

# Incentive Taxation

1-144

## Two-Rate Washington Out-Strips One-Rate Uniontown

### Study #16

Washington, Pa. adopted a two-rate LVT property tax in 1985 and has expanded it several times since. To the southeast lies Uniontown, Pa., which is similar in many ways to Washington - both cities are county seats, both have similar economies, and both are similar in size population. But -

**The average dollar value of building-permits per person issued for 1987-1995 was \$140 for two-rate Washington but only \$113 for one-rate Uniontown.** These figures are based on taxable building permits, with signs, fences, carports and demolitions removed from the mix.

Interestingly, Uniontown did adopt two-rate in 1992. However, the program lasted for one year only - downtown commercial property owners put the kibosh on it in the following year. Sadly, those businesses are nearly all gone now; Uniontown resembles a ghost town even at noon on a weekday. It's a melancholy scene compared to the bustle and shine of Washington's happy streets.

We have 15 other studies which fully corroborate this one. Evidently, if you down-tax buildings you'll have more buildings and more renovation, and if you make up the lost revenue by taxing land assessments more, landowners are encouraged to develop their land-sites more fully. That's hardly rocket science. (These figures come from the Pennsylvania State Data Center, Middletown, Pa. 17057, which discontinued this data collection in 1995.)

## Are We Exaggerating Farmland Loss?

The debate over urban sprawl into the clean-and-green farmland is reaching fever pitch. The matter has been thoroughly studied in Ohio by Dr. Sam Staley, economic researcher, of the Buckeye Institute, 131 N. Ludlow St., Dayton, OH 45402, 937-224-8352 (or contact the Heartland Institute):

♦ Urbanization accounts for only 4% of Ohio's cropland loss since 1949.

♦ Harvested cropland in Ohio actually increased 4.7% from 1990 to 1997.

♦ Total crop production was 15% higher in 1997 than in 1990 (1997 Ohio Dept. of Agriculture report).

♦ 54.8% of farmers are part-time (1997 report, U.S. Dept. of Agriculture). Many "farmers" are gentlemen farmers. Maybe we should rather subsidize retired college professors.

### THE PROPOSAL

1. Private landownership and assessments to remain untouched.

2. Levy a lower rate on building assessments, higher on land, instead of the same rate on both.

3. How to do it? Call us. We have experience (no obligation).

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## LVT - Easier to Administer

Generally, skepticism of the practicability of site value taxation has been more characteristic in countries not using this base than in those that do. The pervading opinion in countries with extensive experience in taxing site value is not merely that this is a feasible method, but that in fact it is superior administratively to the ordinary property tax. Thus, A. M. Woodruff and L. J. Ecker-Racz, after studying property taxation in Australia and New Zealand in the early 1970's, concluded as follows:

*Continued on page 4*

This publication has a vested interest in pointing out the evils of urban sprawl. After all, the best way to contain it is to encourage efficient urban land development via two-rate land value taxation (and not by inhibiting economic growth and job-making). But we have a much stronger vested interest and commitment to the objective truth.

# Land Reform Without Land Distribution

This article is based on the ideas of **Mario Cordero**. He urges land reform in underdeveloped countries (U.S.A., too) - not the government purchase of land to be redistributed to peasants but rather the taxation of land values, for these reasons:

LVT	Government Land Purchase
(1) Govt. gets huge revenue.	(1) The govt. must go into unpayable debt.
(2) Economic growth and jobs (fully documented).	(2) Possible disruption of agricultural production.
(3) Can be applied gradually.	(3) Must be applied all at once or not at all.

## Two-Rate Cities Should Inform Their Voters

Most property owners pay less in taxes with two-rate as compared to one-rate. Why not tell them so?

Two-rate cities should enclose an explanatory notice with the annual tax bill they send to their property owners. Why should such cities go two-rate but fail to inform their taxpayers how they'll benefit? It can be easily and inexpensively done. We suggest this wording for the notice:

### The Labor Question

This is a condensation of a book by Henry George.

In 1891, Henry George wrote *The Condition of Labor*, and the Robert Shalkenbach Foundation, our companion organization, has come out with a beautifully printed booklet entitled *The Labor Question*, available from C.S.E., 8775 Cloudleap Court (#212), Columbia MD 21045, for \$1 ppd. This is an excellent eminently-readable introduction to the LVT philosophy.

### Property Tax Information

Your city has taken advantage of a state law allowing a reduction of property tax rate on building assessments coupled with a higher tax rate on land assessments. A number of other cities are now doing this because -

- ♦ Most homeowners get property tax reductions this way.
- ♦ Owners can improve their properties with less tax penalty.
- ♦ New construction and re-employment are encouraged by taxing buildings less and land more.



Nothing written here should be construed as an attempt to influence the passage of any legislation. The views expressed in this publication are the opinions of the authors, and do not necessarily reflect CSE views.

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## How Will Poor People Be Affected?

*They will benefit the most:*

(1) Almost everyone would pay much less in taxes with a production-to-location shift in taxes because most people are producers rather than location owners. Poor people especially would benefit because they own little land value (if they owned a lot, they wouldn't be poor).

(2) Literally scores of studies show that most homeowners pay less taxes with a two-rate building-to-land shift in the local property tax. That is especially true of the poor because their land value is usually very low.

(3) Most poor people rent and so will benefit from a two-rate building-to-land tax shift because there'll be less property tax on buildings passed on to them (the higher property tax on land values is not passed on to them, or if it is considered to be, then they'll have to pay less land rent).

(4) The cost of land increases the cost of housing to the poor.

(5) Sales taxes raise prices for what the poor buy and income taxes reduce their income, but much of the land value tax is paid by industrial and commercial landowners. Poor taxpayers get no such help when they have to pay sales or income taxes. Labor taxes make it more expensive to be poor. Those taxes are not so incidental: In 1997, taxes took 46.7% of the national income (1998 *U.S. Statistical Abstract*, tables 500, 721).

(6) Wouldn't the poor benefit if the economy is healthy, which is likely if locations rather than production is taxed? Wouldn't there be more jobs for them?

♦ "The Congressional Budget Office found that in 1995 individuals and families with less than \$10,000 in cash income faced an effective excise tax rate of 3.9 percent, while people making over \$200,000 paid only 0.3 percent" (*Tax Features*, 1/99, p. 1). Poor people don't own valuable land, so tax that rather than excises in order to accord with the ability-to-pay "principle."

♦ Farmland, forestland and wetland have been disappearing, here and abroad, for decades - without the taxation of land values.

♦ New York State now pays part of an individual property owner's property tax with state tax money. N.G. Rather it should pay only part of an individual property owner's property tax *on buildings* with state

tax money. At least that would be only one bad tax substituted for another.

♦ Let not future anthropologists say this of us: "Here were decent godless people. Their only monument the asphalt road and a thousand lost golf balls."

♦ 2-rate is the exact equivalent of exempting all property owners from the property tax.

♦ Washington, Pa. is becoming our leading two-rate city. That's where the Whiskey Rebellion started.

♦ The average assessed value for land throughout Japan has fallen 13.5% for the fourth year of double-digit declines (Web: win.or.jp/johac/NEWS, 5/8/97, citing Japan's National Tax Administration Agency).

♦ A family reunion near a vacationer's delight, Arches National Park, near Moab, Utah, ended in a fist

fight. Police were called in. The local police blotter said, "Try to avoid going on vacation with people you don't like. If you decide to go anyway, don't come to Moab."

♦ Vacant private land comprised 22% of the area of our 130 largest cities, the Douglas Commission found in 1968. The rate is higher now due to the continuing exodus to rural areas (Walter Rybeck, *Land & Liberty*, 3-4/86, p.40).

♦ There is a big difference between a mere desire to do a thing and a burning passion to do it - a determination to accomplish it at any cost. A mere desire is like warm water in a locomotive - it will never produce steam. It takes fire and force and enthusiasm to generate the things that propel the successful character.

## *Can a Land Value Tax (LVT)*

### *Be a Single Tax?*

Can an LVT be a Single Tax? Maybe yes, if we can reduce governmental expenses enough, but if we should levy a LVT for economic and moral reasons, then we should do it and whether it can be the only tax is irrelevant. A LVT is one thing, and current government expenditures quite another.

Having said that, a LVT will collect more revenue than most people think. Most people under-estimate existing land prices, in large part because the taxation of labor and capital, as well as ordinary crime, depress land prices. If we reduce taxes and crime, land prices will shoot up.

The 8/86 issue of *Incentive Taxation* estimated that land rent was 28% of 1981 national income (since then, land prices have shot up faster than prices in general). That wasn't enough to pay

for all the expenses of government in that year, but -

(1) We could legitimately supplement the LVT revenue with government user fees (shouldn't a government-owned bus charge a fare to passengers like a privately-owned bus can do?). Of course, in order to qualify as a genuine user fee, the fee should be earmarked for the use and not be used for the government's general revenue.

(2) Since this *Incentive Taxation* research was performed in 1986, we have seen that when tax revenues increase, the economy declines precipitously (see Martin Feldstein article in the *Wall Street Journal*, 10/26/95, editorial page, and Cato Institute *Research Paper* #242, 10/95, pp. 37-8). The reverse must also be true, and so when producer taxes decline because of LVT, we can expect national

income and its land assessment component to increase; then the percentage of land-rent-to-national-income will exceed 28%. We could also expect government needs to decline.

**To sum up:** Land prices are more than most people think, and if we should tax them, let's do it, no matter whether it can be the only tax or not.

### **All taxes discourage production, but one:**

Tax production, and you discourage it. So don't tax buildings. Don't tax wages. Don't tax sales. Don't tax income.

Tax locations (land value) instead. That'll require sites to be used more fully, thereby creating economic growth and jobs.

## Endorsements 487-488

Edited remarks of **Evan Richert**, Director, State of Maine Planning Office, *Paradox of Sprawl Conference*, October 30/31, 1997:

"There is a version of the single tax idea, which was Henry George's idea that is now widespread in Pennsylvania, simply using his idea and re-creating it into an optional split-rate

property tax for commercial and industrial districts. What that does is it untaxes the capital, the investment, and increases the taxes on the land so that the incentive and the reward are in the production of capital investment where you want the industrial and commercial growth to occur. The first community that enacts this will leap head and

shoulders above the surrounding communities in terms of attracting commercial and industrial investments. It is that powerful an incentive."

**Dick Netzer** (Graduate Dean, N.Y.U., in *Business Week*, 3/12/66) thinks "just land should be taxed, regardless of what's on it."

### LVT - Easier to Administer

*Continued from page 1*

The argument commonly heard in America that site value rating is administratively impossible because of the difficulty of assessing land apart from the buildings on it, is not heard at all in Australia and New Zealand. Many decades of experience have convinced even the most hardened skeptics that while it may be considerably more difficult to appraise the land component of a single improved parcel apart from the building on it, the reverse is true when great numbers of properties have to be evaluated for tax purposes. Involved calculations need to be made only for selected bench-mark properties and values established for the bench marks may be extrapolated to all properties, very much as American assessors customarily build up land value maps. The 'land value atlas' or 'cadastral map' is the device for accomplishing extrapolation. Both Australian and New Zealand tax professionals, including a few who either oppose site value taxation or are lukewarm to it, are agreed on its administrative simplicity." (Woodruff and Ecker-Racz, *Property Taxes*, pp. 57-58.)

### [Additional Expert Testimony]

Dr. J. F. N. Murray, the highly regarded author of the leading Australia textbook on assessment techniques, holds that:

"(1) Equity in valuation can be more easily achieved when the rating [taxing] is based on land rather than a combination of land and buildings;

"(2) Considerable economies can be achieved if the Valuer General does not need to maintain records on the character of buildings;

"(3) Most of the errors in valuation involve buildings and not land; and

"(4) Use of cadastral maps not only rapidly permits equalization of land values but reference to such maps makes it very simple for an aggrieved owner to determine whether he is treated equitably."

In consulting with the United Nations concerning tax systems for new nations, where ownership records are good enough to permit clear identification of taxable holdings, Murray strongly advocates site value taxation because of its simplicity and the relative ease with which inexperienced civil servants can be trained to do the job (*Ibid.*, p. 57).

### [Still More Testimony]

John M. Copes, the Australian land assessment expert who served as Jamaica's first commissioner of assessments from 1956 through the early part

of 1961, put the case for assessments more positively, answering not simply that it can be done, but that it can be done more easily than building valuation, and in reference to Puerto Rico, which uses a land and building base, he stresses particularly the smaller demands on manpower made by land tax only assessment:

Building assessment "does not readily lend itself to mass valuation techniques, in that each improvement must be recorded and considered separately and there is no repetitive process, except perhaps in moderately priced housing estates.

"For a developing country there is the problem of assembling a large staff to be trained for the purpose of referencing and valuing these improvements. In Puerto Rico over 700 persons were employed in 1949-60. This is a heavy requirement of very scarce personnel. In Jamaica, where land only is assessed and taxed, the number of trained professionals was considerably less than this."

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