

# Incentive Taxation

## Does the 2-Rate Tax Increase Defaults?

The turnover in *IT* readership is rather large, so it occurred to us that we should revisit the issue of tax defaults. Will a two-rate building-to-land shift in the local property tax cause an increase in tax defaults? New readers may be unacquainted with the recorded evidence--let's take another look:

(1) For 1979, Pittsburgh increased its land tax rate from 49.5 mills to 97.7 mills – a near doubling. In the following year, it increased the land tax rate to 125.5 mills (during these years, the tax rate on buildings remained unchanged at 24.75 mills). According to a city tax official in the assessment and appeals office, there was no significant change in assessment appeals despite a substantial increase in property-tax payments.

(2) Wrote Godfrey Dunkley, a highly respected South African land researcher (2/26/83): “The question of default in payment of rates [property taxes] where land value taxation applies is almost unknown here in South Africa. I asked Mr. S.J. Venter who is now president of the Institute of Municipal Treasurers & Accountants. He has been treasurer of one of our cities, Roodepoort, for seventeen years. In his experience there have only been two cases where land has been sold to defray outstanding rates; both insolvent cases.”

(3) In Australia, those cities which have taxed only land values have had fewer cases of tax default than neighboring or comparable cities which have taxed buildings also.

(4) The following quote, post-marked 11/14/94, was addressed to us by Jack Saunders, the then-Chief Assessor of Allegheny County, which includes the city of Pittsburgh: “Pittsburgh’s graded tax system has not increased the

*Continued on page 2*

### The Proposal In Brief

Reduce the property tax rate on buildings by 20% of the current rate for each of the next five years, replacing it by a higher land-tax rate. We can help you (free of charge) do this. Most voters are likely to pay less, and 17 empirical studies substantiate that new construction and renovation rises as measured by building permits issued.

215.988.9998

## Virginia's LVT Victory

The City of Fairfax could become the first jurisdiction in the Commonwealth of Virginia to implement a split-rate tax on real estate. Split-rate taxation allows for buildings to be taxed at a lower rate than the land on which they are located.

The General Assembly passed, and Governor Mark Warner on February 18<sup>th</sup> signed, House Bill 239 at the City's request. The request originated from a recommendation by a City Council-appointed task force created to study local tax policy. Delegate J. Chapman Petersen, a former City of Fairfax Councilmember, sponsored the legislation.

The legislation permits, but does not require, the City Council to tax buildings at a lower rate than it taxes land. Currently, all other local jurisdictions in Virginia are required to tax buildings at the same rate as land is taxed.

Responding to the bill's passage, Center for the Study of Economics Board member and City of Fairfax Councilmember J. Anthony Coughlan, who took a leadership role in advocating split-rate taxation, said, “I am very pleased the City will have the option to implement split-rate taxation. We are the first jurisdiction in the Commonwealth to have this enabling legislation.”

# PHILADELPHIA

*(Following are further highlights from the Philadelphia City Controller's Office Tax Structure Analysis Report. The report is online at [www.philadelphiacontroller.org](http://www.philadelphiacontroller.org). We will continue to publish excerpts as Philadelphia administrators, civic leaders, and citizens deliberate the report's merits and recommendations.)*

🏠 Properties in Center City are assessed about 2.5 times closer to market value than other city neighborhoods. (p. 49) *But the new big buildings there are mostly tax-exempt, which means that Center City has the equivalent of a two-rate tax, while other neighborhoods do not.*

🏠 Tax land assessments more, building assessments less. (p. 60)

🏠 72% of properties in Philadelphia would get tax reductions, two-rate as compared to one-rate; so would 80% of residential properties. "Two-thirds of those property owners who would pay more would pay less than \$100 per year." (p. 77)

🏠 High labor taxes make Philadelphia unattractive for a model-services firm. (p. 38)

🏠 "In Philadelphia, the Amusement Tax could be considered a regressive tax since low-to-moderate-income individuals pay a higher percentage of their income than high-income individual to enjoy taxed events such as concerts and sporting events." (p.14) *If Philadelphia taxes amusements, can we assume that there is too much amusement in Philadelphia?*

🏠 "If one taxes businesses, businesses may leave. If one taxes people, people may leave." (p.15) *But if land assessments are taxed, then sites will have to be more fully used – because it is not human-produced.*

## How Accurate do Land Assessments Have to be for a Land Tax?

Land assessments should always be as accurate and fair as possible, of course, but even if they are not, they should still be taxed at a greater rate than building assessments.

Inaccurate and unfair assessments are a problem for the usual one-rate as well as for the two-rate property tax. It is highly unlikely that land assessments would be so grossly inaccurate and unfair that for the two-rate property tax to succeed, a re-assessment would be necessary.

Moreover, land assessments are more likely to be accurate and fair if land is assessed.

## Do Defaults Rise with a 2-Rate Tax?

*Continued from page 1*

number of assessment appeals."

(5) After New Castle, Pa. introduced a two-rate property tax, the city's Business Administrator, John DiMuccio, reported no substantial increase in uncollected property taxes.

Transferring property taxes off building assessments does not increase tax defaults.

## How to Induce Explosive Economic Growth in Your Hometown

Beyond any reasonable doubt, LVT (land value taxation) could be at least 11% of the GDP.

Imagine the economic growth that would ensue if LVT were to replace all poverty-inducing taxes. Imagine the explosive economic growth in your hometown if LVT were to replace some or all other taxes!


For those cynics who doubt that land value taxation can promote the economy, consider this 1992

study done by the Wharton School of Business (University of Pennsylvania):

a. The optimal size of government at all levels is 11% of the GDP.

b. For every percentage point below the 11% optimum, economic growth is retarded by 1%.

c. However, for every point beyond the optimum, economic growth is retarded by 2%. We are currently exceeding 24% of GDP!



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☒ 43% of the proposed cut in tax revenues will go to the top 1% of taxpayers, showing how progressive the current tax code is (*Investor's Business Daily*, 4/12/2001, A24). If the poor paid more taxes, then the rich would receive a lower percentage of the tax cut and the poor would then get a higher percentage of the cut.

☒ Most taxes on labor end up being paid by poor people. If you want to really help them, get rid of those taxes and tax land values instead (they are *not* the product of labor).

☒ Without the rain, there is no rainbow.

☒ The first issue of this publication appeared in 1974, fully 28 years ago. It was then called *Tax-Free New Towns*.

☒ In 1999 (latest year for which figures were available), individuals and businesses spent over 4.3 billion hours complying with the federal income tax, which came to an estimated additional 12% of income-tax collections (from The Tax Foundation.)

☒ Triple Good news in Pennsylvania: Clairton, Duquesne, and McKeesport are 2-rate cities. Because in 2001 the land assessments

increased faster than their building assessments (as compared to 2000), more property tax comes from land not buildings.

☒ Pennsylvanians - Be kind to elderly homeowners: Act 50 (1998) allows localities to defer property taxes for elderly homeowners. Write us for further details.

☒ Most homeowners in the County of Hawaii save with a two-rate property tax. Ditto for the whole state (Source: 2000-2001 state assessment report). Two-rate is a vote-getter.

☒ About half the suburbs tax land values around Melbourne, Australia, and about half do not. Dr Kenneth Lusht of Pennsylvania State University, a foremost real-estate researcher, found that suburbs which tax land values have 50% more buildings per acre than those that do not.

☒ In recent years, practically every Pennsylvania county commissioner who ordered a re-assessment lost re-election. Allegheny County (where Pittsburgh is) just underwent a re-assessment, but it was neither uniform nor timely, and assessments went from 25% to 100% taxable-assessed-to-market-value--causing much public uproar.

☒ For a dim view of social security's future, we highly recommend *Common Sense, Common Dreams* by Peter Ferrara & Michael Tanner (CATO, inexpensive, 51 pp.)

☒ Those Americans making \$30,000 or less get \$1 trillion in federal spending, yet pay only \$95 billion in federal taxes (*Investor's Business Daily*, 05.25.2001, A26, citing Congress' Joint Committee on Taxation).

☒ Many *IT* readers like two-rate LVT, but do nothing to get it adopted. That gets no jobs for the unemployed. They should rather call 215.988.9998 for experienced pro-bono help on how-to-do-it.

☒ We have recently run two articles on how to separate land values from building values; here's another way: many land-sites are currently being leased; divide these leases by the local mortgage rate to ascertain the land price of similar land-sites.

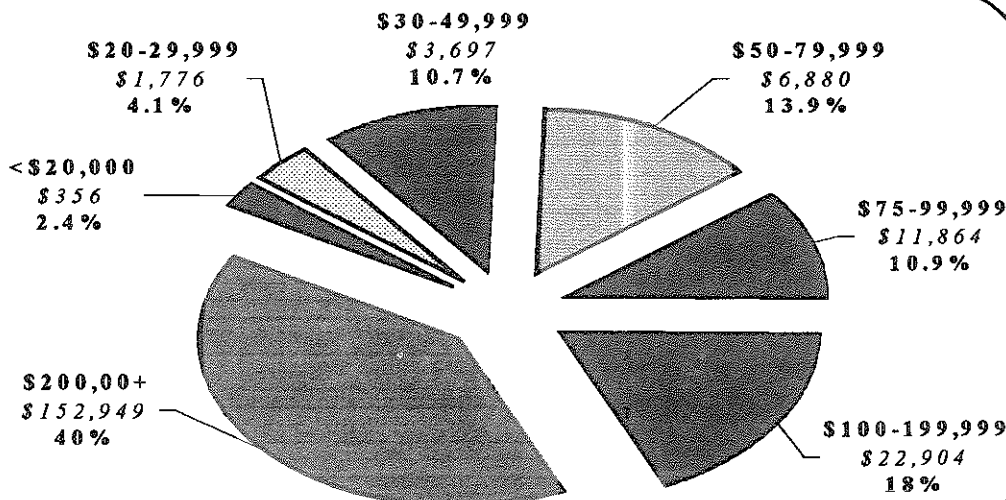
☒ More good news from Clairton, Pa.: building permits are up. So far, so good (We will do a formal study in 2004). Clairton expanded its tax-rate ratio for this year.

## Leaps & Hurdles

Figures from the Feb. 1, 2000 *Investor's Business Daily* indicate that one's tax liability leaps each time one attains a new income bracket.

The pie chart shows the adjusted gross income (1998), average federal income tax paid, and the percentage that tax is of all Federal income tax paid.

Source: *National Taxpayers Union*.



# Endorsements 510-512




Vernon Saunders (from the 1/96 IAAO [Assessors] Journal): "In Vancouver, B.C. in 1975, the richest 1% of landowners held 62% of the total land value and the richest 10% owned 73%. In the U.S., 5% owned 75% of the privately held land in 1978 (USDA study)." *All this confirms that the two-rate property tax would be more in accord with the ability to pay thesis than the one-rate property tax or the income tax.*

The Home Builders Assn. of Connecticut supports a state bill to grant 2-rate LVT local option "as a way of giving certain communities a new tool to encourage the development and redevelopment of land, and to help targeted investment communities promote their own redevelopment as well." (Planning & Development Committee of the Connecticut H.R. 2/14/01 report)

Economics Professor Robert Inman (University of Pennsylvania): "Revenues raised by a modest, well-administered land tax can be used to replace the revenues lost from reducing the rates on commuter wages and gross receipts. Business that own land in the city give up two bad taxes for one good one... if well administered, a land tax could be a useful part of the mix."

## Chambersburg Residents Save with 2-Rate

Chambersburg, Pa. is a small town near Gettysburg. A May 26, 1999 study by CSE revealed that 65.3 % of all property owners saved with a two-rate property tax as compared to what they would pay with a revenue-neutral one-rate property tax. Other types of two-rate savers:

-  72.7% of homeowners
-  54.7% of commercial property owners
-  65.7% of industrial property owners

Who would pay more? Absentee landowners (because they own the kind of properties that pay more), vacant-lot owners, and a few land-extensive property owners. Write CSE for the full study (1422 Chestnut St., 414, Philadelphia, Pa. 19102, 1-215-988-9998).

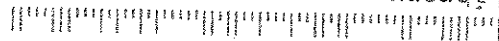
Then why hasn't Chambersburg City Council adopted the two-rate property tax so far? Inertia. That is not likely to impress the unemployed in town. But who listens to them?

## Social Security Hurts Women

Under the current social-security system, a working married woman receives nothing in return for her Social Security taxes unless she earns benefits greater than 50% of those her husband receives--not so with a privatized system.

In addition, privatization will give women all the other benefits mentioned in this pension series.

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