

Comments on Murphy and Seegert

Implicit Land Taxes and their Effect on the Real Economy

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Comment 1: Differences between assessments and market values

- The authors' concept of an implicit land tax (ILT) arises due to the difference between the tax assessment and market value of land. This concept is important as it relates to the neutrality of the property tax.
- The literature on the *non*-neutrality of land taxation relies on the assumption that assessments are related to market values. The models of non-neutrality assume that they are related. See Anderson (1986), Bentick (1979), Mills (1981).
- Tideman (1982) contended that a tax on land value *is* neutral. That conclusion relies on the assumption that, "...the value of land is defined independently of how the land is actually used."
- If assessments are aligned with actual land use, at least partially, then land taxes are *not* neutral and they have efficiency effects.

Comment 2: Defining the implicit land tax

- The authors' important contribution is the decomposition of the property tax into four components, isolating the ILT, which is critical to the analysis.
- Fundamentally, the ILT arises due to idiosyncratic differences between the assessor and the market.
- They provide strong evidence that the ILT is not systematically correlated with other variables of interest.
- What are we to make of the apparent symmetry in Figure 3 reporting implicit tax/subsidy rates? Is there reason to expect symmetry? Further discussion of this observation seems warranted.

Comment 3: This paper is written backwards

- The authors reverse the usual expositional approach by presenting empirical analysis first, then developing a theoretical model.
- This is actually the right way to approach the topic in this case. First, establish the empirical facts of the situation. Then, develop a general model that can explain the evidence observed.
- Table 8 summary results are highly consistent with the Detroit results in Anderson et al (2021).

Comment 4: Theoretical model implications

- The most compelling implications of the model are related to a revenue-neutral shift of tax burden toward land.
- The model reveals that the most important factors in this shift are (1) the elasticity of substitution between land and labor, and (2) the population elasticity.
- Why does the elasticity of substitution between land and capital not play an important role?
- Proposition 1 gives a full capitalization result, assuming taxes are not rebated back to households. It will be interesting to use the model to explore the conditions under which partial capitalization occurs, as most intrajurisdictional evidence shows.
- It will also be interesting to explore further the effect on structures, with tax rebates and partial absentee landlords.

Comment 5: Implications of derived demand for land

- Given the implications of the theoretical model, it may be useful to consider the demand for land as a derived demand, and explore the four traditional factors determining when its elasticity is low:
- No close substitutes for land in the housing production function
- Demand for housing, the final product, is low
- Supply of other inputs (capital and labor) inelastic
- Land's share of the total cost of housing production small, i.e. Marshall's "importance of being unimportant."
- Note that Hicks modified the last idea by showing that there is a low elasticity of demand for land only when consumers can substitute more easily than the housing producer, i.e. when the elasticity of substitution is less than the elasticity of demand for housing.