

ALICE Model Ordinance - Split-Rate Property Tax Implementing Legislation¹

Rationale. The traditional property tax penalizes owners with higher taxes when they construct, improve or maintain buildings. It rewards owners with lower taxes when they allow buildings to deteriorate. Owners of boarded-up buildings and vacant lots typically pay much less property tax than their more responsible neighbors. The “upside-down” economic incentives associated with the traditional property tax can be corrected by reducing the property tax rate on privately-created building values while increasing the tax rate on publicly-created land values. This is known as a “split-rate property tax.” Alternatively, it could be called a “Universal Property Tax Abatement.”

The lower tax rate on buildings makes it cheaper to construct, improve and maintain them, resulting in more affordable rents for both residents and businesses. Lower business costs and lower costs for building improvements lead to higher employment. The higher tax on land values reduces land speculation and actually helps keep land prices low. Because land values are created by the community through zoning and through access to public goods and services, higher taxes on land values can recapture publicly-created land values and can make infrastructure improvements financially self-sustaining to a greater degree. Landowners pay in proportion to the value of public benefits that they receive – a very comprehensible and equitable approach, thus shifting the property tax off of privately-created building values and onto publicly-created land values makes the property tax more like a public services user fee.

Improving property tax assessment and appeals procedures can be beneficial for the successful implementation of a split-rate property tax system. Current land and building assessment practices are often inaccurate and untimely. Successful reforms require regular assessments of land and improvements and publicly available information regarding assessments and appeal procedures. The contribution technique, a new method to measure land values, uses computer-assisted mass appraisal (CAMA) models to “break down the sales prices of houses or other properties into values contributed by location, lot size and shape, building square footage, building style and age and other property characteristics. If enacted, this model will pave the way to progressive property tax alternatives.²

¹ This model was drafted by ALICE staff with the help of Rick Rybeck, Director, [Just Economics LLC](#). Many thanks to Joshua Vincent, Executive Director, [Center for the Study of Economics](#) and Kris Nelson, Legislative Director, [Common Ground OR-WA](#) who provided feedback on earlier drafts of this model.

² Richard F. Dye and Richard W. England, “[Assessing the Theory and Practice of Land Value Taxation](#),” *Lincoln Institute of Land Policy* (2010).

Summary. This ordinance establishes land and buildings as different classes of property and establishes a procedure to tax building values at lower rates than land values. It also ensures availability of full public information regarding assessments and appeal procedures; ensure that shifts in the tax burden on individual taxpayers will not be excessive from year to year; and ensures comparability of tax effort between this jurisdiction and its surrounding jurisdictions in the metropolitan area and between this jurisdiction and jurisdictions of comparable size. The accompanying model act provides state authorization to tax property at two rates and requires municipalities to create an implementation plan for the split-rate property tax.³

SECTION 1. SHORT TITLE. This [ordinance] may be cited as the “Split-Rate Property Tax Implementation Ordinance.” [or “Universal Property Tax Abatement Implementation Ordinance”]

SECTION 2. DEFINITIONS. For the purposes of this [ordinance]:

(1) “Improvements” means all buildings, structures or permanent fixtures built upon or attached to land, including machinery and equipment which become fixtures.

(2) “Land” means all real property exclusive of improvements.

(3) “Real property” means land, including water and land under water, and improvements to land.

SECTION 3. SPLIT-RATE PROPERTY TAX.

(a) Real property shall be classified as:

(1) land or land exclusive of improvements; or

³ Most state constitutions contain a clause or provision for “uniformity.” Generally, “uniformity” requires that state laws apply equally to all persons under the same conditions and in the same circumstances. With regard to taxation, the burden of taxation must be alike on all property under the same conditions and in the same circumstances within the taxing jurisdiction. However, the question of what property is “under the same conditions and in the same circumstances” is open to interpretation. Generally, the law allows for the classification of property if the classification is reasonable and naturally inherent in the subject matter. Some jurisdictions classify residential property differently from commercial property and tax them at different rates. Many jurisdictions also permit tax abatements on improvements under specified circumstances. Thus, it should generally be permissible to classify “land” and “improvements to land” as different classes of property that could be subject to different rates of taxation as long as all similar land parcels are taxed the same and all similar improvements are taxed the same. Legislative language will need to reflect the unique constitutional, statutory and case law surrounding uniformity in each state.

(2) buildings and other improvements to land.

(b) Beginning with tax year [year], the property tax rates on buildings and improvements to land will be reduced and the tax rate on land values will be increased so that:

(1) the same total property tax revenue shall be collected as the prior year plus inflation as measured by the consumer price index; and

(2) the ratio of the tax rate on improvement values to the tax rate on land values shall be less than one beginning in tax year ____ and shall decrease in each of the subsequent three years. Specifically, this ratio shall be [__:__] in the first year, [__:__] in the second year, [__:__] in the third year, [__:__] in the fourth year and subsequent years.

(c) With exception to section 4 of this [ordinance], all taxable parcels shall be taxed at the same differential rate. No class of property as defined by land use shall be taxed at rates different for any other class of property so defined.

[Drafters Note: *Implementation Plan.*⁴]

[Policy Option: *Alternative Property Tax Ratios.*⁵]

SECTION 4. EXEMPTIONS.

(a) In this section “conservation land” means real property defined as conservation land according to [statutory section dealing with land conservation].

(b) There shall be a single property tax rate for all conservation land.

⁴ The ALICE Model Split-Rate Property Tax Authorizing Legislation requires municipalities to prepare an implementation plan prior to implementation of a split-rate property tax. If such an implementation plan was prepared prior to the introduction of this ordinance the property tax ratio of land to improvements stipulation in section 4 should be derived from the implementation plan.

⁵ There are many formulas that could be devised to calculate a split rate property tax. A pure land tax whereby improvements to land are not taxed is the most pure form of land value taxation, however some localities may not want to implement a pure land tax or a pure land tax may be prohibited by state law. Regardless of the formula used, we recommend a gradual implementation of the land value tax over several years. For additional split-rate property tax rate options see [Land Value Tax Enabling Legislation: Pennsylvania and Five Other States](#).

[Policy Option: *Agricultural Land Exemption*.⁶]

SECTION 5. TAXPAYER NOTIFICATION OF IMPLEMENTATION OF SPLIT-RATE PROPERTY TAX SYSTEM. As part of implementation, the [property tax assessor] shall provide a notice to taxpayers at least [6 months] in advance of [date on which the taxes are due] that, beginning in tax year [20__], the “improvements” component of their real property tax assessment will be taxed at a lower rate than will be applied to the “land” component. The notice shall include an explanation of how the [property tax assessor] determines the fair market value of “land” and “improvements.” The notice shall also include an explanation of how the taxpayer might appeal the assessment value or apportionment of real property between its land and improvement components.

SECTION 6. REVIEW AND REPORT OF UNIVERSAL PROPERTY TAX ABATEMENT.

(a) The assessor of [municipality] shall conduct a tax incidence study and report on the effect of the split-rate property tax. Such a report shall be completed no later than [two years after the implementation of the split-rate property tax system] and shall include an analysis of the effect of the split-rate property tax on improved properties and vacant properties. These effects shall be summarized according to the different property types (residential, commercial and industrial) citywide and within each assessment neighborhood.

⁶ Evidence suggests that implementing a split-rate tax will actually benefit small farmers, however, due to the fact that much agricultural land is already exempt from property tax and the likely opposition that will arise from agricultural land ownership should a municipality adopt an agricultural property tax municipalities may want exempt agricultural land from the split-rate tax. ([The Political Economy of Property Tax Reform: Hawaii’s Experiment with Split Rate Property Taxation](#)). Additionally, municipalities may want to consider exempting some agricultural land (for the reasons discussed above) but not exempt other agricultural land with higher assessment value (e.g. nurseries, Christmas tree farms and forests).

(b) The [property tax assessor] shall present the report described in subsection (a) at a public hearing where residents of [municipality] shall have an opportunity to ask questions and comment on the report.

SECTION 7. ASSESSMENTS.

(a) The [property tax assessor] shall assess the value for all real property as the estimated market value of such property as of the valuation date. Assessments shall be based upon the sources of information available to the [property tax assessor], which may include actual view. In determining the estimated market value for various kinds of real property, the [property tax assessor] may do so manually or through the use of an automated system or systems such as the Computer-Assisted Mass Appraisal System. The [property tax assessor] shall take into account any factor that may have a bearing on the market value of the real property, including, but not limited to:

- (1) sales information on similar types of real property;
- (2) mortgage or other financial considerations;
- (3) reproduction cost less accrued depreciation because of age, condition, and other factors;
- (4) income-earning potential (if any);
- (5) zoning, and;
- (6) government-imposed restrictions.

(b) Notwithstanding this section, in the case of a property for which the most recent assessment has been changed as a result of an appeal, the reasons for the revised assessment shall be considered the basis for the subsequent valuation by the [property tax

assessor], who shall take into account the reasoning in making the assessment, so long as the revised assessment is rendered on or before [date].

(c) [The assessor] shall assess all real property on an annual basis.

[Policy Option: *Tax Exemptions.*⁷]

[Policy Option: *Tax Credits.*⁸]

SECTION 8. NOTICE OF ASSESSMENT TO TAXPAYERS

(a) Beginning as soon as possible after [January 1], but no later than [March 1], and for each real property tax year thereafter, the [property tax assessor] shall notify each owner of real property of the assessment of the owner’s property for the next real property tax year. The notice, or the statement accompanying the notice, shall include:

(1) the address, lot, square, use, and classification of the real property;

⁷ Notice of Exempt Properties to Taxpayers

[The taxing authority] shall publish, by class and by individual property, a listing of all real property exempt from the real property tax. Such listing shall include the address, lot and square number, the name of the owner, the assessed value of the land and improvements of such property, and the amount of the tax exemption in the previous fiscal year. ([Property Tax Modernization](#))

Tax Exemption Limitation

If a building (or a portion thereof) or grounds belonging to and actually used by an institution, organization, or other entity exempt from real property taxation is used to secure rent or income for an activity other than that for which the exemption was granted, the building (or property thereof) or grounds shall be assessed and taxed, unless otherwise prohibited by law. ([Property Tax Modernization](#))

⁸ “Every parcel has both a land value and improvements value component, so the key difference among taxpayers is the share of total value contributed by land. The land intensity of a parcel is its land value divided by its total value (land plus improvements). Parcels with land intensity equal to the jurisdiction wide average will be unaffected by the switch; parcels with above average land intensity will pay higher taxes under the land only tax; parcels with land intensity below the jurisdiction wide average will benefit from no longer taxing improvements. The distribution of land intensity across different types of parcels will depend upon local conditions... A shift will occur across classes of property—commercial, industrial, apartments and condos, and owner-occupied residential—and within property classes across different income levels of the owners.... [Studies find that in communities where residential land intensity is high compared to commercial land intensity, the switch to a split-rate tax would make the distribution of burdens with respect to income less progressive than under a uniform property tax.]” This suggests the need for a tax credit for homeowners when residential land intensity is high relative to commercial property. (Richard F. Dye and Richard W. England, “[Assessing the Theory and Practice of Land Value Taxation](#),” *Lincoln Institute of Land Policy* (2010))

(2) the assessed value of the land and improvements, shown separately and in total, of the property for the next real property tax year and such amounts for the current real property tax year;

(3) the amount and percentage of change in assessed value for the next real property tax year over the current real property tax year;

(4) an indication of the reason for such change in assessment;

(5) a statement of appeal procedures pursuant to [section];

(6) the citation to the regulations or orders under which the property was assessed;

(7) the location of the assessment roll and sale ratio studies and the hours during which the information is available; and

(8) an explanation of all special benefits, incentives, limitations, or credits which relate to real property taxes as a result of this or any other act.

(A) Each explanation shall include, but not be limited to, application procedures and qualifying requirements.

(B) The title of each property tax relief program shall be capitalized, underlined, and printed in bold type.

(b) Notwithstanding any other law, the [property tax assessor] may notify an owner of real property of a proposed change in the assessed value of the owner's real property before [date] if a delay occurs for cause, as determined by the [property tax assessor]. If a delay for cause occurs, the [property tax assessor] shall notify the owner of the delay within a reasonable period of time from discovery of the cause. If a delayed notice of proposed change in the assessed value is issued under this paragraph, a petition

for administrative review in may be filed within [30] days after the date the delayed notice is mailed.

SECTION 9. EFFECTIVE DATE. This [act] shall take effect [date] and shall be applicable to all taxable years beginning after [date].

Model Law Sources:

2002 Virginia House Bill 239, *available at:* <http://www.alicelaw.org/catalog/1430>

2009 Connecticut Public Act 09-236, *available at:* <http://www.alicelaw.org/catalog/1431>

2005 Connecticut General Assembly Bill 5892, *available at:*
<http://www.alicelaw.org/catalog/1432>

1963 Hawaii Act 142

Resource Organizations:

Center for the Study of Economic, <http://www.urbantoolsconsult.org/>

Common Ground USA, <http://commonground-usa.net/>

Council of Georgist Organizations, <http://www.cgocouncil.org/>

Just Economics LLC, www.justeconomicsllc.com

Lincoln Institute of Land Policy, <http://www.lincolnst.edu/>

Additional Information:

David Brunori and Jennifer Carr, “Valuing Land and Improvements: State Laws and Local Government Practices,” *Lincoln Institute of Land* (2002) *available at:*
https://www.lincolnst.edu/pubs/dl/151_brun02web.pdf

Daphne A. Kenyon, Adam H. Langley and Bethany P. Paquin, “Rethinking Property Tax Incentives for Businesses,” *Lincoln Institute of Land Policy* (2012) *available at:*
https://www.lincolnst.edu/pubs/dl/2024_1423_Rethinking%20Property%20Tax%20Incentives%20for%20Business.pdf

Elizabeth Plummer, “Evidence on the Distributional Effects and Administrative feasibility of a Land Value Tax: Who Wins, Who Loses, and Can It Happen?” *Lincoln Institute of Land Policy* (2009) available at:

https://www.lincolnst.edu/pubs/dl/1659_874_Plummer%20Web.pdf

H. Spencer Banzhaf and Nathan Lavery, “How ‘Smart’ is the Split-Rate Property Tax? Evidence from Growth Patterns in Pennsylvania,” *Lincoln Institute of Land Policy* (2008) available at: [http://www.lincolnst.edu/pubs/dl/1372_693_Banzhaf Working Final.doc](http://www.lincolnst.edu/pubs/dl/1372_693_Banzhaf_Working_Final.doc)

Jeffrey P. Cohen and Michael J. Fedele, “Where in Connecticut is the Best Location for a Split Tax? An Analysis of Land Assessment Equity in Several Cities,” *Lincoln Institute of Land Policy* (2012) available at:

https://www.lincolnst.edu/pubs/dl/2133_1455_Cohen_WP12JC1.pdf

Jerome C. German, Dennis Robinson and Joan Youngman, “Traditional Methods and New Approaches to Land Valuation, Land Lines, Volume 12 Number 4 (July 2000)

available at: http://www.lincolnst.edu/pubs/295_Traditional-Methods-and-New-Approaches-to-Land-Valuation

John H. Bowman and Michael E. Bell, “Implications of a Split-Rate Real Property Tax: An Initial Look at Three Virginia Local Government Areas,” *Lincoln Institute of Land Policy* (2004) available at:

https://www.lincolnst.edu/pubs/dl/905_BowmanBell_PDF.pdf

Koleman S. Strumpf, “Infrequent Assessments Distort Property Taxes: Theory and Evidence,” *Lincoln Institute of Land Policy* (1998) available at:

<http://www.lincolnst.edu/subcenters/property-valuation-and-taxation-library/dl/strumpf.pdf>

Richard F. Dye and Richard W. England, “Assessing the Theory and Practice of Land Value Taxation,” *Lincoln Institute of Land Policy* (2010) available at:

https://www.lincolnst.edu/pubs/dl/1760_983_Assessing%20the%20Theory%20and%20Practice%20of%20Land%20Value%20Taxation.pdf

Rick Rybeck, “Property Tax Modernization Model Act,” *Just Economics* (2011)

available at: <http://www.alicelaw.org/catalog/688>

Rick Rybeck, “Transforming the Property Tax into a Public Services Access Fee,” *Just Economics* (2011), available at:

<http://www.alicelaw.org/catalog/723>