

Incentive Taxation

©

1-145 Connellsville Moves Forward

Connellsville, Pa. would seem to fit the profile of Doom as far as the post-industrial era goes: Mills and industries closing, an aging population, few economic prospects. And yet in 1997, Connellsville presents a pretty picture of a stable small town. New buildings and new businesses dot the shaded streets.

One change is that in 1992 Connellsville adopted a rational form of property taxation - two-rate land value taxation. It has been in effect ever since and the results have been dramatic. The following table summarizes the construction and renovation record in Connellsville (pop. 9,229 in 1990) and nearby Uniontown (pop. 12,000 in 1990), the county seat:

| | <u>Connellsville</u> | <u>Uniontown</u> |
|------|----------------------|------------------|
| 1989 | \$ 832,725 | \$1,113,794 |
| 1990 | 3,627,222 | 1,487,171 |
| 1991 | 3,467,714 | 981,812 |
| 1992 | 6,319,133 | 689,428 |
| 1993 | 10,937,538 | 1,024,600 |
| 1994 | 10,165,977 | 2,151,950 |

Two conclusions can be drawn from these figures:

(1) New construction and renovation jumped an astounding 3.46 times in the three years after the

adoption of two-rate (as of 1992) in Connellsville as compared to the three years before.

(2) Two-rate Connellsville far out-constructed and out-renovated one-rate Uniontown (even though Uniontown is the county seat, ordinarily a plus; both cities are in the same county. Uniontown's construction and renovation increase was only 7.9% (not equal to the inflation rate in those years) while Connellsville's increase was 246%.

These figures indicate a favorable impact of the two-rate property tax. ALL the other 16 studies conducted by this periodical show exactly the same results. If construction and renovation are taxed less, we could expect more construction and renovation. And if land assessments are taxed more, landowners will have more incentive to develop their land-sites more fully, which also means more construction and renovation. So the logical expectations support the empirical studies.

All this could happen in your town also.

(All building-permit data cited is from the Penn State Data Center, Middletown, Pa. Only taxable structures were measured, no demolitions, fences or signs.)

The Proposal

1. Lower your tax rate on building assessments and recoup the lost revenue by raising your land assessments tax rate.

2. Results: (a) Revenue-neutrality. (b) Most voters will probably get tax reductions.

c) Construction and renovation will spurt.

3. Call 410-740-1177 for free help.

Two-Rate: An Ongoing Process

Some officials in the 20 current two-rate jurisdictions mistakenly think that once they have introduced the two-rate property tax and have separated their land and building tax rates, they need do no more - but no. If it has worked well so far, then in each succeeding year they should shift a little bit more of the property tax on buildings to land assessments. They shouldn't stop while they're ahead.

ALL 17 of our studies indicate that two-rate ALWAYS leads to a spurt in new construction and renovation, and the two-rate jurisdictions ALWAYS out-construct and out-renovate nearby comparable old-fashioned one-rate jurisdictions. It seems that if you tax buildings less, you'll have more and better buildings, and if you tax land more to make up for the lost revenue, land-sites will be more fully utilized. These studies are fully confirmed by studies from independent sources.

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Study #17

Allentown

Out-Constructs
Out-Renovates

Bethlehem

Our July 2000 issue contained a chart of building-permits issued in Allentown and nearby Bethlehem. The figures were absolutely correct; they showed that two-rate Allentown and out-constructed and out-renovated nearby and comparable one-rate Bethlehem. But here is a better presentation of those figures:

| | Allentown | Bethlehem |
|--------|---------------|--------------|
| 1994 | \$21,651,289 | \$17,888,330 |
| 1995 | 16,569,955 | 23,006,415 |
| 1996 | 38,578,949 | 35,103,531 |
| Total: | \$76,800,193 | \$75,998,276 |
| 1997 | 27,822,793 | \$29,524,876 |
| 1998 | 36,202,491 | 23,505,215 |
| 1999 | 37,130,546 | 36,731,738 |
| Total: | \$101,155,830 | \$89,761,829 |

ALL 17 of our studies show that the two-rate jurisdictions have experienced spurts in new construction and renovation following two-rate adoption; the three years after two-rate adoption have been compared to the three years before. Furthermore, in EVERY case, the two-rate jurisdictions have out-constructed and out-renovated the nearby comparable one-rate jurisdictions. Two other studies by independent university researchers corroborate our studies.

Either ignore the evidence or shift some of your building taxes to land for 2001. Contact *Incentive Taxation* (at no charge) to help you determine exactly how to do this. 410-740-1177.

What's Wrong With Taxes on Production?

Plenty:

(1) *They're unethical.* They violate the right of private property. Conservatives can rail for years against high taxes, but they won't get them reduced without LVT, since a shaky economy leads voters to hang on to their government handouts even at the cost of high taxes, much like castoffs adrift on the high seas holding on desperately to nearby driftwood. As for liberals, they should realize that most taxes end up raising prices for poor people or lowering their income.

(2) *They penalize economic growth and job-making by taxing them.* Since taxes in the U.S. are 46.7% of the national income, what wives earn goes to pay the average family's tax bill. Taxes on labor compel wives to go to work (after taxes, many of them are taking home less than the minimum wage - feminists take note).

Tax land values, not buildings or other things produced by humans.

(The above is adapted from a forthcoming book entitled The Most Important Statement Ever Made [MISEM])

Tax Land-Rent, Not Death

Since the rich can afford to pay lawyers and accountants, the inheritance tax on death winds up being a tax primarily on the middle-class. According to the latest I.R.S. data, 53% of the estates that filed tax returns in 1996 were under \$1 million and 96% were under \$5 million.

A 1999 study by economists Gary

and Aldonna Robbins calculated that every additional dollar of revenue raised by the death tax reduced the national economic output by \$3.67. They took into account the cost of compliance.

Why don't people tax land values instead of death? Because they have ironclad preconceived notions. To them, evidence is shmevidence (in the case of ethics, evidence is irrelevant but they think logic is shmogic).

Two-Rate: An Ongoing Proposition

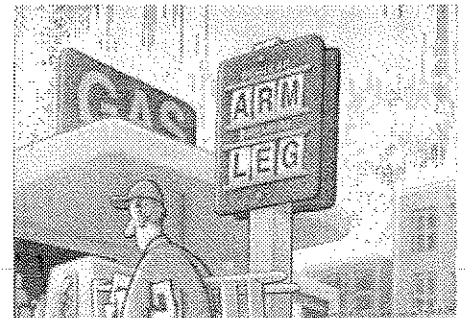
Continued from page 1

A good rule-of-thumb is to reduce the building tax rate in each succeeding year by 20% of the original one-rate tax on buildings, and then make up for the lost revenue by setting a higher tax rate on land assessments (we can help you do this). If a little two-rate has been good, more is likely to be better. Another building-to-land tax shift is called for. Don't stop while you're ahead.



Nothing written here should be construed as an attempt to influence the passage of any legislation. The views expressed in this publication are the opinions of the authors, and do not necessarily reflect CSE views.

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7/17/97, B1, quoting Daniel Mitchell study).

◆ In 1986, Ted Gwartney, then Executive Director of the British Columbia (Canada) Assessment Authority, the largest in the world, stated that assessing land only is much easier than assessing land and buildings - "obviously."

◆ *For a descriptive slip to be enclosed with the property-tax bill: 2-rate is the exact equivalent of granting a partial property tax exemption on buildings.*

◆ If the Cincinnati Reds were the first baseball team, who did they play against?

◆ "Far more people have been murdered by their own government - at least 170 million - than by terrorists" (Natl. Center for Policy Analysis, 9/97).

◆ Who says you can't take it with you? You can wear your best blue suit and fill the pockets with all sorts of things.

◆ Professor Donald Reeb's study of Amsterdam, N.Y. revealed that homeowners paid less taxes with 2-rate as compared to 1-rate (3/98 study table 2).

◆ Land values are important: In 1999, "more than \$6.2 billion was paid for the right to explore for and produce oil and natural gas from on-shore and offshore federal and on-shore Native American lands" (*Indiana County Pa. Shopper's Guide*, 3/24/00, p. 17, citing figures from the federal Minerals Management Service).

◆ Mayor Charles Moyer reports (via phone, 7/1/00) that tax defaults in Ebensburg, Pa. are down since the adoption of the two-rate property tax.

◆ Alaska has the lowest tax burden of all the states (*Tax Features*, 3/00, p. 6) primarily because it collects mineral-land rent for revenue instead.

◆ "I am delighted that you agree with me on the taxation of land values". (Sen. Paul H. Douglas)

◆ "Deceptionist: Office worker who fibs about the boss's whereabouts" (Michael Fitzgerald).

◆ Finns are worrying about skyrocketing real estate (i.e., land) prices which might trigger an inflationary spiral (*Wall Street Journal*, 7/26/99, A1). The only antidote: LVT.

◆ As of 4/22/00, the U.S. national debt was \$5.8 trillion (IT reader Elmer Greenlee, citing U.S. National Debt Clock). Only with LVT can that be paid back without killing the U.S. economy.

◆ Pennsylvania cities can adopt a two-rate property tax by simply passing this local ordinance: "In accordance with P.L. 534 (1959, as updated) of the Pennsylvania City Code, the city of _____ will levy ___ mills on real estate assessed as improvements and _____ mills on real estate assessed as land."

◆ "As baffled as Adam on Mother's Day" (Xabier Azkargorta).

◆ The capital gains tax raised 2.9% of total federal revenues in 1996 (CATO #242, p. 6, Citing 1996 U.S. Budget, table 2.1, p. 22)

◆ Payroll taxes for Social Security exceeded personal income taxes for 1996 (*Ibid.*).

◆ A fine is a tax for doing something wrong. Alabor tax is a fine for doing something right.

◆ The richest 20% of income earners, making at least \$56,200/year (probably less) pay 74% of the nation's income tax (*Investor's Business Daily*,

How Society Can Win 2-1

If all the land rent were collected in taxation, then compared to the current situation, producers (workers and capitalists) and landowners would win 2-1, as follows:

(1) Producers would pay less taxes (eventually none). *Win.*

(2) Producers would pay less for land; they'll produce more. *Win.*

(3) Landowners would have to pay more land value tax than they do now. *Loss.* However, landowners (as landowners) don't produce anything,

and if they located elsewhere, they'd break even - they'd lose the selling price of their current land-sites, but they would retain the use of them and they'd be fully compensated because they would pay less to buy another land-site elsewhere.

These three changes are all exactly equal. Hence, society wins, 2-1 (maybe 3-0).

The more the land-rent is taxed, the more growth and jobs there'll be. Here's a tax that actually creates jobs.

The Findings of a Study in Australia

The following is excerpted from an Australian study by the Committee of Inquiry into Valuation and Rating (Brisbane, Queensland, 9/26/89; rating = local taxing):

"As a general revenue base, the conclusion of the majority of the Committee is that a tax or rate levied on property - provided it is levied on land and not upon the buildings or other vis-

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Endorsements 489-490

Georgia Municipal Association ("2006 Legislative Goals"): "GMA will continue to examine the benefits and costs of authorizing local governments to use split-rate taxation or land value taxation as a means to promote efficient use of urban land."

New Rules Journal (article by Pam Neary, Summer 1999): "Perhaps the differential between suburban property taxes and Pittsburgh land taxes induced at least some of the construction activity.... Many other cit-

ies in Pennsylvania have experimented with the split rate tax system, including Aliquippa, Carbondale (ext. NO), Clarion, Coatsville, Du Bois, Duquesne, Harrisburg, Hazleton, Lock Haven, McKeesport, New Castle, Oil City, Pittsburgh, Scranton, Titusville, Uniontown, and Washington. In 1998, Pennsylvania enacted Act 108, which permits the state's nearly 1,000 boroughs with a population of 2.5 million to implement split-rate property taxation.

Objections and Replies

Objection: "What's the difference what is taxed? All taxes, whether on land or production, are paid by people."

Reply: "It matters greatly. If people are taxed on what they produce, they'll produce less. If they're taxed on their land value, they'll put their land-sites to a fuller use, thereby employing people and promoting economic growth."

Objection: "Suppose development suddenly veers in the direction of your property. Because the land becomes much more valuable, with the land value tax your assessment suddenly jumps and so do your taxes, conceivably beyond your ability to pay."

Reply: Don't worry about that. First, if the government didn't collect the land rent in taxation, you will get an unearned windfall, causing taxes to be raised for all other people; they'd pay, you would steal from them. Secondly, if a land value tax law also specified that a land value tax could not be raised by more than 3% plus the inflation rate above what was paid in the previous year, then every property owner would have ample time to adjust to the new tax situation. Don't deny justice.

The Findings of a Study in Australia

Continued from page 3

ible improvements erected on land - with the benefit as the basic general revenue source which most nearly conforms with the benefit principle....If all land in the city were valued frequently and in accordance with the use of it permitted by the city's town planning controls, a land value charge should accurately reflect the benefit derived from its use or occupation. Moreover, a charge on the value of land encourages development and discourages the speculative withholding of vacant land from productive use (whereas a charge on the value of buildings or other improvements tends to penalise enterprise and development).

"...the Committee's unanimous response...is that a rate levied on the value of unimproved land is an appropriate means of local government revenue-raising. The Committee's conclusion in this regard is in line with the findings of other recent Australian inquiries."

Anyone interested in finding out how to shift the property tax off building assessments onto land assessments should contact Incentive Taxation, 1-410-740-1177 (no cost, no obligation).

An Interesting Conversation

The Center for the Study of Economics (C.S.E.) has just published a new pamphlet entitled "A Conversation Between David Dudley Field and Henry George." Two of the finest minds of the 19th century debate the pros and cons of land value taxation. Illustrated. Deepen your knowledge. Revitalize your city. \$5 ppd.

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