

Incentive Taxation

Confirmation 1-136

Independent University Study

Confirms the Conclusions of Our Studies

Nicholas Tideman and Florenz Plassman (Professor of Economics and doctoral candidate, respectively, at Virginia Polytechnic Institute and State University [a.k.a. Virginia Tech]) published a 19-page study dated 10/31/95. The study compared the then-fifteen two-rate cities in Pennsylvania (now twenty, soon to be more) with all the then-comparable municipalities in the state, using data from the U.S. Bureau of the Census. Tideman and Plassmann wanted to know what the impact of the two-rate land value tax had been. It comes to the same conclusions of the studies (now 17) which this publication has printed.

The Tideman-Plassmann study uses highly-technical statistical devices in order to eliminate any possibility that factors other than the two-rate property tax affected construction and renovation. This was the conclusion of their study:

"The results say that for all four categories of construction, an increase in the effective tax differential is associated with an increase in the average value per permit. In the case of residential housing, a 1% increase in the effective tax differential is associated with a 12% increase in the average value per unit. For the category of nonresidential buildings and residential nonhousekeeping buildings, a 1% increase in the effective tax differential is associated with a 71% increase in the value per building. For residential additions, alterations, carports and garages, a 1% increase in the effective tax differential is associated with a 29% increase in the average value per permit. For additions, alterations and conversions to nonresidential buildings, a 1% increase in the effective tax differential is associated with a 31% increase in average value per permit. From the perspective of economic theory, it is not at all surprising that when taxes are taken off of buildings, people build more valuable buildings. But it is nice to see the numbers." (emphasis added)

Why Tax Land More Than Buildings?

More New Construction - A lower tax rate on building assessments means that buildings will be cheaper to construct and renovate.

Better Land Utilization - A higher tax rate on land assessments means that land-sites will be used more (i.e., less urban sprawl into the clean-and-green countryside).

Call 410-740-1177. We have worked with each of the current 20 two-rate jurisdictions - we have hands-on experience which we would put to your service at no charge or obligation.

We here at *Incentive Taxation* have always been concerned that some of our readers might doubt the conclusions of our studies on the grounds that we are biased. But no, truth is our only beacon and we are glad to have our studies confirmed unbeknownst to us, by independent university researchers.

A Great Opportunity Looms for Pittsburgh

Allegheny County, Pa., which contains Pittsburgh, is re-assessing property at 100% of market value; currently, taxable assessments are at a small fraction of that. So far, it looks like taxable assessments in Pittsburgh will go up 7-8 times for 2001. Obviously, Pittsburgh's tax rate will have to decline precipitously, but the city finance department can't know now what those rates will be because thousands of assessment appeals will have to be heard before December 2000 (as expected, the public outcry has been tremendous since most property owners think the assessors assess the property tax).

But this re-assessment presents Pittsburgh with an unprecedented once-in-a-lifetime opportunity: *For 2001, the city can maintain revenue neutrality even though -*

(1) It abolishes altogether the property tax on buildings.

(2) It reduces onerous taxes on businesses.

- all this while actually reducing the tax rate on land assessments.

If the city were to avail itself of this once-in-a-lifetime opportunity, many studies show that most voters would receive tax reductions from what they are currently paying, and there would be a tremendous spurt in new construction and renovation.

Obviously, other cities can avail themselves of this opportunity also. The Center for the Study of Economics (410-740-1177) stands ready to help localities set the tax rates they'll need to accomplish these goals.

PITTSBURGH Jumps Its Land Tax Rate

New Construction Booms

ALL of *Incentive Taxation's* 17 studies completely substantiate that a spurt in new construction and renovation follows the adoption of a building-to-land switch in the local property tax. "But," say some skeptics, "*Incentive Taxation* is a two-rate advocate. We could expect its studies to support its contentions. What we need is corroboration from an independent source."

Well, actually there are many corroborative studies from independent sources, many of which have appeared in back issues of this publication, and we just now by pure chance came across another such study, lost in our very own cavernous files, of all places.

In September 1985, the Center for Public Dialogue (10615 Brunswick Ave., Kensington, Md. 20895, **Walter Rybeck**, Director) performed a study of building-permits issued based entirely on city statistics, which concluded that building permits increased 245.5% in the six years after the city increased its tax millage on land assessments in 1979 without changing its lower tax millage on building assessments, as compared to the six years prior to the land-assessment millage increase. This completely supports *Incentive Taxation's*

own study of the effects of Pittsburgh's 1979 land-tax millage increase on building-permits issued and therefore on new construction.

Spurt Despite Slump

The C.P.D. study also pointed out that in the six years after 1979, there was a nationwide slump in residential housing. Nevertheless, Pittsburgh registered a decided post-land-tax construction increase.

Incentive Taxation researchers have found that the increase in land-assessment tax rates have a greater pro-business effect than even a decrease in building-assessment tax rates. Keep in mind that in 1979, Pittsburgh didn't lower its building-assessment tax rate; it just increased its land-assessment tax rate.

City officials wanting to shift some of their local property tax from buildings to land should first contact *Incentive Taxation*. We have worked with each of the 20 two-rate jurisdictions and so have hands-on implementation experience.

Copies of the C.P.D. study are available from *Incentive Taxation* at \$5/copy.

Objection/Reply

Objection: *What's the difference what is taxed? All taxes, whether on land or production, are paid by people.*

Reply: It matters greatly. If people are taxed on what they produce, they'll produce less. If they're taxed on their land value, they'll put their land-sites to a fuller use, thereby employing people and promoting economic growth.

Tax Land Not Labor



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.

This bulletin is published by the Center for the Study of Economics, 8775 Cloudleap Court, (#212), Columbia, MD 21045. Phone: (410) 740-1177. Editor: Steven Cord, Prod. Mgr.: Sharon Feinman. Inquiries invited. Subscription rate \$20/yr. © 2000. Reproduction is permitted provided credit is given and we are notified.

Coyne Presents Evidence for Pittsburgh LVT

(Pittsburghers: Ignore this Hard Evidence, if you can.)

The following information comes from a letter written in July 1982 by Congressman William Coyne to IT reader Nadine Stoner. During the 1970s, Coyne was a Pittsburgh city councilman; he endorses wholeheartedly the city's two-rate property tax:

"In 1979, after it obtained for itself a Home-Rule Charter, the city of Pittsburgh was able to increase the tax rate on land values to four times higher than the rate on building assessments. It took a city council over-ride of the Mayor's veto to do it.

"Our opponents had predicted dire results from the land tax. They said: 'Housing supply will be restricted.' 'Businesses will be forced to raise prices.' 'Commerce will leave for the suburbs.' 'Construction will be slowed down.'

"Just the opposite happened. According to the city's statistics, building permits in the city soared 32% higher than the previous year.

"Demolitions were down 23%, suggesting that folks were maintaining existing structures, overcoming their former tendency to abandon buildings, tear them down and hold land vacant.

"Vacant lot sales rose 17%, suggesting that the new tax made it uncomfortable to just sit on valuable urban space. Authorizations for new housing units rose 15%, while they dropped 18% in the rest of the Pittsburgh metropolitan area."

Tax Land Not Labor

◆ A Federal deficit means there will be federal bonds for taxpayers to pay. But since the taxpayers are poorer than the bondholders (on the average) a deficit involves a transfer of wealth from the poor to the richer.

◆ California's Prop. 13 (1978) was to protect homeowners from sudden property-tax increases, but when a property was sold, the assessment was up-dated. But since commercial and industrial property owners tend to stay put, they don't incur this up-assessment.

◆ Which is the better baseball team, the Red Sox or the Nylons? You may like the Red Sox, but the Nylons get more runs.

◆ "Freedom is not free and it must not be taken for granted. It was won through sacrifice and will be maintained only through sacrifice. It can be lost, just as surely, just as completely, and just as permanently - tax by tax, subsidy by subsidy and regulation by regulation, as it can be lost bullet by bullet, bomb by bomb or missile by missile." (Edward Hiles, U.K.)

◆ Chinese premier Deng

Xiaoping: "I have two choices. I can distribute poverty or I can distribute wealth." (Heartland Institute, *Intellectual Ammunition*, 7/8/99, p. 1).

◆ "For fast-acting relief try slowing down" - Lily Tomlin.

◆ From 1985 to 1993, murder increased 65% among 18-24-year-olds and increased 165% among 14-17-year-olds (*Wall Street Journal*, 4/21/95, B1, citing a study by James Fox, dean of Northeastern University College of Criminal Justice). Justice requires that the government collect land rent. If our governments neglect this duty, the worst is yet to come (as the 14-24s proliferate).

◆ The Bush social security plan would increase the future social security deficit. The Gore plan would increase current taxes. In 2015, either plan will result in bankruptcy or LVT.

◆ In 1992, the World Resources Institute reported that the real cost of highway use in the USA was about \$300 billion annually, but users paid only \$33 billion in fees or taxes.

◆ "In 1945, according to the U.S. Department of Agriculture, urban land uses accounted for 1 percent of the

area of the U.S. By 1992, that figure had risen to 3 percent. Forest covered 32 percent of the U.S. in 1945 and a not-much-smaller 30 percent in 1992. Cropland stayed unchanged at 24 percent." - Joseph Bast, *Intellectual Ammunition* (Heartland Institute, 9/10/98, p. 1).

◆ "Recipe for success: Rise early. Work late. Strike oil" (J. Paul Getty).

◆ Many studies show that poor homeowners gain the most from a 2-rate building-to-land shift in the property tax. The reason is that their land assessments are low. 2-rate is thus in accord with ability-to-pay.

◆ A 1992 study by two University of Maryland professors (we did not even know who they were) showed that two-rate Pittsburgh far out-constructed and out-renovated 14 other big eastern cities. Columbus, Ohio was a distant second but it had absorbed 25 nearby localities. Our own studies were completely corroborated - we are gratified.

◆ David Capece, a real-estate broker in Allentown, said at a public hearing that the 2-rate tax has enabled him to sell more homes.

What's Wrong With the Income Tax?

Some people think the income tax falls mainly on rich people, so it must be OK, but that's not so, for these reasons:

(1) *This sounds like the ethics of burglars.* They shouldn't steal from richer householders. If there's nothing wrong with being rich, why should income be taxed?

(2) *The income tax penalizes initiative and hard work.* It makes liars of many of us¹ and tax slaves of all of us (the government takes what we've produced; slaveowners do likewise with their slaves).

(3) *The income tax is complicated.* Even the one-time director of the I.R.S., Jerome Kurtz, says the income tax is difficult to administer properly.² A prominent tax lawyer and a N.Y.C. accountant say the income tax code (now the size of about eight Bibles³) is too complicated, so you know Kurtz was right.⁴ Money magazine recently sent a hypothetical income report to 45 accountants and got 45 different answers as to what the income-tax liability of a particular U.S. income-tax return would be.⁵ A brief study by the *Wall Street Journal* found

that I.R.S. advisers gave more wrong than right answers to telephone inquiries.⁶

(4) *Then there's audit phobia.* One of life's greatest stresses for Americans is the fear of an I.R.S. audit.

(5) *The I.R.S. has recently been called to task for its too-aggressive collection tactics.* But in China they kill tax evaders; at least the I.R.S. doesn't do that.⁷

(6) *An I.R.S. official testified in 1989 that U.S. taxpayers average*

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Endorsements 491-492

1000 Friends of Maryland (9/00, environmental group): "Support enabling legislation to permit innovative local property tax structures, for example a tax structure based on land value taxation." (in Platform, item #5)

National Tax Journal (9/98, p.

541, article by David Brunori): "Existing local tax systems are ill equipped to meet future basic revenue needs...local tax limitations will lead local governments to seriously consider an alternative system for collecting revenue - land value taxation."

What's Wrong With the Income Tax?

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11 hours and 34 minutes to prepare their income-tax return,⁸ but in 1988 a University of Michigan economist estimated that the average household took an average of 21.7 hours to do federal and state returns at a cost of \$231 in personal time plus \$44 in fees for professional aid (more recently, the income tax has become more complicated).⁹ A land value tax return needn't incur these costs.

Because of the U.S. income tax, the income-taxless citizens in Hong Kong fare better economically under Chinese than under U.S. rule.¹⁰

We'd have to put up with the income tax if the government had no alternative for raising revenue, but it does. We'd do better taxing those who produce nothing (land values) rather than taxing our producers according to what they produce in order to cadge a few bucks off the rich.¹¹

Aside from these objections, the income tax is OK.

(The above is extracted from a forthcoming book entitled *The Most Important Statement Ever Made [MISEM]*)

Footnotes

¹In 1981, more than one in four will cheat on their income tax (*N.B.C. Evening News*, 4/8/81, quoting Prof. Robert Mason of Oregon University).

²*People & Taxes*, 12/80. The situation doesn't seem to have improved - in 1999, among the items recorded in the IRS books but not found were a Chevy Blazer and a \$300,000 laser printer (*Wall Street Journal*,

3/3/99, A1). Well, no one's perfect.

³*Investor's Business Daily*, 4/17/98, A1.

⁴*Wall Street Journal*, 3/13/99, A1 and 3/17/99, A26. Stefan Tucker, head of the American Bar Assn. Tax Section, wrote to then-U.S. Treasury Secretary Rubin, "On behalf of the American Bar Association and its Section of Taxation, I'm writing to express disappointment that the Administration has proposed to add a multitude of new credits to the federal income tax system." Alas, Tucker did not mention land value taxation as the alternative so his suggestion is unlikely to be adopted.

⁵*Tax Features*, 10/97, 4.

⁶*Wall Street Journal*, 2/18/88, B1, but maybe they've improved recently.

⁷*Investor's Business Daily*, 4/17/98, A1, and *Wall Street Journal*, 3/3/99, A1.

⁸*Newsweek*, 3/3/00, A1.

⁹*Ibid.*, 3/23/88.

¹⁰*Investor's Business Daily*, 7/1/97, A24.

¹¹The land value tax is more of an ability-to-pay tax than the income tax. For instance, Anthony Pileggi's study demonstrated that in Indiana, Pa. (population 15,000) 1.5% of the richest landowners paid 53.5% of a land value tax, whereas in the same year 3% of the top income earners in the U.S. paid 30.6% of the federal income tax: See *Incentive Taxation*, 4/80, 1. In bigger cities, the disparity would be even greater.

Two-Rate Local-Option Law

The following is the suggested wording for a statewide local-option law which would allow any locality levying a property tax to levy a lower rate on building assessments than on land assessments (this is local option, not mandate).

Any locality levying a property tax can establish a lower tax rate on taxable building assessments than on taxable land assessments.

Pittsburgh, Pa., for instance, levies an 18.45% property tax rate on taxable land assessments coupled with a 3.2% tax rate on taxable building assessments instead of raising the same revenue with about a 5.9% tax rate on both types of assessments. The purpose is to lower property taxes for most voters and to encourage new construction and employment with no tax increase whatsoever.

Anti-Depression, Anti-Inflation

Inefficient land use and speculation withdraw land from current use. This artificial land shortage sends up land prices, which in turn increases the price of goods and services. This cuts demand and a recession starts, unless the government boosts demand by increasing the money supply, in which case we have inflation. What to do: Tax land values to prevent inefficient land use and speculation.

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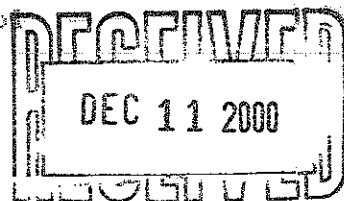
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