A Land Value Tax Shift for Fairfax City, VA

Purpose: This brief analyzes the prospects for converting the property tax system in Fairfax City, VA into a land value tax (LVT).

What is an LVT shift? Fairfax City currently collects property taxes using a traditional property tax, which charges a single tax rate to the combined value of both land and buildings for all taxable properties within the city. In FY25 this rate was $1.03 per $100 of total assessed property value. Here, we consider a tax shift whereby the tax rate on building values is reduced, and offset by an increase in the tax rate on land, leaving overall revenues unchanged. For the rest of this report, we refer to this as an 'LVT shift'.

What benefits does an LVT shift have?

As the conventional wisdom goes: tax something, you get less of it. Taxes on income penalize productive work; corporate taxes reduce investment and innovation; sales taxes raise prices and cause employment to shift out to neighboring states; and taxes on buildings discourage construction. However, there is one exception: taxes on land. Because the amount of land in each location is physically fixed (land cannot be moved to avoid a tax), taxes on land do not distort economic activity or discourage growth.

LVT has many desirable features. Shifting the tax base onto land can boost housing construction and maintenance, stimulate entrepreneurship, and raise overall property values. Property taxes in general, and LVT in particular, are significantly better for economic growth, income and consumption than are corporate and personal income taxes. LVT can reduce per capita energy use and carbon emissions, and incentivize efficient local governance. Crucially, LVT does not get passed on to tenants in the form of higher rents, but rather can reduce inequality by directly capturing the economic rents of land and its location.

Best of all, LVT can help policymakers to shift the tax base onto land rents while creating a tax environment that rewards Princeton property owners who invest in maintaining, renovating and redeveloping their properties. It is for these reasons that land value taxes are supported by a wide range of thinkers, economists and policy institutions, including Adam Smith and even Albert Einstein.

Notes on the Data & Analysis

While data on individual properties can be viewed at the Fairfax City real estate assessment database, a bulk download of the database does not appear to be publicly available. For simplicity in this initial analysis we use data from Regrid. This contains information on the land, buildings, valuation and zoning for 9,467 parcels in Fairfax City. Spot-checks against the real estate assessment database indicates that our dataset reflects the property valuations used in

tax year 2023. Therefore, the rest of this analysis can be assumed to accurately reflect how a land value shift would have changed the actual tax bills sent out in Fairfax City in 2023.

Currently, assessed property values in Fairfax comprise 37% land value and 63% building value, meaning that just over one third of all property tax revenues come from land. We analyze a LVT shift that would flip this proportion such that two thirds (67%) of tax revenues are generated from land, while the tax rate on improvements is reduced such that the remaining one third (33%) of revenues derives from buildings.

This can be achieved by splitting the Fairfax property tax rate in two and charging $1.85 per $100 of assessed land value and $0.54 per $100 of assessed building value (as compared to the 2023 property tax rate of $1.025 per $100).

In our dataset there are 164 properties which have assessed value and are therefore assumed to be tax exempt, leaving 9,483 parcels which are taxable. These comprise $8.25 billion of total property value which, at the 2022 property tax rate of $1.025 per $100 of assessed value, are calculated to have produced $84.6 million in tax revenues in 2023.

This figure can be compared to the $80.2 million in property tax revenues adopted in the City of Fairfax Adopted Budget FY2024 (here, p78). While these two figures ($84.6m vs $80.2m) are not a perfect match, any discrepancies are likely due to some properties in our Regrid dataset being tax exempt. If a fully reconciled analysis is desired, this can easily be completed in liaison with the Real Estate Assessment Office.

Spot-checks for individual properties indicate that our calculations tend to be accurate for individual properties. For example, in our data, 4029 Hallman Street is a single family home with a total value of $558,000 which, at the $1.025 tax rate, results in a tax bill of $5,719.50. This perfectly matches with the total value billed to this property in two installments of $2,859.75 in the City's online services.

We therefore consider our estimate of $80.2 million in revenue from property taxes on real estate to be very close to the actual figure billed to properties in Fairfax City in 2023, and sufficiently accurate for the purposes of a preliminary analysis of the effects of an LVT shift.

Our analysis uses the assessed building and land values to calculate the 2024 tax bill for every property in Fairfax, and then compares this to what the tax bill would have been under the proposed LVT shift.

Results

Combining all properties in Fairfax, the total taxable value of $8.2 billion is split 37%:63% between land and building values. A handy rule-of-thumb is that an LVT shift will reduce tax bills for any property where building values are more than 63% of total property value, and increase tax bills for any property where land is more than 37% of the property's value. For example, if a single family home has improvements worth $500,000 built on $200,000 of land, we know that an LVT shift will result in a tax cut because the building comprises over 63% of the property's value[1].

Combining all parcels in Fairfax, the tables below present the impacts of the proposed LVT on different categories of zoning:

Table 1: Average impacts of proposed LVT on property tax bills

Zoning Type	# parcels	Average Current Tax Bill	Average LVT Bill	Average $ change	Average % change	% of parcels paying less
Planned	2,146	$8,010	$7,320	-$700	-9%	88%
Single Family	4,636	$7,600	$7,760	+$160	+2%	49%
Multi Family	1,641	$5,460	$4,560	-$910	-17%	100%
Commercial	987	$20,970	$23,040	+$2,070	+10%	60%
Industrial	71	$32,578	$34,990	+$2,414	+7%	32%

Properties zoned for single family homes make up a plurality of parcels in Fairfax and currently pay an average of $7,600 in property taxes. Under the proposed LVT, the average tax bill for single family properties increases to $7,760, an increase of only +$160 or +2%.

Because of their productive use of land, multi-family units tend to enjoy a tax cut from just under $5,460 at present to $4,560 under the proposed LVT, savings of -$910 per year or a -17% reduction on average. Commercial & industrial parcels both see increasing tax bills on average, of +10% and +7% respectively.

Parcels zoned 'Planned' contain a mix of vacant lots and already-completed developments. Because many of these completed developments are medium-density townhomes with high improvement values, the average parcel zoned 'planned' enjoys a tax cut of -$700 or -9% as a result of the LVT. Access to the City of Fairfax's full real estate assessment database would enable more accurate analysis of specific property types.

[1] Specifically, improvements are (500,000 / (200,000 + 500,000 =) 71% of total property value.

Table 2 provides more detail into the scale of changes in tax bills for different property types, for example by showing that 404 properties zoned 'planned' experience a tax cut of between -25% to -50%, while 1,494 see their taxes fall by up to -25%. These are typically recent developments of either townhomes or standalone homes with relatively high site coverage. The 179 parcels which see their taxes rise by +50% to +100% are largely vacant sites.

Among single family homes, an LVT shift causes the vast majority of tax bills to either rise or fall by less than 25%, in relatively equal proportion. Again, the 107 parcels zoned single family and receiving a tax increase of +50 to +100% tend to be vacant lots.

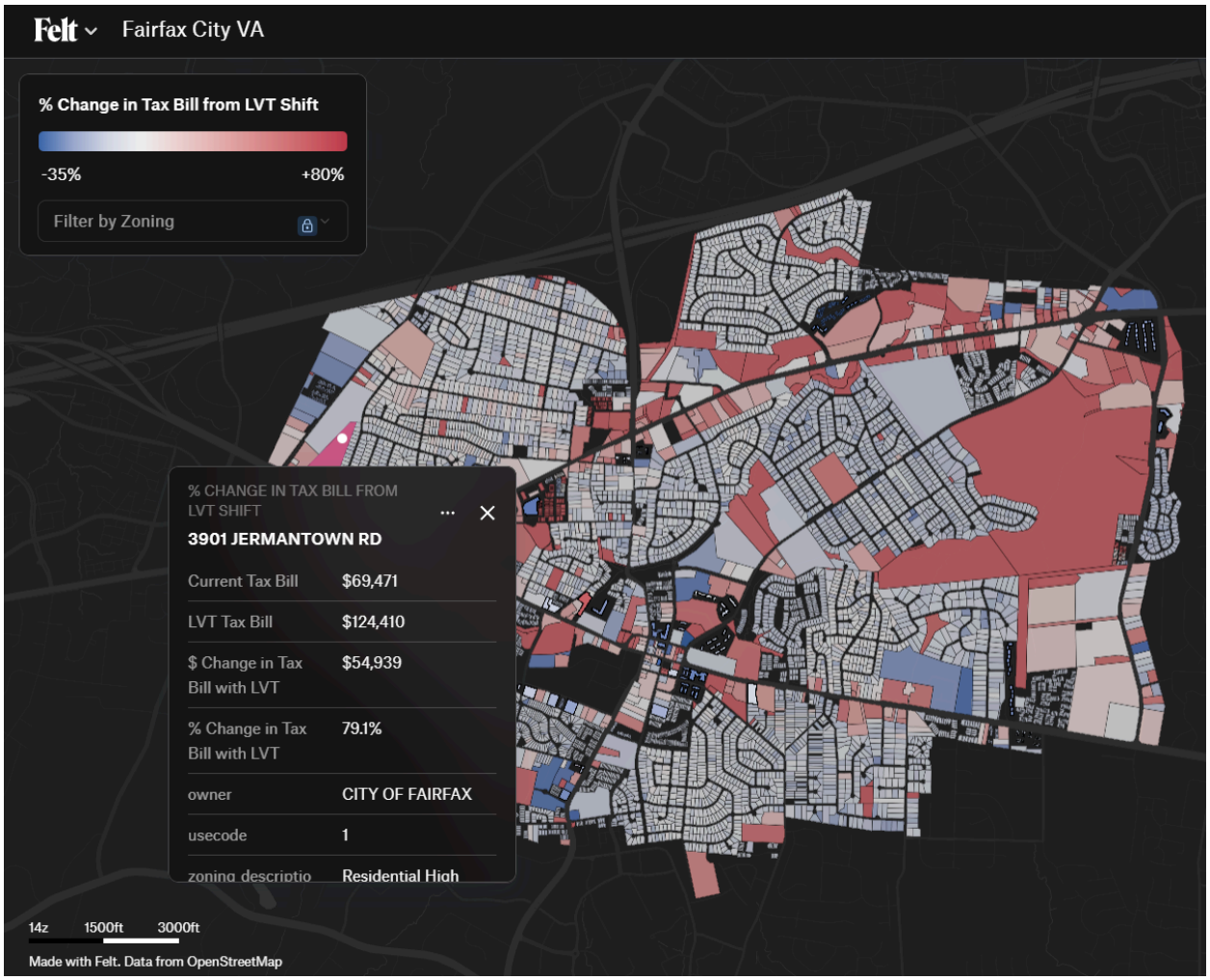
The vast majority of multifamily properties receive a tax cut from an LVT shift, reflecting the way in which a land value tax system rewards the productive use of land. 1,352 of the 1,641 multifamily parcels see their tax bill fall by less than -25%, while an additional 284 get a tax cut of -25% to -50%.

Table 2: Count of parcels experiencing different percentage changes in tax bill under the proposed LVT, by Zoning Type

	Change in Tax Bill				
Zoning Type	-50% to -25%	-25% to 0%	0% to +25%	+25% to +50%	+50% to +100%
Planned	404	1494	62	7	179
Single Family	7	2243	2259	20	107
Multifamily	284	1352	3	0	2
Commercial	61	536	141	109	140
Industrial	3	20	13	9	26

Map of Results

An interactive map of these results can be viewed using this link. Properties in blue enjoy a tax cut, whereas properties in red see their taxes increase under an LVT. Details for individual properties can be viewed by clicking on them.



Next Steps

As highlighted above, this brief represents a preliminary and exploratory analysis of the impact of an LVT shift on Fairfax City, VA, using data obtained from Regrid. This dataset is somewhat outdated (reflecting tax bills for FY24) and limited (in both its information about property types and its classification of tax exempt properties).

We would therefore welcome the opportunity to collaborate with the City of Fairfax in accessing and using the full real estate assessment database and property tax roll for FY25, to complete a final analysis of the impact that an LVT shift would have on tax bills in Fairfax.

If you have further questions, please reach out to Stephen Hoskins, Director of Community Research & Engagement at the Progress & Poverty Institute: shoskins@progressandpovertyinstitute.org.