

Incentive Taxation

3-528

Reduce Property Taxes for Most Voters

Construction Declines in Pittsburgh After 2-Rate Graded Tax Rescinded

Major Research Study of 11,539 Building Permits Reveals 21.3% Decline

In 2000, a horrendous countywide re-assessment in Pittsburgh aroused the voters as never before. They thought that if they could get the property-tax rate on land assessments reduced to the lower building tax rate, they would pay less property tax. They forced the City Council to do that for the year 2001. Here's what happened:

(1) The property taxes of most voters actually *increased* because the Council had to raise the building tax rate to make up for the revenue lost by lowering the land tax rate. This caused most voters to pay more property tax since they had much-more-than-average investment in their up-taxed house than in their down-taxed land. As for tenants, they *all* got rent reductions in the long run.

(2) In the two years that followed the rescission of the two-rate Graded Tax, new construction declined in Pittsburgh as compared to the two years before. Up-taxing buildings seems to have decreased construction

Rescission: A Blessing in Disguise

and renovation, and down-taxing land assessments seems to have led to less-than-full land use.

A study reported in last month's issue of *Incentive Taxation* provided hard factual evidence for point (1) above. Now let us consider point (2).

The Pittsburgh Bureau of Building Inspection kindly provided this publication with 11,539 building permits for the two years following its 2001 two-rate rescission and the three years before. This enabled us to determine how the two-rate rescission affected new construction and renovation.

Two-rate proponents assert that if you don't tax buildings, you'll have more and better buildings, and if you tax land values more, you'll stimulate fuller land use. If they are correct, then Pittsburgh's two-rate rescission for 2001 should have resulted in a construction decline.

That is exactly what happened:

Year	Taxable Construction
1999	\$172,447,944
2000	<u>227,207,766</u>
<i>(Total)</i>	<i>\$399,655,710</i>
2001	183,678,116
2002	<u>145,735,221</u>
<i>(Total)</i>	<i>\$329,413,337</i>

In other words, the pre-rescission years had 21.3% more construction than the post-rescission years. Be sure to add the 5% inflation difference between 1999-2000 prices and 2001-2002 prices. Evidently, when Pittsburgh increased its property tax on buildings and decreased its property tax on land values, it hurt its economy. Construction declined.

Why Did Construction Decline After Rescission?

Could Pittsburgh's construction-
Continued on Page 2

The Truth about Frederick, MD

Most Voters Would Pay Less With A Two-Rate LVT Property Tax

A Center for the Study of Economics (CSE) study reveals that if Frederick, Md. adopted a two-rate land-oriented property tax whereby the same revenue was obtained from both land and building assessments (right now, buildings pay most of the property tax), these types of properties would get actual property-tax reductions:

- 80% of the multi-family homes
- 63% of the single-family homes
- 93% of the townhouses

99% of the condominiums

That's most of the voters in town. Properties with an income flow - industrial and commercial - would pay moderately more. The big pay-mores would be the 1,067 owners of vacant land; their property-tax liability would increase 55% (but vacant lots inhibit business). The property-tax liability of all pay-mores could be lessened if the building-to-land tax shift were more gradual.

Most other towns could expect the same results. Call CSE to do the same study for your town.

Surprise, Surprise

If you decrease the tax on buildings, you'll have more and better buildings.

If you tax land assessments more, you will re-coup the revenue by not taxing buildings so much and land-sites will be more intensively developed (which *also* means more and better buildings).

Call 215-988-9998
for how-to-do-it information.

Construction Declines in Pittsburgh

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and-renovation decline after rescission be ascribed to a nationwide decline in building-permits issued? No – building permits nationwide were unchanged in 2001-2002 as compared to 1999-2000, thereby supporting the conclusions reached in this four-year study.

Can the construction decline in Pittsburgh after it started taxing construction and renovation more and land values less be attributed to a general decline in business activity in Pittsburgh? No – business in Pittsburgh seems to have *increased* in 2001-2 over 1999-2000. For instance, receipts from the city's business-privilege tax, which is a good measure of the business activity in the city, increased 14.79% in the two years after rescission (although we should subtract the inflation factor).

The property taxing of land and buildings at the same rate can effect new construction and renovation but would not materially affect general business conditions. Keep in mind that county and school property taxes never were two-rate. Yes, retail sales in Pittsburgh increased slightly 1999-2002, but we can infer that they would have increased even more if construction and renovation were taxed less.

U.S. business in general has not really suffered in the last few years. The stock market declined from astronomical heights but not U.S. business in general, apart from the high-tech sector; in fact, 2002's economic growth was +2.9%, more than inflation.

According to an article in the *Pittsburgh Post-Gazette* (1/3/03), Pittsburgh's assessment increase in 2002 (post-rescission) lagged behind those of the surrounding county. If Pittsburgh's construction-and-renovation were less than in surrounding suburban municipalities, it would seem logical that the cause was the city's property tax increase on construction and renovation.

Details About the Study

A slight but unavoidable measure of subjectivity entered into this study because non-taxable building permits (mainly for churches, schools and government) had to be excluded from this study since they were not affected by the two-rate rescission. In a very few cases, it was not easy to tell which permits were non-taxable but fortunately, those cases were always small and inconsequential. In any case, the exact same taxable/non-taxable standards were used in the pre- and post-rescission years. In no important way did subjectivity affect the conclusions reached by this building-permit study.

Not surprisingly, the biggest taxable building permits occurred in the commercial areas, and they would be down-taxed by two-rate. Investors in major commercial buildings carefully include property-tax costs before investing. The off-the-cuff opinions of big investors on the importance or non-importance of the two-rate Graded Tax approach are nowhere near the importance of such calculations. In residential areas, if your roof is leaking, you are going to fix it no matter what the property tax might be.

It is worth mentioning that the two pre-rescission years had more building permits issued than in the two post-

rescission years.

Despite their bulkiness, *Incentive Taxation* is keeping the sources of this study on file and it welcomes researchers to duplicate this study; feel free to contact us for them. However, these researchers better be dedicated because analyzing and adding 11,539 building permits took us 80 hours to do and it might take them as long or longer (we hope that won't put them off).

Note to future researchers of reports like this: disregard permits under \$100,000 for a city the size of Pittsburgh. They have little effect on the construction totals. However, for this study, we counted all the taxable building permits.

We have conducted 17 studies of localities that adopted two-rate; i.e., they shifted some of their property tax from buildings to land. In *every* instance, there was an increase in new construction and renovation, and in *every* instance where we can compare the two-rate localities to nearby comparable one-rate localities, the two-rate localities out-constructed and out-renovated their one-rate neighbors. Every time. This study is fully consistent with these prior studies.

Blessing in Disguise

Two-rate rescission is not something we welcome but it really is a blessing in disguise because it enables us to do a building-permit study to test whether two-rate rescission causes new construction and renovation. If a locality rescinds its two-rate property tax, we could logically expect new construction and renovation to decline. That is what happened in this Pittsburgh case.

Imagine how much growth there would be in Pittsburgh (and elsewhere) if the tax on land assessments gradually replaced all other local taxes...

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❖ In 1999 (latest year for which figures were available), individuals and businesses spent over 4.3 billion hours complying with the federal income tax, which came to an estimated additional 12% of income-tax collections (Tax Foundation).

❖ Many IT readers have become convinced that the 2-rate LVT property tax is just and beneficial - but do nothing. They might just as well have stood in bed for all the good they do. If you like 2-rate, get it done.

❖ Stephen Moore: "Americans support pro-investor tax cuts. By some

estimates, two-thirds of the voters who go to the polls in November will be stock owners."

❖ "Let us hunger and thirst! - but let us hunger and thirst after righteousness! And righteousness is this: The bread you have produced is yours. The bread I have produced is mine! But the prerequisite for every form of daily bread is that which none of us has produced must belong to all of us - the riches of the earth and the powers of nature revealed in the value of land." (Viggo Starke, Danish politician)

Construction Declines in Pittsburgh

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Number Eighteen?

Is this our 18th study? No, not yet. We have generally compared the *three* years after the adoption of two-rate with the *three* years before. If we used longer periods for comparison, other factors could creep in and contaminate the conclusions, and if shorter periods were used, the construction figures might not be relevant (it takes some time for the property-tax changes to result in the issuance of building permits).

This Pittsburgh study compares only the *two* years after rescission with the *two* years before rescission. Since the construction and renovation figures for 1998 were greater than any year from 1999 to 2002, we can infer that construction and renovation in 2003 will not likely equal that of 1998. However, we should wait until next year before drawing any conclusions.

Sources: (1) The construction figures come from the 11,539 building permits supplied to us by Pittsburgh's Bureau of Building Inspection. (2) 2001-2002 building-permit increase: *Investor's Business Daily*, 2/10/03, A15, from U.S. Census data. (3) The inflation figure comes from *AIER Research Reports*, 1/13/03, p. 4 (based on the CPI). (3) CPA Martin Elikan, Manager of Pittsburgh's Financial Control Office, supplied the business-privilege tax receipts to us. (4) 17 studies, Center for the Study of Economics, Philadelphia, Pa. 19102, 215-988-9998.

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Connellsville Reverts to One-Rate

On December 18, 2002, the City Council of Connellsville, Pa., which had adopted two-rate property-tax reform in 1992, reverted to the one-rate system. By so doing fully 67% of the property owners will get a property-tax *increase* and many studies indicate that new construction and renovation *increased* after it was down-taxed by the two-rate approach. At least those studies can never be revoked.

The Truth in Fairfax, VA

(Be Kind to Your Voters)

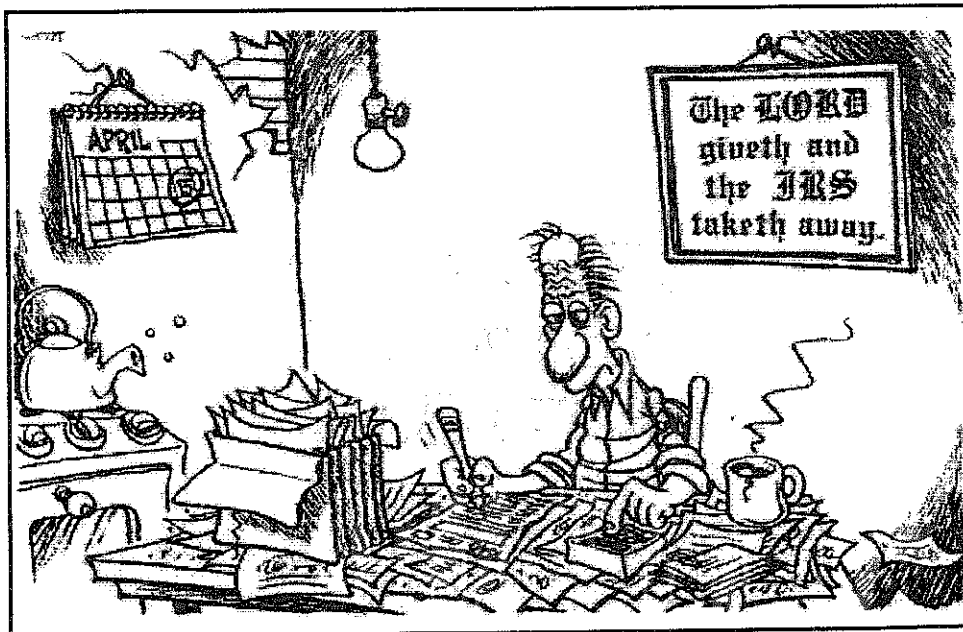
If Fairfax, Va. adopted a two-rate land-oriented property tax, fully 88.47% of the residential properties would get property-tax reductions! 97.94% of the multi-family properties would get tax reductions with two-rate. So concluded a study by the Center for the Study of Economics (CSE). Of course, the local government would get the exact same revenue as now.

Commercial properties would pay more - but minimally. They now pay 36.21% of the property tax. If there were a 50-50 property-tax revenue split between buildings and land, commercial properties would then be paying 38.89%, not much of a difference.

Could this happen in your town? Probably - but you'll need an inexpensive study by CSE (215-988-9998).

There are 413 vacant lots in town. Lot owners will get tax breaks with the new one-rate property tax (buildings will pay more). Maybe Connellsville needs more vacant lots.

We shall see what the reversion to one-rate will do to new construction and the business climate in Connellsville. Maybe it will benefit from increased property taxation (but probably not).



From the Director: Land and Taxation News

Philadelphia City Council Hearings on Land Taxation in Late April

Philadelphia has yet one more chance to staunch the flow. On April 29, 2003, Philly City Council will hold daylong hearings on LVT. A piquant mix of civic activists, academics, public officials from all over and irate homeowners will demand sensible taxation. ALL are invited (call 215.988.9998 for more info). Distinguished **Majority Leader Jannie Blackwell** is sponsoring the hearings. It will be interesting to hear those representing neighborhoods that would benefit mightily to explain why they don't vote YES. We piously hope that unlike the 2002 LVT hearings, more than three or four council members show up this time....

Bluegrass Rumblings

The City of **Bowling Green, Kentucky** has invited CSE to explain and study LVT later this spring. Mayor **Sandy Jones** extended the invite at the behest of a citizens' group as suggested by **Georgist J. R. Stucki**, its vice-president. CSE will try to drive home the new reality that income and sales taxes are unacceptable ways to revitalize and stabilize a fixed-area jurisdiction.

Holyoke Looks to the Land

CSE has just finished working on a preliminary study on **Holyoke, Massachusetts**—the poorest city in the Bay State. The textile and industrial heyday of the city is beyond living memory, but there are hundreds of irreplaceable industrial and residential buildings just waiting to be rehabbed. Homes

rated in good condition or better do very well under LVT. The biggest employers – the **Mall of New England** – see mega-savings. It also appears that large numbers of poor homeowners save as well. The biggest obstacle will be the legal one. Councilman **Mark Lubold** is spearheading the local interest.

Agana or Bust

Give up? It's the capitol of Guam. We mention it because former CSE director **Steve Cord** has made some influential contacts including Guam planning official **Todd Inman** and CSE is about to conduct an LVT feasibility study. Our initial research caused us to fall out of the chair, because we found out that while Guam has a split rate it's the wrong way: buildings are taxed about twice the rate of land. Ostensibly, this system is meant to benefit the Chamorros (the indigenous culture) who own small farms. The problem of course is that a system that is so ruinous to investment and labor will keep the Chamorros on their little acre, whether they like it or not.

—Joshua Vincent, Director of CSE

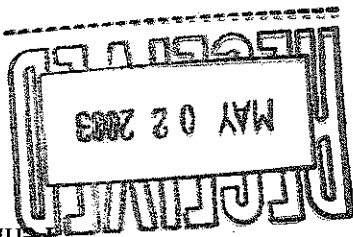
Endorsement 522

Clifford Cobb (Senior Fellow, Redefining Progress, in *Washington Monthly*, 7-8/97, p. 20): "Tax building values less and the underlying land values more, and you reduce the insane penalty – in the form of higher assessments – for people who improve their property."

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