Land value taxation could help to finance low-carbon infrastructure projects in cities suffering from austerity budgets

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Many cities across Europe have had budgets for local services and infrastructure projects cut as a result of the financial crisis. **Blanca Fernandez** *writes on the potential for land value taxation, in which taxes are collected on the basis of the value of land rather than simply on property, to help fund low-carbon infrastructure in cities. She argues that land value taxation could generate a number of benefits, and the variety of options available for implementing this form of taxation could help to minimise any undesirable effects that arise in specific locations.*

Cities have a role in causing climate change and other sustainability challenges, but they also offer potential solutions to these problems. Investment in low-carbon infrastructure is crucial to support the shift towards sustainable urban development. Traffic congestion, high pollution rates and oil-dependency are an example of the many problems that can be tackled through sustainable mobility plans based on low-carbon infrastructures.

Tram in Prague, Credit: Moyan Brenn (CC-BY-SA-3.0)

European cities have to face large investment needs over the next decade, in particular to finance transport development and increase low-carbon accessibility. In view of the current environment of budgetary austerity in Europe, municipalities require new local funding methods independent from freezing higher levels of governance funds. Under the present conditions of rapidly rising public debt, loans-based or bonds-financed infrastructure investments do not seem like a feasible option in the years ahead.

Crucially, property values are increasing in most European cities, influencing urban development and urban liveability. There is a common consensus that the profitability of housing markets in urban areas is highly driven by the public services provision in the area of influence. Specifically, literature on land taxation has demonstrated that investment in public services and community improvements increases property prices. As early as 1976, during the first Habitat Conference in Vancouver, Canada, land and property taxation was specifically recommended. An interesting remark was made on unearned increases in land values:

> *Taxation should not be seen only as a source of revenue for the community but also as a powerful tool to encourage development of desirable locations, to exercise a controlling effect on the land market and to redistribute to the public at large the benefits of the unearned increase in land values.*

UN-HABITAT, 1976

In a similar vein, UN-HABITAT published in 2011 "Innovative Land and Property Taxation", in which land and property taxation is described as an effective mechanism for urban transformation worldwide. An adequate design could have multiple beneficial outcomes: shaping the urban form of cities efficiently while raising targeted revenue for low-carbon infrastructures, such as public transit lines.

Land based taxation is increasing its followers worldwide, and especially in Europe. Ireland, Scotland, England and Lithuania are examples of European countries where extensive analysis and discussions have taken place. A wide variety of value capture mechanisms are being designed in addition to those alternatives already described in the literature, providing a detailed portrait of the research environment to explore best practices for different urban environments.

The last Dahrendorf Workshop "Low-Carbon Infrastructures, Co-benefits and Land Taxation in European cities" on July 29 at the MCC in Berlin identified some of the main factors shaping land based taxation. First, two analyses from Lithuania and Scotland emphasised the inefficiency of the current real estate taxation systems in Europe. The existing misaligned property taxation schemes contribute only marginally – if at all – to harmonising property prices and reducing public debts.

Second, social equity, market stability and the internalisation of environmental externalities, together with a sustainable source of finance for infrastructure, were presented as potential benefits from a real estate tax reform based on land value. But the real barriers to the implementation at different political levels and urban contexts remained unclear. More research is needed to suggest best practices in assessing land values in highly developed areas. Crucially, the analyses of static efficiency of land-based taxation schemes need to be complemented by a dynamic analysis identifying the transitional costs from one system to another.

Considering the multiple designs available for land based taxation and value capture mechanisms, undesirable effects can be minimised for each specific case. If there is institutional will, sustainable transport can be financed locally, accessibility can be improved, and economic potential can be fostered by improving land-based taxation schemes in cities around Europe.

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