

Incentive Taxation

Reduce Property Taxes for Most Voters

The ECONOMIST Endorses Land Value Taxation

Since 1974, *Incentive Taxation* has published over 500 endorsements of land value taxation by local officials and other notable professionals. We have another 500 in our files, ready to publish. We don't even look for any more endorsements, but we can't resist sharing this one from *The Economist Magazine* (8/29/02-9/3/02 combined issue):

**"Why not make those who benefit
pay for transportation improvements?"**

"As London booms, gridlock beckons. Average speeds on the most congested routes are now down to 3mph. In the past 15 years, the capital's population has grown by 600,000, nearly 10%. With the population forecast to grow even faster, congestion is likely to get worse, not helped by a queue of transport projects stalled for lack of funding....

"Where are these huge sums to be found? In theory, the idea of taxing increases in land values make eminent sense. Why should developers, landlords and tenants make untaxed windfall gains from transport improvements funded by general taxation? The Jubilee line is a case in point. After a good deal of arm-twisting, the owners of Canary Wharf [a prominent inner-city mall] put up £180m, a fraction of the amount it gained as a result of the line. Other developers and landlords along the route paid nothing, although the value of their properties soared by as much as four times.

"Don Riley, a south London property developer, claims that the Jubilee line could have been financed without any government subsidy if part of the increase in land values had been captured. The £5.5 billion Channel Tunnel Rail Link has similarly led to a boom in land values in areas such as Kings Cross, Ebbsfleet and Stratford. A new high-speed line to the north would bring big gains to any city along its route. When public money brings windfalls to a few, why should the state not take a share?"

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We are embarking on our 29th year. Yes, our first issue was in November 1974. As a direct result of our efforts there are now more than 19 two-rate localities which have switched some of their local property tax from building to land assessments, with the expected good results of more buildings and a better business climate, as well as lower property taxes for most voters.

We Need Your Help

Incentive Taxation educates communities, civic associations, and citizens about the land value taxation proposal and the way it can help end involuntary poverty. Implementing that proposal can revitalize your city and even the world – and yet without the continued and visible support from our readers we cannot be as effective as the demand on our time and resources warrants.

Be advised, then act.

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- ❖ A good way to down-tax homeowners on their property tax is to offer a homestead exemption on the building assessment only (not the land assessment). This is legal in Pennsylvania (Act 50) for the two-rate property tax only.

❖ “Capital as such is not evil; it is its wrong use that is evil.” (Gandhi)

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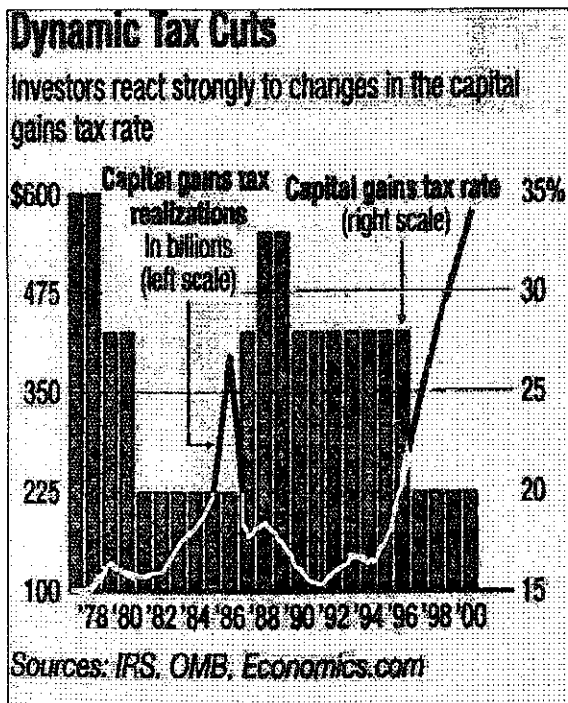
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This March 2001 chart from *Investor's Business Daily* shows that revenue increases as the capital gains tax decreases.

The U.S. Congress Can Legally Tax Land Values

It seems to be settled dogma among our congressional representatives in Washington that the property tax is for localities only and not for the federal government. However, the Constitution maintains otherwise.

In order to legalize an income tax, the Sixteenth Amendment was passed in 1913. Here is its exact wording: "The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration."

OK, so be it. This clearly authorizes Congress to levy a land value tax since income from land values is an income from whatever source derived. Congress can clearly tax it. Or if it is politically easier, Congress could require the states to raise a specific amount of revenue - say \$100 billion - by a tax on their land values, and then remit the revenue thus obtained to the federal government in proportion to their population. So, for instance, if a state has 10% of the nation's population, it could be required to remit \$10 billion - 10% of the \$100 billion - to the federal government from its proceeds of the statewide federally-mandated land value tax.

In 1913, Congressmen advocating the land value tax urged the inclusion of the phrase "from whatever source derived" in the Sixteenth Amendment in order to legally allow a future federal land value tax.

How To Popularize the Property Tax

The property tax is unpopular because the bill for it comes in a large lump sum once a year. That's a genuine hardship to the property owner (especially if there are hikes in assessments or tax rates). Fortunately, there are two ways to easily remedy this defect:

Localities should specify that the mortgage holder (usually a bank) must pay the property-tax bill (they often do this now, but it is not often mandated). The mortgage holder will then increase the monthly mortgage payment by one-twelfth of the annual property-tax bill; property owners would prefer that to a huge once-a-year property-tax bill.

Localities should specify that property owners need pay no more property tax than 3% or 5% over the inflation rate they paid in the previous year.

Of course, if these two reforms were accompanied by a 2-rate building-to-land shift in the local property tax, then most homeowners would get tax reductions.

A Tax That CREATES Jobs

Just imagine that every New Year's Day, on the White House lawn, all the land rent in the country was tossed into a huge bonfire. We surely could find better uses for the national land rent than that; we could greatly lower (maybe even abolish) taxes on production - on income, payroll, sales, buildings, corporations, etc.

But please - just imagine this huge annual land-rent bonfire. It would result in every parcel of land being put to its highest and best use (unless otherwise zoned for environmental or preservation purposes). Jobs would proliferate and production would boom - even in declining towns. In other words, here is a tax that by itself actually creates jobs! Involuntary poverty and joblessness (and the fear of them) would be forever gone.

We should approach the full collection of the land rent gradually (for political reasons - no sudden jars), but let's get started now.

Tax locations, not production.

Altoona Council Passes LVT Resolution

The Altoona, PA City Council has taken another step closer to implementing land value taxation for its citizens, effective January 2003. Last issue we reported that Council had passed a resolution to study the feasibility of LVT on its town.

On November 14, 2002, by a unanimous vote in conjunction with balancing the city's 2003 budget, Council adopted the following:

"Whereas, the governing body of the City of Altoona has evaluated carefully the potential advantages of Land Value Taxation; and

"Whereas, this studied evaluation has revealed that the gradual implementation of Land Value Taxation will be an additional tactical weapon in the ongoing effort to fight blight in the City and encourage development, and have far reaching positive impact on the future of the City; and

"Whereas, as a result, the governing body has introduced a taxing ordinance utilizing the Land Value Taxation plan for calendar year 2003.

"Now therefore, the City Council does hereby direct the City Manager that the concept of Land Value Taxation on a gradually increasing scale shall be utilized by the City Manager in the preparation of the budget and millage levy for calendar year 2004, prior to the presentation of these drafts to Council for study and evaluation in the fall of 2003."

From the Editor

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❖ The Articles of Confederation provided that federal expenses "shall be defrayed out of a common treasury, which shall be supplied by the several States, in proportion to the value of all land within each State."

❖ If it's a good idea, do it. Don't just read about it. Call 1-215-988-9998.

❖ 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.

❖ A magazine once sent Robert Benchley on an assignment to Venice. He wired back: "Streets full of water. Please advise."

❖ "The only disability in life is a bad attitude." (Scott Hamilton, figure skater)

❖ "He that cannot reason is a fool. He that will not is a bigot. He that dare not is a slave." (Andrew Carnegie)

❖ 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."

❖ IRS and taxpayer costs of figuring out income taxes amount to 12% of the revenue collected (Bill Ahern, Tax Foundation, in February 2001).

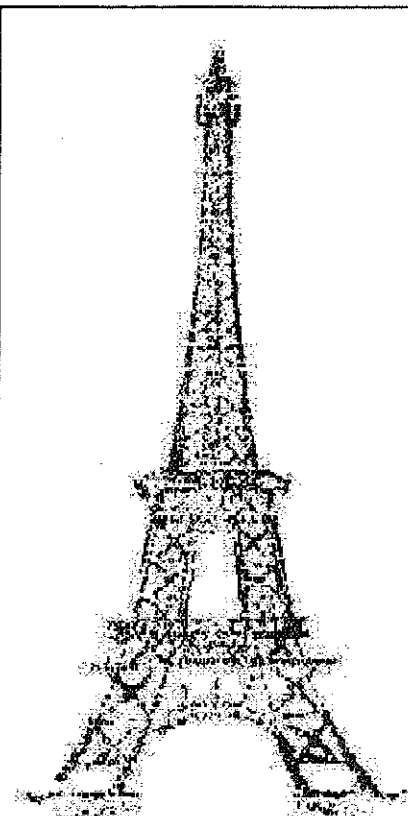
❖ "Farmers are pumping water from aquifers faster than nature can replace it" (Sandra Postrel, Utne Reader, 7-8/00, p. 63).

❖ "We ought to tax all idle land the way Henry George said - tax it heavily so that its owners would have to make it productive." (Henry Ford)

❖ Use-value assessment of agricultural land (instead of market-value assessment), according to Frederick Stocker (economics Professor Ohio State University), "appears to be an ineffective deterrent to development."

New Idea

Every American child would receive a loan of \$2,000 at birth from Social Security that would be invested and withdrawn only at retirement or if the owner of the account were to die before then. The \$2,000 initial loan might grow to \$250,000 by the time the child retired. The government could guarantee the loan.



**What the Empire
State Building looks
like after taxes.**

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fluence the passage of any legisla-
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ticles herein do not necessarily
reflect CSE views.

CSE is happy to note an op-ed piece from the *Buffalo News*, November 4, 2002:

Meanwhile, back in Pittsburgh...

Alas, that tax system is no more, and Pittsburgh is about to make the most foolhardy choice it could make: A wage tax. Since CSE is based in Philadelphia, we need only note that the corrosive effects on a city's economy through wage taxation are tragically apparent here. Since the loss of land taxation, Pittsburgh has seen rents skyrocket in the job-producing Golden Triangle and taxes increase in the poorer residential neighborhoods. Construction and all-important renovation has tailed off. By the way, land tax was dropped so that an election could be won. And so it goes...

This past summer, Kiplinger's claimed Harrisburg was a property-tax nightmare for homeowners. Naturally, CSE knew better because we knew the numbers, but the experts at Kiplinger's didn't listen (the problem with being an expert is that you don't think there is anything more to know). Maybe they will listen to Michael Weir, Senior Fellow of the Pennsylvania Economy League, (from the *Pittsburgh Post-Gazette* of 11/24/2002):

We're sure that Mayor Stephen Reed and his hard-working team will continue to expand the unique tax structure that makes Harrisburg a city of hope unlike their sister capital cities in the region: Albany, Trenton, Hartford and Richmond, oh my.

Joshua Vincent is the Director of CSE

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