 50 of NC's 100 counties. We apply these land shares (and a weighted average for remaining 50 counties) to the residential property values in NCDOR, and add commercial and industrial land values from the method described for method #1 above, to obtain a LV estimate of $389bn.

We consider method #1 to be the most accurate, and as it provides the central of these three estimates, we adopt it for our analysis above.

[1] While it was beyond the scope of the current primer, more accurate value could be obtained by individually interrogating actual assessed land values for each of the 100 counties in the Regrid database. Please contact us if this is desired.
[2] The MSAs included are: Wilmington, Greenville, Raleigh-Durham-Chapel Hill, Asheville, Rocky Mount, Fayetteville, Greensboro–Winston Salem–High Point, Jacksonville, Goldsboro, and Hickory-Morganton-Lenoir.