



CONSENT CALENDAR
April 11, 2023

To: Honorable Mayor and Members of the City Council

From: Councilmember Taplin, Councilmember Bartlett, Councilmember Harrison

Subject: Support for AB 362 (Land value taxation study)

RECOMMENDATION

Send a letter to Assemblymember Alex Lee (D-San Jose) in support of AB 362 (Land value taxation study).

FINANCIAL IMPLICATIONS

N/A

BACKGROUND

Traditional property tax systems levy taxes based on the value of property in which the Board of Equalization defines as all matters and things (real, personal, and mixed) that a private party can own. Improvements to surrounding buildings and property can increase the value of the lot which would then affect the property tax levied. By contrast, a land value tax is based on the value of land without regard to buildings or other improvements.

The current property tax system results in higher taxes for improvements to the value of the property. Ultimately, this can result in a disincentive for a landowner to build or renovate property, since this could raise their taxes. California's Proposition 13 exacerbates this disincentive by restricting annual reassessments to a maximum of 2% unless the property is sold or has new construction. A 2016 study by Ralph McLaughlin at Trulia found Proposition 13 results in some of the lowest effective tax rates for the wealthiest jurisdictions in California with the highest property values.

Assembly Bill 362 would require the California Department of Tax and Fee Administration to "conduct a study on the efficacy of a statewide land value taxation system as a potential alternative to current appraisal methods for real property taxation and a way to encourage property development." A land tax system would disincentivize properties that are left idle, creating an incentive for landowners to improve and maximize the use of their land.

According to author Assemblymember Lee's office, there are a number of jurisdictions that employ land value tax systems or a variation of it around the world including Denmark, Singapore, and Taiwan.

In Allentown, Pennsylvania, the city adopted a land value tax in 1996 and 70% of residential parcels saw a tax decrease. Construction returned to the city and Allentown experienced a 32% increase in building permits.

The economist Rick Rybeck of Just Economics explains: "Buying and selling land creates nothing; it's what you do on the land that creates value...land taxes don't reduce the amount of land. Taxing land values reduces the benefits of land ownership. This reduces land prices."¹

Potential benefits include:

- Making land speculation less profitable, reducing the incentive for suburban sprawl
- Making housing more affordable while fostering business growth and employment
- Sustainable financing for public infrastructure improvements
- Less vulnerable to tax evasion since land cannot be concealed or moved overseas (titles are registered with the public and thus easily identified)

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

None.

CONTACT PERSON

Councilmember Taplin Council District 2 510-981-7120

Attachments:

1: Letter

¹ Rybeck, R. (2019). If the Land Tax Is Such a Good Idea, Why Isn't It Being Implemented? *Strong Towns*. Retrieved from <https://www.strongtowns.org/journal/2019/3/8/if-the-land-tax-is-such-a-good-idea-why-isnt-it-being-implemented>

The Honorable Alex Lee
Member of the California State Assembly
California State Capitol
Sacramento, CA 95814

Re: Support for AB 362: Land Value Taxation Study

Dear Assemblymember Lee:

The City Council of the City of Berkeley writes in strong support of AB 362 (Lee), which would require the Department of Tax and Fee Administration to study land value taxation in California.

The current property tax system results in higher taxes for improvements to the value of the property. Ultimately, this can result in a disincentive for a landowner to build or renovate property, since this could raise their taxes. California's Proposition 13 exacerbates this disincentive by restricting annual reassessments to a maximum of 2% unless the property is sold or has new construction. A 2016 study by Ralph McLaughlin at Trulia found Proposition 13 results in some of the lowest effective tax rates for the wealthiest jurisdictions in California with the highest property values.

Cities across the East Bay including Berkeley are increasingly strained by rising infrastructure costs, deferred maintenance, and a housing shortage with insufficient subsidies for providing affordable housing on the scale that it is so desperately needed. The City of Berkeley has committed to plan for nearly 9,000 new housing units in its 2023-2031 Regional Housing Needs Allocation cycle in its Housing Element Update, which was recently approved by the Department of Housing and Community Development. With high land prices, long-term owners of vacant properties will face a significant disincentive to selling or developing much-needed housing, and nonprofit affordable housing developers will have fewer potential sites available for low-income housing.

The current property tax system exacerbates the devastating scarcity of housing that is affordable to our most vulnerable community members, while limiting funding available for local schools, infrastructure, and services. Cities like Berkeley have been increasingly reliant on consumption taxes and parcel taxes to fund capital improvements, which can disproportionately impact lower-income homeowners. Californians deserve better.

Thank you for your leadership on this important legislation.

Sincerely,

City Council - City of Berkeley
2180 Milvia St
Berkeley, CA 94709

