

Incentive Taxation[®]

How to Implement the Two-Rate Property Tax Painlessly

There are no economic disadvantages to a two-rate building-to-land property tax shift - only benefits. But if most voters will pay less with such a shift, obviously a minority of voters will pay more. You can't get blood from a turnip (or water from stone, milk from a bone or juice from a pit, for that matter). Politicians fear that these "pay-mores" might publicly complain, and they want everyone to be happy (even if the city-at-large suffers). Well, they needn't worry - there are seven ways to ensure that property owners will be completely protected from inordinate exorbitant property tax increases when the two-rate approach is employed:

(1) **PERCENTAGE CAP** - The city government can specify (by administrative ruling) that no individual property owner need pay more than a certain percentage (say, 5% or 10%) over what he paid the previous year.

(2) **PHASE-IN** - The city could specify that the building tax is to be abolished but the difference in land-only payment as compared to the old flat-rate payment could be phased in in equal annual installments over a period of, say, five years.

(3) **CIRCUIT BREAKER** - The

two-rate property tax payment could be no larger than a certain legislated percentage of total income, and the difference between what the property owner pays with the circuit breaker and what he would pay without it would be recompensed by the state. A number of states already do this.

(4) **AXI (Assessment Exemption on Improvements)** - Improvement assessments could be either totally or partially exempt from the property tax; it would be best if the exemption was a specified dollar amount (perhaps increased over the years) rather than a percentage of the total improvement assessment.

(5) **AXL (Assessment Exemption on the Land)** - How about a land assessment exemption of, say, \$500 per acre? Farmers will like this (it will keep their property taxes down, way down) and would roughly recompense them for such in-land improvements as tree breaks, ponding, grading, fertilizing, etc., which are really capital improvements and so should not be taxed but are incorrectly included in the farmland assessment.

(6) **PROPERTY TAX DEFERMENT** - Elderly or unemployed property owners could have any tax

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Surprise, Surprise

If you tax buildings less, then you'll have more and better buildings. If you tax land assessments more, you'll re-coup the revenue by not taxing buildings so much and landsites will be more intensively developed (which also means more and better buildings).

Call 215-988-9998 for how-to-do information.

How to Get A No-Tax Increase Construction Spurt

If you want to get a no-tax-increase construction spurt in your town, you need only set a lower property tax rate on building assessments and a higher property tax rate on land assessments - the so-called two-rate approach. 19 jurisdictions have already done this and ALL studies indicate that a construction and renovation spurt ALWAYS follows two-rate adoption. Rocket science is not involved here - after all, if you down-tax buildings, you'll have more buildings, and if you up-tax land values, you'll encourage landowners to use their land-sites more fully (which is another reason why there'll be more and better buildings in your town).

But if the idea is so good, how come only 19 jurisdictions in

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A No-Tax-Increase Construction Spurt

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America are doing it? Because they don't know how to figure the proposed land and building tax rates. This article will tell you how to do it.

Formula #1 - The Building Tax Rate

Simple: Just reduce the current building tax rate by no more than 20%, a figure derived from experience (not logic). If you go faster, you'll suddenly present some of the property owners in your town with a higher property-tax bill and will likely propel them into opposition to the two-rate tax and to the consequent no-tax-increase construction spurt. They should stop holding back the economic development of your town and they should start developing their land-sites more adequately or sell to someone who will - but they are not likely to. They'll think it's easier to complain about their new higher tax than to do what they should do. You want to electrify your

town's economy; you don't want to electrocute it. You simply can't go faster than public opinion will allow.

Formula #2 - The Land Tax Rate

Also simple: Use this formula - The proposed land tax rate = (current minus the proposed building tax rate) multiplied by the citywide building-to-land assessment ratio, plus the current land tax rate.

You can get the proposed building tax rate from Formula #1. For benighted one-rate cities which have not yet adopted two-rate, the current land tax rate will of course be the same as the current building tax rate. As it happens, there are an infinite number of combinations of building and land tax rates which will give your city the revenue it needs; whatever your city loses in revenue by not taxing buildings so much, it can make up by taxing land assessment more.

Now you are ready to enjoy a no-tax-increase construction spurt

in your town. Well, first you'll have to use the above two formulas to go two-rate for next year.

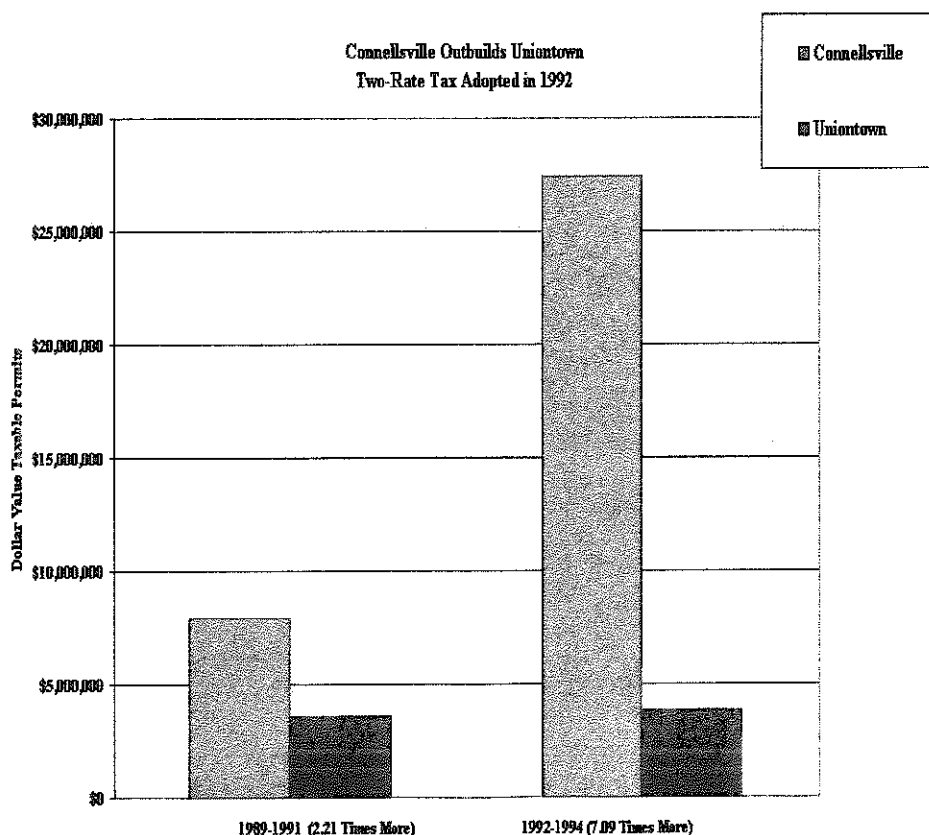
Additional Useful Information

It sometimes is useful to know the exact one-rate equivalent to the two rates which will lead to a no-tax-increase construction spurt. If so, use this formula:

The equivalent-in-revenue one-rate = (the proposed land tax rate multiplied by the citywide land assessments) plus (the proposed building tax rate times the citywide building assessments), all divided by the total citywide land and building assessments.

If you have trouble figuring out the building and land tax rates, contact the Center for the Study of Economics (1422 Chestnut St., Suite 414, Philadelphia, PA 19102, ph. - 215-988-9998, fax 215-988-9951) and the personnel there will do it for you for nothing. To cover special situations, they have figured out 32 formulas for two-rate implementation, but all you really have to know are simpler formulas. Of course, you can always use trial-and-error to figure out the rates, but use these formulas or contact *Incentive Taxation*.

2-Rate LVT



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❖ Taxes count: banks are exempt from the mercantile tax in Pittsburgh. Could this be why Pittsburgh is the headquarters for many banks?

❖ The stock market is in recession. Eliminating the capital-gains tax could solve that. Any revenue loss would be worth it, would be very minimal and could be completely made up by a surtax on land values. Tax locations, not production - to revivify the stock market.

❖ A random survey in McKeesport, Pa. of the official assessment records done under the supervision of Mayor Wayne Kucich showed that most developed properties paid decidedly less in property taxes with a two-rate building-to-land shift. As a result, reducing the mercantile or wage taxes and making up the lost revenue with a higher tax rate on land assessments for 2002 is being con-

sidered.

❖ "It is the greatest of all mistakes to do nothing because you can only do little" (Sydney Smith).

❖ A random-sample survey in Duquesne, Pa. showed that fully 84% of the developed properties would get a significant tax increase if the City Council reverted from a two-rate to a one-rate property tax.

❖ A random-sample survey in Ebensburg, Pa. showed that if the town shifted some more property tax from buildings to land (it is already two-rate), fully 69% of the developed properties in town would SAVE money on taxes.

❖ "The way I see it, if you want the rainbow, you gotta put up with the rain." (Dolly Parton in "Reader's Digest," 9/93, p. 17)

❖ Most poor people aren't that way for long. Recent studies, including one by the centrist Urban Institute, have found that most poor people join the middle class in a few

short years.

❖ The more the local property tax is shifted off building assessments onto land assessments (i.e., no-cost 2-rate), the better the local economy. That's because land-sites are used more fully; also, buildings are down-taxed. Call 1-215-988-9998 to find out how to do it.

❖ Pennsylvania cities can adopt a two-rate property tax by simply passing this local ordinance: "In accordance with P.L. 534 (1959, as updated) of the Pennsylvania City Code, the city of _____ will levy _____ mills on real estate assessed as improvements and _____ mills on real estate assessed as land.

❖ "Developed areas, including rural roads, made up less than 5 percent in 1992" - USDA. How green is our country.

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increase deferred until time of sale or bequest, at which time the deferred tax assessment comes due (with reasonable interest being charged). Property owners would thus enjoy more insurance against property tax increases than with the old penalizing one-rate approach.

(7) PAD SUBSIDY (Protection & Demolition) -The government could pay a building owner for the reproducible value of his building if within a year it is torn down and a new and presumably larger building is being constructed to replace it. For details concerning implementation, see us first. We don't want to expropriate building owners (it being

highly unlikely that they can move their building to a more appropriate location). They can be assured they'll get what's due them, an assurance they don't have with the current one-rate property tax.

No property owner need pay more tax with these alleviations.

Be Kind to Farmers

The following excerpts are taken from a speech delivered by **Dr. Mason Gaffney**, Professor of Economics at the University of California (Riverside) at the 2000 C.G.O. National Conference:

❖ In 1900 there was one farm for 11 Americans; in 1987, one farm

for 113 Americans (the ratio is more disparate now). Farms have become unaffordable for folks starting at the bottom of the agricultural ladder.

❖ In 1954, it took about 6 years of wages to buy the average farm; in 1987, about 17 years of wages (more now). "That, of course,

doesn't mean you could have bought a farm in 17 years, unless you didn't eat anything and saved every penny of your wages." Nor do these figures include payroll taxes or probable inflation.

❖ 4 ½ million farms died be-

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Endorsements 505-506

Pennsylvania Office of State Planning & Development("Pa. Land Policy," 1978): "Since 1913, the cities of Pittsburgh and Scranton have operated graded tax programs, under which land is taxed at twice the rate applied to buildings. The graded tax promises some tax relief to homeowners, as well as incentives for neighbor-

hood rehabilitation. Observers credit the graded tax with assisting in Pittsburgh's major post-World War II renewal effort. Legislation should be passed to extend the opportunity to utilize the graded tax system to all municipalities in the Commonwealth."

Mayor Stephen Reed (Harrisburg, in a letter to Mayor Anthony

Williams of Washington, D.C. 12/28/98): "Harrisburg, Pennsylvania has used the two-tiered real estate tax for several years and I endorse the system as rewarding the best use of land in the city, discouraging land speculation and providing a concrete incentive for development."

Let's Eliminate Poverty

There are 2 ways to do it:

1) *We can penalize workers in order to subsidize poverty.* That's counter-productive, but that's what we do do. Specifically, we can increase the income tax, the payroll tax, the sales tax, and the building tax in order to give some of the proceeds to the poor.

2) *We can tax land values instead.* The poor don't own much land value (if they did, they wouldn't be poor). Land-sites would be used more efficiently, thereby increasing jobs for the poor. We could even subsidize poverty, if we wanted to.

Most taxes on production end up being paid by the poor. They make it more expensive to be poor. How's that? Well, clearly the payroll tax lowers the take-home pay of poor people and the sales tax raises their prices. The property tax on buildings increases the cost of their housing. Then there's the income tax. It causes inflation. Dentists, for instance, in order to pay their income taxes, raise their prices, which the poor pay (or more likely, their teeth rot in their mouths). Production-tax inflation hits everybody equally, but the poor the hardest.

Be Kind to Farmers

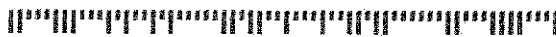
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tween 1935 and 1988.

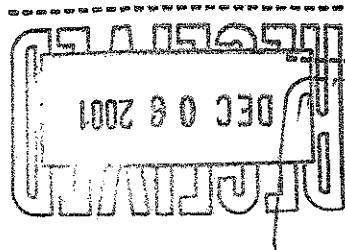
❖ In the Great Depression, six million farms provided a refuge for the urban jobless and homeless. "Today, that refuge is closed."

❖ From 1930-87, the fraction of all farm acres in units of 1,000 acres and over rose from 28% to 62% of the total. And the land in larger farms was more valuable.

Conclusion: Be kind to farmers. Exempt farm improvements from the local property tax.



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