Author's Accepted Manuscript

Further Empirical Evidence on Residential Property Taxation and the Occurrence of Urban Sprawl

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 PII:
 S0166-0462(16)30080-1

 DOI:
 http://dx.doi.org/10.1016/j.regsciurbeco.2016.09.006

 Reference:
 REGEC3215

To appear in: Regional Science and Urban Economics

Received date: 28 June 2016 Revised date: 19 September 2016 Accepted date: 26 September 2016

Cite this article as: Robert W. Wassmer, Further Empirical Evidence or Residential Property Taxation and the Occurrence of Urban Sprawl, *Regiona Science* and Urban Economics http://dx.doi.org/10.1016/j.regsciurbeco.2016.09.006

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9/18/2016 (Revised)

Abstract

Economic theory indicates that as the effective rate of taxation on residential property rises, a negative influence on capital intensity could occur through less multi-story structures built (an *Improvement Effect*). Alternatively, a positive influence on capital intensity could occur through housing consumers switching to smaller houses built on smaller lots (a *Dwelling Size Effect*). An empirical assessment of this issue is therefore necessary; however, methodological concerns in earlier empirical analyses cast doubt on the reliability of findings. Panel data, fixed effects, regression results indicate that a higher rate of effective residential property taxation increases the amount of land used for a given population (greater sprawl).

JEL Classification Codes H22, H71, R14, and R51

1. Introduction

Most jurisdictions in the United States levy a rate of property tax that does not distinguish between the land and improvement components of the parcel taxed. The portion of the property tax falling upon land value is one of the *best* taxes – a result stemming from its inability to distort the supply of raw land. The share falling upon the improvements (buildings and other fixtures) to the land is one of the *worst* taxes – per its discouragement of improvements to unimproved

* I am grateful for the helpful comments on earlier drafts from discussants/participants at presentations made at the Western Economic Association Meetings (Honolulu, June 2015), Lincoln Institute of Land Policy and National Tax Association's Conference (Boston, November 2015), American Real Estate and Urban Economics Association Conference (Washington, D.C.; June 2016), and International Institute of Public Finance Conference (South Lake Tahoe, August 2016). Two anonymous *RSUE* referees and Editor Dan McMillen offered insightful comments that greatly improved this work. Carson Medley provided valuable copy editing of this document.

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