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## Tax Land, Not Buildings

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The owners of the Minneapolis Grain Exchange building pay nearly 42 times more per square-foot of land in property taxes than the adjacent surface parking lot. This is completely backwards. From the city's perspective, the Grain Exchange building is the best and most preferable use of land of the three, while the surface lot is the least. And yet, looking at the tax figures one would think exactly the opposite. For lots of reasons, the fact that surface parking covers one-third of the surface area of downtown is bad news for the city.

One solution to this problem that the city should seriously consider: taxing land at a higher rate than buildings. By simply taxing land at a higher rate than improvements, owners would be motivated to maximize the productivity of land.

Aside from the obvious goal of raising money to pay for public services, we levy taxes either to discourage a particular behavior in favor of another (taxes on cigarettes and alcohol discourage consumption and thus promote healthier lifestyles). But if the city is trying to encourage development it hardly makes sense to place a tax on that behavior. Similarly, if the city wants potential developers to treat land as the scarce resource that it is—encouraging them to build *up* rather than *out* to maximize economic output and reduce sprawl—it makes sense to tax land at a higher rate than buildings.

The conventional property tax, which taxes land and buildings at the same rate, is essentially backwards when it comes to the behaviors it incentivizes. It penalizes property owners for building or making improvements to their structures, while rewarding speculators and absentee landlords who would rather allow their properties to decay than make expensive (and annually taxable) improvements. Taxing land and buildings at the same rate means that if you don't put any buildings on your land, your tax bill is going to remain relatively cheap. If you're a speculator, this means that you only need a modest amount of revenue in order to sit on that land indefinitely, or until someone comes along offering your "pie-in-the-sky" price—effectively keeping the land out of the hands of those with genuine interest in putting it to productive use.