

# New London Land Value Taxation Pilot Options

Proposals and models to effect a modest incremental change in how New London uses its property tax to enhance revenues from land values (community-created) and deemphasize building values (privately created).

All these models tax land more than buildings. They do it in different methodologies and some different outcomes.

**The following represent implementation models under review by the New London LVT Pilot Planning Committee.**

## **Explanation of Two-Rate, AXI, AXI 5%, and AXI plus Two-Rate**

**Two-Rate** is a way of taxing land using a change in tax rates. For example, a drop of 10% in the building tax rate would require that revenue loss be made up by an increase in the tax rate on land values. The direct effect is to put a greater reliance on publicly created value (land) rather than privately created wealth (buildings, commerce or wages). A higher tax on land has the acknowledged effect of removing the distortions on markets that traditional taxes create. It is more progressive than the current system, and heavily incentivizes vacant land into better use.

**Assessment Exemption on Improvements (AXI)** is slightly different. Put simply, a blanket permanent abatement of a certain dollar amount on a building is put into effect. The overall tax rate then rises accordingly, with a greater impact on land value. For example, if someone's building is worth \$50,000 and the AXI is \$50,000 then they will pay no tax on the building. If the building is worth \$500,000 then the owner would pay tax on \$450,000. This has the effect of sometimes dramatically reducing tax burden on lower valued properties, most often residential properties. In New London, it would provide immediate and substantial tax relief to homeowners, from poor to upper middle class. By that measure it is a model with much vertical equity<sup>1</sup>.

AXI shifts the tax burden to those properties with either the ability to pay, or the capacity to build and profit from what is now fallow land.

**Assessment Improvement on Improvements 5% (AXI 5 %)** is a different version of AXI. Instead of a set dollar exemption/abatement, the methodology is to reduce the building value by 5% across the board. The effect is different from AXI as shown by this example: a house with \$50K in building value would see a reduction in building tax by \$2,500, while a house worth \$500K in building value would see a

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<sup>1</sup> Vertical equity usually refers to the idea that people with a greater ability to pay taxes should pay more.

reduction of \$25,000. The outcome is less progressive<sup>2</sup> than AXI, and indeed may benefit those with a higher ability to pay.

**AXI plus Two-Rate** (AXI+2Rate) is a combination of AXI (which provides vertical equity and fairness) to LVT, which shifts taxation to those with a greater ability to pay, or who are not using land holdings for private or public benefit. This hybrid model reduces the large residential savings, but also ensures a higher holding cost for the vacant lots and underused properties which abound in New London.

**All of these models are just that.** They simulate actual outcomes using the grand roll provided. Actual implementation may be phased-in at whatever pace the elected officials who will make the decision at budget time decide<sup>3</sup>.

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<sup>2</sup> A progressive tax is a tax imposed so that the effective tax rate increases as the amount to which the rate is applied increases.

<sup>3</sup> Altoona, PA currently is in the 9<sup>th</sup> year of a 10-year phase-out of the building portion of the property tax. Instead of 47.48 mills under the flat rate, the FY2010 mill rates are 5.495 on building values, and 322.448 mill on land values, this brings in the same revenue, but shifts the yield from land from 13% to 90% and the yield from buildings from 87% to 10% of total property tax revenue.