

Incentive Taxation

Reduce Property Taxes for Most Voters

More Hard Empirical Evidence

Everywhere I look, I see hard empirical evidence that if you down-tax buildings, more are built or renovated, and if you up-tax land, you encourage its fuller use.

The 1998 *U.S. Statistical Abstract* contains just such evidence. For the years 1981-82, U.S. construction put in place increased by only 26.9% over the years 1977-78. But in those years, Pittsburgh's private construction increased by 704.33% (despite its steel-industry deconstruction).

What makes those years especially important is that the Pittsburgh City Council raised its tax rate on land assessments (but not on building assessments) in the in-between years of 1979 and 1980. In addition, during the 1980-3 years, Pittsburgh granted extra building depreciation, tax credits for new construction, and building-tax abatements.

In other words, Pittsburgh's construction increase was an astounding 6.2 times more than U.S. construction in the two years after it increased its tax rate on land assessments and decreased its effective tax on buildings, as compared to the previous two years.

New Construction		
Year	U.S.	Pittsburgh
1977	\$200,501,000,000	\$ 53,300,000
1978	239,867,000,000	18,200,000
1981	289,070,000,000	459,200,000
1982	279,332,000,000	115,900,000

The U.S. construction figures come from table no.1194, *U.S. Statistical Abstract 1998* (citing the U.S. Census Bureau's C30 study). The Pittsburgh construction figures come from the Pa. Economy League, *Report on Pittsburgh's Graded Tax*, 1985, p. 16 (original source: Pittsburgh's building-permit annual reports).

Readers of this publication are urged to check the sources. It is to be noted that critics of a building-to-land tax shift never present any empirical evidence.

If this were the only empirical study giving evidence that there is a construction increase after a building-to-land tax shift, it would be less convincing. But as it happens, we have 237 empirical studies presenting hard evidence supporting the conclusions of this study. Upon request, we will send you a report containing brief summaries of 22 of these 237.

If we had more than 237 empirical studies, would that be more convincing? Well, be advised that we will soon have close to a thousand.

In 1979 and 1980, Pittsburgh increased its property tax rate on land assessments only moderately. If it had adopted a 100% tax on land assessments in those years, the city would be so stinking rich the smell would be all over the world.

In any language, in any land, remember:
TAX LAND, NOT PRODUCTION
TIERRA DEL IMPUESTO, NO PRODUCCIÓN
STEUER-LAND, NICHT PRODUKTION
TERRE D'IMPÔTS, PAS PRODUCTION
TERRA DO IMPOSTO, NÃO PRODUÇÃO

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 land-sites will be more intensively developed (which also means more and better buildings).

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

Land Value Tax Hearing in Philadelphia

A lengthy Philadelphia City Council public hearing on land value taxation was held on April 29, 2003. A standing-room-only crowd, mostly homeowners, packed the City Council chamber.

The first witness to testify was City Controller Jonathan Saidel. He reported that "based on my analysis, such a system [two-rate building-to-land shift in the property tax] would reduce real estate taxes on nearly 80 percent of residential property owners. Similar systems in Harrisburg and Allentown have reduced abandonment [of property], encouraged development, and generated popular approval."

Following Saidel, a long string of public policy experts, community activists, and homeowners testified in favor of a two-rate building-to-land shift in the property tax.

The only witness in opposition to a two-rate land-oriented property tax was a representative of the automobile dealers. But Albert Hartheimer of Massachusetts and Vice-President of the Center for the Study of Economics testified that these dealers would sell more cars if their customers had more money to spend.

Unfortunately, only a minority of Council members was present. Eventually, the usual flat-rate property tax was imposed for fiscal 2003-4. Maybe next year.

From the Director: Land and Taxation News

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state, with up-to-date land value revenue impacts for both individual properties and taxing jurisdictions (from Port Tobacco's 40 citizens to Baltimore's 650,000).

CSE's project will make it possible for basic studies to be performed by interested officials or citizens. If it appears a possibility that land tax is a good fit for a jurisdiction, that town should contact CSE for the Full Monty.

God Must Have Loved the Common People...

...Because he made so many of them, so why are assessment authorities in Philadelphia doing so much to show their opposition to Him by making the lives of the poor even more miserable? Not content with taxing their meager earnings and their neighborhood small businesses, the City still over-assesses poor and working class homes on a consistent basis.

Our evidence? Just a sample: Zip Code 19133 (North Philadelphia East) has the lowest median income in the city (\$13,828). Yet, homes are assessed at 118% *over* what folks are actually paying. At the other end of the spectrum is lava-hot Center City (Zip 19106) where the median income is a sassy \$61,720. There, hey presto, the homes are assessed at 45% *below* the recent sales prices. In Philadelphia, a "target" ratio of assessed-value-to-market-value has been set at 72% citywide, which is indeed the case. It's just too bad that those that can't fight back are the victims of this pernicious arithmetic.

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

U.K. Deputy Prime Minister Proposes New Land Value Tax

John Prescott, the United Kingdom's Deputy Prime Minister, has proposed a new land value tax to pay for an extension of the London subway. He told *The Observer* (6/8/03): "I've always found it unacceptable that we can have massive value increases in areas by the local authority investing in something and we don't see the real benefit from it."

"We're looking at other forms of funding to get the development. One of the ways is looking at getting more from the benefit of increased land value that comes from it."

Prescott hinted that Chancellor Gordon Brown backed the tax and that further announcements will be made later this year.

The new London Tube line sparked property booms from which the Government and local authorities gain nothing even though the Tube was publicly



■ Deputy Prime Minister John Prescott

funded. The price of houses near the Jubilee line soared by an estimated £14bn when it opened in 2000.

Let us hope sanity will prevail.

States: How to Boost Your Economy While Funding Deficits

The following letter was published by *Investor's Business Daily* (3/3/03, A16):

"'Tomorrow Is Here' (Editorial, Wednesday) reports the states have a combined deficit of nearly \$100 billion. Statewide property taxes could solve this and still grow their economies. Buildings and farm improvements should be exempt. Since we want more buildings, we shouldn't tax them, and we should be kind to farmers."

"With these exemptions there'll be a need for more revenue, so states will have to increase their property-tax rates. Then they can stand back and let the down-taxed buildings and improvements sprout."

"Being taxed more, land-sites would have to be more efficiently used, which will also create new buildings and improvements."

This amounts to a surtax on land values. Land value tax good, all other taxes bad.

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Reaction? Question? Response? Idea? You've got one, so why not share it with us and thousands of other IT readers.

Send it to incentivetaxation@urbantools.net, or fax it to 215.988.9951, or post it to 1422 Chestnut St, Suite 414, Phila. PA 19102.

"Iraqi Oil for the Iraqi People"

Thus said none other than GW Bush. Well, it's time to make "Iraqi oil for the Iraqi people" not just a slogan but also a reality. It will clarify America's efforts in Iraq, the sooner the better. The fastest way to do that is to give a dividend-claiming share of ownership in the oil-extracting corporation to each Iraqi family unit. The share should be in certificate form, on good paper, fancily printed (with plenty of scrollwork and quotations from the Koran). Make each Iraqi a capitalist! Make socialism unpopular in Iraq.

Then we should work for full land value taxation in Iraq (not to mention America).

Small, Hard Cold Facts

We have 237 *empirical* studies substantiating the benefits of land value taxation. What more proof could you ask for? Ask for a copy of our report containing brief summaries of a representative 22 of these studies *in actual application*. Absolute proof you are sitting on a gold mine.

Shhh, Don't Tell the Citizens of Pittsburgh

Pittsburghers were told that assessments increased four times with the 2001 re-assessment - from 25% to 100% of market value. But actually, they were increased 6.278 times. No wonder Pittsburghers were upset, although they didn't know why. However, they'd be even more upset if they realized that if Pittsburgh had retained its two-rate Graded Tax, which was in effect since 1913, the tax rate on buildings would be an astounding 47.12% of what it is now. Compared to the Graded Tax, their one-rate property tax increased the taxes or rents of a great majority of them.

Sic transit ignorancia.

Incentive Taxation is available by e-mail. Send your request (tell us if you want PDF attachment or in-line text) to incentivetaxation@urbantools.net. (Include your current mailing name and address.) E-mail subscribers receive *IT* within hours instead of days of our newsletter's final proof.

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→ The states need revenue. But most of them still levy a statewide property tax (usually small). If they raised the land tax rate, they would not only get much-needed revenue but they would also benefit their economies. They should also exempt farm improvements from such a tax.

→ Maryland municipalities provide an explanation of the property tax with every property-tax bill. If you are a two-rate locality, are you doing so also?

→ For a research project I am engaged in, I am reviewing old issues of *Incentive Taxation*. I've come across 237 *hard empirical studies* supporting LVT, many of them showing not only construction-and-renovation gains for LVT localities over the pre-LVT years, but also as compared to neighboring non-LVT localities. I'll have about 1,000 studies before I'm done. Anti-LVT empirical studies: 0. And yet inducing expansions of LVT to new localities is still uphill work....

→ Stephen Moore: "Americans support pro-investor tax cuts. By some estimates, two-thirds of the voters who go to the polls in November will be stock owners."

→ If we consider our culture no better than any other (the Taliban culture, for instance), then it is finished. Some cultures are better than others. Culture is not the proper source of ethical principles.

→ Correction: The chart on page 2 of our 6/03 issue accompanying Mayor Reed's letter should have shown that two-rate Harrisburg registered a 209% increase in the number of businesses on the tax rolls, not 68%.

Philadelphia Commission Hears Citizens' Testimony for Tax Reform

The Philadelphia Tax Reform Commission was mandated by Philadelphians in the November, 2002 election. During its May 15 public hearing several citizens, policy and tax experts, and community activists addressed the panel. The PTRC will present its recommendations to City Council by November 15, 2003. As outlined by its chair, Ed Schwartz, "this Commission was asked to come up with recommendations on how to ease the tax burden on city residents and businesses. But the recommendations also must be socially and fiscally responsible."

Space restricts us to sharing excerpts from only one witness' testimony, that of Louise Francis, treasurer, Philadelphia Chapter of the National Organization for Women:

"Why is the National Organization for Women ... testifying on tax reform? We view taxes as a women's issue. Women are more than 50 percent of the residents of Philadelphia, and we pay all the taxes that have created controversy over the past year.

"We also are beneficiaries of many of the city's services; therefore, we want

fiscally responsible tax reform.

"...Another tax that has been controversial over the past year is the real estate tax. Some people have experienced increases of 100 percent or more. The average increase, of course, was far lower than that. But some people have had extremely large percentage increases.

"...A tax that has been considered in the city by the Tax Reform Commission, and that has been considered by other cities, is a Land Value Tax. ... Some benefits are that it removes a disincentive to not maintain the property. In other words, there is a perverse incentive under the current system that if your house deteriorates here because you don't maintain it, your taxes will go down.

"It also should reduce the incentive for speculation by unscrupulous speculators that would no longer be able to benefit by allowing the quality of their property to deteriorate, and then sell the land to real-estate speculators.

"This kind of tax has been tried in other cities in Pennsylvania, and we think it is at least worth looking at."

From the Director: Land and Taxation News

St. Marys – Not Your Usual Big City

With the enthusiastic support of Mayor and Council, CSE has launched a land tax study of the city of St. Marys, in Elk County, Pennsylvania. As cities go, it's one of the biggest: 94.8 square miles, bigger than Boston, Seattle or Milwaukee! Yet, in this vastness there are about 14,500 people. It is also Pennsylvania's latest city, formed by a rare amalgamation of a borough and a township in 1994.

The city leaders are concerned that the preponderance of vacant land coupled with a low tax rate on land is stifling development in an area that is rather distant from transport and other economy-boosting factors.

CSE's study indicates that all major land uses--residential, commercial, and industrial--would see reduced tax liability. Vacant land would absorb most of the decrease, but with so much of it, the increase will be minimal. At last, a perfect storm for LVT adoption. CSE will make its full study public this Fall.

Maryland, My Maryland –

CSE left Maryland for Philadelphia in 2000, but we still have a soft spot for the land of Crabs, Crisfield and Cal (Ripken, Jr.). It was the efforts of CSE and HGFA research in 1995 that proved conclusively to the Maryland Attorney-General that land value tax was legal in the Free State.

To celebrate our return to the center of public policy discussion in Maryland, CSE will formerly announce the **Land Value Tax Project©** in September.

Our web site www.urbantools.net will provide decision makers and citizens access to every parcel of property in the

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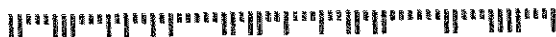
Endorsements 525-527

William Fulton, ("Creating a Land Boom," *Governing Magazine*, August 2003): "Property taxes can be political minefields. But a two-rate tax may be part of the solution to the economic development puzzle, especially in older cities and older neighborhoods, where land owners don't always act in the rational way that economists would expect them to."

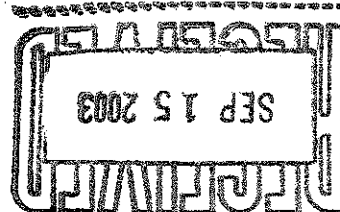
Jack Wagner (former council president, Pittsburgh): "I'm not going to say the land tax is the only reason a second renaissance occurred, but it's been a big help" (*NTA Forum*, Spring 1991, p. 4-5).

John Craig, Jr. (Editor, *Pittsburgh Post-Gazette* editorial, 1/28/01): "Does it [the two-rate land value tax] not encourage the productive use of land, by making it more expensive to keep property undeveloped? Yes, it does."

"Higher taxes on land have kept cities like Clairton, McKeesport and Duquesne functioning in a time of manufacturing collapse because revenues came their way regardless of what was (or wasn't) going on in the mills on the acres and acres of valuable riverfront property in each city."



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