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Land Value Taxation and Other Measures for Raising Public Investment Revenue: A Comparative Study

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Abstract

One of the most progressive and innovative approaches to public investment financing is known as value capture. Value-capture envisions creation of the policy tools to adequately capture the privately accruing changes in the value of sites and/or consumption that arise from public infrastructure investments. In our earlier study (Gurdgiev, 2009) we have shown that Land Value Tax (LVT) represents an optimal tax instrument when compared to property tax and the existent structure of property taxation based on the stamps, VAT and development charges from the Exchequer perspective, when revenue stability, predictability and counter-cyclicalities are of value. In the present paper, we briefly introduce and discuss all internationally available policies used for raising revenue to finance public investment, and draw on some international experience to highlight their main shortcomings and benefits. We provide a comprehensive discussion of the concept of value creation arising from public investment. In contrast to the existent literature, we consider a dynamic model of value creation consistent with the economic framework of multiplier effects of public and private spending and investment. In addition, unlike most of the literature on taxation finance, we distinguish two unique stages of demand for funding: Early stage capital allocation linked to the full capital cost of the project; and Later stage O&M financing support. Following this, we rank the existent policies with respect to their efficiency in addressing the dynamic nature of public investment.


In our view, Land Value (site value) Tax represents the optimal policy instrument for raising revenue for public investment when compared to all other alternatives. In a qualitative rankings, the final distance between the optimal policy (LVT/SVT) and the runner-up policies (Property Tax and Joint Development/Air Rights) is significantly greater than the distance between the least favored two alternatives (Development Impact Fees and Special Assessments). This shows that the economy would gain much greater efficiency from moving from a Property Tax or a PPP-style system of financing (consistent with Air Rights and Joint Development) to a Land Value Tax system of revenue collection, than it would from any other reform within the confines of the above choices of policy instruments.

Keywords: property tax, land value tax, site value tax, public investment, public infrastructure

JEL Classification: E62, H21, H24, H71, P43, R53

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1. For example, a general system based on income tax will not allow to capture any gains in value of sites owned by non-resident investors. LVT will bring their gains from land holdings and property holdings in Ireland into the tax base. Another source of long term gains under the LVT system is the changes in the efficiency of pricing for agricultural land in Ireland. However, many of these effects are not readily measurable in the current environment and are subject to specific ways of implementing an LVT system

There is a host of other indirect benefits of the LVT system over other forms of revenue raising for financing public investment

2. we have undertaken a comprehensive analysis of various alternative means for raising revenue for Public Investment Financing. The policy instruments considered were: • land value taxes (LVT), •

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3. • tax increment financing (TIF), • special assessments (SA), • utility fees (UF), • development impact fees (DIF), • joint development (JD), and air rights

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4. These policies were assessed and ranked on the basis of the following criteria, all relating to the issue of financing public investment, creation of value from public investment and value-capture of the private gains accruing as a result of public investment. We distinguished several stages of public investment -> Pre-planning announcement

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