Endorsements 252-253

Arizona Republic (8/20/79): "What has made land in Phoenix worth a hundred times as much as it was worth in 1900? The answer is simple. People moving into the Valley of the Sun have increased the value on the land. If Phoenix had the same population today as it had in 1900, any increase in the sales price of the land would be due to inflation.

"Since people are responsible, why should owners of the land be allowed to benefit by its increased value? Why not take the increase, in the form of higher taxes, and use it to provide services needed by the growing population, such as schools and roads and sanitary services?"

Morris Williams (member, Victoria, Australia Legislative Assembly, in a speech Nov. 9, 1983): "In a truly liberal society land tax is an essential tax. It is a tax on all landed property, particularly on unearned income from community-created land value."

"If one examines the land tax statistics in Victoria, one will find that about two-thirds of the land tax is paid by people who have properties to the value of $1 million and more, and they are not only the banks, insurance companies and big department stores; they are very wealthy overseas investors."

(Mr. Williams then reported that the Nieuwenhuysen study of the state government praised the land tax highly.)

From the Editor

• Interested in attracting small business (esp. high-tech) into your locality? Try incubators - commercial low-cost buildings, often subsidized privately or publicly, which attract small businesses benefiting from additional inspiration and practical information gained by locating in a common locale where they get inspiration and practical help. There's also low or free rent and an in-house manager who offers advice and contacts.

Write us if you want an informative article on this subject entitled "Incubators Help Hatch New Firms" (Pgh. P/G, 7/25/85, p. 14). SASE appreciated.

• Columnist Michael Kinsley (alias TRB of the "New Republic" magazine) points out that a substantial number of super-rich on the Forbes 400 list got there "through the passive holding (as opposed to the active developing) of land and energy resources."

As Harry Helmsley, the real estate billionaire, says about his fortune: "You don't have to do anything. You just have to sit. The values go up." (And him a graduate in the 1930's of the Henry George School.)

Continues Kinsley: "Several of the new arrivals have commercial businesses, such as nursing homes and coffee shops, but what puts them in the megabucks class is the land underneath."

There is a way to get producers on the Forbes 400 list and get the non-producers off it, but alas Mr. Kinsley does not mention it (and him an advocate of it, too!).

• Edith Capon rubber-stamps this slogan on many of the letters she sends out: "Untax Homes, Uptax Land Values."

Western Australia Provides Evidence for LVT

(continued from page 3)

Note that this study includes every town in the state of Western Australia. This precludes the possibility of the study showing only the comparisons favorable to land value taxation. No card-stacking here.

This study was prepared by Messrs. N.A. Wigmore, W.J. Caufield, G.A. Forster, H.B. Every and L.J. Hutchinson of the Land Values Research Group, 32 Allison Avenue, Glen Iris, Victoria 3146 Australia. Copies of the study may be obtained at the cost of one dollar each. The study utilizes Australian Bureau of Statistics data from the censuses of June 30, 1976 and June 30, 1971.

Your Town

What about your town? Are wages low, is unemployment high, and is blight creeping through the town - all because buildings are being taxed while land is only lightly taxed?

What do you propose to do about the matter, now that you have seen these statistics?

Walter Rybeck, President of the League for Urban Land Conservation, tells us that "when I was assistant to Senator Paul Douglas on the National Commission for Urban Problems, he hung a picture of Henry George behind his desk as one of the thinkers who had been most influential in his life."

Incentive Taxation

CSE

This bulletin is published by the Center for the Study of Economics, 580 N. 6th St., Indiana, PA 15701, (412) 465-7119. Editor: Steven B. Cord. Inquiries invited. Subscription rate $8/yr.

Center for the Study of Economics
580 N. Sixth St.
Indiana, Pa. 15701

MR. MARK SULLIVAN
5 EAST 44th STREET
NEW YORK, NY 10017

Address Correction Requested

April - May 1986 VOL. XI, NO. 6

1908

Incentive Taxation

B1461

Two New Modest LVT Advances in Duquesne and Scranton

"Better to light one candle than curse the darkness."

In accord with this philosophy, two Pennsylvania cities increased their land tax rates for 1986 as compared to the tax rates they impose on buildings. Their building-to-land tax shifts were modest, but at least the direction was beneficial.

Scranton, Pa., a city of 78,000 population, adopted 1986 rates of 3.765% on land and 0.847% on buildings while at the same time raising the official assessment-to-market value ratio to 100% from 35%. These rates represent a mild building-to-land tax shift as compared to 1985.

Sentiment in town is growing for a property re-assessment. Commercial property is being assessed closer to actual (as opposed to official) market value than is residential property. Commercial property owners are thus bearing more than their fair share of property taxation, and this situation is in blatant violation of the uniformity clause of the Pennsylvania Constitution. Incentive Taxation supports the Chamber of Commerce in its efforts to get re-assessment.

The longer re-assessment is delayed, the harder it becomes to re-assess. In many cases, the re-assessment would bring a huge tax increase for some taxpayers, particularly homeowners. They can be expected to oppose re-assessment. But last year, Washington, Pa. met this problem by simultaneously introducing a two-rate property tax. The increased tax burden on homeowners occasioned by the re-assessment was moderated by Washington's building-to-land property tax shift. This may be the only way Scranton's Chamber of Commerce will be able to sell re-assessment.

Duquesne

Of course, the main purpose of a building-to-land tax shift is to encourage new construction and re-employment. Numerous studies have shown in previous issues of this bulletin have shown that in fact new construction (as measured by building permits issued) has increased in those cities which have adopted a building-to-land tax shift. And this is why Duquesne, Pa. did it in 1985. Its economy has been battered by the virtual closing of the huge U.S. Steel mill in town, so it wanted to encourage local economic growth via property tax reform, especially since it wouldn't cost the city any tax revenue at all.

For 1986, City Council was faced with the need for a long-delayed tax increase. After all, in 1985 alone, inflation proceeded at a 3.8% rate, and city expenses tend to be even more inflation-prone than most other expenses. But Council rejected the advice of certain "tax building, tax business" advocates and imposed the entire new tax increase on land assessments alone, leaving the building tax rate untouched.

Duquesne's new tax rate is 6.369% on land coupled with 2.7% on buildings.

Special mention should be made of retiring mayor Leo Zabelsky (he did not run for re-election). He strongly advocated the two-rate approach for the good of his city even though he himself would pay more in property taxes (he saved on his house but paid more on his automobile-business properties). We have encountered other city officials with that kind of public spirit; in fact, we have encountered more of them than of the other kind of public official who votes only in response to pocketbook dictates.

Let us end by noting that good economics flows inevitably from good morality. Let individuals retain the full fruits of their labor - their wages, buildings, retail sales, etc. - as free as possible from the tax gatherer. Our tax system should not be communizing (for that is the word) labor-produced private property, nor should our tax system be conferring windfall profits on landowners resulting from the efforts of society in providing nearby jobs and shopping as well as the efforts of government in providing nearby roads, schools, hospitals, police and fire protection, etc.

We salute those high-minded politicians in Duquesne and Scranton who for 1986 have translated their ideals into action.

John Weaver Dies

John Weaver, leading Pittsburgh land taxer for sixty years, recently died at the age of 89. He was one of the founders of the organization that publishes Incentive Taxation. Gentle in manner, but fiercely dedicated to principle - that's how we'll remember him. Bon voyage, John!!

An informative obituary will soon appear in Equal Rights, our companion publication.

Tax Exemption For Improvements Another Way To Do It

This publication has long been advocating a two-rate property tax - a higher tax rate on land assessments coupled with a lower tax rate on buildings. The uptax on land encourages landowners to develop their sites more fully in order to earn enough income to cover the higher land tax (who, for example, would keep land out of use if there were a significant land value tax to be paid annually?) - and the lower tax on buildings would make them more profitable to construct, improve and maintain. This would be a two-fold spur to new construction and re-employment.

But in some states, a state-constitutional amendment would be required to allow localities to tax land at a higher rate than buildings. Fortunately, there is another way, **fully constitutional**, to achieve the same purpose: let the locality exempt all improvements in whole or in part from the property tax.

Most states already allow their localities to exempt new improvements from the property tax for a certain number of years (sometimes limited to officially designated deteriorating neighborhoods). If that is state-constitutional, then surely granting such exemptions to all improvements, for an indefinite number of years, throughout the taxing district - surely that would be state-constitutional also.

If New Jersey, for instance, can exempt new improvements under its Fox-Lance Law, why couldn't it also exempt all improvements - and other stae likewise?

An Example

Here's how tax exemption for improvements (TEI) would work. Imagine a locality - perhaps a school district or town - with total land assessments of $10 million, total building assessments of $20 million and a 2% tax rate. The current property tax revenue would therefore be $600,000 annually (2% x $30 million).

Suppose the locality were to exempt 10% of the value of all improvements from the property tax. Total taxable assessments would then be $28 million and a 2.1429% tax rate would be needed to raise $600,000 ($28 million x .0211429). In the following year, the improvements exemption could be 20%, in which case a 2.3077% tax rate would be needed to raise the revenue now being produced by the current property tax rate (divide $600,000 by the sum of $10 million and ($20 million times 80%), which then comes to $26 million). And so on.

TEI

This TEI approach would result in a shift of the property tax from buildings to land, just exactly as the two-rate approach would.

Help the Poor

Would you like to give property tax breaks to low-income people? Then structure your improvement tax exemption this way: grant a fixed tax exemption, say $5000, to each property owner against the value of his improvement. This kind of TEI would mean more to a low-value home than it would to an expensive building, although of course they both would get the same $5000 exemption. In the next year, the exemption could be raised to $10,000, and so on.

This would be similar to the homestead exemption now in force in a number of states.

There is no state constitution which is directed intentionally against land value taxation, but a number of constitutions are so written as to require different approaches for reaching the goal of land value taxation.

Where there is a will, there is a way.

Anchorage: Land Tax Kinder to Average Person Than Wage Tax

A wage tax in Anchorage, Alaska would hit wage earners in the city almost three times harder than a land value tax would hit residential property owners.

If we reasonably assume that the average wage earner is the average residential property owner, then clearly a land value tax would be kinder to the average citizen than a wage tax raising the same revenue for the city government.

Nothing more need to be said, except to cite source and analysis (see below).

SOURCE: April 3, 1985 report by Budget Analyst Joe Griffith to the Anchorage Assembly.

ANALYSIS: every 1% in a wage tax would raise $23 million, and with land assessed at $3.59 billion, then 6.4 mills on land would be needed to raise the $23 million. Residential land assessments are $1.31 billion, so $8,384,000 would be raised from residential landowners with a 6.4 mill land tax rate. That is about a third of the $23 million that a 1% wage tax would raise.

Our Editorial Offices
Have Moved To:
10329 Lograft
Columbia, MD 21044
301-997-9232

Please direct all correspondence and phone calls to this new address. Our postal address will still remain at 580 North Sixth Street, Indiana, PA 15701.

Western Australia Provides Evidence for LVT

This bulletin has presented many studies from the state of Victoria in Australia showing that towns adopting a tax on land values only LVT experience a sudden increase in new construction. Not only that, but their increase far outstrips whatever increases their comparable non-land-taxing neighboring towns might show.

Now similar evidence comes to us from the state of Western Australia. In this state also there are towns taxing land values and towns which do not, so fair comparisons can be made:

- In the Perth metropolitan area during the five years between the last two available censuses, the 17 councils taxing only land values showed an average increase in the number of dwellings of 34%. By contrast the 9 councils still taxing improvements showed no increase at all.
- In the country areas, the localities taxing only land values showed an average increase in the number of dwellings of 13%. Those localities which use both systems, a land-only tax plus a tax on improvements, showed an increase in the number of dwellings of 5%. Those councils taxing improvements only showed an increase of only 1 1/4%.

Comments

The conclusion is clear enough: the more a locality relies on a land value tax, the more growth it shows. And why not? Wouldn't you prefer to build a home in a locality which didn't tax your improvements and where the price of land is moderated by a tax on it? With a land value tax, new improvements are tax-free; wouldn't that encourage new construction?

Numerous studies in this country and in Australia have shown that a shift in the property tax rate from buildings to land lowers the taxes homeowners must pay. The taxes on the minor part of their investment - land - increase, but the tax on the major part of their investment - the building - decreases. They pay less. And because the land value tax attracts new homeowners, local retail stores have more customers. They benefit also.

continued on page 4

From the Editor

- In the Candadian province of Alberta, farm land is assessed at 65% of its 1977 market value while farm buildings are assessed at 32½% of its 1977 market value. This is equivalent to taxing land at twice the rate of improvements. Note that this is for farm land only.

Land value taxation can be acceptable to farmers.

- Matthew S. Watson, a District of Columbia city auditor, reported that city assessors "make visual assessments by standing in front of the property. They only enter about 15% of the buildings each year." (Wash. Monthly, 9/79, p. 12)

Moral: tax land, not buildings. Simplify the work for our assessors so they can assess carefully.

- A recent issue of the "American Heritage" magazine lists ten books which have most changed American thinking. Included in the list is Henry George's "Progress & Poverty."
- "A 1983 Harvard Business Review study found that at least 25% of the average company's assets were tied up in real estate. American companies held between $700 billion and $1.4 trillion worth of property, including up to 14 billion square feet of office space and 140 million acres of undeveloped land. But, the study said, 'Most treat property as an overhead cost like stationery and paper clips.' " (from IT reader Frank Nelson WSJ 7/1/85, p. 1).

Even businessmen overlook the importance of land alue.

- Pennsylvania has set aside about $30 million to assist 3,000 eligible homeowners to pay their mortgages and taxes. Unemployed or underemployed homeowners can get loans at 9% interest. It is expected that they would have a good chance to get back on sound financial footing within three years.

We like this program inasmuch as it takes the heat off the property tax, thereby making it easier to tax land assessments more. If it does give a breathing space to homeowners in distress, that's all to the good provided it doesn't cost the general taxpayer too much. Of course, the loan could be limited just to tax and not mortgage payments.

- We welcome a new companion publication - the "Intermountain Frontier." The principal editors are Professor James Busey and Earl Hanson, and it covers the Rocky Mountain states. According to its masthead, this quarterly is devoted to "the liberation of production from taxation, the earth from monopoly, and humanity from poverty."
- "I hold in my hand 1,379 pages of tax simplification." (Representative Delbert Latta (R-Ohio), criticizing the House Ways and Means Committee's hotly debated version of tax reform.
- "Christmas is a time when kids tell Santa Claus what they want and adults pay for it. Deficits are when adults tell the government what they want - and their kids pay for it." (Colorado Governor Richard Lamm to the National League of Cities.)