

# Incentive Taxation

©

## Land Value Taxation in Alaska

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*(Ordinarily, we discuss the advantages of two-rate LVT property-tax reform, which is all that mayors and council members can do in the foreseeable future in the U.S. But land values don't exist only in cities and the following article tells how mineral land value can be taxed. Many thanks go to Jerry Schleicher, a long-time Florida land reformer and IT reader, for providing the inspiration for this article).*

Urban land makes up maybe 90% of land values in aggregate, but particular mineral land-sites can be especially valuable. Government assessors can easily ascertain that value - "easily" because the market is doing that for them right now. Oil, natural gas, ore and coal companies typically pay a percentage (called a royalty) of what is extracted, to a landowner. That percentage is usually 12 1/2%, which is probably lower than the true rent on that site, but let us not cry for people who perform no labor services at all for their royalty income. This percentage can be combined with a down payment (usually determined by auction). This land-rent income should go to the government in place of taxes on

labor and labor products, thereby allocating mineral resources to the most efficient extractor and also lowering taxes on producers.

In Alaska, the state owns the mineral land and collects the land-rent, figured as above. "At least 25% of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses received by the State were placed into the Permanent Fund" ([www.revenue.state.ak.us/pfd/BASHIS.htm](http://www.revenue.state.ak.us/pfd/BASHIS.htm)), p. 1-2. This income was used to pay the annual expenses of government (for schools, roads, welfare, water and sewer systems, airports, etc.). A goodly portion of this fund was invested and dividends were paid to residents. All this income has been growing. In 1996 it amounted to \$1,130.68 per resident ([www.apfc.org/reach/html/permanent\\_fund\\_dividend](http://www.apfc.org/reach/html/permanent_fund_dividend)), p. 2.

"The dividend program puts more money into the state's economy than the total payroll of all but two of Alaska's major industries, and creates more than 7,000 jobs each year" (*Ibid.*, p. 1). Unfortunately, urban land

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### THE PROPOSAL

1. Private landownership and assessments to remain untouched.

2. Levy a lower rate on building assessments, higher on land assessments, instead of the same rate on both.

3. How to do it? Call us. We have hands-on experience (no obligation).

- 410-740-1177 -

## The Story Behind the News

"The collapse of Japan's real-estate bubble in 1991 undermined banks, plunging the nation into a deflationary spiral. Land prices are still falling, with commercial property off 8.1 percent last year" (*U.S. News & World Report*, 4/26/99, p. 49).

In other words, the land-price bubble seems to have caused the still-ongoing recession in Japan. The only antidote is to assess all land parcels and to tax them fully according to their annual rental value. Unfortunately, the above article did not draw this conclusion; only *Incentive Taxation* readers can.

Land assessment must be done at the local level. In the United States, that is being done now, but it is up to each locality to institute a gradual 2-rate build-

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## Don't Do Economics Without Land

The following excerpts are taken from the *Wall Street Journal* (3/22/00, B1, B44):

♦ "When real-estate prices soar, putting up the house is the easy part. It's buying the land that makes home

builders sweat."

♦ "Land scarcity also helps explain why California is producing only about half the new housing it needs. It's a sobering picture in a state that often leads the nation in economic

trends."

♦ "Phil Walsh, a 45-year veteran of the country's biggest home builder, Kaufman & Broad Home Corp of Los Angeles, didn't build a single home

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## Job Available

*Incentive Taxation* has a job available - **Executive Assistant to the President**. Learn the special system for promoting urban economic growth, help edit two newsletters, handle correspondence and special assignments, run our Web page, eventually make presentations to mayors, city managers and council mem-

bers. Must show evidence of writing and speaking ability. There is a good future here for the right public-spirited person.

Apply in writing to *Incentive Taxation*, 8775 Cloudleap Court (#212), Columbia, MD 21045.

Write 250-400 words on "An Evaluation of Free Enterprise and Henry George's ideas" (no original research necessary).

## Land Value in Alaska

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values are not taxed in Alaska at a higher rate than buildings.

Alaska collects a royalty and lease payment on mineral land parcels, but privately-owned mineral land parcels should be assessed and then taxed.

## Tax Land Rent Not Production

a chief executive of a large real-estate developer.

To prevent land speculation, tax land assessments.

## Don't Do Economics Without Land

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last year because he couldn't find land

at attractive prices....'I'm constantly looking for land, he says."

"If you make a bad land deal, you're in trouble forever," says Walsh,

♦ The National League of Cities stresses how taxes can hurt business (*Reader's Digest*, 4/00, p. 150). Tax land values, not business.

♦ KOZ - In Keystone Opportunity Zones (Pa.) the city loses tax revenue, and after the KOZ expiration, the enticed-in industry often packs up and leaves. Not so with two-rate.

♦ Allentown's first year (1997) of two-rate property-tax switch from buildings to land was very mild; hence, its spur to new construction and renovation was also mild. Not so afterward.

♦ "The most pressing cause of abject poverty is that a mere 2.5% of landowners control nearly three-quarters of all the land in the world - with the top 0.23% controlling over half" (Susan George, *How The Other Half Dies*, Penguin Books, 1976).

♦ "The very first power that the U.S. Constitution gives Congress is to levy a direct tax on real estate (Art. 1, Sect. 2, para. 3). Congress used that power five times, from 1798-1862" - Mason Gaffney, Professor of Economics, U/Cal, Riverside.

♦ Did you hear about the cat who ate cheese and sat by the mouse hole with baited breath?

## From the Editor

♦ Alaska has the lowest tax burden of all the states (*Tax Features*, 3/00, p. 6) primarily because it collects mineral-land rent for revenue instead. It has no income or sales tax at all.

♦ Producers are being robbed before our very eyes, generally by very reputable people (landowners) who don't look like crooks at all. We worry about human rights abuses in Tibet and other such faraway places yet are oblivious to human rights abuses in our own town.

♦ We are virulently opposed to the government ownership of land. Leave landownership as it is now - *in private hands*. But tax the annual land rent instead (then we don't have to tax labor).

♦ **Deficit Watch:** The recent tobacco settlement is projected to pro-

vide an average of \$8 billion a year for each of the next 25 years (*U.S. News & World Report*, 11/23/98, p. 12). The cost will be passed on to smokers, many of whom are poor.

♦ Newspaper headline: Lawyers Give Poor Free Legal Advice.

♦ Budgetary surpluses are bad for the economy because the government takes more money out of the economy than it puts in as services rendered (but of course they're good for the government); deficits - just the reverse. Every depression and post-WW2 recession in U.S. history has been preceded by a surplus or a deficit reduction.

♦ The federal government should increase the land value tax while decreasing, dollar for dollar, other federal taxes. Only a few big landowners (non-producers all) would pay more in taxes. Most people would pay less with a building-to-land shift in the local property tax.

♦ "When a man gets wealth that he doesn't produce, he necessarily gets it at the expense of those who produce it" (Henry George, *Social Problems*, p. 84).



Nothing written here should be construed as an attempt to influence the passage of any legislation. The views expressed in this publication are the opinions of the authors, and do not necessarily reflect CSE views.

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♦ "Over half of Brazil's arable land, much of it uncultivated, is owned by only 2 percent of the population. In March [1998], hundreds of squatters occupied government buildings in 10 state capitals to press their demands for reform" (*U. S News & World*, 4/13/98, p. 8). We hope they demanded LVT instead of communal or equal landownership, but I guess not.

♦ All 16 studies we've done show that spurts in new construction and renovation follow the adoption of the two-rate property tax within three years, and IN EACH CASE the two-rate jurisdictions do better than nearby comparable one-rate towns. All the studies done by others fully corroborate these findings. It could happen in your town, too.

♦ Your money does not cause my poverty. In prosperous times, the

rich get richer, but the poor get jobs.

♦ IT reader Paul Nix, Mobil executive, now retired, writes that he enjoyed our Annual Humor Issue but that the *National Review* magazine published an article on historical boobos on 3/1/93; we had credited the Internet. He read somewhere that "King David fought with the Finkelsteins, a race of people who lived in biblical times" and suggests for our glossary of unfamiliar terms, "DISCOMMODE: To push someone off the commode."

♦ Dying should not be a taxable event: 77% in a poll considered the estate tax unfair. It accounts for only 1% of federal revenue (*Investor's Business Daily*, 8/19/99, A22).

♦ "The top ten percent of individual income-tax returns in 1996 accounted for 41.6% of total adjusted

gross income but paid 62.5% of federal individual income taxes" (*Wall Street Journal*, 7/21/99, A1).

♦ Corporate memo: "We know that communications is a problem, but the company is not going to discuss it with the employees."

♦ Bound volumes of 1992-1997 back issues of *Incentive Taxation* will soon be available at \$15/copy ppd. You can reserve your copy by notifying us now.

♦ "Less than one in 300 tax returns will be audited for the tax year 1999, compared to one in 67 in 1981" (*Reason*, 5/00, p. 8).

♦ Two-rate cities: Don't keep your taxpayers in the dark. Tell them how it works and that it lowers the taxes of most residents by enclosing an explanation in their tax bill envelope or printing it on their tax bill. We'll help you do that - call us.

## How Could Such a Small Change in Property-Tax Rates Be a Major Cause of Economic Growth?

**Theory** - If you down-tax buildings, there'll be more of them; if you up-tax land, owners will be encouraged to use their sites more efficiently (i.e., they'll build and renovate more).

**Policy** - When city government builds roads, schools, hospitals, etc. and provides police and fire protection, land values are enhanced. When individuals improve buildings, building values are enhanced. Hence, it makes sense for the government to collect taxes on what it creates rather than on what individuals create. This means taxing land assessments more than building assessments.

**Economic Growth and Job-Making** - Tax land assessments rather than free-enterprise-created building assessments. Every study indicates that a two-rate building-to-land switch in

the local property tax has *always* been followed by a spurt in new construction and renovation.

### Downside

Because voters in your town don't know about the two-rate LVT property tax, they might oppose it. Most of them will pay less tax with the two-rate approach than with the one-rate approach, but unless they're fully informed, they're liable to think the new two-rate approach is a sneaky underhanded city-hall way to raise their taxes; the higher land-tax rate might make them think that way. The solution is to go slowly at first; the two-rate building-to-land switch can be greater in ensuing years after they get to understand the new two-rate approach. That is exactly what is happening in the twenty (20) jurisdictions

which have already successfully adopted two-rate.

If asked, *Incentive Taxation* personnel can show you how to do this. They have hands-on experience. First requirement: A study determining which property owners would pay more with two-rate as compared to one-rate and which less, which can be done before action on next year's property-tax rates are decided.

Do keep in mind that this two-rate building-to-land switch in the local property tax can be completely revenue-neutral. The local government need not lose a single cent in revenue. The switch is entirely cost-free: What you lose in not taxing building assessments so much you can make up by taxing land assessments more.

## Endorsements 485-486

**Duquesne, Pa. Councilman Eugene Caprisco** (referring to LVT): "It works" (6/19/00, Pennsylvania League of Cities and Municipalities conference).

**E-Magazine** (6/00, p. 30, article by Jim Motavalli entitled "Pittsburgh: Brownfields No More"): "For decades Pittsburgh was contaminated by coal fires and heavy metal.

In recent years, though, the city has made great strides in revitalizing its brownfield sites. This, in turn, is bringing residents and businesses back to the city. The nearby island of Washington's Landing has shown some of the most dramatic improvements. A \$26 million restoration and environmental cleanup has led to residential and commercial developers adding a

mix of townhouses, office buildings, and restaurants. Other city projects are being helped by a two-tier tax system that encourages the redevelopment of vacant downtown land. Deborah Lange, executive director of The Brownfields Center, declares, "Effective re-use of brownfields can actually prevent urban sprawl."

## Two-Rate Tax Rates - 2000

Many IT readers have asked us to print the property-tax rates for the twenty two-rate jurisdictions for the year 2000. Here they are:

### The Pennsylvania Record of Property Tax Shifting for Business, Homeowners and the Environment

CITY	LAND TAX RATE	BUILDING TAX RATE	ONE RATE	PERCENT OF TAX FROM LAND	LAND TAX TOWN SINCE
ALIQUIPPA SCHOOL DISTRICT	16.3000%	1.1000%	4.4200%	85.50%	1993
ALIQUIPPA CITY	7.9000%	0.7000%	2.2700%	75.92%	1988
ALLENTOWN	3.2770%	0.9050%	1.2220%	44.00%	1997
CLAIRTON	10.0000%	2.1050%	3.6600%	53.00%	1989
COATESVILLE	5.1500%	2.5000%	3.0000%	33.90%	1991
CONNELLSVILLE	11.3500%	1.7500%	3.0400%	50.10%	1992
DUBOIS	5.1000%	1.3000%	1.9300%	43.96%	1991
DUQUESNE	8.0000%	3.8000%	4.6300%	34.04%	1985
EBENSBURG	3.0000%	1.2600%	1.6000%	40.00%	2000
HARRISBURG	4.8900%	0.9618%	1.4200%	46.00%	1975
LOCK HAVEN	5.2140%	1.3570%	1.7500%	61.84%	1991
MCKEESPORT	10.0000%	1.9000%	3.6400%	59.04%	1980
NEW CASTLE	8.7280%	2.2030%	3.3800%	46.58%	1982
OIL CITY	8.5500%	2.6800%	3.7800%	42.45%	1989
PITTSBURGH	18.4500%	3.2000%	6.0900%	57.42%	1913
PITTSBURGH IMPROVEMENT DIST.	1.1500%	n/app	n/app	100.00%	1997
SCRANTON	6.6000%	1.2000%	2.6100%	65.96%	1913
STEELTON	1.7441%	0.7200%	0.9000%	35.00%	2000
TITUSVILLE	6.1340%	1.5000%	2.0000%	31.00%	1990
WASHINGTON	19.1216%	1.1000%	4.8200%	74.38%	1985

### The Story Behind the News

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ing-to-land tax shift in the local property tax.

Land-rent tax rates for next year are being determined only at the local level. Is your locality doing its part to basically improve our economy? Are you?

"A journey of a thousand miles begins with but a single step (Chinese proverb).

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