

Incentive Taxation

3-527

Reduce Property Taxes for Most Voters

Reassessing? Here's How to Lower Property Taxes Most Homeowners

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to your inbox as a .pdf
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Re-assessment generally means higher taxes for most homeowners, but it need not be.

It generally means higher assessments for them, which sends them into a tizzy. Property-tax rates will drop, but generally, that fact makes little impression on them.

Here's what you can do: Go two-rate (lower property-tax rate on building assessments than on land assessments instead of the same rate on both). This will almost always lower property taxes for most homeowners. It will over-balance any increase most homeowners might get from re-assessment.

But you must proceed properly: ask the Center for the Study of Economics (CSE) to perform a free no-obligation study in your town of which homeowners will pay more, and which will pay less, with a two-rate land-oriented property tax; then publicize this study. Do this before re-assessment, or even immediately after. Show your voters that re-assessment will lower their property taxes. CSE's phone number is 215-988-9998. The study is so easy to do that with some phone information, you or your staff can do it in-house.

Generally, this publication has stressed the pro-business advantages of two-rate: more new construction and renovation. Nevertheless, it can also be pro-homeowner.

Be Kind to Your Homeowners

Dozens of studies show that if the tax rate on building assessments is lower than the tax rate on land assessments, instead of being the same, property taxes for most homeowners are reduced. Reason: they have more-than-average investment in their building than in their land.

Call 215-988-9998 (free, no-obligation) to find out how you can do a study in your town.

Objections Countered

In this issue, we answer many of the questions and objections that have been raised about the efficacy of implementing Land Value Taxation.

Objection: "Shouldn't a landowner's income be taxed like everyone else's?"

Reply: No, because a landowner did not produce anything. Labor and capital produce the whole national product and are therefore entitled to all of it. But a third party, the landowner, arrives to take a share. He is like a slave owner; neither produces anything.

Objection: "An increase in the land value tax rate will cause extreme hardship to landowners, who have already paid to buy their land. They'll be paying twice for the same land!"

Reply: Not so: Most landowners, particularly the poorer ones,

How to Protect the Environment

We can apply equal rights to the issue of protecting the environment; in fact, the environment won't be fully protected otherwise.

Equal rights require that we tax land values instead of taxing human production. This is the only way to contain urban sprawl into the clean-and-green countryside.

When urban land values are taxed, keeping urban land-sites out of full use will become expensive to do so, since the higher land value tax will not be offset by a paltry income from an inadequate land use. In addition, the down-taxing of the improvement makes it cheaper to build. Add both of these factors together and there'll be

Objections Countered

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no labor that could justify a return.

However, practicality demands the private ownership of land – so let land be privately owned as long as the owners pay taxes on it to the government (so that everyone benefits equally). Then taxes on production will not violate private ownership rights.

Objection: *"It is certainly true that new land can't be produced to meet demand, but it can be used more intensively, which is the same thing."*

Reply: It is not the same thing ethically; it's irrelevant to whether land rent should be taxed. It is relevant to an increase in the value of land, but value and ownership rights are entirely different. For instance, a monopoly may use its property more intensively, but that does not justify monopoly. Monopoly is still ethically wrong.

Objection: *"To say that LVT is necessary to preserve free enterprise and democracy in the long run – isn't that an exaggeration?"*

Reply: If LVT can end poverty and unemployment, as the hard evidence indicates, and if the current subsidization of poverty and the taxing of jobs provide the exact-wrong incentives, then it is no exaggeration to say that LVT is necessary to preserve free enterprise and democracy in the long run. If our basic relationship with nature is ethically wrong, can our current society long survive?

Objection: *"You want government ownership of the land – that's socialism."*

Reply: Absolutely not. I abhor socialism. The landowner keeps his full title to his land and the government will not socialize what he produces with his labor and capital. LVT is anti-socialist.

Objection: *"The landowner commits a real service by collecting the land rent (and if taxed, that rent is transmitted to the government). He ought to be repaid for this service."*

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From the Editor Vol. XXIX, No. 2

❖ Albert Einstein: "The hardest thing in the world to understand is the income tax." (WSJ, 4/19/00, A1). Tax land rent not incomes.

❖ Farm subsidies enrich the biggies: 68% of U.S. farm subsidies go to 15% of the farmers; they are in the largest categories (AIER Research Reports, citing USDA, 2001).

❖ If social security privatization can bring prosperity, then why do we need two-rate land value taxation? Because we need Justice, which social security privatization cannot provide, and we need even more prosperity than social security privatization can provide.

❖ Medicare spending (Part A only) will grow from 2.4% of U.S. GDP in 2001 to 5% by 2035 (*Investors Business Daily*, 1/21/03, A17, citing Medicare Trustees 2002 Report).

❖ Medicare costs are expected to soar 109%, 2001 to 2012, Medicaid costs by 189% - without new entitlements (CBO, before 6/02). Tax land, not production, otherwise federal bankruptcy.

❖ If a locality has haphazard non-uniform building assessments, it should exempt buildings altogether from the property tax; then it will not have to be concerned about the misassessment of buildings. By raising other taxes (particularly on land, of course) it can make up for the revenue lost by not taxing buildings so much. This reduces taxes for most voters.

❖ Taxes take a 40% bite out of airfare, 28% out of a fast-food meal, 45% out of car cost. But a land value tax falls on locations and reduces location price; it doesn't fall at all on things produced (source: Americans for Tax Reform).

How to Protect the Environment

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urban infill rather than sprawl into the clean-and-green countryside. In other words, with land value taxation, homeowners and other land users will build in the more convenient city rather than spreading out across rural acres. There will also be less commuting, road-building, car pollution, heightened utility costs, etc.

Not only that, but if rural areas are also land-value-taxed, rural land will be more efficiently used (for all of the above reasons), and so there'll be less rural land sprawl onto previously-undeveloped rural land. However, equal-rights-required land value taxation is likely to be first applied in urban areas only – for political reasons.

If we green the city, we'll have to blacktop the countryside. We should not be surprised that if we tax in accord with equal rights, our environment will be protected.

There are *four* additional ways to protect the environment via the application of equal rights:

Promote Public Transportation – Spotty development of city land makes mass public transportation uneconomical. Buses and subways require concentrations of people near stations, and taxing land values more than buildings would bring this about.

Zoning Protection – Zoning regulations are often lowered to allow for environmentally harmful land development; this is often called "spot re-zoning." But this would be discouraged by land value taxation, because there would be less land-speculation profit to be made by extracting an up-zoning. The urban master plan, which requires zoning, won't be shredded by haphazard land development.

Absentee Landownership Would Become Uneconomical – Absentee landowners often use land unecologically, but such use would become uneconomic with

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Reply: Agreed. Keep in mind, also, that rent collectors ordinarily get 2% to 3% of the rent collected.

Objections Countered

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will pay less with a land value tax than with the taxes it would replace.

Increase the LVT rate gradually to give landowners time to adjust to the new tax system. What's more, they will be taxed less on their improvements.

If we do not tax land values, we will have to tax wages, buildings, and other produced commodities and services. That is neither just nor the way to prosperity.

Objection: "Some property owners (especially some I know personally) will pay more property tax with two-rate as compared to one-rate."

Reply: This has not been a problem in the existing two-rate localities because most voters (by far) pay less. The few pay-mores generally pay only a little bit more especially if the new tax is instituted gradually (call 215-988-9998 for information - no obligation); also, these landowners generally have an income stream for easily making the extra payment.

Objection: "Isn't land just like any other commodity?"

Reply: Absolutely not. There are important differences. Land is strictly limited in supply, and no one made it - just the reverse for human-produced goods and services. That's why a tax on land is different than a tax on everything else; whatever you can say about the one, the exact opposite is true of the other. Production taxes deter while LVT spurs. Production taxes kill jobs; LVT creates them, etc.

Objection: "Why should landowners fill in their land-sites if the higher value of that site caused by the landfill will be taxed away?"

Reply: They could be fully protected if they received a credit for land-value increases in two years' time (not counting inflation) due to their landfill.

An example will clarify: suppose a landowner registers a landfill with the assessor. His land is assessed at \$100,000 now, but two years later it is re-assessed at \$110,000, \$2,000 of

which is due to general land price appreciation in the neighborhood, and then there's inflation at 3% per year (as publicly announced by the Bureau of Labor Statistics). That landowner would then get a tax credit of \$1,910, figured this way: $(\$110,000 - \$2,000 - [\$100,000 \times 1.03 \times 1.03])$. Landowners would then get paid for needed landfills.

Question: "If I own a piece of land but don't have any income from it, how can I pay a tax on its value?"

Reply: If you do not have any income from the land, it is vacant and you are holding an economic opportunity out of use, thereby hurting others unjustly. With a higher tax on it, you would have to develop it or sell it to someone who would develop it (important: the development would be little taxed).

Objection: "Didn't the original settlers, almost surely farmers, put their labor into the land, thereby justly owning it? Could they not then justly pass the land ownership down through the generations to the present owner?"

Reply: No. The original settlers did not put their labor into the land - they didn't make it - rather they put their labor into the crop grown on the land; they put their labor onto the land.

The law should allow them to own the land so they can develop it appropriately, but ethics requires that it should be taxed on its value.

Objection: "Both landowners and capital-investors contribute to the production process and so both are entitled to a monetary return."

Reply: It's not contribution to

Berry's World



Jim Berry
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"Hey, What can I say?! Some people are into 'moral relativism' -- I'm into ETHICAL relativism."

the production process that justifies ownership, but labor exerted. Monopolists and thieves might contribute money to the production process, but that does not justify monopoly or thievery. As for landowners, they did not contribute land to the productive process - God or Nature did. Landowners as landowners exert no labor so they are not entitled to any return, no matter how much money they might contribute.

However, capital-investors contribute their labor or what they have legitimately bought from laborers and so are entitled to a return on their investment.

For example, those who make a cup justly own it and the money they might make from selling it because it is a product of their labor. Likewise, those who make a cup-making machine (i.e., capital) justly own the machine because it is a product of their labor, and if they sell it, they justly own the money from that sale. But landowners as landowners offer

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From the Director: Land and Taxation News

Land Value Tax Seminar in Washington, D.C.

The Lincoln Institute of Land Policy sponsored a daylong session on two-rate land value taxation at George Washington U. on Jan. 31st. It was generally agreed that land taxation was a good idea and achievable. A speaker was **Tony Coughlan**, distinguished DC tax attorney, former Fairfax, VA councilperson, and current CSE board member, who discussed the politics of two-rate land taxation.

Also featured was **Professor David Miller** of the University of Pittsburgh, who took 'credit' for helping to extinguish the two-rate tax in Pittsburgh. This intelligence lacked the possible impact it might have had, as Professor Miller's prescriptions for Pittsburgh included more money from the state (not terribly likely in 2003) and two new taxes: one on payrolls and one on liquor by the drink – all of which have to be approved by the Pennsylvania state legislature. Moreover, in a recession year. These backward-looking and discredited nostrums were identified for what they were by conference attendees: a move made in desperation by a city government no longer sure of itself. Stay tuned for more on poor old P-Burgh.

Roanoke looks to itself – LVT Legislative Victory!

Roanoke is an older post-industrial city of about 100,000 nestled in a lovely valley in south central Virginia. Possessed of great beauty and a great transportation system, Roanoke still suffered during the 90s boom, and the new decade has brought problems in attracting investment, homeowners, and business. Happily, the just-concluded legislative session in Virginia saw Roanoke asking for—and receiving --permission to enact two-rate land value taxation with the passage of **SB1095**. The Center will now do a parcel-by-parcel revenue impact study. We'll follow up in a later issue.

--Joshua Vincent, Director of CSE

How to Protect the Environment

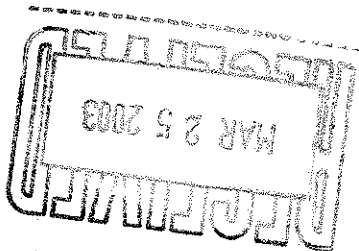
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equal-rights-required land value taxation. Reason: there'll be no profit in collecting land rent, only to turn over that rent in taxes at the end of the year to the government.

Good Revenue Source for Environmental Programs – A tax on land values could finance environmental-protection programs without inhibiting production; in fact, such taxation would promote production (for the reasons already mentioned). Also, if land is taxed, then land will be cheaper for the government to purchase for parks and playgrounds. Surtax on land values would therefore be ideal for financing parks and playgrounds.



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