Incentive Taxation ©

Annual Victory Issue

1-138

Two-Plus Real-World Victories

Du Bois, Pa.

Du Bois (pronounced Doo-Boys), Pennsylvania (pop. 8,286 in 1990) has just adopted property-tax rates of 95 mills (9.5%) on land coupled with 13 mills (1.3%) on building assessments, for the year 2001. Since its rates were 51/13 for 2000, the city's entire property-tax revenue increase was put on land, not buildings. This will moderate the tax increase on most homeowners as compared to raising the property-tax rates equally on land and building assessments; the property-tax revenue increase has been increased in a way most gentle for most homeowners.

Du Bois has been one of the twenty two-rate jurisdictions since the Pennsylvania Economy League urged Du Bois to go two-rate in 1991. After speaking to Joshua Vincent of the Center for the Study of Economics at a PLCM Conference early last year, local city officials in Du Bois decided to *expand* the building-land tax rate ratio for 2001. We have found that some local officials are under the misapprehension that once a jurisdiction starts lowering its tax rate on building assessments vis-à-vis land assessments in the first year, the jurisdiction needn't keep on spreading the rates apart. Actually, a two-rate *expansion* becomes easier in ensuing years.

Since it first adopted the two-rate property tax, Du Bois has experienced the usual spurt in new construction and renovation, but *Incentive Taxation* has not yet studied the exact figures. Du Bois could easily become yet another empirical study substantiating that a spurt in new construction always follows two-rate adoption (at no extra tax cost, be it added). We will perform a construction and-renovation study in three-years' time.

Du Bois is in central-western Pennsylvania, not far from Indiana, Pa. The mayor is Herman Suplizio and the clerk-to-council is Fran Lias. We wish the mayor a speedy and full recovery from his recent unfortunate car accident.

Allentown, Pa.

Good 'ole dependable Allentown - for the year 2001, as in times past, it has further expanded its property-tax rates. Those rates had been 32.77 mills on land assessments coupled with 9.05 mills on building assessments, but for 2001 the property-tax rates will be 37.49 mills on land coupled with 7.98 mills on buildings. These new rates will mean that approximately half the property-tax revenue comes from land, half from buildings.

Our July 2000 issue contained an empirical study showing that two-rate Allentown far out-constructed and out-renovated contiguous one-rate Bethlehem (despite the federal money pouring into the latter city). The City Council will undoubtedly keep that in mind when it contemplates the rates for 2002. 17 out of 17, you can't do

Continued on page 2

Reminder

Please be advised that jurisdictions which have already adopted the two-rate property tax should transfer more of their property tax on building assessments to land assessments <u>in each ensuing year.</u> They should <u>not</u> stop after their first-year adoption.

Pittsburgh's 1979 Building-to-Land Shift in its Property Tax

Figures from <u>Pittsburgh's Bureau of Building Inspection</u> show that after the city shifted some of its property taxes on building assessments to land assessments for 1979, the dollar value of new construction increased 245.5%, 1979-84 as compared to 1973-78. Commercial construction responded most dramatically, increasing 435.3% in dollar value; evidently, the Graded Tax in Pittsburgh (elsewhere called two-rate) is good for business.

All this, despite a precipitous decrease nationwide in new construction in 1979-82. During those years, the Pittsburgh region suffered severe distress in its basic steel industry.

In 1979, Councilman (now Congressman) William Coyne proposed this land-tax increase instead of a wage tax increase. A wage tax increase would have cost average workers $225 a year, whereas the Graded Tax increase cost the average homeowner $85 a year.

Two-Plus Real-World Victories

Continued from page 1

better than that. No doubt, the down-taxing of buildings and the up-taxing of land works, and works well. Two-rate can do the same for your town, too.

The Pluses

Ebensburg, Pa. - This county seat for Cambria County in western Pennsylvania will be levying rates of 40 mills on land coupled with 13.3 mills on buildings, which is only a little better than 2000's 30 mills on land, 12.6 mills on buildings. The land-tax-rate ratio in Ebensburg went from 2.38:1 in 2000 to 3.01:1 in 2001. Last year's two rates were so well received and the construction-renovation results were so satisfactory that the public officials in Ebensburg are contemplating a big two-rate building-to-land shift in the local property tax for 2002. Call 814-472-8780 (Dan Penatzer, City Mgr.) for details.

Oil City, Pa. - This western Pennsylvania city increased its land:building tax rate ratio slightly. In 2000, its rates were 85.5 mills on land coupled with 26.8 mills on buildings (ratio = 3.19:1). For 2001, its rates are 91.5 mills on land coupled with 27.1 mills on buildings (ratio = 3.38:1).

In the past, Oil City considerably out-constructed and out-renovated its comparable one-rate neighbors.

Pittsburgh, Pa. - This city has had two-rate since 1913, but many of the new city officials weren't around then and didn't know why they had it. We consulted extensively with them; now they know and the danger of rescission seems past.

For 2001, a county-wide re-assessment has increased land assessments more than building assessments, with the result that there has been a decided property-tax shift from buildings to land. The same holds true for the other two-rate cities in the county - Clairton, Duquesne and McKeesport.

17 out of 17! Maybe an *Incentive Taxation* reader will write and tell us why more jurisdictions don't adopt the two-rate approach, or to get existing two-rate cities to expand their two rates, since most voters will pay less if this is done and *all* existing empirical studies substantiate spurts in new construction and renovation - but we will persist.

Tax Locations Not the Products of Labor

Altoona

The Center for the Study of Economics has just completed a study of all property owners in Altoona which shows that fully <u>71%</u> of the owners of developed residential properties <u>**save**</u> with two-rate over the conventional one-rate property tax. Not only that, but most of the commercial properties save as well.

Who pays more if the one-rate to two-rate property-tax shift is to be completely revenue-neutral? The owners of vacant lots (but they are employing absolutely no one and make no contribution to the city's economy; in fact, they hinder it).

This is likely to happen in your town also.

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Land Value Taxation Benefits Elderly Homeowners

Some people think that elderly homeowners would pay more with a two-rate building-to-land shift in the local property tax. They think these homeowners would be better off with a wage tax. But no, for these reasons:

(1) Most elderly homeowners pay less with a two-rate building-to-land tax shift, studies show, because they usually don't own much land value.

(2) Their two-rate land value tax (LVT) could be deferred until time of sale or bequeathal to their heirs (this deferral could even be made available to the certified unemployed or poor).

(3) We could specify that no one's two-rate payment need be more than 5% above the previous year's payment.

(4) Non-LVT taxes could pay the two-rate tax payment in excess of what property owners would pay with one-rate.

(5) The government can set up a loan fund to pay for their two-rate LVT taxes.

In other words, *no one*, including the elderly, need pay more taxes with a building-to-land tax shift. We shouldn't be penalizing wage-earners, some of whom are elderly, nor will we be helping the elderly by increasing the prices they pay.

> Joey Adams: "We may never cure poverty, but with prices and taxes the way they are, we're sure going to cure wealth." (*Reader's Digest, "Laughter is the Best Medicine." 3/67.*

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

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From the Editor

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◆ A report of the U.S. Civil Rights Commission found that after 1978, when the capital gains tax was reduced from 49% to 28%, "the number of black-owned businesses increased in a five-year period by one-third" (CATO Policy Analysis #242, citing Arthur Fletcher *et al*, "Help the Poor, Cut the Cap Gains Tax," *Wall Street Journal*, 8/25/93, editorial page). Tax locations, not capital gains.

◆ Producers are being robbed before our very eyes, generally by very reputable people 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 by landowners in our own town.

◆ "In the evening service tonight, the sermon topic will be, 'What is Hell?' Come early and listen to our choir practice." - Church bulletin

◆ In 1994 (latest year available), taxes were 45% of national income (*1997 U.S. Statistical Abstract*, tables 477 and 698, citing U.S. Bureau of the Census, Government Finances, GF #5, Annual and U.S. Bur. of Econ. Anal., *NIPA*). Couldn't it be that our governments, like other organizations and individuals, will spend more than their proper income if others pick up the bill?

◆ Why did the chicken coop only have two doors? If it had four doors, it would be a sedan.

◆ The two-rate property tax is a tax that creates jobs - the more the tax shift, the more the jobs.

◆ Scranton faces a huge deficit. One reason: It has a huge wage tax.

◆ A 9-mile stretch of interstate highway in upper N.Y. S. cost $125 million to build in 1995 yet added $36 billion in land value within two miles of the highway (research study by Dr. William Batt).

◆ Why was Cinderella a poor basketball player? (Because she had a pumpkin for a coach).

◆ Taxes count: The capital gains tax rate was 20% in 1986 and 28% in 1991, but in 1991 real venture capital funding for promising young firms was 59% less than in 1986 (CATO Policy Analysis #242, p. 23, citing Natl. Venture Capital Assn., 1991 Annual Report). Tax locations, not capital gains.

◆ Deficit note: the 1998-99 budget shattered the spending caps which both major political parties agreed to in last year's budget deal (*US. News & World Report*, 10/26/98, p. 30). Either we burden our children with higher taxes to pay for our debts (which is a form of child abuse) or we tax land values instead.

◆ Governor Brown asserted that "an example of the unearned increment is the rise in land values for some distance around the perimeter of a new state university campus" (quoted in an article by Harlan Trott in the *Christian Science Monitor*, 12/8/59, sent to us by IT reader **Elmer Greenlee**). The article continued: "The Governor implies that since such values are publicly created and not the result of the landholders' labor or initiative, they ought to be collected to defray the cost of the new university."

◆ Did you hear about the shipload of paint that wrecked and marooned all the sailors?

◆ An *Urban Land Institute* study found that every run-down building in downtown Milwaukee could be profitably replaced by private enterprise. The tax burden on the replacement would be much less than the tax burden on the relic.

◆ Sent to us by IT reader **Elmer Greenlee**: "John Haldane, a scientist, once suggested to Monsignor Ronald Knox that in a universe containing millions of planets it was inevitable that life should appear by chance on one of them. 'Sir,' said Knox, 'if Scotland Yard found a body in your Saratoga trunk, would you tell them, 'There are millions of trunks in the world - surely one of them must contain a body?' I think they still would want to know who put it there."

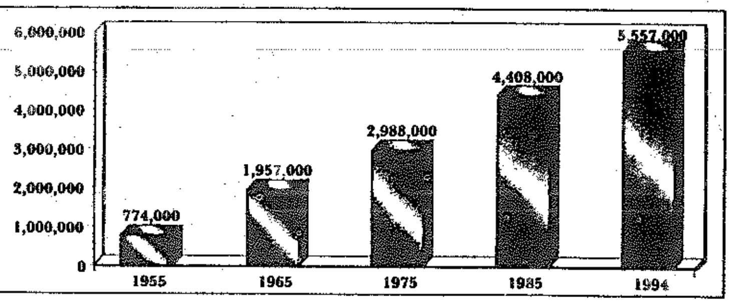
Reprinted from CPA Client Bulletin, 8/96, p. 5.

Tax land not personal or corporate income.

The Proliferation Of The Tax Code

Since 1955, the Internal Revenue Code has grown by leaps and bounds. Here is a chart showing how much growth has occurred since then, according to the number of words in the code.

Source Tax Foundation



Endorsement 493

An Environmental Agenda for the District of Columbia, 1999 (endorsed, among many others, by the Anacostia Watershed Society, Clean Water Action, Coalition for Smarter Growth, Envronmental Defense Fund, Friends of the Earth, Green Party of D.C., Sierra Club [New Columbia Chapter], Washington Regional Network): "The District's current property tax rate structure penalizes those who build or improve houses and businesses and rewards speculators who neglect or board up their buildings. This is because land and buildings are now taxed at the same rate."

"Pittsburgh and many other cities have shifted to a more progressive scheme that is designed to promote restoration, conservation, and use of existing property: the 'split-rate' property tax. The concept is simple - instead of taxing both land and buildings at the same rate, the City [Washington, D.C.] would tax land at a higher rate, and buildings at a lower rate. (In the year 2000, rates for Pittsburgh are now $1.84 [actually $1.845 and $.32].

"The effect of such a tax shift is to encourage maintenance, renovation and new construction while discouraging speculative hoarding of vacant lots or decaying housing. *The former director of housing for Harrisburg, PA, has credited that city's split-rate tax with reducing the number of boarded-up housing units from 1,800 in 1985 to less that 400 today.* [italics added]

"The split-rate tax can be readily implemented without expensive government programs or regulations and will result in a tax break for most property owners, particularly in low and middle-income neighborhoods, while encouraging home ownership....the Mayor should propose a set of split-rate property tax rates to the Council for enactment....the Council should initiate a gradual reduction in property tax rates on building values and a gentle increase in tax rates on land values. The consultant to the D.C. Tax Revision Commission demonstrated that this can be accomplished without significant tax increases or decreases for the vast majority of property owners."

Tax Facts

Comparison of Site Value Taxation With Other Taxes

The following is based on a chart devised by the *Association for Good Government* in Sydney, Australia:

SITE VALUE TAXATION	OTHER TAXES (income, payroll, sales, etc.)
1) Increases incentive to use sites fully	1) Decreases incentive - taxes them instead
2) Neither increases prices nor rents	2) Adds to both prices and rents
3) Cannot be evaded or avoided	3) Subject to evasion and avoidance
4) Absolutely fair (based on what the community provides)	4) Involves arbitrary confiscation of private property (including wages and purchases)
5) Reasonably precise	5) Requires thousands of pages of rules
6) Cheap to collect	6) Requires great clerical costs for government and taxpayers, also audit-phobia for the latter.

Do you propose to do anything about this?

LVT Bill in Virginia

The following is a summary of a bill - HB 2037 - introduced into the Virginia Legislature by Rep. John H. Rust, Jr. at the instigation of City Councilman Tony Coughlan: "permits the City of Fairfax to tax improvements to real property at a lower tax rate than that imposed on the land on which the improvements are located by creating a separate classification for taxation purposes."

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18
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