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Incentive Taxation ©

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Reduce Property Taxes for Most Voters

A Federal Land Value Tax For 2004

The focus of this publication has been on local property tax reform, but here's how the advantages of land value taxation can be made available federally:

>>>Federal taxes on wages and investment income should be lowered and the lost revenue replaced by taxing each person's market-assessed land value (for those localities which do not assess land and buildings separately, assume that one-third of the property's total market-assessment is land value).

For example, to replace the federal revenue lost by reducing the current 15% income-tax rate on low wages to perhaps 10%, a 3% tax rate on assessed land might be required. Almost all voters would thereby get actual tax reductions because few of them own much taxable land value (for instance, do you?)

Lowering taxes on wages obviously would be good for the economy, while raising the tax rate on land values would be even better because it would encourage the fuller development of every landsite in the country.

This federal tax proposal could be made even more politically attractive by granting land-tax exemptions to the temporarily unemployed (who can't benefit much from lower wage taxes) and land in agricultural use (or such land could be taxed at a lesser rate).

Wouldn't a candidate advocating all this be likely to win elections? Wouldn't lowering wage taxes but not government revenue win votes?

Solving the Assessment Problem

Before land values can be taxed, they must first be assessed. Well, they already are – by each locality. The feds can use those local assessments. In the few cases where land is not assessed separately, federal assessors can do the job quickly enough.

Local assessors might be inclined to under-assess their constituents to lessen their federal land-tax liability, but fortunately, this illegality can be prevented –

The feds ought to pay 60 cents per

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Can Congress Legally Tax Land Values?

Absolutely yes.

Nowhere in the U.S. Constitution is it specified that Congress cannot tax land values. On the contrary, it authorizes a federal land value tax:

(1) The Sixteenth Amendment specifies that Congress can tax incomes "from whatever source derived." The annual rent of land certainly qualifies as an income "from whatever source derived."

Imputed income (income not actually collected) is taxed, as when a waiter is taxed on expected tips, or when future income from zero-coupon bonds is taxed now, or employees get "perks" from their employer (e.g., free cafeteria meals and preferred parking spots), etc. – all these are taxable. Land rent income is often imputed. Landowners who also own the improvement on the land generally do not bother to collect the imputed land rent, but have land-rent income nevertheless.

(2) Article I, Section 2 of the Constitution allows Congress to require the states to levy a direct tax, such as on land values, to be based on each state's portion of the total U.S. population. A direct tax is a tax that must be paid directly by the owner of what is taxed and cannot be passed on to others in the form of higher prices.

Congress has already taxed land values – in 1798, 1813, 1815, and 1861; there is no reason why it cannot still do it. Nor is it unusual for the various levels of government – city, state and federal – to utilize the same tax or revenue, as with income and sales taxes, revenue sharing, grants, etc.

If you're interested in helping your community...

- ✓ **Lower taxes for most voters**
- ✓ **Decrease Blight**
- ✓ **Build Business**
- ✓ **Keep & Attract Residents**
- ✓ **Get your community thriving**

...then you will want to check out the positive results a land tax shift can make in your town, your city, or your borough.

The Center for the Study of Economics will help you research the shift from property to land tax in your jurisdiction. While working with other localities, most notably in Pennsylvania, we have developed supporting research that *LVT works*.

Check the stats and feasibility for your locality by calling or writing us for *pro bono* assistance and information.

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1974-2004: 30 Years of Making a Difference

Incentive Taxation began publishing in 1974. In the ensuing years, because we knew the simple formulas for implementing a two-rate land-oriented property tax, we were able to get 20 localities to transfer some of their property tax off building assessments onto land assessments – *in every case,* there was a spurt in building-permits issued.

And whenever we could, we compared the two-rate localities with nearby comparable-but-one-rate localities; the two-rate localities *always* out-constructed and out-renovated their nearby comparable-but-one-rate neighbors.

No simple formulas (and procedures)

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Does a Two-Rate Property Tax Require a Re-Assessment?

No. Assessments should always be as accurate as possible, of course, but assessments are one thing, rates another. The tax rate on building assessments should always be lower than the tax rate on land assessments, even if the assessments are not accurate. Re-assessment should never delay the adoption of the two-rate property tax.

Incidentally, assessments are more likely to be accurate if buildings are tax-exempt and land only needs to be assessed.

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parcel to the local assessment office for its assessing service, provided the total building-to-land assessment ratio is at least equal to the previous year's ratio (if this provision isn't met, then penalties, including jail, are in order). This would prevent land from being illegally and unethically under-assessed. Also, the sales-to-market-assessment ratio must be at least 90% in order to qualify for the 60 cents per parcel reimbursement (30 cents per parcel if less); proof must be presented.

Wouldn't a presidential candidate be assured of electoral victory if he could promise most voters big social programs as well as tax reductions for most voters?

Shouldn't land value taxation figure prominently in the 2004 election?

***Incentive Taxation* is available by email, either as a PDF attachment or as plain text.**

Make the switch to your electronic edition by writing to:

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(Please remember to include your name and address so we can remove you from the snail mail list.)

How to Quickly Determine Who Will Pay More And Who Less BEFORE Switching to a Two-Rate Property Tax

Most homeowners pay less with a property-tax switch from one-rate to two-rate because the up-tax on their land will be less than the down-tax on their buildings (they have more-than-average invested in their buildings than in their land), but you can verify this in your locality <u>*before*</u> you switch.

To be precise: property owners with a building-to-land assessment ratio less than the locality's building-to-land assessment ratio will pay more; if higher, then the two-rate tax payment will be less; if the same, the tax payment will be the same.

Anyone can examine your assessment register to see if this is so in your town. They can do an accurate random-survey by taking the top name of each owner of *developed* property on every twentieth page in your assessment register and ascertain if that property owner has a higher or lower building-to-land assessment ratio than the locality at large; only a passing glance is needed.

About 200 properties need to be surveyed this way in order to determine the percentage of savers. The Center for the Study of Economics (CSE) can do this for you for free (call 215-998-9888) by surveying *every* homeowner on a computer printout, again for free.

An example will clarify all this. If a locality's building assessments total $750 million and its land assessments total $200 million, then its building-to-land assessment ratio is 3.75:1. Property owners with a building-to-land ratio greater than 3.75:1 will save with a two-rate shift; those with less than a 3.75:1 ratio will pay more; if 3.75:1, there'll be no change.

Most homeowners are likely to save, but you can find out for sure *before* you switch to two-rate. Verify *beforehand:* don't leap in the dark.

If Valuable Land Cost Nothing, How Would Our Economy Fare?

It would boom. Producers would not have to go in debt to buy land – often a high up-front cost.

Property-Tax Bill Insert

Don't leave your voters in the dark. Explain to them why the city is taxing building assessments less than land assessments.

Include the following brief description in their annual property-tax bills:

By taxing buildings at a lower rate than land:

New construction is less taxed
The local economy is benefited
Most voters pay less.

Recent Muslim History

The U.S. "intervened in the Muslim world during the last two decades in part for our own interests, but we also saved the Afghanis from communism, the Kuwaitis from the Iraqis, Shiites and Kurds from Saddam Hussein, Somalians from hunger, and Bosnians and Kosovars from Christian Serbians. Millions of Muslims have been butchered on battlefields over the past 30 years, but their killers have been Islamic Iranians, Iraqis, Jordanians, Lebanese, and Afghanis." (Victor Hanson, "The Longest War," *American Heritage*, 2-3/02, p. 36)

(We will be happy to print your reply [82 words or less] to Hanson if you dislike his point of view.)

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From the Editor

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- The National Association of Realtors estimates the median price of homes nationwide to be $172,100 (9% rise in 2003) – *Kiplinger*, 1/02/04
- If anyone tells you that the federal government can't tax land values, ask that person to cite legal precedent and the Constitution. In fact, Congress taxed land values in 1798, 1813, 1815, and 1861 (Henry George in *The Standard*, 1888).
- Two-rate LVT has prevented $1 billion in the robbery of workers and building owners over the years. No small matter.
- "Californians are staggering under the weight of house inflation…The California Association of Realtors estimates that only 23% of California households can afford to buy a median-priced home. If the 13% price increase the association expects to occur in 2004 does come to pass, only 19% will be able to buy." (*Kiplinger*, 1/2/04) Tax land not buildings, Arnold.
- If you don't know where you're going, any road will get you there.
- Maryland municipalities provide an explanation of the property tax with every property-tax bill. If you are a two-rate locality, are you doing so also?

1974-2004: 30 Years of Making a Difference

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= no two-rate adoptions. The alternative: howling in the wilderness…

20 two-rate jurisdictions, all successful – but it's still uphill work. We prevented the robbery of about $1 billion, nothing to sneeze at, but of course there's still plenty more annual land-rent to collect (landrentownership = slavery, robbery and monopoly).

Here we have the Greatest Idea Ever Thought Of, yet it's still uphill work to get it adopted: suppose we do away with taxes on wages and investment, or at least reduce those taxes considerably; government won't be diminished (because it will be funded by a tax on land values). More important, every land-site in the country will be put to its highest-and-best use (within zoning limits) – wouldn't there be continuous and widespread prosperity then, even in the Middle East?

Let Justice reign – let it pour! But for political reasons, implement LVT gradually.

Taxing land values can surely be done on the federal level (wouldn't reducing taxes for most voters garner votes?) but let us start at the local level, local level.

2 1/2 Cheers for Ability-to-Pay Taxation (!?!)

Oh, so you like ability-to-pay as the principle for taxation? Then maybe you like the tax on yachts of a few years ago. After all, only the rich own yachts, right? So, it's a tax on them, ha-ha!

Well, you should know that tax was levied a few years ago – and played havoc on the yacht industry. The tax was levied, the price of yachts skyrocketed, yacht sales plummeted, the yacht-making industry was driven to the edge of bankruptcy, blue-collar employees became unemployed, – the tax was repealed. It had brought in little revenue, especially after the cost of collection was considered.

You still like the ability-to-pay principle? Well then, you will love the land value tax because it is in accord with ability-to-pay. Much more so than the income tax, for instance – because isn't income from land less widely distributed than income in general? What about yourself – isn't your income from land only a small part of your general income (maybe no part)? Certainly, that's true of well over 90% of the population.

They can destroy yacht making, but they cannot destroy locations (land), can they?

(Incidentally, there is a more legitimate standard of taxation than ability-to-pay, but that is for another article. Meanwhile, for more on ability-to-pay, visit www.EconomicBoom.info)

Pittsburgh and the Pitfalls of Property Taxes

Dr Nicholas D. Rosen, treasurer of the Center for the Study of Economics, wrote the following letter, which appeared in The Washington Post *on Saturday, January 3, 2004.*

Dear Editor:

Your news item about Pittsburgh's financial troubles [Nation in Brief, Dec. 30] was sad but educational for those who know the background.

More than 20 years ago, Pittsburgh helped dig its way out of financial distress by reforming its property tax, taxing land at a much higher rate than buildings. Most homeowners saved money, downtown construction boomed and Pittsburgh was declared America's most livable city, thanks in part to its low housing costs.

But a few years ago, Pittsburgh went back to taxing land and buildings at the same rate after Allegheny County botched a reassessment. Now the city is begging for state help to stave off bankruptcy, and the mayor is quoted as saying that the city is too dependent on the property tax.

The problem, however, is that the city has the wrong kind of property tax.

If Pittsburgh returned to taxing land more than buildings, it would encourage construction instead of punishing it, and its finances, along with the finances of most of its citizens, would be in better shape.

Is L. Paul Bremer III a Georgist?

The top United States administrator in Iraq, L. Paul Bremer III, wrote in the *N.Y. Times* (7/13/03) "We believe that a method should be found to assure that every citizen benefits from Iraq's oil wealth. One possibility would be to pay social benefits from a trust financed by oil revenues. Another could be to pay an annual cash dividend directly to each citizen from that trust."

Way to go, L. Paul! Let's do it!! (Thank you, Jeff Smith of Portland, Oregon.)

Keeping the Faith –

CSE staff and directors have been working closely with **the Interfaith Coalition for Equity and Justice** in Hartford, CT to get a two-rate local option passed for Connecticut's hurting cities. ICEJ first heard of LVT in depth at the summer 2003 LVT conference in Bridgeport. Executive Director **Ann Pratt** followed up at my presentation on LVT at the **Gamaliel** national conference in Milwaukee in December. ICEJ managed to get both popular and policy enthusiasm for LVT at a high pitch, culminating with a meeting of 2,000 people in Hartford and a glowing series of op-eds in the *Hartford Courant*.

On January 23, CSE and ICEJ met with the CEO of Hartford, the city assessor and finance director. ICEJ persuaded Hartford to look more closely at LVT and permit CSE to have the assessment roll to study LVT impact. It is expected that positive study results will lead to Hartford's legislative delegation to join with others in sponsoring LVT enabling legislation in March or April 2004.

Please Come to Boston –

Well, your CSE director and VP Al Hartheimer did just that on January 22. Partnered with Earth Rights Institute Prexy **Alanna Hartzok** and Robert Schalkenbach Foundation head **Dr. Polly Cleveland**, we spent the afternoon in the offices of **United for a Fair Economy (UFE),** at the invitation of Program Director **Chuck Collins**, who has a good grasp of land issues. UFE (www.faireconomy.org) wants to educate and implement various tax and legislative tools to shrink the growing wealth gap and provide equal opportunity for forgotten communities and neighborhoods.

Dr. Cleveland – a UFE board member – thought it imperative that the common misconceptions about the property tax (it's regressive, a drag on local economies, etc.) be corrected. She led off, to a group of UFE tax team members and other interested Boston-area policy groups. After an exposition of the problems of today's property tax by Dr. Cleveland, CSE Director Vincent showed how LVT in the city of Philadelphia addressed the concerns of UFE. Ms Hartzok then completed the day with an expansive, detailed and passionate universal view of economic wealth gaps in the context of land taxation.

CSE expects we will continue to work with UFE, especially on the state and local level. UFE staff are sharp, committed and seem to have a good handle on how to deal with the realities of the American political system.

Joshua Vincent is the Director of the Center for the Study of Economics

Endorsement 529

Feasta (a prominent public-service foundation in Dublin, Ireland): "An annual development site tax on the site value of development land triggered on zoning or granting of Planning Permission should replace the existing provisions of Part V [of Ireland's 2000 Planning & Development Act]. This would overcome the problem of withholding and hoarding of development and sale-based laws."

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