

# Incentive Taxation

*Reduce Property Taxes for Most Voters*

## Alas, Poor Pittsburgh

*Since Pittsburgh Rescinded its Graded Tax,*

*Its Construction Has Declined, But U.S. Construction Has Increased*

For the years 2001 and 2002, Pittsburgh has been taxing land and building assessments at the same tax rate, but in 1999 and 2000 it taxed building assessments at only a sixth of land assessments. An examination of the building permits issued in Pittsburgh revealed that private taxable construction *declined 21.3%* in Pittsburgh in 2001 and 2002 compared to 1999 and 2000.

During the same years, however, construction and renovation in the nation *increased* by 6.7% from 1999-2000 to 2001-2002. In other words, after Pittsburgh rescinded its two-rate land-oriented property tax, its new construction and renovation declined although nationwide construction and renovation increased.

This confirms our other studies (and hundreds of other empirical studies from Australia) that land value taxation benefits the economy. When a locality shifts taxes from buildings to land, a spurt in construction and renovation always results.

But when the shift is in the opposite direction, from land to buildings, as occurred in Pittsburgh, we could expect a construction-and-renovation decline, and so far, that is exactly what has happened.

It's too soon to draw any pro-two-rate conclusions because we can compare only the two years following Graded Tax rescission with the two years before. We should compare the three years before with the three years after. So - wait till next year before drawing any conclusions.

One study we know of asked some downtown real-estate investors in Pittsburgh for their opinions of the Graded Tax, but that approach is 100% subjective and unscientific. We would never do anything like that; we prefer to measure their actual actions, not their opinions. As it happens, most of these downtown real-estate people are now paying much more in taxes because of the Graded Tax rescission and are complaining loudly in public.

Now that these downtown real-estate investors know more about the two-rate land-oriented Graded Tax, their opinions have changed. They now favor it.

## Well Met, Harrisburg

*This May 1, 2003 letter of testimony is from Harrisburg, PA Mayor Stephen R. Reed to Philadelphia City Controller Jonathan Sidel "to add to the record on the matter as the City of Philadelphia considers the prospect of land-value tax policy."*

"The City of Harrisburg is like every other Pennsylvania city, confined within boundaries that cannot change. Unlike cities in the South and the West, cities in this State do not have the ability to incor-

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## Land Boom in Las Vegas

A long-time supporter and *IT* reader from the Midwest sends us an article from the *Wall Street Journal* (4/15/03, A2) reporting on a tremendous land shortage in fast-growing Las Vegas, Nevada - a veritable island surrounded by a sea of sand. One developer paid \$160 million for 1,000 far-out acres, nearly double their appraised value.

Land prices have recently been rising 15% a year, causing many builders to fold and others to take tremendous risks (yet they often oppose the only way to lower those prices).

Many other metropolitan areas are also suffering from a serious land shortage. *WSJ*: "Land shortages also preceded the collapse of the Japanese real-estate market in the early 1990s."

Learn how your town, your city, or your borough could benefit from the positive results of a land tax.

The Center is here to help you research the shift from property to land tax in your jurisdiction. While working with other localities, most notably in Pennsylvania, we've developed plenty of research that shows, with LVT:

*Blight decreases*

*Business invests*

*Residents want to stay,  
People move in*

*The tax base is more  
fairly distributed*

*The Community  
Proudly Thrives*

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## "The Oil in Iraq Belongs to the Iraqi People"

President George W. Bush offers this slogan to justify the war against the Hussein regime. The United States government is thereby upholding the main premise of this since-1974 publication: the rent of land belongs equally to us all and neither workers nor investors should

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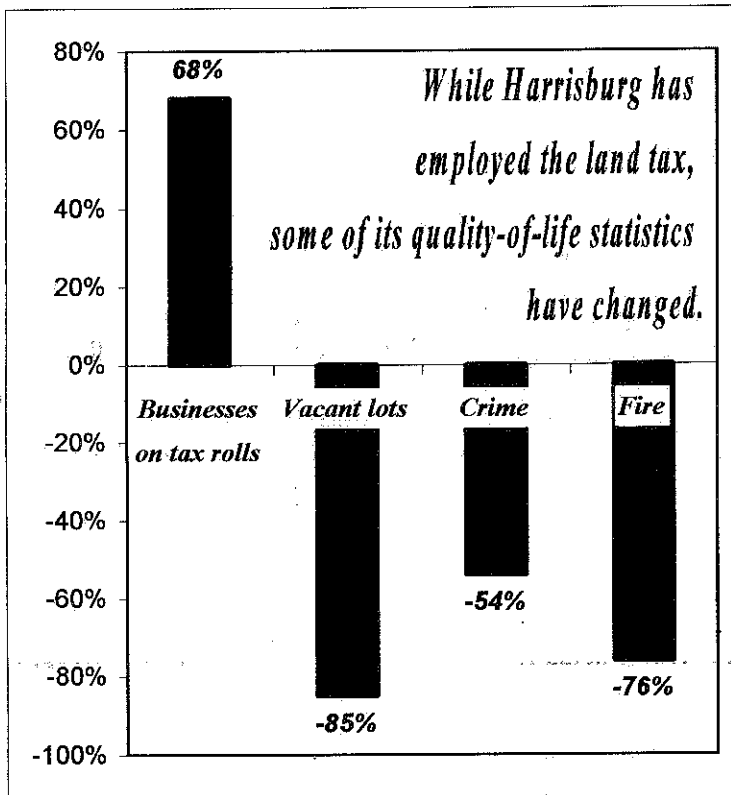
# Well Met, Harrisburg

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porate additional areas.

"Accordingly, promoting the highest and best use of land is critically important to the long-term economic development progress of this City. We have had the land-value tax policy in place for years [since 1975] and have found it to be an important incentive.

"Presently, we have a ratio of six to one, meaning that the millage rate on buildings is only one-sixth of the millage rate charged on land.



"Such a policy rewards the productive use of land. The greater the investment, the greater the savings to the owner/developer over a single tax-rate system. In other words, it is a reward for initiative and private investment risk.

"Moreover, a higher millage rate on land tends to discourage real estate speculation by irresponsible absentee owners--a genuine problem in probably every city in Pennsylvania.

"The City of Harrisburg was

listed as the second most distressed city in the nation twenty years ago. It had sustained precipitous decline over nearly three decades--a decline far greater in proportion than what has ever been experienced by any urban community in this state, or for that matter, every other state with the exception of one.

"Harrisburg, in the current era, launched aggressive initiatives related to economic development, the creation of non-tax revenue sources, and a constant effort to refine and improve the operations of city government. These remain our [three priorities]. As part of our economic development incentives, the land-value tax policy is key, and without it, a significant amount of new investment would not have occurred here during recent years.

"In the current era, we have registered in excess of \$3.1 billion in new investment. The number of businesses on the City's tax rolls has increased from 1,908 to more than 5,900. Taxable real estate values have increased from an aggregate of \$212 million to over \$1.6 billion. The number of vacant properties has been cut by 85%. The crime rate has been reduced 54% and the fire rate has dropped over 76%. Unemployment, which generally ran in the double digits, even in times of a good national economy, is normally less than half those previous rates today.

"The land-value tax policy is not a cure-all but, without it, it would be particularly more difficult to attract and retain taxable real estate investment. Economic development in an urban community should not be based solely upon a land-value tax policy. Rather, the tax policy should be part of a package of other incentives, which include various low-interest loans, the availability of low-cost vacant land, tax abatement, and the like.

"Without hesitation, we can commend the importance and benefit of the land-value tax policy. It has worked in Harrisburg and in other communities where it has existed."

## A Tax That CREATES Jobs

Just imagine that every New Year's Day, on the White House lawn, all the land rent in the country was tossed into a huge bonfire. We surely could find better uses for the national land rent than that; we could greatly lower (maybe even abolish) taxes on production - on income, payroll, sales, buildings, corporations, etc.

But please - just imagine this huge annual land-rent bonfire. *It would result in every parcel of land being put to its highest and best use.* Zoning should be used to protect the environment. Jobs would proliferate and production would boom - even in declining towns. In other words, here is a tax that by itself actually creates jobs. Involuntary poverty and joblessness (and the fear of them) would be gone forever.

But keep in mind that we should approach the full collection of the land rent *gradually* (for political reasons - no sudden jolts). Just let's get started *now*.

Tax locations, not production.

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# What is Land Rent/Land Value Tax?

Many people don't understand what land rent is, and consequently don't understand how the government collection of the annual income from land could revitalize our economy (indeed, without it, our economy is headed for disaster). So let us discuss all this here.

The rent of a land parcel is the annual income it can generate. It is equal to the land's market value times the appropriate interest rate.

Knowledgeable people - investors, owners, real estate brokers, and government assessors, readily know the market value. Only uninformed nonprofessionals do not know what the selling price (or value) of land is; they often merge the selling price of the underlying land parcel into the building value. They fail to separate the building value and its location value. Wouldn't a badly located property, such as an office building on land best used as a cornfield, likely go bankrupt?

It is possible to tax the annual rental income of land directly, rather than tax the selling price by multiplying the real interest rate. The free market is the guide with either approach. Let people be free to buy and sell as they wish.

The use to which a land parcel is put is completely irrelevant to its rent; for example, a vacant lot can be rented, and so can the lot when it is built upon. The building has a selling price completely separate and apart from the location's selling price or rental. One has absolutely nothing to do with the other. The only determinant of the land parcel's selling or rental price is the *potential* use to which the parcel can be put, not its current use. This potential use determines the land rent and is referred to by people with real-estate experience as the highest-and-best use, or better, the most-appropriate use.

*Thus, the price of land best used for farming is unaffected even if an Empire State Building were to be built on it.*

Nor does it matter who legally owns the land or the building thereon. Sometimes such owners are different people, as in the case of more than 40% of U.S. agricultural land. We call such ownership leaseholds, in which case the land rent is actually paid by the building owner to the landowner.

In the more usual freehold situation where the building owner is the landowner, land rent still exists even though no land-rent money changes hands; the building owner does not bother to pay rent to himself as landowner. But the land has rent nevertheless; just at it has a selling price even though it might not be for sale. Such land rent is imputed or uncollected. Even professional economists often do not count it as land rent, but it should be. That is an important omission, since most land rent is uncollected. Today such uncollected land rent is about eight percent of the land's selling price.

If the government collects all the land rent in taxation, leaving nothing for the landowner, then the land's selling price would be zero (there would be no privately collected land rent to be capitalized into a selling price). Economically, it would be as if the building owner rented the land-parcel from the government, although legally it would remain in private hands as now.

Under this system, there would be no advantage in being an absentee landowner. Whatever such a person could collect in land rent from the building owner, he would have to turn over to the government at the end of the year, leaving him nothing at all.

Here are a few advantages of such a system:

☞ There would be no taxes on production. The government would get its revenue from taxing land rent.

☞ Every land parcel would have to be efficiently used (within zoning limits, of course), otherwise there would be too much tax expense covered by too little income from an inadequate or inefficient improvement.

☞ Land price would be zero, which would be good for the construction industry and prospective homebuyers.

Which should we tax - land rent or production? Not to do anything, dear reader, is to perpetuate the current system of taxing production. Inaction is not a reasonable option; it marks you as a supporter of taxing production and the inefficient use of land.

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## From the Editor

Vol. XXIX, No. 5

🔗 Non-land-value-taxes make it more expensive to be poor.

🔗 For a research project I am engaged in, I am reviewing old issues of *Incentive Taxation*. I've come across 460 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 600 studies before I'm done. Anti-LVT empirical studies: ZERO. And yet inducing expansions of LVT to new localities is still uphill work....

🔗 Pennsylvanians: Act 50 has good news for two-rate localities: the homestead exemption for elderly homeowners is to be applied against the house assessment only; not the land assessment.

## "The Oil in Iraq Belongs to the Iraqi People"

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be denied their property rights by taxation (actually, the Iraqi oil belongs equally to all the people of the world, but practicality requires that we not push this just now).

If the Iraqi oil is used to benefit the Iraqi people, they will be taxed less on their labor and investments.

The philosophical premise of this war aim should be applied in our own country, in every town and school district.

We usually avoid comments on current international issues, but this war goal is directly in line with our *raison d'etre* (pardon our French).

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# From the Director: Land and Taxation News

## Philadelphia Tax Reform Commission Meets

Last November, the voters of Philadelphia passed a measure that created the Philadelphia Tax Reform Commission (PTRC). PTRC will look at the tax structure of the city for one year and report to the City Council in November.

CSE spoke on April at a closed meeting of the PTRC, along with former Allentown City Council President **Benjamin Howells**. The commissioners were interested yet skeptical, but they seemed swayed at the end.

On May 15, the PTRC had open hearings in Council chambers and were impressed by the number (about 30) and caliber of witnesses for land tax. Among the organizational supporters were the Philadelphia chapters of *NOW* and the *AIA*, as well as the *Urban Leadership Conference* under the direction of distinguished chair the **Reverend Bruce Edwards**. Individuals and community leaders either spoke or gave written testimony, including noted Olney neighborhood leader **Kathy Harris**.

PTRC chair **Ed Schwartz** closed the seven-hour session saying that land tax would be seriously considered and had finally "arrived" in Philadelphia political life. About time!

## Like Summer, Land Tax Conferences are I' Cumen In

On June 5, a land tax conference organized by University of Hartford Professor **Jeffrey Cohen** entitled "TWO-RATE TAXATION OF LAND AND BUILDINGS" will be held at the Wilde Auditorium on campus. Speakers will include **Lowell Harris** and **Bob Schwab** of the University of Maryland. For more information, contact the Center ASAP. With heightened interest in land tax in the Nutmeg State and the upcoming CGO conference in Bridgeport (July), the iron is getting hot.

On June 6, another conference, co-sponsored by CSE and the City of Holyoke, Massachusetts, will be held. Open to all, "Land taxation in the context of reviving post-industrial communities" is the theme. Again, contact CSE for details.

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

## Endorsements

### 523-524

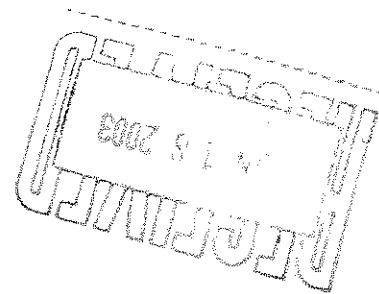
**Bennet Heart**, senior attorney at the Conservation Law Foundation (*Boston Herald*, 2/28/03): "...the land-value tax is an interesting idea. Other Massachusetts cities [besides Holyoke] should look into it. It not only discourages the buying and holding of land, but encourages denser development in cities where it makes the most sense. This could also help slow down sprawl."

**David Brunori** (*Tax Analysts*; electronic citation - 2001 STT 175-21): "Local governments should seriously consider the adoption of some form of land value taxation. [It] involves simply taxing the value of land while exempting improvements [or] rather take the more limited step of exploring split-rate systems, in which land is taxed at a higher rate than improvements."

"Some studies [Ed: more than 200] show that average homeowners would see their property tax burden decrease if land was taxed at a higher rate than improvements."



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