

Incentive Taxation®

Pittsburgh Suffers Building-Permit Drop After Shifting Its Property Tax From Land to Buildings

We are sorry to report a 38.1% drop in residential building-permits issued in Pittsburgh, 2001 as compared to 2000. The drop does conform to the conclusion of all 17 of our objective empirical studies: i.e., that the two-rate LVT-oriented property tax (also known as the

Graded Tax) promotes new construction and renovation. In 2001, Pittsburgh ended (probably only temporarily) its long-standing since-1913 practice of taxing building assessments less than land assessments, and reverted to equalizing the tax rates on building

and land assessments; in other words, it shifted its property tax from land to buildings. As a result, new construction, and renovation (as measured by building-permits issued), being taxed more could be expected to drop, and that is exactly what happened. Some people think that Pittsburgh's residential building permits dropped because the year 2001 was a down-year for residential construction in Pennsylvania, but no: residential building-permit issuance was down for Pennsylvania by only 1.5%, not 38.1%, as the table for both Pennsylvania and Pittsburgh makes clear.

Year	Pennsylvania	Percent of Previous Year	Pittsburgh	Percent of Previous Year
2000	\$4,616,181,000	--	\$827,764,789	--
2001	\$4,547,266,000	-1.5	\$531,131,392	-38.1

(Source: for Pennsylvania--census.gov/const/C40/table2/tyvo112.txt; for Pittsburgh -- *Annual Report of Activities for 2001 compared to 2000*, Dept. of Public Safety, Bureau of Bldg. Inspection, John Jennings, Asst. Chief)

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Connellsville Update

At a recent public meeting on the two-rate property tax (113.5/17.5 mills) in Connellsville, Pa., Bill Swan, a parking-lot owner, asserted that his property tax bill went from \$1,200 for one of his parking lots to \$2,800. (Editor: Most property owners in Connellsville pay less because of the two-rate property tax).

Joshua Vincent, director of the Center for the Study of Economics, said that a careful study showed building development had been spurred by the two-rate approach.

Jean C. Wrote, city controller when the two-rate approach was adopted in 1992, asserted that the

two-rate approach did not raise taxes (i.e., was revenue-neutral).

The business interests present at the public meeting wanted buildings to be taxed more; they also urged a variance for those most affected by the two-rate approach. (Editor: illegal under state law.)

Much of the furor over the two-rate is misspent energy however: with the first reassessment since the late 1950s looming for Fayette County, the numbers will change dramatically, as CSE and HGFA have been insisting for years. Stay tuned.

This article is based on a report in the February 28, 2002 *Connellsville Herald-Standard*.

We Need Your Help!

Incentive Taxation

promotes a proposal which can end involuntary poverty.

It can revitalize our cities and the very world itself - and yet its continued existence is threatened because it is running out of money. It needs bequests that are often attracted to less important causes. Be advised, then act.

PHILADELPHIA

(Following are further highlights from the Philadelphia City Controller's Office Tax Structure Analysis Report. The report is online at www.philadelphiacontroller.org. We will continue to publish excerpts as Philadelphia administrators, civic leaders, and citizens deliberate the report's merits and recommendations.)

☛ Philadelphia's taxation per resident household & local business net income was second only to New York City among the nation's ten largest cities. (p. 34)

☛ "Taxes [on human production] place Philadelphia at a competitive disadvantage in comparison with other cities and surrounding jurisdictions for residents and employers." (p. 9)

☛ "For-profit firms cannot avoid city taxes – but they can avoid the city." (p. 39)

☛ Council passed and the Mayor signed (on April 23) the bill that continues city wage tax reductions. *IT* is alert for further good tax news and will report it here when it happens.

AARP's View on Social-Security Reform

We have recently run a number of articles on social-security privatization. The AARP dissents; here is the view of AARP Executive Director Bill Novelli (*The Nation*, 2/02, p. 20):

"If the recommendations of the Social Security commission were enacted, 'people will have to work longer, pay more and risk getting less.

"The recommendations lack balance. They rely too heavily on benefit cuts that will fall hardest on future generations of retirees and on those who will need Social Security to survive."

Novelli says AARP favors a balanced solution "starting with diversifying the Social Security trust funds' investments to include federally backed debt instruments, raising the wage base for payroll taxes and adding newly hired state and local employees to Social Security. Social Security does not stand alone," he adds, "we are committed to improving overall retirement security, which includes, pensions, savings and health care coverage as well as Social Security."

Pittsburgh Suffers Building-Permit Drop

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In the past, Pittsburgh always surpassed national building averages whenever it increased its property-tax rate on land assessments more than on building assessments, ditto for all the other two-rate localities which we have been able to study (17 in all). The figures in the chart reinforce this record.

A mangled re-assessment was the political catalyst for Pittsburgh's reversion to an old-fashioned one-rate property tax for 2001, and the city is still enmeshed in trying to unravel this mis-assessment. It is daily front-page

news in Pittsburgh and might delay re-adoption of the two-rate property tax for 2003 (but a delay does not seem likely for 2004).

Do these figures indicate that this can be our study #18? No, not quite – our usual study compares the three-year-after switch period to the three-years-before, so we will have to wait two more years before we have a complete eighteenth study. So far, these figures indicate (if they do not conclusively substantiate) that the more the property tax is on land rather than on building assessments, new construction and renovation result.

Answering 2-Rate Objections

Objection: *Some property owners will complain that the two-rate building-to-land property tax will increase their property-tax bill.*

Answers:

1. Bring on the two-rate approach so gradually they will hardly notice.
2. Most property owners will pay less.
3. Only land-extensive properties will pay more; out-of-town land-owners generally will pay more.
4. The locality's business climate will materially improve.

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C S E

From the Editor

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☛ Idea: the first two years in a new business should be tax-free; that will not cost the government much money because most new business people won't make much money, but they will create new jobs. Their third and fourth year in business should be taxed at only half the normal corporate rate.

☛ Ethical relativism asserts that no ethical statement can be proven valid, but it can never be proven valid because it is itself an

ethical standard.

☛ "To avoid hateful sprawl outside [in the clean-and-green countryside], density somewhat less hateful must be accommodated inside the urban-growth boundary." (*National Geographic*, 7/01, p. 66). Two-rate stops sprawl.

☛ Philadelphia levies a 4.538% wage tax. Is that because wage earners in Philadelphia are paid too much?

How To Defer The 2-Rate Property Tax

Studies show most voters (including the elderly) will pay less property tax with a two-rate property tax as compared to one-rate. In addition, local business benefits. All this is magnified if a two-rate locality would defer the excess of what poor, elderly or temporarily unemployed property owners pay with the two-rate property tax as compared to what they would have paid with a one-rate property tax until time of sale or bequeathal of the property, subject to these conditions:

1. The payback of the tax deferral would be the first lien against the property at time of sale or bequeathal. However, in no case shall the deferment continue for more than ten years, nor shall it exceed the un-mortgaged part of the total property assessment.

2. This tax deferral applies only to those who are 65 years of age or more; or whose annual income is less than ten times the excess of their two-rate over one-rate property-tax payment (if there is any excess); or who have been unemployed for two years maximum and who have earned no more than \$10,000 for the property-tax year in question. You should feel free to alter these guidelines, of course.

3. The locality shall charge an annual interest rate on the tax deferral equal to the interest rate of the U.S.'s 10-year bond.

In the short run, the locality may have to raise property tax rates to re-coup revenue lost by granting these tax deferrals. But in the long run, these deferrals will prevent all hardships from a two-rate property tax.

LVT in Southfield, MI

"This policy has alleviated the necessity of having a city income tax."

"The mayor [re-elected four times] established a land division under the assessor's office to annually reappraise all land in the City of Southfield."

"Homeowners generally experienced a reduction in assessed values and a reduction in the city tax rate."

Computers permitted "a mass city-wide appraisal in a period of three hours, once a year at a cost of less than a new secretary did."

"The annual reassessment costs about six cents per parcel. The staff is now able to spend 35% more of their time in actual field appraisal work."

"The larger the improvement tax, the smaller is the owner's incentive to spend good money to improve his property.... The larger the land value tax, the larger the leverage on owners of unused property to properly improve it or sell to someone who will."

It should be noted that there were other causes for Southfield's sudden prosperity, aside from land value taxation (LVT).

(How come it is that none of our two-rate localities have yet to en-

close two-rate descriptions with their tax notices, thereby keeping the voters ignorant about the issue?)

NAFTA (Free Trade) Works

The chart below comes from the *Investor's Business Daily*, 6/20/01. Note that our trade with Mexico rose about three-fold, much more than with non-NAFTA countries.

Imports benefit our consumers by lowering prices. Exports benefit our producers.

Taxes on production add to our export prices. However, we don't export land, so tax it instead.

Country	1993 total Trade in billions	% of total	2000 total Trade in billions	% of total
Canada	211,611	21	407,995	21
Mexico	81,499	8	247,631	13
Japan	155,138	15	211,831	11
China	40,303	4	116,316	6
Germany	47,494	5	87,981	5
U.K.	48,168	5	85,038	4
Korea	31,900	3	68,202	4
Taiwan	41,269	4	64,895	3
France	28,546	3	50,035	3
Singapore	24,476	2	37,003	2
Rest of world	300,284	30	539,270	28
	1 trillion		1.93 trillion	

Source: Commerce Department

Endorsement 513

Professor Mark Alan Hughes (U. of Penn., in the *Philadelphia Daily News* as quoted in Groundswell, 11-12/01): "The Tax Structure Analysis Report issued yesterday by City Controller Jonathan Sidel is the best policy statement from any city government in my 20 years of policy analysis and research...cutting taxes will lead fewer people and firms to leave the city and persuade some of each to come or expand here."

Correction

IT reader Everett Gross writes us that we shouldn't be calling land value the debris brought in by a builder to fill a nearby site, as we did in the February issue. He writes: "Quit calling those improvements land value. They are not land value any more than is the lumber which is hauled in to build the house."

Mr. Gross is correct. Assessors generally assess such debris hauling as land value, but they should not. Such hauling should not be taxed.

Foreign Trade

Question: *How would land value taxation (LVT) affect U.S. foreign trade?*

Answer: It would increase foreign trade significantly. Taxes on labor and labor products raise the price of U.S. goods; LVT would reduce or abolish those taxes. Also, land speculation raises the price of U.S. exports; LVT could abolish that.

(This analysis was stimulated by a letter from IT reader John Miller of Poughkeepsie.)

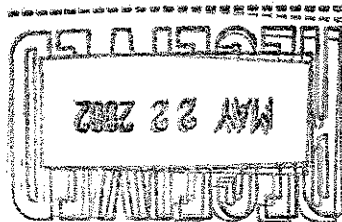
Legal Opinion on How to Assess for 2-Rate

Should the land be assessed before the building? *NO, the land is to be assessed first*, says the legal opinion in the case of John Wanamaker Department Store v. Philadelphia, 350 Pa. 638, 646, also

349, 553 (1949). On 10/12/83, Regis C. Nairn, Assistant City Solicitor of Pittsburgh, wrote a letter to Douglas Reed, Pennsylvania League of Cities (PLC - a copy of which is in our files, available on request) in which

he quoted the official decision as follows:

The official legal decision said explicitly that the taxpayer can appeal either the land assessment and/or the building assessment.



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