

# Incentive Taxation

## Here is the Incontrovertible Evidence That a Land Value Tax is in Accord With the Ability-to-Pay "Principle"

2-515

Should taxation be based on the ability to pay? In other words, should the rich pay a greater proportion of their income in taxes?

Yes, say some theorists who want equality of sacrifice - they want all income groups in society to sacrifice equally in bearing the common burdens of government. Hence they feel that if we tax a poor person a dollar, we should tax a richer person twenty dollars in order to equalize sacrifice.

But the critics of this view maintain that we should first tax unjustly earned income - i.e., income due to special privilege rather than individual labor. Ability to pay, they assert, is not a very accurate measure of special privilege. Tax such unearned income and we could then impose much less sacrifice on workers and investors.

Surprisingly, it is possible to reconcile both of these views, for if we tax land values on the grounds that such income is produced by the community rather than by individuals, we will be taxing the rich more than the poor. Such a tax happens also to be in accord with the ability to pay theory, which has a practical advantage in making the tax more politically attractive.

The rest of this article presents logic and factual evidence to show that the land value tax is clearly in accord with the ability to pay theory.

### A Few Own Most Land Values

To begin with, the ownership of land and land values is much more concentrated than is the ownership of income. Hence, a tax on land values would be more in accord with ability-to-pay than a tax on income. Consider:

- 0.1% of all California landowners own 13.5% of the state's land area. (L.I. Georgist, Sp/73, citing 1971 study by 25 researchers headed by Ralph Nader and Robt. Fellmeth).

- The biggest 2.3% of farmers had 43% of the farm land in 1950 (Mason Gaffney Ph.D. dissertation), and the figure is probably even more concentrated today.

- At least 2.1% of all the landowners in Indiana, Pa. (population 13,000) own 26.3% of the total land values in the town. But this is really a considerable underestimate, since the researchers, Steven Cord and Eric Sobczak, could not possibly have been aware of all the interlocking of landowning among the top 2.1% of landowners, as when they own shares in corporations which themselves own land in town, or when members of the same family

own land. In larger cities, where commercial land values are very high, and where many people are apartment dwellers and own no land at all, we could expect the concentration in the land value ownership to be even greater.

- The richest 10% of landowners own 73% of the total value of the land in Vancouver, B.C., Canada (1976 report by Mason Gaffney, then a land tax consultant for British Columbia).

- The richest 10% of landowners in Milwaukee own 76% of the land value (L.I. Georgist, Sp/73).

### Compared to State/Local Taxes

It is generally agreed that state and local income taxes are even more regressive than the federal income tax, since their rates are less progressive and they bear only lightly on income from property. And it is also generally agreed that sales taxes are highly regressive: when a poor man and a rich man buy something, they pay the same sales tax on it, but that is a much larger percentage of the poor man's income as compared to the rich man's income.

Now for the property tax on buildings: it, too, is more regressive than the property tax on land. Numerous studies show that land values comprise a greater proportion of real estate values (land and building) in well-to-do neighborhoods as compared to poorer neighborhoods. The consequence is that a shift from building to land taxation would un-burden the poor in accordance with ability-to-pay. For instance:

- In Washington, D.C., Professor Harold Brodsky (U. of Md.) ranked census tracts by median income and found the land share in real estate rises with income (Gaffney speech, 12/12/70 Conf. on Pty. Tax Reform, Wash., D.C.).

- The highest income suburbs of Milwaukee have a land:building ratio of 48%, as compared to 41% for the medium income suburbs and 37% for the low income suburbs (Professor John Riew, Penn State U., TRED-7, 1974).

- In Los Angeles County, a shift to land value taxation would have lowered property taxes in Baldwin Park, a working class suburb, by 34%, as compared to a 22% tax increase in upper income Beverly Hills (1973 Ph.D. research of William Truehart). These two towns figured prominently in the well-known *Serrano v. Priest* decision concerning equalization of financial support between various school districts.

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Here's a flood of other studies which corroborates the above findings: President's Commission on Urban Housing, "Report on Urban Housing," (Wash.: GPO, 1968), p. 351; M. Gaffney, "Land Speculation," unpubl. Ph.D. dissertation, U. of Cal., 1956, pp. 210-17; 1940 Census of Agriculture, Vol. 3, p. 80; R. Hurd, "Principles of City Land Values" (N.Y.: Record & Guide, 1902), p. 102.

To further gild the lily: the tax on buildings, like a tax on any other labor-produced commodity, is passed on to the consumer and is therefore as regressive as the sales tax. But all economists agree that a land value tax is a direct tax paid by the landowner and not passed on, and landowning, as we have seen, is so very concentrated.

#### Conclusion

The purpose of taxing land values is to provide the equivalent of equal access to Nature, to the common birthright of us all. Clearly it is better to tax what society produces (land values) rather than what individuals produce (their income and wealth). And by encouraging private incentive, we will all be better off economically.

But in addition, it is nice to know that the land value tax is based on ability to pay. It sure makes the tax politically attractive.

#### Compared to Federal Taxes

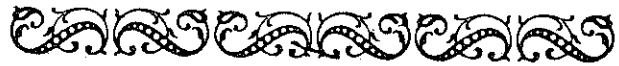
Somewhat surprisingly, the rich pay a smaller per-

centage of the income tax than they do of the land value tax. The richest 5% pay only about a third of the total income tax bill; the richest 10% pay less than a half. They are paying larger percentages of a tax on land values, as the figures in the previous section clearly indicate. The reason is that land and land value ownership is more concentrated than income in general.

And not unimportant, the land value tax would tax only unearned income, whereas the income tax taxes mostly earned income (like all other taxes).

The same holds true for the corporate income tax. If we make the common sense assumption that this tax cost, like all other costs, is passed on to the consumer in the form of higher prices, then it is a highly regressive and anti-ability-to-pay tax. And if by chance some of the tax is not passed on but lowers profits instead, then it is bad for business and employment. Compared to the land value tax, it is definitely bad news.

The social security tax is even more regressive. Since it is paid of the first \$32,000 earned in the year, it constitutes a much heavier burden on poor people than rich. Most of a rich person's salary is not subject to the tax at all, and none of his property income is. And what the employer's social security payment is passed on to the consumer, and that is very regressive. Yet this is the principal tax the very poor must pay.



## Land Value Tax - More Progressive Than the Income Tax

Why does government, when more revenues are needed, look to the income or wage tax? Presumably, it is because it conforms with the ability-to-pay "principle." But since land ownership is more concentrated than income ownership, wouldn't a tax on land values reach the rich more than a tax on income?

To substantiate the fact that land ownership is more concentrated than income ownership, a recent study was done in Columbia, Md. A list was made of all landowners who owned more than \$200,000 worth of current land values. It was found:

- the top 1% - 190 of all 17,118 Columbia property owners - own 28% of the land value in the city.
- with the land value tax, townhouse owners would save more than single-family home owners. Since townhouse owners generally have lesser incomes than single-family home owners, the land value tax clearly follows the ability-to-pay principle.

Now let us compare this distribution of the land value tax in Columbia - i.e., 1% paying 28% - to similar figures for the federal income tax. We find that 1% of the top income earners - \$100,000 and above - in the U.S. paid only 17.5% of the federal income tax (Statistical Abstract of the United States 1985, p. 317).

We can see from this comparison that land value ownership in Columbia is more concentrated than income ownership; thus, it would seem that the land value tax is more progressive and more in accord with

the ability-to-pay principle than is the federal income tax.

The comparative progressiveness of the land value tax is apt to be even greater than the Columbia figures indicate. Determining all of the interlocking ownerships among Columbia landowners was not possible, as when an owner owns land under his own name or as a stockholder in a business which also owns land. Thus, the likelihood is that Columbia's top 1% owns an even larger percentage of the total land values than the above study shows.

A similar study of Indiana, Pa. was reported in the April 1980 issue of Incentive Taxation. In that study, 1.5% of the biggest landowners owned 53.5% of the land values and would therefore pay 53.5% of any land value tax. We can infer that in larger cities than Indiana and Columbia, the top 1% of landowners would own an even greater percentage of the total land values. More studies may be needed, but from the evidence available there is good indication that the land value tax follows the ability-to-pay "principle."

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# Sales Tax: Regressive and Punitive

"The richest man in America, billionaire Samuel Walton, has to pay the same amount of sales tax on the shampoo he buys at one of the Walmart stores he owns as does the poorest person in the land.

"Sales taxes are a good deal, in fact they are a great deal, for Mr. Walton and his brethren on the Forbes Magazine list of America's super-rich. But for the vast majority of Americans, sales taxes are another story altogether.

"The nickels and dimes add up. And when they do, they take a greater chunk out of the pockets of middle-income families and the poor than they do of the bankrolls of the rich."

These strong words are extracted from a study of the sales tax recently published by the Center for Tax Justice, Washington, D.C. And they have the hard facts to back up their words:

- Families living below the poverty line shell out five times as much income for state sales and excise taxes as do the richest families in the country. That's REGRESSIVE! See table below.

- The sales tax is regressive even under the best of circumstances. New Mexico has the least regressive sales tax, but even there the poor pay a 50% greater share of their incomes in taxes than the richest citizens in the state.

Even the model sales tax crafted by the CTJ takes 2.7% from the income of the poorest fifth of American families and 1.6% from the richest one percent of all families whose incomes average more than \$600,000 a year).

In order to make the sales tax more progressive, rebates to the poor can be offered, but they don't help much, and in addition the rebates are difficult to administer.

- A federal sales tax (or "value-added tax" as advocated by some conservatives) would also be re-

gressive, taking 3 1/2 to 5 times as high a share of the income of the poor as of the rich.

- Utility taxes are particularly regressive, since gas, electric, sewer and water charges constitute a higher-than-average percentage of the income of the poor. Gasoline taxes are also regressive, but they can be justified insofar as their revenue is earmarked for road building and repair, also traffic control; they would then be charges for services rendered; likewise for utility taxes earmarked for the costs of utility regulation.

## LVT

Now as all good readers of this publication full-well know, the tax on land values has great advantages over the sales tax:

First, it is the most ability-to-pay tax there is, since land values are more unequally distributed than are retail purchases. The tax also collects unearned income, since the income from land represents pure exploitation; sales taxes, in contrast, are levied on earned incomes.

Second, the sales tax inhibits retail exchanges and therefore inhibits production (thus also jobs and income). By contrast, the land value tax spurs efficient land use; thus, even if the revenue from it were lost, it would nevertheless spur economic production (jobs and income as well).

## Conclusion

Let us conclude with a quotation from the CTJ study:

"Can you imagine the political firestorm that state legislators would face if they devised a tax that explicitly took four or five times as great a share of the incomes of poor families as from the rich? The most conservative editorial writers would decry such a tax as cruel, unfair and dastardly.

Advocates for low-income people would hold protest

## State & Local Sales Tax Burdens on Families of Four in 1987

QUINTILE:	I	II	III	IV	V,15%	Top 5%	Top 0.7%	Top .7%/I	Top .7%/III
Pennsylvania	2.8%	2.3%	2.0%	1.9%	1.7%	1.2%	0.9%	31%	43%
U.S. Average	3.3%	2.7%	2.3%	2.1%	2.0%	1.4%	1.0%	30%	42%

marches. Even the lobbyists for the rich would be hard-pressed to defend such a scheme.

"Yet when all the nickels and dimes are added up, that in fact is exactly what state sales and excise taxes do."

"So where are the howls of protest?"

## Definitions

**Excise Tax** - sales tax falling only on a few items.

**Progressive Tax** - takes a greater share of people's income as their income rises. Thus, a tax that takes 1% of a \$15,000-a-year family, 3% of the income of \$30,000-a-year family, and 5% of the income of a millionaire is a progressive tax.

**Proportional Tax** - takes a consistent and equal share of people's income as income rises. A tax amounting to 3% for each of the families above is a proportional tax.

**Regressive Tax** - takes a bigger share of people's incomes as income falls. A tax which takes 5% of the income of \$15,000-a-year family, 3% of the income of a \$30,000-a-year family, and 1% of the millionaire's income is clearly regressive.

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CSE

Fisher, John

March 28, 1993

Dear Bob,

For Your Information

1. Georquist Activities in Rodney

(a) Since the enclosed update I have again appeared before the Sewell Planning and Development Commission (Ontario) - Mar. 9.

(b) Will be appearing before the Ontario Fair Tax Commission on April 13. (see enclosed)

2. Letter to editor in all Elgin County papers. County tax increases reflect provincial govt legislation

3. Submission to Ontario Fair Tax Commission

Mal will appear in Peterborough

Frank will appear in Ottawa

Collectively we hope to have a grand finale in Toronto in June.

4. Will meet with J. K. Galbraith in London (Ont) April 7, 1993.

5. Items on Russia, F. Y. I.

John.