

# Incentive Taxation

## LATE NEWS

5744

### The People Speak: Allentown Will Collect the Land Rent

**Here's the breaking story.**

On April, 23, 1996 the voters of Allentown, Pa. adopted a Home Rule Charter that will use Land Value Taxation as the cornerstone of a lean, responsible government. It speaks of a commitment to the energy and entrepreneurial spirit of a great city's citizens. The vote was a landslide, with just over 60% of the voters casting "Ayes." As Patrick Toomey, Charter Commission member, says "... there is very little risk and a lot of potential upside to the land-value tax system."

Allentown (pop 106,000), the fourth largest city in Pa., has been the butt of many jokes over the past decade. Billy Joel wrote a famous song about the collapse of the steel industry and of a tarnished American Dream. The city's leaders seemed to have no options to prevent the decay.

LVT had been accepted as a tool for recovery; in fact, it had been passed by the City Council several times in the late 70's and the 80's only to be vetoed by the mayor. Objections came from the speculator class, couched in terms of power and money.

Don Miller, for example, held the reins of the local paper and controlled many parking lots in the downtown. Then there were the Fair Grounds (as they are known) used very sporadically as a farmers' market and a spot

for an annual regional fair. Miller and the Grounds owners made a tidy sum from the mud and the dust, as long as there wasn't a high tax rate on land.

Several in-town firms also made their complaints known. Mack Truck threatened to leave town if its wide-open expanse of testing track was taxed higher.

Reacting to the threats, the mayor caved in. Ironically, after the last LVT veto (1988), Mack left anyway. A further irony: if the City Council had overcome the mayoral veto in 1978, Mack Truck would have saved money with a switch to LVT.

#### Allentown Gets Another Chance

Fast forward to 1994. Allentown had decided to explore the Home Rule system of government. In Pennsylvania, that means that the city may use any tax system it decides is best, limited by the state code. But, a home rule town can't create new subjects of taxation.

Two members of the Home Rule Study Commission were Patrick Toomey and Louis Belletieri, businessmen not hamstrung by preconceptions about the nature of government. Mr. Toomey had been interested in LVT as a tax that would help not hurt the local economy. For several years, IT reader and HGFA trustee William Kells had been visiting Allentown in the

#### The Proposal

1) Gradually shift the current property tax on buildings to land with a lower tax rate (%) on building assessments and a higher rate (%) on land assessments.

2) Then shift all other taxes (on income, sales, etc.) to land.

3) Contact us for how-to-do-it information.

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course of his profession. Mr. Kells' love of good Italian food had brought him to Belletieri's restaurant on Chew Street. Between bites of manicotti Mr. Kells discussed the merits of LVT with Mr. Belletieri and piqued his interest. Mr. Toomey was asked to head the tax study group within the Commission. With help from HGFA, the full Home Rule Commission was sold. LVT was to be placed in front of the voters in April, 1996. So history was made by its adoption.

#### The Charter: What's The Good Part?

The proposed charter freezes economy-killing taxes (deed transfer, earned income, business and occupational privilege, residence taxes, and amusement devices) at their 1996 levels. The first year of two-rate will have a ratio of land-to-building rates at 1.486 to 1, with a shift to 4.702 to 1 after five years.

The Council may raise the property tax rate **only** with a super-majority **and** no decrease in the ratio. The system can be rescinded only after the initial five-year period by referendum. There is a real chance that city finances

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# Alleviations

1. Land assessments could be altered according to changes in agricultural commodity prices. Agricultural prices and production are in constant flux. They depend upon the vagaries of the weather, consumer demand and sudden changes in supply from competitors abroad. But assessments are not likely to change quickly enough and so they won't reflect current land rent. Therefore, modify the land assessment according to the average expected price of whatever commodity is being grown on that piece of land. This will reduce farming risks.

2. Allow a farmer (or any landowner) to defer a portion of his land rent tax to time of sale or exchange of property, depending on his income or crop price. Of course, a suitable interest rate should be charged on the unpaid balance. The heirs of such a property should be willing to inherit less value in the property rather than let distant unrelated taxpayers pick up that tab. It is only just that the heirs should pay rather than a poor distant elderly homeowner. No other tax offers this feature.

## Allentown

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will be fed primarily by the land component of the property tax.

When the program works out, it is hoped Allentown Schools will be the next step.

In 1990, Allentown was declared "America's worst place to live" by *Money* magazine. The region finished 300th. It was the ignominious end of a slide that began with *Money*'s first survey in 1987. That year the city (and region) finished 73rd. Then 185th. Then 218th. Then 300th. Now, we think its time to say goodbye all that.

Past studies of other 2-rate cities show that construction and economic rehabilitation will increase. The higher

Note: the deferment should not exceed the homeowner's unmortgaged equity in the property (a problem only in a small minority of cases).

3. Discount coupons can accompany land rent tax receipts. Let the government collect a little more land rent tax than it may need, and let it use the excess collection to pay back merchants who turn in discount coupons from their customers for overcoats, appliances, furniture, etc. Their customers would get these discount coupons along with their land rent tax receipts which they will receive when they pay this tax.

Wouldn't this idea make the land rent tax more palatable? What other tax offers this feature?

The government can raise revenue to pay these discount coupons from general taxation, although it would obviously be preferable for it to get it from the land rent tax.

4. Land rent tax payments need not be annual; a monthly or quarterly payment may be easier.

In many U.S. localities, the bank holding the mortgage already makes

the tax on land and the lower all other taxes, the more the free market will be able to take root in Allentown. It will be an exciting time.

One city's long struggle for a rational system of taxation seems to be ending in victory. Only constant vigilance will keep it so, but we can't think of a better city or of a finer people to entrust the promise and reality of LVT.



the monthly payments.

5. Zoning can be used to protect certain sites from development, as at present.

6. If re-assessments occur with less-than-annual frequency, assessment can be automatically increased yearly based on the official inflation rate. This is particularly necessary if the annual rate of inflation is high.


Annual construction manuals (which are in every U.S. assessment office), reveal how much it costs to construct particular types of buildings, making it easy to separate land and building values.

7. The government could reimburse owners of improvements which are to be demolished and replaced with a newer improvement. Let us suppose the city develops towards your neighborhood. Your single-family home is no longer appropriate for that location; it will soon be replaced by, say, a multi-storied apartment house. You can't sell your home, it's in the way and will soon be demolished; and you can't sell your land if it is to be heavily taxed.

Your earnings are, in effect, unjustly expropriated. At least under the current one-rate property tax you lose on your building (remember, it will soon be demolished), but in compensation (or over-compensation) you can make a land-speculation profit.

Simplest solution: the local gov-

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This bulletin is published by the Henry George Foundation of America, 2000 Century Plaza, (238), Columbia, MD 21044. Phone: (410) 740-1177. Editor: Steven Cord, Assoc. Editor: Joshua Vincent. Prod. Mgr.: Sharon Feinman. Inquiries invited. Subscription rate \$15/yr. © 1995. Reproduction is permitted provided credit is given and we are notified.

♦ Proposed International Conference = A conference is being planned which is to be held at the University of Maryland to commemorate the centennial of Henry George's death in 1897. A call for papers will be made. Everyone is welcome!

♦ 14 factors for site location are listed by Peter Dale and John McLaughlin in their book *Land Information Management*, but 41 factors are listed for building valuation (p. 55).

Significance: It is much easier to assess only land rather than both land and buildings.

♦ IT reader and Geonomist Jeff Smith proposes this U.S. Constitutional Amendment: "Every government shall collect all land rent before borrowing or taxing wages or interest."

♦ Sign on a Petro-Canada gas station in Prince George, British Columbia: "Friendly Self Service."

♦ 258 out of 287 hotels surveyed

in Tasmania, Australia would save on property taxes with a building-to-land shift, according to a report prepared by the Australian Hotels Assn. (Tasmanian Branch) and the Municipal Reform Group (see *Progress* magazine, 4/90; official govt. figures were used).

♦ There's the baseball rookie in spring who sets the world on fire but then writes a letter: "Be home soon. They're starting to throw curve balls."

♦ Beggars have to pay up to \$2,300 for choice sites on the Champs Élysées in Paris. The money is collected by an "underground" organization of criminals who know how to calculate the rental values of key locations where the beggars can make the most money from passing Parisians. (from *Land and Liberty*, 11-12/89, p. 91).

♦ Experience is what you get when you don't get what you want.

♦ Property owners can pay their property taxes by credit card.

♦ IT reader Irwin Zucker writes: "Never use the word TAX to define the government's receipts for land values. The tax is on structures. It's a return, that's what it is on land values. Lower the tax, enhance the return."

♦ 19 of 50 states plus D.C. reported separate land and building assessments to the federal government (*Census of Govts.*, 1992, Vol. 2, Table 1); their building-assessment-to-land assessment ratio was 1.67:1.

♦ When it comes to the property tax, be sure to distinguish between land value and building value, as well as assessment and tax rate.

♦ The cost per dollar of assessing and collecting the property tax, even as it is presently constituted, can be reduced if the tax rate is increased; i.e., the higher the tax rate (preferably 2-rate, of course), the less the cost per dollar. It can be the cheapest tax of all to collect.

## *A Land Rent Reduces Taxes for Most Voters*

Yes! The reduction is a Big One, too. It's not even close, even though the government will continue to get the same revenue as before.

Since a federal land value tax would replace some or all of an income or sales tax, then the average taxpayer would save much money from such a shift because he holds very little land value, although he's especially hard-hit by the income or sales tax. His income tax, for example comes to maybe a third of his total income but his annual land rent income doesn't even come close to that. Isn't this true for you, dear reader?

All this would be especially true for poor people, who own little or no land value, nor do they have much an-

nual land-rent income (if they owned a lot of valuable land, they wouldn't be poor!). But they pay considerable income tax, and they pay sales taxes on the things they buy.

If most voters will pay less and the government will get the same revenue, who will pay more? Some businesses which hold much land value will pay more, that's who. But there aren't many of them, as landowners they produce nothing, and they will be amply recompensed by paying less tax on what they do produce.

Of course, politicians will have to inform their constituents about all this, otherwise the voters are likely, upon inadequate reflection, to think that the land rent tax might be an intolerable

## *Alleviations*

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ernment could offer to buy your home at its reproduction value, hopefully using land rent tax funds.

burden.

Another advantage of LRT is that it will promote economic development. All building-permit studies substantiate this, and common sense concludes that if we tax buildings and income less, we'll have more buildings and income. If we tax land rent more to make up for lost governmental revenue, then land will have to be used more efficiently, and that in itself will create buildings and jobs.

So the average voter would be much better off paying a land value tax in lieu of the taxes it would replace.

## Endorsements 425-426

**Ted Halstead and Jonathan Rowe** (Executive Director and Program Director respectively of Redefining Progress, a public policy organization in San Francisco; these extracts are from the *Washington Post*, 9/10/95, C3: "The federal government should be moving toward elimination of payroll and income taxes and toward taxation of the use of finite natural resources and the pollution that results. Instead of using taxes simply to raise revenues, the government could raise revenue in a way that helps reduce the need for

both government and taxes.

"Much more debilitating for employment in America is the payroll tax, which slaps a big penalty on small businesses for the heinous act of hiring a worker. Resource-based taxes provide a practical way to reduce that penalty....

"This is not a pipe dream. We have completed the first draft of a resource tax proposal for the state of California, and found that the state could abolish virtually all existing state and local taxes, and raise the same amount of revenue from resource use

and pollution instead.

"Major international corporations in Sweden, including IKEA and Electrolux, are supporting a move toward resource taxes there, and the European Community is moving in this direction as well."

**Jacques Delors** (former President of the European Commission, in his *Green Book* from George Collins' 1995 Roskilde report) "One could consider measures against speculation in real estate and land and also against speculation in exchange rates."

## The Landowner Pays the Land Value Tax

Professor James Heilbrun, in his highly regarded college textbook, *Urban Economics and Public Policy* (1987), states that the tax on land values can't be passed on to others, either in the short or long run:

"A tax on site value cannot be shifted by the landowner to any other party for one very simple reason: land is in fixed supply. It is perpetually durable and not reproducible, movable, or transformable. There is no response by which the landowner can reduce the tax burden.

"Because the supply of sites is not reduced by the tax, rent does not rise, and market prices are in no way distorted. Site value taxation thus has the virtue of being perfectly neutral in the sense of not disturbing an otherwise desirable allocation of resources. No tax better satisfies the criterion of economic efficiency."



## Henry George: Dreamer or Realist?

Some years ago, the University of Pennsylvania Press published, and the Robt. Schalkenbach Foundation reprinted, a book which we can highly recommend, entitled *Henry George: Dreamer or Realist?* by Steven Cord.

◆ If you want to find out what the historical reception to the idea of land value taxation received,

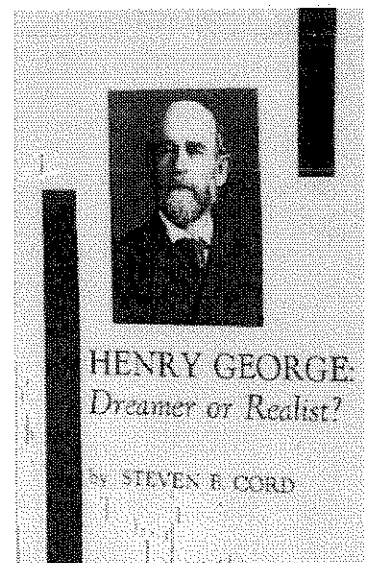
◆ and what are the answers to objections raised by some American historians and economists (although most favored it), this is the book for you.

◆ If you really want to know what land value taxation is all about, you'll have to obtain this easy-to-read book.

Write to the Robert Schalkenbach

Foundation, 41 E. 72 St., New York NY 10021 to get your copy.

Don't do taxation without it.



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