

Incentive Taxation

LVT Benefits the Environment

Objection: *If open-space land were developed, wouldn't that harm the environment?*

Answer: Its premature development would certainly harm the environment, but since such land is low in price, its land value tax (LVT) would be low, thereby reducing development pressures - so LVT would actually preserve open-space land. It is necessary to environmentalism, for these reasons:

(1) LVT and environmentalism share the same philosophical rationale - they both maintain that land is different from human-produced things and therefore should be equally available to us all.

(2) LVT would cause urban land to be more efficiently used, thereby reducing the urban-sprawl pressure on open-space land.

(3) LVT protects rational zoning by removing the profit from spot re-zoning.

(4) LVT would promote mass transit by increasing the density of our cities.

(5) LVT would eliminate absentee ownership (absentees will not own land if their incomes were taxed away). Absentee landowners often do not take good care of their land.

(6) LVT could provide a plentiful revenue source for legitimate environmental programs.

When people are well off, they are more likely to be environmentally conscious.

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"Some Will Pay More"

If the tax rate on building assessments becomes lower than the tax rate on land assessments, most property owners (potential voters all) will get tax reductions, but some property owners will pay more. City councilors and school-board members are rightly concerned about this minority, so let us directly address their concerns:

(1) We note that most property owners get property-tax reductions with the two-rate tax. We have found, somewhat surprisingly, that two-rate generally creates two different groups of "pay-less" property owners: owners of big commercial buildings, (where the good jobs are) because their expensive buildings are down-taxed, and poor people (because they own or live on little land value). Do not tax the good jobs out of town.

(2) If a property owner builds a building, he should not be compelled by the property tax to share its value with others. Also, local government has a

right to tax for what it provides - better police and fire protection, streets, and other public goods and services - all of which increases the local value of land.

(3) The "pay-more" owners generally pay only a little more. They generally have an income stream to meet their new property tax, unlike most homeowners.

(4) The introduction of the two-rate property tax must be gradual for the sake of the few "pay-more" property owners.

(5) The two-rate property tax is not designed to impose a larger tax rate on business property vis-à-vis residential properties. It is not at all concerned with land use (only with potential land use within the existing zoning laws).

(6) Local business greatly benefits when buildings are down-taxed and land is up-taxed: all our 17 empirical studies fully substantiate this. Some property owners might see an increase in their property taxes, but they will benefit from the better business climate.

Empirical Proofs

This publication has conducted 17 empirical studies, ALL of which substantiate conclusively that land-value taxation (LVT) produces spurts in new construction and renovation:

(1) In each of the 17 cases, within three years of two-rate LVT adoption, there has been a spurt in building-permits issued as compared to the three-years-before-adoption period. The building permits are kept on file in every city hall; they measure construction & renovation.

(2) Whenever we can compare the two-rate jurisdiction with comparable neighboring one-rate jurisdictions, the two-rate LVT jurisdiction has out-constructed and out-renovated its one-rate comparable neighbors.

The property tax on land assessments is a good tax. The property tax on buildings is a bad tax. The more land assessments are taxed, the more economic growth a jurisdiction will have.

Take Notice

Property-taxing jurisdictions, such as counties, school districts, cities, or boroughs, can defer taxes on building assessments for particular property taxpayers similar to what Dauphin County has done pursuant to Act 50 (1998). Harrisburg is in Dauphin County (unfortunately, Dauphin also deferred taxes on land assessments).

Also in Act 50:

→ The deferment can apply only to residences owned by senior citizens, the poor, or temporarily unemployed.

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PHILADELPHIA

It has run items taken from the Philadelphia Controller's Report (released in November 2001) in the last few issues. Here are more excerpts:

☐ Philadelphia's population has declined steadily since 1950; it is now 73% of 1950's population. (p. 6)

☐ "Despite positive growth in the regional economy since 1993, it was not until after the city reduced taxes [on human production] that it experienced job growth." (p.8)

☐ In Philadelphia, 22.5% of the property tax now falls on land assessments, but the Controller suggests 50% by the fiscal year 2003. (p.4)

The Experts Write About Land Assessing

In 1978, the Lincoln Institute of Land Policy published Paul Smith's study entitled "Site Value Taxation." On page 9, he wrote:

"I would suspect that 60 percent or perhaps slightly more of the [assessing] staff time available is devoted to buildings.... The nebulous nature of such factors as depreciation and obsolescence make building valuation a hazardous task to say the least. This is not to imply that land valuation is a simple or inexpensive process. It is obvious, however, that if an assessor had to value only the land his task would be greatly simplified, and, given the same total staff resources, his valuations would be more accurate.... It must be kept in mind that it is not the assessor who makes values, it is the action of buyers and sellers in the market."

Smith quotes approvingly from the Woodruff/Ecker-Racz study (1969) of LVT practice in Australia and New Zealand:

"The argument commonly heard in America that site value rating [taxing] is administratively impossible because of the difficulty of assessing land apart from the buildings on it, is not heard at all in Australia and New Zealand. Many decades of experience have convinced even the most hardened skeptics that while it may be considerably more difficult to appraise the land component of a single improved parcel apart from the building on it, the reverse is true when great numbers

An Ability-to-Pay Tax

Anthony Pileggi's careful empirical study showed that in Indiana, Pennsylvania (pop. 15,000), 1.5% of the richest landowners paid 53.5% of a land value tax compared to the 30.6% of the U.S. income tax paid by the richest 3% (IT, 4/80, p. 1). In bigger cities, the disparity would be even greater.

All this substantiates that a land value tax would be even more based on ability-to-pay than even the income tax, at least for the richest among us.

LVT Benefits Environment

Continued from page 1

Objection: Do you want Brazil's rain forest, "the lungs of the world," to be developed?

Answer: No. Brazil's rain forest is annually shrinking in size because land speculation produces vast vacant or underused acres elsewhere in the country, sending farmers into the rain forest in search of affordable land.

Both farmers and environmentalists need equal rights and land value taxation.

of properties have to be evaluated for tax purposes. Involved calculations need be made only for selected benchmark properties and the values established for the benchmarks may be extrapolated to all properties.

Enough Already

If you tax buildings less, there will obviously be more new construction and renovation.

☆ If you tax land assessments more, land-sites will obviously be developed more fully (thereby creating more new construction & renovation, and jobs).

Why not reduce the property tax on building assessments in five equal annual installments until it is zero? There would be no tax penalty at all on improving properties in your town.

A two-rate property-tax switch is completely revenue-neutral and could be done simply at no extra tax cost.

☆ Is your town so perfect that all land-sites are fully developed and all buildings are fully renovated? Isn't there any room for improvement?

☆ Don't you want to find jobs for your town's unemployed?

We will help you make the switch (free, no obligation) if you call 1-215-988-9998.

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C S E

**These Pennsylvania localities currently assess properties using Two-Rate.
Find out what it would take to put your town on the list.
Center for the Study of Economics is easy to reach:
centerforthestudyofoeconomics@msn.com 215.988.9998 Email or call today.**

City	Land Tax Rate	Building Tax Rate	Land Tax Date
Aliquippa School District	16.5000%	2.0000%	1993
Aliquippa	7.7000%	0.0900%	1988
Allentown	3.6210%	0.7710%	1997
Clairton	28.0000%	1.2200%	1989
Coatesville	1.0160%	0.4000%	1991
Connellsville	11.3500%	1.7500%	1992
DuBois	9.5000%	0.4500%	1991
Duquesne	1.6000%	0.8470%	1985
Ebensburg	4.0000%	1.3300%	2000
Harrisburg	2.4414%	0.4069%	1975
Lock Haven	5.2140%	1.3570%	1991
McKeesport	16.5000%	4.2600%	1980
New Castle	9.2459%	2.3337%	1982
Oil City	9.1500%	2.7100%	1989
Pittsburgh Improve Dist.	0.3710%	n/app	1997
Scranton	0.0821%	0.0179%	1913
Steelton	0.6490%	0.4440%	2000
Titusville	5.9160%	1.9000%	1990
Washington	19.216%	1.1000%	1985

TAKE NOTICE

Continued from page 1

→ Only tax increases (say, due to assessment increases) need be deferred.

→ The tax deferment can be capped at some dollar amount, say \$15,000.

→ Property owners must apply each year for the deferment.

→ Interest could be charged for the deferment, or it could be interest-free.

→ The deferment must be repaid at time of sale or bequeathal (in which case the jurisdiction eventually will lose no revenue at all).

From the Editor

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→ Revenue-neutrality: whatever revenue the city loses by down-taxing buildings, it can exactly make up by taxing land assessments at a higher rate.

→ The income-tax code-and-regulations has more than octupled since 1955 (source *IBD* 7.30.2001, A20, citing the Tax Foundation's calculations based on the IRS Code and *Federal Tax Regulations* of the West Publishing Co.). The cost of compliance comes to about \$260 per capita, not counting lobbying, and haggling with the IRS (source: University of Michigan Office of Tax Policy Research). Tax land values, not general income.

→ When we tax wealth production, we create poverty. We penalize the successful to subsidize the unsuccessful. Tax land, not production.

→ In 1987, energy was about 5.8% of total U.S. consumption; it has been steadily tending downward and was about 4.4% in 2001's first quarter (*Investor's Business Daily*, 05.29.2001, A22, citing U.S. Bureau of Economic Analysis).

→ 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."

Endorsements 517-518

Citizen's Housing & Planning Council of New York (1960 study, 22pp., 10 detailed tables, p. 19): "It is our opinion, based upon all of the various facets of this tax policies study, that the idea of exempting all improvements from taxation has much to commend it."

LIFE Magazine (12/24/65 editorial): "Rewarded also by [the current] tax system are the speculators who, because of low land taxes, can afford to hold land out of use until the city's growth forces up its price. This is a direct cause of 'urban sprawl,' as developers reach out for lower-priced land while bypassing idle land that is closer to the city but whose owner is not ready to sell.... Such a reform, says Professor Mason Gaffney of the University of Wisconsin, "should enable many families to enjoy low-density living much closer in to the city and so save the millions of hours wasted driving home past vacant or semi-vacant lots."

Letters-to-the-editor and changes of address can be sent
to us by post  or e-mail .

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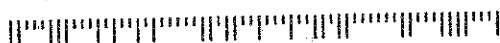
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at www.urbantools.net*

Letters

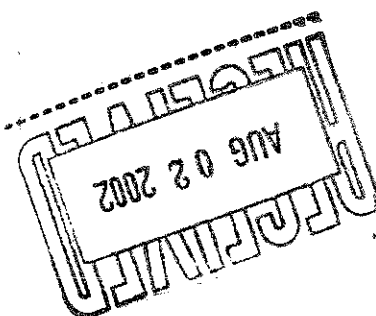
Our Feb. 2002 issue printed an article on "Combating Terrorism" which listed five examples of anti-U.S. terrorism that would seem to justify U.S. military response. We received three critical letters, one each from the United States, New Zealand, and Canada (we invite letters from readers and consider them all carefully).

IT reader Jean Smith of Canada wrote, in part:

"I'm sending along some money because I appreciate much of what you people are doing which costs money...unfortunately [your article] reinforces the widely held opinion that Americans think that their lives are of more value than that of other people. What happened on September 11th was dreadful and for that you have our sympathy but compared to the carnage caused by US actions in many parts of the world the numbers killed in New York are of far less magnitude."



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