

TAX REFORM MEMO

Feb. 6, 1987

TAX REFORM FOR ECONOMIC DEVELOPMENT

1987 can be a historic year. The year Governor Branstad and the legislature opt for a growing economy in Iowa. The year they cut taxes on households and business by beginning to phase out property improvement and sales taxes and cut personal income tax. The year they increase total tax funds for schools and local government. The year they control the economic disease of land speculation by ending all limits to levies on taxable land values.

Too good to be true? No more so than the smallpox vaccine, a simple discovery which saved millions of lives and there's a tax vaccine to end the disease of low business earnings, low wages, boarded up stores and factories, declining tax base, unemployment and homeless families. It:

1. substitutes levies on unearned land rents for property, sales and income tax.
2. cuts land costs and building rents by preventing speculation in land.
3. permanently abates taxes on all existing and future economic development.
4. raises consumer incomes by cutting sales and personal income taxes.
5. increases school and local government funds yet cuts household and business taxes.

SIX SIMPLE STEPS TO TAX CUTS, ECONOMIC GROWTH AND JOBS

1. Remove all statutory limits to tax rates on property values.
2. Raise rollback of taxable value of property improvements to 100% in 10 years.
3. Finance state aid with a statewide levy on taxable land values.
4. Abate farm operators aggregate tax increase on 320A or less per household.
5. Cut sales tax by one-half cent each year until tax is eliminated.
6. Substitute \$176/taxpayer, \$130/dependent, income tax credit for homestead credit.

REAL TAX RELIEF WITH LAND VALUE TAX (LVT)

The property tax on land values (LVT), not building values, raised 20% of tax receipts spent on schools and local government in 1983-84. Had LVT raised 110% of those funds, it would have provided real tax relief:

1. Aggregate cuts in consumer taxes for 94% of Iowa households;
 - a. 330,657 renter households, \$387 average cut
 - b. 614,417 residential class homeowners, \$488 average cut
 - c. 16,598 commercial class homeowners
 - d. 40,000 farmers (over half of those who own less than 320 acres).
2. \$329 m. aggregate abatement for farmers owning less than 320 acres
3. \$177 m. aggregate abatement for farmers owning more than 320 acres
4. Raised income tax credits by \$156, dependents by \$115, and, as needed to avoid higher tax, paid credits to homeowners too poor to pay state income tax.
5. Eliminated the sales tax for all households and businesses.
6. \$124 m. in property tax cuts on utilities (saves \$82/electric customer).
7. Cut taxes on developed commercial and industrial property.

WHICH CLASSES OF LANDOWNERS WOULD HAVE PAID MORE WITH LVT?

1. Owners of idle commercial, industrial and residential lots.
2. Owners of rented agricultural class land.
3. Farm owner-operators owning more than 320 acres of farm land.
4. Owners of high value lots occupied by low value buildings.

Table 1: AMOUNTS OF 1983-84 AGGREGATE TAX PAID BY EACH CLASS OF TAXPAYERS CONTRASTED WITH A LAND VALUE TAX WHICH INCREASES SCHOOL AND LOCAL GOVERNMENT REVENUES BY \$261,000,000 (tax amounts in millions of dollars).

Taxpayers: (1)	Number (2)	-----1983-84 taxes-----				Totals	Land Value Tax (7)
		Land	Improve- ments (4)	Sales (5)	Income (6)		
HOUSEHOLDS	1,053,000						
Rent Commercial	177,459	-0-	-0-	27	42	69	-0-
" Residential	129,146	-0-	-0-	20	30	50	-0-
" Agricultural	24,052	-0-	7	45	6	57	-0-
Own Agricultural							
" under 320A	74,894	103	76	148	28	355	356
" over 320A	16,467	76	17	33	6	132	329
" Residential	614,417	75	290	149	234	740	448
" Commercial	16,598	N/A (8)	N/A (8)	4	6	N/A	N/A
ENTREPRENEURS							
Resi. rentals	157,355	19	95	-0-	-0-	114	115
Dev. Com & Ind	89,000	38	339	246	-0-	623	227
UTILITIES & R.R.	100%	-0-	124	-0-	-0-	124	-0-
R.R. & Pipeline	16.4	-0-	20	-0-	-0-	20	-0-
Electric	50.5	-0-	63	-0-	-0-	63	-0-
Telephone	28.3	-0-	35	-0-	-0-	35	-0-
Gas, Heat & wtr.	4.9	-0-	6	-0-	-0-	6	-0-
OTHER LANDOWNERS:							
Agri. rentals	149,000	165	20	-0-	-0-	185	1,096
Idle Com & Ind	45,000	19	-0-	-0-	-0-	19	115
Idle Resi.	105,242	13	-0-	-0-	-0-	13	77
TOTAL TAX PAID:		507	968	671	352	2,499	2,760
PER CENT OF TOTAL		20	39	27	14	100	100

Sources: (1), (2), (3), (4) & (7) from calculations shown in table 3. (5) According to sales tax tables in 1984 Federal Income Tax Instructions, the 722,376 homeowners, at 2.84 persons and \$21,854 median income, paid \$242 each or \$174.8m while the 330,657 renting households, 2.24 persons and \$13,515 income, paid \$152 each or \$50.3m. The 115,000 farmers and 142,185 commercial entities are assumed to have paid the balance of \$445.37m at \$1,732 each. Farmers are also taxed on both household and farm purchases. (6) Estimated at \$380 each for 722,376 homeowners whose median income is 1.62 times that of the 330,657 renters who paid \$235 each. (8) Included under developed commercial and industrial.

Table 2: 1982 AGGREGATE TAXABLE PROPERTY VALUES AND 1983-84 LEVIES
(millions of dollars)

Property Type	Corporation	-----Property Classes-----				Totals	1983-84 Levies
		Agricul -tural	Resi- dential	Comm.& Ind	Utility & R.R.		
Land.....	Townships	19,233	615	158	-0-	20,006	392.61
"	Cities	320	3,224	1,833	-0-	5,376	157.73
Improvements-	Townships	4,760	1,972	1,231	3,428	11,392	223.55
" " "	-Cities	125	14,594	9,616	1,936	26,271	770.69
Personal.....	Townships	1,242	6	56	-0-	1,304	25.59
" "	Cities	33	46	1,344	-0-	1,423	41.74
Totals	Townships	25,236	2,593	1,445	3,428	32,702	641.75
"	Cities	477	17,864	2,793	1,936	33,070	970.15
Average Rate.	Townships						19.6241
" " "	Cities						29.3363

Source: 1982 Property Valuation Report, Iowa Department of Revenue. Also 1982 Abstracts of Assessment by 116 assessors in Iowa. Values include 1982 rollbacks.

CALCULATION OF CURRENT PROPERTY TAX AND FUTURE LAND VALUE TAX

Assessor's now report land values by property class and parcel separately from dwelling, building, equipment and machinery values (see table 2). Under LVT all assessed property values, except land values, will be gradually lowered to zero for tax purposes and rates increased locally to maintain revenues and the state will levy a tax on land values to equalize per pupil funds among school districts and substitute for the sales tax and personal income tax which now pay for state aid.

TAX IMPACT ON FARMERS WHO LIMIT INPUTS TO HOUSEHOLD LABOR AND CAPITAL

Farmers need not pay more tax. Although owning less than half the land, farmers, not landlords, will get the farm sales and improvement tax cuts. Farmers own most buildings and equipment and buy the tools and repairs used in farming. Farm families will also benefit from higher income tax credits and, as large users of electric service, they will benefit from utility tax cuts. Meanwhile, ending state aid for cities cuts the state aid levy and, with farm land assessed higher than fair market value while commercial and industrial land is assessed far too low, proper assessment of all classes of land will reduce the agricultural land levy and increase that from non-farm land. Finally, tax abatements for owner-operators on up to 320 acres will prevent tax increases for most family farmers.

LVT benefits farmers, or would be farmers in other ways. They can improve farms without incurring additional tax and, by putting land into forest or natural preserves, they can reduce the tax while letting a long term crop grow in value. More important, present farm renters, farmers who have lost their land or beginning farmers can capitalize the land value tax into lower land purchase prices and non-operating landowners will sell when LVT cuts net returns on farm land investments. Lenders will, for the same reason, negotiate better deals for debt ridden farmers. Finally, with half of all farm land owned by non-operating owners, LVT collects a considerable amount of tax funds for schools and local roads from unearned farm rents now going to landlords many of whom live out of state or who have adequate incomes from other sources. The result is lower taxes for the family farmer and for urban households and business.

RESOLVING FARMER OBJECTIONS TO A LAND VALUE TAX

Farmers owe themselves a careful review of LVT. While LVT and other factors lower land prices, high land prices are useful only for land speculation or to secure production loans, neither a wise practice since borrowers are forced into continuous cropping just to pay their debts. The results are low crop prices and bankrupt farmers. As to fears landlords will raise rents to offset LVT, remember landowners couldn't raise rents to equal 1980 interest rates nor can they now command 1980 prices for their land. Nor need LVT cause large farmers to drive down crop prices by increasing production. Many large farms are owned and operated by multi-households whose abatements prevent increases and, with full employment, hired hands will be too expensive for other large farmers. The family farmer, who uses own labor exclusively, may be better able to expand production through diversification while holding down chemical and fertilizer costs. In fact, with rotations to maintain fertility and control pests, the family farmer would benefit from chemical and fertilizer taxes high enough to cut production and cause higher crop prices.

Table 3: PROPERTY TAX AND LAND VALUE TAX BY PROPERTY CLASS, TENURE AND USE
(tax values in millions of dollars)

--1983-84 Property Tax Levy--								
Personal								
Property Class	Acres	Units	and	Home-	Agri-	---LVT Only---		
(1)	(1,000)	or	Improve-	stead	Land	Credits	-Levy-	Credits
Tenure and Use	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Agricultural	32,612		128.5		386.8		2,285.7	
Own under 320A	9,765	74,894	83.4	7.0	115.8	13.0	684.4	328.8
Own over 320A	7,213	16,467	18.3	1.5	85.6	9.6	505.6	177.4
Rented Parcels	15,634	N/A	20.2	-0-	185.4	20.9	1,095.7	-0-
Farm Tenants	(6,150)	24,052	6.6	-0-	-0-	-0-	-0-	-0-
Residential	N/A	877,014	468.1	N/A	106.6	-0-	639.2	-0-
Homeowners	"	614,417	373.0	82.7	74.7	-0-	447.8	-0-
Residential Rentals	"	157,355	95.2	-0-	19.1	-0-	114.7	-0-
Vacant Res. Lots	"	105,242	-0-	-0-	12.8	-0-	76.7	-0-
Commercial & Indust.	"	134,000	340.9	N/A	56.9	-0-	341.2	-0-
Developed Parcels	"	89,000	340.9	2.2	37.8	-0-	226.6	-0-
Vacant C&I lots	"	45,000	-0-	-0-	19.1	-0-	114.6	-0-
Utilities & R.R.	"	100%	124.1					
R.R. & Pipeline		16.35	20.3	-0-	-0-	-0-	-0-	-0-
Electric (10)		50.5	62.7	-0-	-0-	-0-	-0-	-0-
Telephone (10)		28.3	35.1	-0-	-0-	-0-	-0-	-0-
Gas, Heat & Water		4.9	6.0	-0-	-0-	-0-	-0-	-0-
Totals			1,061.6	93.5	550.3	43.5	3,266.1	506.3
Net Tax After Credits Paid			968.1		506.8		2,759.8	

(1) Property Classes as defined by Iowa code.

(2) Acres from 1982 U.S. Census of Agriculture. Number of farms over and under 320A calculated from number of farms by acres per farm. Total rented acres includes 6,149,700A rented by tenants who rent all of the land they farm.

(3) See (2) for farm parcels. Residential parcels from "Housing Units by Number of Units Per Structure", 1980 U.S. Census Iowa Population and Housing after deducting the number of farm units from single family units. Developed commercial and industrial from assessors' abstracts on file with the Property Tax Division of Iowa Department of Revenue. Vacant lots estimated from percentages reported by Des Moines' city assessor. Utility percentages taken from 1982 Property Valuation Report by the Iowa Department of Revenue.

(4) Levies calculated from taxable values and average tax rates in table 2. Personal property percentages of 46.75 agricultural, 1.92 residential and 51.33 commercial and industrial calculated from 1982 Property Valuation Report. Other levy amounts calculated in proportion to number of parcels.

(5) Homestead credits = average tax rate (table 2) X number of units X \$4,850.

(6) See (4) above.

(7) Agricultural land credits calculated in proportion to number of acres.

(8) LVT includes \$506.3m ag-land credits and \$2,759.8m for schools and local government. The total land value levy on values in table 2 includes \$356.7m for cities, \$121.8m for townships and \$2,787.6m (including the \$261m increase) for state aid, schools, area colleges and counties.

(9) Ag-land credits of \$33.67/Acre are limited to owner-operators' first 320A.

(10) The amounts of electric and telephone property tax divided by 1,044,964 residential and 142,206 commercial and industrial customers is \$82 per customer.

LVT ENDS DOUBLE TAXATION OF HOUSEHOLDS, FARMERS AND BUSINESS

Shifting taxes from household, farm and business to landownership ends double taxation. Land speculation, by retarding development of residential, commercial and industrial parcels creates shortages of available land. This increases land costs and creates housing scarcity and poor or costly locations for business. It drives up housing costs and rents for households and business. Meanwhile government levies taxes on households and business. In 1983-84 the property tax on land values raised 20% of income, property and sales tax receipts spent on schools and local government in Iowa; the property tax on building and improvement values raised 39%; the sales tax 27% and personal income tax 14%. Had Iowa levied 110% of those tax funds on land values and ended the property, sales and income tax levies for local needs the tax would have been paid by landlords out of unearned rents collected from households and business. At the same time Iowa would have increased funds for education, health care and human needs. Except for farm landlords, the only landowners paying more total tax under LVT are those who, in effect, have no tenants to pay higher land rents and competition for tenants in developed parcels will hold down lease rents for households and business (see data in table 1).

WHY PRESENT ECONOMIC DEVELOPMENT EFFORTS FAIL

Land speculation stands in the way of economic development. The more local governments spend tax funds collected from households and business on economic development, the less costly it is to sit tight and not sell or develop land parcels which benefit from public expenditures designed to encourage economic development. Owners of the idle or underused lots try to outwait one another in selling or developing their parcels. The first one to sell or develop increases the market price of the remaining idle land and ends up paying taxes on the development and the larger land speculators do often develop some of their parcels to encourage others to sell or develop. They also become quite skilled in encouraging public and private sector cooperation in encouraging development. A very necessary skill for the successful land speculator. After all, the opportunity to exchange future profits for the privilege of paying taxes on a risky investment does not encourage economic development. It encourages stagnation, business failures, unemployment and homeless families.

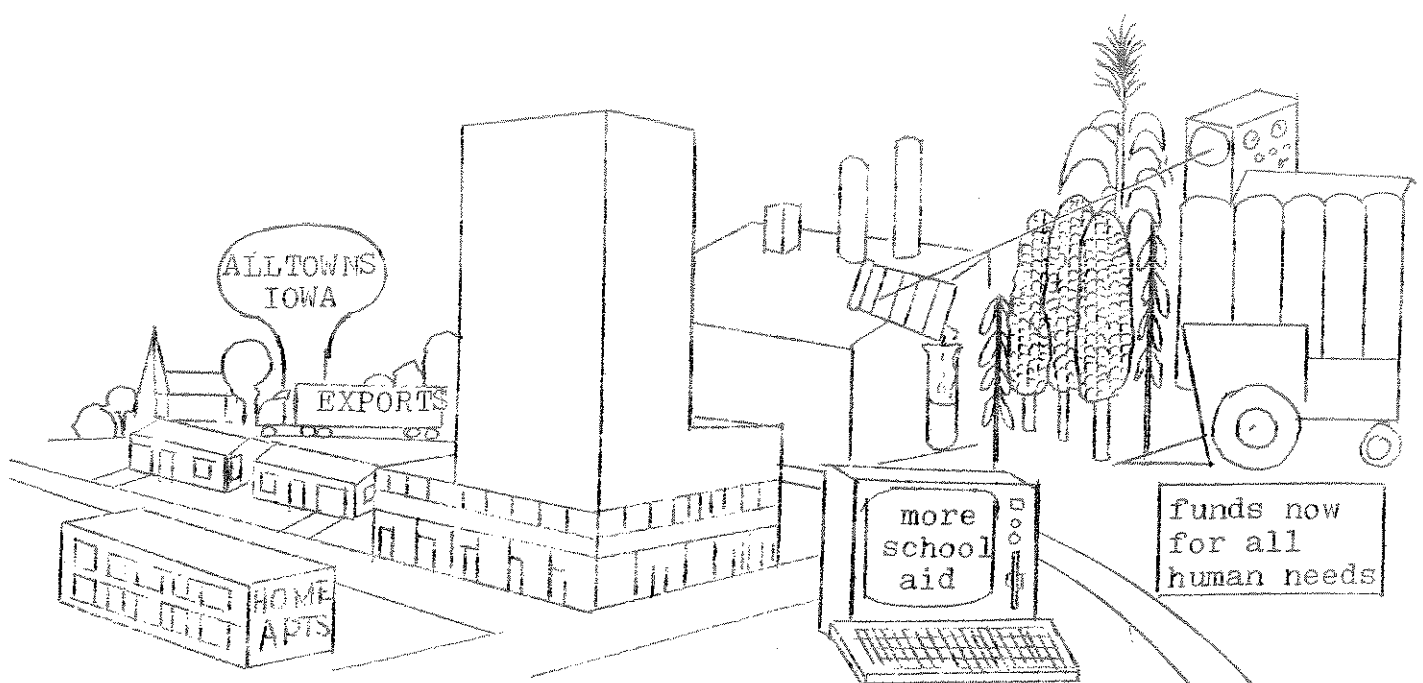
LVT CREATES JOBS THROUGH ECONOMIC DEVELOPMENT, NOT GOVERNMENT SPENDING

With LVT it is too costly to own land just to collect rents or to wait for rising land prices to take a profit. To avoid paying land tax out of cash reserves, landowners will sell or develop their parcels and buyers will capitalize the land value tax into a lower land price. With LVT ending other taxes, landowners can invest in highly productive developments without incurring additional tax. LVT therefore cuts land costs and future taxes on the development, both objectives of all present economic development efforts which rely on increased taxes on households and business to aid a few landowners and developers. LVT, on the other hand, cuts taxes on all households and businesses while encouraging full employment through economic development. LVT is the free enterprise way towards economic development and full employment.

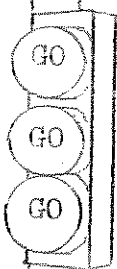
ACTION

Visit, call or write your local leaders and legislators. Urge them to first make a complete and fair study of the economic and tax impacts of a land value tax in Iowa and then act swiftly upon the findings to end all limits to taxation of land values while ending the property tax and sales tax and cutting personal income tax in half.

Act now. Your future well-being and that of your children, grandchildren and great grandchildren and beyond depend upon establishing economic justice now.



LAND VALUE TAX ROAD

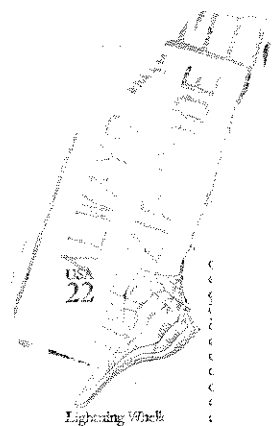


ONE WAY



ECONOMIC
DEVELOPMENT
Homes & Jobs
for all

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