

# Incentive Taxation

*Reduce Property Taxes for Most Voters*

## Most Voters Will Pay Less If the Property Tax Rate on Building Assessments Is Lower Than the Tax Rate on Land Assessments

We can help you do this--we've done it for many cities--if you call 215.988.9998 (no obligation).

In addition, here are ways to ensure that absolutely a two-rate building-to-land tax switch will inconvenience no property owner:

### How Philadelphia Can Outgrow Boston & New York

Philadelphia can do it by lowering its property tax on building assessments and regaining the lost revenue by raising its tax rate on land assessments.

Its business community wants it; the homeowners want it; only those who do not develop their land-sites oppose it, and they're a minority.

But wait: can land assessments be accurately separated from building assessments? Well, business owners are buying and selling land all the time and evidently can ascertain location value. Twenty other two-rate cities in Pennsylvania are doing it – why not the Philadelphia Board of Revision of Taxes? It is not professionally deficient.

All assessment manuals call for separate assessments. That's the usual and proper way to assess. If the current Philadelphia assessments, inaccurate though they may be, were two-rated, land assessments would be taxed more and Philadelphia would outgrow Boston and New York. But not until then.

Clincher: fully 80% of Philadelphia's homeowners would get actual tax reductions with a two-rate property tax (reason: they have more invested in their buildings than in their land – more than the average Philadelphia property owner). They vote.

Super-clincher: all tenants would eventually get rent reductions. They also vote.

If other cities in Pennsylvania can do it, so can Philadelphia.

(1) Abate building assessments, in whole or in part. If a high enough abatement was granted to all building assessments, no property owner would pay more.

(2) Abate property taxes, in whole or in part, of all those who might pay more, such as farmers, or of those who deserve our sympathy, such as the poor, the elderly, and the temporarily unemployed.

(3) Provide "circuit-breakers" for the above property classes (there are other state or local taxes that can raise revenue to be used to replace two-rate property taxes).

(4) Defer the property taxes of these possible pay-more property classes. In the interim, property-tax rates will have to be raised to cover the slight revenue shortfalls.

(5) Provide that no property owner need pay more than 2% (plus inflation, if desired) over the previous year because of a two-rate tax. Note that this is a cap caused by a land-tax increase and is not an assessment cap.

### Boost Your Town's Economy

Implementing a Land Value Tax helps increase construction and employment while encouraging home and business improvements.

Why tax the citizens who want to lift your community's standard of living?

Shift the burdensome building tax to a land tax and watch building and renovation permits climb.

### The Proposal in Brief

Levy a lower tax rate on building assessments, replacing it with a higher land-tax rate.

For *pro bono* assistance and research, contact  
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Most citizens are likely to pay less and 17 empirical studies substantiate an ensuing spurt in new construction and renovation.

## Mayor Reed's State-of-the-City Report for Harrisburg, PA

Harrisburg's use of the two-rate property tax approach is credited by Mayor Stephen Reed as a key initiative in promoting the revitalization of his City. This system encourages the highest and best use of land and rewards those who properly maintain or invest in buildings. One of its effects is to benefit the lower income homeowner and small business owner who struggle more than any other to make ends meet to keep and maintain their homes and businesses.

It lowers rents for persons in lower income homes and apartments. It rewards productivity and investment, in contrast to the single-tax-rate system that penalizes both.

These are some of the positive effects of the two-rate tax experienced by Harrisburg, as mentioned in Mayor Reed's 2003 State-of-the-City address delivered on Wednesday, March 26,

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# How to Get Re-Elected

Most homeowners pay less with a property-tax switch from one-rate to two-rate, but you can verify this in your locality *before* you switch. That's because the up-tax on their land will be less than the down-tax on their buildings (they have more-than-average invested in their buildings than in their land).

To be precise: property owners with a building-to-land assessment ratio less than the locality's building-to-land assessment ratio will pay more; if higher, then the two-rate tax payment will be less; if the same, the tax payment will be the same.

Anyone in your office can examine your assessment register to see if this is so in your town. They can do an accurate random-survey by taking the top name of each owner of developed property on every twentieth page in your assessment register and ascertain if that property owner has a higher or lower building-to-land assessment ratio than the locality at large; only a passing glance is needed. About 200 properties need to be surveyed this way in order to determine the percentage of savers. The Center for the Study of Economics (CSE) can do this for you *pro bono*.

An example will clarify all this. If a locality's building assessments total \$750 million and its land assessments total \$200 million, then the building-to-land assessment ratio for the whole locality is 3.75:1. Property owners with a building-to-land ratio greater than 3.75:1 will save with a two-rate shift; those with less than a 3.75:1 ratio will pay

## Mayor Reed's State-of-the-City Report for Harrisburg, Pa

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2003, at the Harrisburg Hilton Hotel before the Harrisburg Region Chamber of Commerce:

Harrisburg was considered the second most distressed city in the nation, but since 1982, it has sustained an economic resurgence that has garnered national acclaim. Harrisburg has twice won the top United States community honor as "All-American City" along with recognition from the state Chamber of Business and Industry as the Outstanding Community in Pennsylvania.

🔧 In 2002 the City issued 1,567 building permits, representing \$269.7 million in new investment, the highest total for any year in City history, and eclipses the record set several years ago.

🔧 In recent years, Harrisburg has issued 28,666 building permits, reflecting \$3.2 billion in new investment. By the end of 2002, the number of businesses on the City's tax rolls had risen to 5,976 – the highest number ever recorded. This is in sharp contrast to the 1,908 that existed not so long ago.

🔧 Construction of an 18-story office tower with interior parking will be underway at 17 North 2nd Street, next to the Hilton. Its 321,000 square feet of new space includes eight floors of Class A office space in a city where the Class A occupancy rate is now averaging 97%.

🔧 Groundbreaking was held in 2002 at the 211 North Front Street Class A office complex, with eight aboveground floors (187,000 square feet).

🔧 In April 2003, a new 34,000 square foot office center is opening in the 1500 block of North 6th Street. Plans for an additional new office center of 136,000 square feet in the next block have been approved.

🔧 A \$5 million structure will be placed in the 1400 block of N. Cameron Street, where a major computer server operation will be based.

🔧 The Homeland Center is undertaking \$2.4 million in renovations. Neighborhood residents will be employed and local businesses will be benefited.

🔧 The Belco Community Credit Union plans a major expansion of its 2nd Street headquarters.

🔧 This year, Waypoint Bank dedicated over \$400,000 in improvements to its downtown headquarters. Commerce Bank completed a \$4 million project, and the M&T Bank will be moving their district headquarters to Harrisburg.

🔧 Arcus, one of the fastest growing information technology firms in the nation, expanded its headquarters here by renovating additional space.

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more; if 3.75:1, there'll be no change. Most homeowners are likely to save, but you can find out for sure before you switch to two-rate. Verify beforehand: don't leap in the dark.

## How to Implement Social Security Privatization

Previous articles in this series have described the benefits of social-security privatization. But the initial transition from the current system to a privatized one will be great because the workers who leave for a privatized retirement system will not be forced to fund the retirement of the previous generation.

Land value taxation could ease this transition, and here are three additional suggestions:

- (1) Social Security privatization should be voluntary.
- (2) Tax the privatizers. Their benefits would generously offset their assessments.
- (3) The government should guarantee that privatizers will get at least what their Social Security pension would have been. This would quiet anti-privatization fears and would cost little (probably nothing at all).

Are workers market-savvy enough to handle their own investments? Investment savvy wouldn't be required: retirement accounts would be invested through registered investment advisers and could be restricted to bond or AAA-stock mutual funds.

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→ "A recent study estimated the market value of this spectrum [airwaves] at \$770 billion" (Norman Ornstein, Michael Calabrese, *Washington Post*, 8/12/03, A13). That would yield annual public revenue of approximately \$77 billion.

→ Philadelphia NOW official Louise Francis points out that the current property tax on buildings is reduced if a building deteriorates; that's a "perverse incentive." Tax land, not buildings.

→ Some people have moved beyond NIMBYism and gone BANANAs - build absolutely nothing anywhere near anybody.

→ Further empirical indication that two-rate works: values have recently increased in two-rate Aliquippa and decreased in nearby one-rate Beaver Falls and Ambridge.

→ 66.9% of the owners of developed properties in Blairsville, Pa. saved with the two-rate approach according to a CSE study.

→ According to *U.S. News & World Report* (4/14/03, p. 42), Alaska "each year pays a dividend of 20 percent of the state's oil profits to every citizen - \$1,540 per person in 2002" or \$30,800 as a family of four's share of the oil profits (i.e., oil-land rent). Imagine if Alaska collected all the land rent (or Iraq)....

→ Mario Cordero graciously writes to correct our translation in the September issue: "'Tierra del Impuesto, no producción' could be understood to mean, 'Land of taxes, no production' that in some way could be true." Mario offers "*Impuesto a la tierra, no a la producción*" as a translation for Tax Land, Not Production.

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## **Mayor Reed's State-of-the-City Report for Harrisburg, Pa**

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🏠 In South Allison Hill, where restoration of homes continues year-round, the Mt. Pleasant Plaza, a new retail center, is nearing completion at 13<sup>th</sup> and Derry Streets. The site represents \$2 million in neighborhood retail investment and over a dozen new full-time jobs.

🏠 The downtown continues its exciting resurgence and is today one of the top two restaurant and entertainment sites in the mid-state region. In the central business district and city-wide, twelve new restaurants have opened or announced their plans to open in this year alone.

🏠 Plans have been approved for a new 40,000 square foot office center at 1100 S. Cameron Street and two more new structures on Industrial Road, also a 14,500 square-foot office/warehouse in the 1100 block of Cumberland Street

🏠 Reuse of existing buildings and renovation is happening citywide - i.e., the NF String Co is adding production and machinery space, H&R Block is establishing a financial services complex in Allison Hill, the vacant complex in the 1100 block of Market Street is being redone into an antique art gallery and residential project.

🏠 On a vacant tract of land at 24th and Swatara Streets, new homes have been built and all have been sold to new owner-occupants.

🏠 At Capitol Heights, where an entire neighborhood is being built on cleared lots, phase one has been highly successful. Phases 2 and three are now being advanced for at least another 58 new homes, all to be privately owned.

🏠 Another 60 new homes will be added to Market Place Townhomes.

🏠 In the 200 block of Hanover Street, a 12-unit building is being converted into three single-family homes.

🏠 The Maclay Street apartment complex (near downtown) is slated for a massive overhaul, from which 104 new homes and 183 restored units will emerge.

🏠 The number of vacant structures has been reduced by 85%.

🏠 The overall multi-year cumulative drop in the city crime rate now stands at 54%.

🏠 Cumulatively, the Harrisburg fire rate has now dropped 76.3%, the lowest rate ever recorded.

🏠 Harrisburg continues to own and operate the largest municipal parks system and has the most extensive recreational and special events programs of any municipality in the mid-state. The City sponsors or co-sponsors over 200 special events each year.

🏠 Harrisburg is the only local municipality in Central Pennsylvania to subsidize the area's mass transit system."

These results are especially noteworthy since 45% of the land in Harrisburg cannot be taxed because it is owned by the state, county or non-profit entities.

Administrative costs to implement the two-rate system were minimal. The only expenses incurred were those involved in software changes, which took approximately one week.

The appearance of the bills and an explanation of the change to a two-rate tax system were the only administrative changes that took place. The current ratio of land to building is 6:1.

*(Ed.: These wonderful results should not surprise - after all, if you down-tax buildings, you'll have more and better buildings, and if you up-tax land-sites, you require their fuller use [which also means more and better buildings]. Also, most people get tax reductions if the local property tax is transferred from buildings to land.)*

# From the Director: Land and Taxation News

## Land Tax Included for Mayoral Bid

The neck-and-neck race for the Philadelphia mayoralty now includes LVT. GOP candidate **Sam Katz** has decided to back land tax, according to *IssuesPA*, in response to what the candidates thought were the most salient features of the Philadelphia Tax Reform Commission's draft recommendations. Since **Katz** has to reach minority and working-class communities to win, this appeal of LVT to homeowners in those groups can only be a plus.

## Buckeye Blastoff?

*Cleveland Scene*, the main *alterno*-weekly in the city that Drew Carey calls his spiritual home, has just come out with a strong front-page article on LVT:

<http://clevescene.com/issues/2003-09-10/news2.html/1/index.html>

Written by **David Martin**, the article examines the pros and cons of LVT in a city that has been in permanent decline for decades.

Case Western professor **William Peirce** and CSE Director **Vincent** explained the concept, but author **Martin** did a great job in using real life examples of land vacancy, abatement-hungry whining developers, and city officials' interest. CSE's offer to do a study of Clevo is prominently featured; we stand ready.

## Eire and Land

CSE is pleased to be part of *Land: the Claim of the Community* in Dublin in October 2003. Details can be found at

[www.feasta.org](http://www.feasta.org). Local government finance and control, affordable housing, and urban sprawl are all issues coming to a head in Ireland; CSE will play a role. See you in "dear Dirty Dublin!"

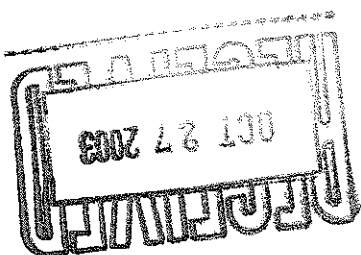
## Washington, PA: Stalwarts for Land Tax

Although many Pennsylvania towns have land tax, few take advantage of CSE's rate-setting expertise. Not so Washington, Pa: CSE is happy to announce that we are working with the city in setting rates for this coming fiscal year. Washington, Pa has one of the largest ratios of land tax to building tax in Pennsylvania.

*Joshua Vincent is Director of the Center for the Study of Economics*

## Endorsement 528

**Stewart Schwartz** (former president, Washington Regional Network for Livable Communities in the International City Managers Association publication): "Both theory and practical experience indicate that a split-rate tax can help reverse urban sprawl by encouraging more compact development. Additionally, both studies and practice have shown that the split-rate system reduces tax burdens on most residences and neighborhood businesses while raising the tax burdens on vacant lots and surface parking lots."



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