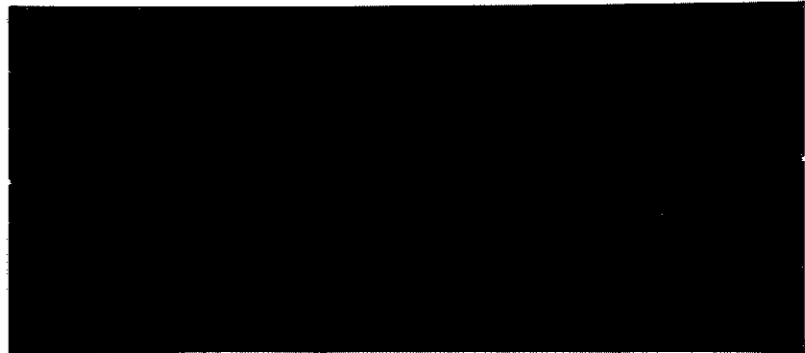
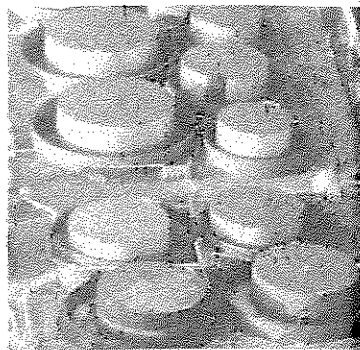


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**Legal Suggestions
for Enacting
Land Value Taxation**

Steven B. Cord
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**Lincoln Institute of Land Policy
Working Paper**

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Abstract

If production is taxed, then producers are penalized, but if locations are taxed, then landowners are encouraged to use their sites more productively, thereby promoting economic growth and jobs. Land is not produced. This study makes specific legal suggestions for bringing about land value taxation by the U.S. federal government or other national governments, and by U.S. states and localities. A special section makes legal suggestions for various alleviations of special hardships that some landowners might encounter so that no landowner need pay more in taxes because of land value taxation.

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Steven B. Cord is a Professor-Emeritus in American History from Indiana University of Pennsylvania, and a former President and Research Director of the Henry George Foundation of America and the Center for the Study of Economics. He is also the editor of *Incentive Taxation*, a journal on land value tax research. He is the author of many articles, booklets and books (one of which, *Henry George: Dreamer or Realist?* was published in 1966 by the University of Pennsylvania Press and is still in print). He has been instrumental in inducing 18 jurisdictions to collect about \$70 million annually in extra land value taxation. He is currently writing a book entitled *The Most Important Statement Ever Made*—a rational proof for equal rights.

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I. The Theory of Land Value Taxation

The Single Tax is the governmental collection of the full annual income of land (hereinafter referred to as *rent*) in place of taxes on things produced by labor. Some Single Taxers would gradually increase the tax on rent until nearly all the annual land rent were collected in taxation and settle for replacing as many other taxes as possible on things produced by labor. In brief, either way the proposal is to tax locations, not production.

These are the advantages claimed for the Single Tax:

1. **Land is not a product of human labor**—it was produced by God equally for us all—and hence it is not justifiably private property. It is an economic opportunity that should be equally accessible to all. But practically speaking, land must be privately owned as now, *so let land continue to be privately owned* so long as its rent is collected for the use of all residents by the government in place of taxes on production. Then both justice and practicality can be satisfied (the owner will have a special privilege (i.e., more than equal access) but he'll be paying others for it and then the government needn't violate the private property rights of labor and business *via* taxation.
2. **Rent is created when society creates jobs, shopping and other amenities and the government creates roads, schools, protection, social services, etc. near a land-site.** It would seem logical and moral for society and government to collect through taxation what they themselves create rather than what individuals create.

These two advantages are moral in nature. Let us now turn to the four main economic advantages of taxing rent (within rational zoning limits).

1. **All land sites would have to be efficiently used,** for it would be too expensive to keep land out of full use, which is the highest-and-best or the most appropriate use. For instance, if the site were fully taxed, it would be uneconomic for a rundown inadequate building to be located on a valuable downtown site because the land value tax on the site would be greater than the income from the building; landowners would therefore construct a more desirable building or sell to someone who would. The result would be new construction and new jobs. Here, then, is a governmental revenue source that actually would create economic growth. The more rent that is taxed, the more economic growth would result.

In the early 21st century, this can become of pressing importance because it can be the only way for the U.S. federal government to avoid bankruptcy; soon it will have to meet the quickly mounting obligations of Social Security, Medicare-Medicaid, various

entitlements, other new governmental programs, and interest on the federal debt. This re-payment would be greatly exacerbated if a recession or costly foreign entanglement occurred (nothing but sheer desperation is likely to drive the voters and politicians to adopt the Single Tax).

2. **Unwanted urban sprawl into farming areas and open-space land would be contained.** If urban land is developed more intensively, as it likely would be with the Single Tax, homeowners and businesses wouldn't sprawl needlessly into farming or open-space areas. For example, a home would be built on a quarter acre in a city instead of on five-or-so acres in a farming or open-space area (putting a large office building on land best suited to growing corn would not be appropriate and would be a sure money-loser under any tax system).
3. **Developers needn't invest any money in prospective land-sites** because the selling price of land would be zero—whatever rent the landowner might collect from the land would be turned over to the government in taxation at the end of the year; no net annual rental income means a zero selling price (the selling price being equal to the net annual rental income multiplied by the current mortgage rate). Current landowners would be compensated by the down-taxing of the improvements they own.
4. **Taxes on production—on buildings, incomes, sales, payroll, imports, etc.—would be much reduced or abolished altogether.** This by itself could lead to unprecedented economic growth.

As of this writing, fully 18 jurisdictions in the United States have already shifted some of their local property tax on buildings to land. Numerous studies by competent authorities (available upon request) show that *all* the above advantages have actually occurred in land value taxing jurisdictions.

If the Single Tax is so provably good, how come it has not been widely adopted or become well known in the United States? There are many reasons for this, but the principal reasons are these:

1. **Its immediate full adoption would cause tremendous economic disruption.** Some property owners who are holding land-sites out of their full use, although they're certainly in a minority, would find themselves suddenly confronted with a huge tax increase. They could face bankruptcy and would likely convince their political representatives to oppose a Single Tax.
2. **In their ignorance, the voters are likely to sympathize with these few landed property owners** (who are usually absentees), and anyway they're not interested in a proposal which they think could never be adopted in the foreseeable future.

Well then, how can the Single Tax be adopted? It must be adopted gradually and with the proper alleviations no one need face bankruptcy and local voters and their political representatives would have time to adjust to the new proposal. They could see how it was working before taking another step each year toward gradually taxing rent more. After awhile, a faster rate of implementation might become possible as investors, voters and politicians became accustomed to the proposal.

But to proceed gradually, there must first be laws to implement gradualness—a need which this study attempts to fill. An immediate and full Single Tax may be politically unlikely in the foreseeable future (and we ought not to look beyond that), but a gradual implementation with alleviations could be advantageous and more likely politically.

If we are going to proceed gradually, we will have to decide which tax on production will be the first to be gradually replaced by a land value tax, which second, third, etc. Experience has shown that the local property tax should be the first tax replaced or reformed, primarily because it is already collecting some rent (it falls on land value as well as buildings) and a simple adjustment of it can gradually shift taxes off buildings onto land. Also, the local property tax on buildings is unpopular and anti-ability-to-pay, which is one reason why the shifting of taxes from buildings to land is already being done in some places; in addition, it directly appeases landowners by compensating them because they are usually building owners also.

Such taxes on production as income, sales, payroll, import taxes, etc. could gradually be replaced by a rent tax if each year we were to gradually increase tax exemptions for producers. Special legislation could protect farmers even though they are less than 2% of the work force.

If our first step is to shift the local property tax gradually to land value (rent), then there are many ways for us to proceed. We could gradually increase the tax rate on land assessments while decreasing the tax rate on building assessments. We could gradually decrease the ratio of assessed-to-market value of buildings while assessing land at full market value. Or we could gradually, year after year, replace the current land-and-building property tax with a land-value-only tax. Experience has shown that in the first few years, if we reduce the property tax on buildings by more than 20% per year, we might arouse virulent and often successful opposition from those few property owners who would pay more with a building-to-land tax shift.

But all of these gradual shifts require proper laws; certainly proper alleviations do. We can only suggest here how these laws might be written without in any way offering legal advice; lawyers will have to put these suggestions into specific governmental law codes, using legal language.

The first suggested law gives the wording of a national Single Tax law which might serve as our eventual goal. The rest of the laws in this study deal with alleviations and how a land value tax could gradually replace various taxes on producers.

Let us start proceeding now, but with all deliberate speed. As Confucius is reputed to have said, "The longest journey begins with but a single step." Let us hope this booklet helps us do this properly.

II. A National Single Tax Law

1. It will be politically difficult for a national government to implement a full and immediate Single Tax on only land values in the foreseeable future, given the electorate's complete lack of knowledge of the Single Tax. But the time may come when the national government will not be able to meet its obligations from Social Security, Medicare-Medicaid, entitlements, interest on the public debt, etc., especially if a war or recession should intervene. It will be engulfed by bankruptcy unless it resorts to a revenue source which will positively promote economic growth. At that time, only a national Single Tax law similar to the following will avoid impending bankruptcy:

- (a) *All municipalities within the territorial boundaries of the United States of America shall assess the land-rent of each land-site within its jurisdiction, irrespective of the improvements thereon, at least once in every three years after the passage of this Act.*
- (b) *A Federal Equalization Board (F.E.B.) shall be established and all municipalities within each state shall provide it with all land assessments (irrespective of the improvements thereon), state equalization ratios, land maps and records of land sales. Using all this information, the F.E.B. shall thereupon establish the assessed market value of all land-sites, recognizing that land rent is equal to the sale price of land multiplied by the current mortgage-interest rate (as of January 1st), adjusting the land assessments given it by the various municipalities according to recent sales data so that all land assessments are at current market value.*
- (c) *Each municipality shall collect the assessed market-value land rent (as adjusted by the F.E.B.) and remit it to the central government [in the U.S., to the Department of the Treasury] by February 1st of each year. Each landowner shall be allowed to keep 4% of the total land rent at market value [in order to be recompensed for maintaining the land, paying the legal insurance, possibly selling the land, and for collecting the land rent and paying it to each locality].*
- (d) *If any land-sites are not assessed by local municipalities by August 1st in the years following the passage of this Act, they shall be assessed by the F.E.B., the cost of*

which shall be borne by the municipality containing those land-sites plus 10% [Some mineral land is not currently assessed locally, but should be.]

- (e) *Each landowner will be entitled to claim a full deduction for his land value tax payment, first from his federal income tax payment and then from his Social Security tax payment [This provision would likely gain popular support for the Single Tax and would transfer taxes from production to location].*
- (f) *Any land rent tax funds collected by the U.S. Department of the Treasury but not earmarked by (e) above shall then be rebated to each locality in proportion to the amount of land rent each locality originally remitted to the federal government [localities will like this Single Tax provision].*
- (g) *Within three years following the passage of this Act, governments at all levels must rent out all land they own at full market value (except for a few designated monument sites such as Independence Hall) and they shall tax the electro-magnetic airspace on the radio and TV dials [which morally resembles private land-rent ownership] at the same rate that land assessments are being taxed.*
- (h) *All non-land-value taxes and non-user fees shall be abolished.*

Henry George (in *The Standard*, 1/29/87): "In 1798 the [U.S. federal] tax was laid upon 'dwelling houses, lands and slaves, according to value'; in 1813 'upon real estate and slaves, according to value'; in 1815 upon 'the values of all lands and lots of ground, with their improvements, dwelling houses and slaves', and in 1861 on the same values" (emphasis added). In other words, U.S. history offers ample precedent for the taxation of land values.

- (i) *All laws or provisions thereof inconsistent with this Act or with any part thereof, are hereby repealed.*

It would be easier politically if a national government didn't require the immediate elimination of all non-land-value taxes. Keep in mind that the economic prosperity induced by a 100% national land value tax might eventually make non-land value taxes unnecessary and in any case they would soon be reduced or replaced by the land value tax.

Gradual implementation of a full land value tax would give landowners ample time to adjust their investments. Also, the most efficient size of an assessment district is the local municipality or county (which happens to be the current size of most assessment districts). Any national government contemplating the introduction of land value taxation should take this into account. The keynote of practical land value tax reform in the foreseeable future can be expressed by the phrase *local gradualism*.

With all this in mind, governments could gradually implement a national land value tax over a period of four years by using the wording of the above law, but substituting the following for (c) above and eliminating (h) above:

(c) *In the first year after the passage of this act, property-taxing municipalities shall collect 10% of the assessed market-value land rent (as adjusted by the F.E.B.) and remit it to the central or federal government, 30% in the second year, 60% in the third year, and finally 96% in the fourth year and thereafter.*

2. There are other legitimate actions for the U.S. government and other national governments to take in addition to the above:

(a) *Federal-State Land Value Tax*—A federal land value tax could be apportioned among the states according to population. The U.S. Constitution specifically allows the federal government to levy direct taxes in this fashion, direct taxes being those which must be paid by the taxpayer and cannot be passed on to others in the form of higher prices. A land value tax fits this definition exactly. As already mentioned, the U.S. federal government levied land value taxes in 1798, 1813, 1815 and 1861.

For example, if the U.S. federal government needed \$50 billion, that would come to \$192 per capita (\$50 billion divided by a U.S. population of 265 million); it would then specify that that sum is to be raised on the assessed land values of each state. If a state had a population of four million, then it must raise \$768 million (4 million x \$192) via a land value tax to be remitted to the federal government. If that state's total assessed land value (at market) was \$80 billion, then it would have to levy a land value tax rate of 0.96% (\$768 million divided by \$80 billion = 0.96%).

Some people might object that poorer states would have to pay as much per capita as richer states. But Professor Nicolaus Tideman (economics, Va. Tech University) points out that this objection can most easily be met by spending the revenues from a land value tax mainly in the poorer states.

This idea might necessitate the aforementioned Federal Equalization Board (F.E.B.) in order to ensure nationwide adherence to market-value assessment.

(b) *Federal Income Tax on Land Rent*—The Sixteenth Amendment of the U.S. Constitution specifies that "Congress shall have the power to levy and collect taxes on incomes, *from whatever source derived*, without apportionment among the several states, and without regard to a census or enumeration" (italics added). Congress can therefore directly levy a land tax at, say 6% of locally assessed values. An F.E.B. might also be necessary here to ensure market-value assessment.

To be sure, most land rent income is inferred, as when a building owner pays no rent for the location because he is also the site owner, but there is ample precedent for the taxation of inferred income in the U.S. For example, a minimum of waiters' tips is inferred by the I.R.S. and taxed even if the waiter does not declare those tips; job benefits (such as parking spaces, subsidized company-cafeteria meals, health and life insurance, day-care facility availability, car use, etc.) are inferred and taxed, also zero-coupon bond interest incomes prior to due date, and so forth. If these inferred incomes can be taxed, then it would surely be legal for the U.S. Congress to tax inferred land-rent income.

The revenue from land value taxation can be apportioned to some high purpose such as environmental protection, social security or public education (for instance, the state of Texas already dedicates the revenue from its mineral tax to the University of Texas). This could make the tax more popular and more easily understood. Or the federal government could return one-quarter of the land value tax revenue to the municipalities (thereby gaining their support) and perhaps also for specific purposes as determined by a local referendum.

(c) *Federal Income Tax Deduction for the Local Land Tax*—If the local property tax on land assessments was made fully deductible on the U.S. federal income tax, then in effect the land value tax could gradually reduce or replace the federal income tax. Or perhaps the deduction could be at 50% instead of 100% (if a locality failed to separate land and building assessments, then for purposes of this proposal 15% of a property owner's local property tax payment could be considered as a local land value tax and deductible from his income tax). This would be an ideal way for the U.S. federal government to reduce taxes. Obviously, this would popularize separate land value assessment and land value taxation by all property-taxing jurisdictions.

(d) *Deduction for Wage & Investment Income*—If wage and investment income were either totally or partially deductible on the U.S. federal income tax, then only land-rental income would be left to be taxed, or it could be taxed at a higher rate. This would be another good way to reduce taxes on production.

(e) *Deduction for All Building Depreciation*—Building values should be taxed as lightly as possible, so the U.S. federal government should allow depreciation of the local property tax on buildings, not on land (which in any case doesn't depreciate). Currently, only rental buildings can be depreciated, but this provision should be extended to all buildings, since they all depreciate; land should be specifically depreciated.

(f) *Corporate Investment Deduction*—Allow corporations to deduct the full cost of capital investment—but not land investment—from taxable corporate income. This would encourage much-needed capital investment.

(g) *Land Gains Tax*—The U.S. federal government could tax capital gains at a lower rate than land gains, considered from time of purchase to time of sale.

(h) *Land Value Taxation in Federally-Sponsored Enterprise Zones*—The U.S. federal government is establishing some enterprise zones around the country which offer various inducements to businesses (mostly tax reductions) to induce them to invest therein. But much of the benefit will be siphoned off into higher land values in those zones (which is exactly what happened to the enterprise zones established by the British government) since locations in such zones will become more profitable than other locations nearby. It would therefore be appropriate for the federal government to tax what it has created—i.e., the federally-enhanced land values in those enterprise zones. Wouldn't landowners in those zones be encouraged to develop their sites more fully, thereby providing jobs and new construction?

(i) *Grant Preference to Land Value Tax Localities*—The U.S. federal government makes grants to localities for various purposes (especially H.U.D. and D.O.T.). Shouldn't the U.S. federal government be giving preference for grants to localities which are taxing land values at a higher-than-usual rate? Aren't these localities already trying to help themselves, and aren't they therefore worthy of special federal help?

The U.S. federal government could give preference for grants to city applicants which are taxing the market-assessment of land at least twice that of buildings. The U.S. federal government already attaches qualifications for the grants it makes to municipalities—after all, it shouldn't hand out the money of federal taxpayers with gay abandon without requiring the grant recipients to help themselves.

Or instead of preference, municipalities could get bonuses. For instance, they could have their federal grants enhanced by 20% for every 1% (or part thereof) by which their land tax rate exceeds their building tax rate as figured on market-value assessment (but no municipality could get more than double its grant). For example, if a municipality taxes land assessments at 2.3% and buildings at 1.7% on a 60% assessment-to-market ratio, then its federal grant would be enhanced by 7.2% ($2.3\% - 1.7\% = 0.6\% \times 60\% \times 20$).

Federal government grants for sewers, water, roads, airports, flood control, irrigation and so forth directly enhance land values. Shouldn't therefore at least a minimum amount of land value taxation be made a condition or at least a preference for receiving a federal grant?

(j) *Leasing Federally-Owned Land*—The federal government owns almost one-third of the U.S. land area. Some of that land should be rented (not sold) to private individuals on the usual leasehold basis (subject to annual re-assessment with right of appeal and option to renew). That would be the economic equivalent of land value taxation on

those sites, require no new law, and would bring in much-needed extra revenue to the federal government.

(k) *A New City Built on Federally-Owned Land*—Any federal government could fund a new city while retaining ownership of all sites therein. These sites could be rented to private developers (thereby saving them the cost of purchasing land-sites), with the rental revenue thus obtained replacing all other local taxes. Such a city could literally be locally tax-free. The federal government could help launch this new town by locating some government installations in it.

Such a tax-free new city would provide a clear test of the efficacy of land value taxation. The cost to a federal government would be minimal; \$50 million should do it, and eventually it could even possibly make money on the venture from time-enhanced site rentals.

(l) *Federal Land Value Tax Research*—H.U.D. or other U.S. federal agencies could undertake research and disseminate information on better land assessment and the impact of already-existing land value taxation.

(m) *Foreign Aid for Land Value Taxation*—Many U.S. federal agencies (e.g., U.S. State Dept. and A.I.D.—Agency for International Development) fund projects in less-developed countries for the building of roads, wells, irrigation networks, etc.; these agencies could specify that the land affected by the aid should be more fully taxed so that local landowners will not be allowed to reap windfall profits. Quite apart from these projects, these agencies could fund land value assessments and taxation in recipient countries.

III: Legal Suggestions for Nations Contemplating Land Value Taxation

This section makes legal suggestion particularly for nations which do not yet have any significant land value taxation. It is their municipalities which should register, assess and tax land values. The national Single Tax law just suggested could be considered the ideal for these nations to aim at, but they may also want to consider the following suggestions:

1. *Land Register*—Every municipality shall establish a Land Register which would contain the following information for each site: registered deed identification number, street address and map location, boundaries, owner, owner's address, history of sales. A local deed registry would also be needed.

Claimants to a land-site must register their claim within 30 days of the local notice of passage of a registration law, after which the municipality will assume legal ownership of the land site. In case of dispute, the disputants will have their case adjudicated by a

special panel set up by the municipality (costs to be paid by the loser) and then they can appeal twice to the regular law courts.

If the sale price of a parcel (land and building thereon) is not accurately recorded at the local Land Register Office within 10 days of the sale, then a court can incarcerate both buyer and seller for up to a year and a day, and they shall also be liable for a fine up to the annual market rental of the site. Also, the buyer loses all legal claim to the ownership of the parcel and the sale cannot be legally consummated in a court of law.

Land value tax debts are to take legal precedence over all other kinds of debts.

2. *Assessments*—The annual rental value of each site in a free and open market is to be determined by an assessor appointed by the central government. This value shall reflect the most profitable potential use of the site, which may not be its current use. Assessment appeals can be made to a special panel set up by the municipality (costs to be paid by the loser) and then two appeals after that can be made to the local law courts. If appeals are lost, the assessor's assessment stands. Only appeals concerning the accuracy of registration and market value would be allowed; appellants must abide by reasonable published deadlines and produce three recent sales of similar land-sites if they wish to show that they have been over-assessed. All local land-assessment offices must have large land-assessment maps available as soon as possible for public viewing.

3. *Exemptions*—Except for properties certified by the government to be of historical or cultural value, no exemptions from land value taxation can be allowed, not even for government-owned property (if the latter is exempt, governments could use land inefficiently).

4. *Discounts & Penalties*—Land tax payments made three months prior to due date shall receive a discount of 5% more than the interest on the 20-year government bond while payments made three-to-twelve months after due date must pay a percentage penalty of 5% more than the interest on the 20-year government bond. The government can sell the property (land and buildings) after a year, collecting the unpaid tax balance and then remitting the rest to the delinquent landowner.

5. *Education Fund*—The electorate should be informed about the reasons for the land value tax; hence, 2% of the land rent collection should be directed to an educational fund devoted to informing the electorate about those reasons. Advertising and booklets could be used. Presumably, the electorate would prefer land to be taxed rather than wages, but they could not be expected to know this unless informed; hence, this provision.

6. *Inflation Adjustment*—If rapid inflation exists, land assessments should be adjusted upward quarterly by the inflation percentage based upon some generally accepted price

index (for instance, if inflation is expected to be 2.5% per yearly quarter, then all assessments could automatically be raised 2.5% per quarter until the next re-assessment).

7. *Tax Reduction*—A government could allow land value tax receipts to be used to reduce a landowners' income and payroll taxes (this would make a land value tax and would transfer taxes on production to taxes on location value).

8. *Land Value Tax Rate*—A national government could gradually increase the rate (percentage) of land value taxation over possibly four years, as follows: 10% of the total land rent in the first year, then 30% in the second year, 60% in the third year, and 96% in the fourth year and thereafter. A certain percentage of these figures might be made available to local government with the rest going to the national government. As a general guide, readers might be interested to know that in the United States in 1930, the federal government spent 31% of the tax revenue (with state and local government spending the rest), and in the year 2000, it has been estimated that the U.S. federal government would spend 70% of the tax revenue (Source: Tax Foundation's *Tax Features*, 9/98, p. 6).

9. *Land Value Tax Payment*—In urban areas, land taxes should be due quarterly if not monthly. An annual payment would unduly burden landowners with sudden hard-to-plan-for big lump sums.

IV: Legal Suggestions for Alleviations

A land value tax can be implemented so that absolutely no property owner need pay more in taxes. Most, in fact, could pay much less. And yet a new-construction-and-maintenance spurt after land-value-tax adoption would almost certain. Here's how to accomplish that:

1. *Cap*—A limit could be put on any increase a landowner is required to pay this year as compared to last year (3% above the expected inflation rate seems right). This cannot, of course, be done in the first year of a land value tax (since the previous year's land value tax was zero) but it could be done thereafter.

2. *Deferral*—Homeowners over age 65 or certified unemployed homeowners could be allowed to defer their land value tax to exchange or time of sale of land and building, at which time the deferred tax, at 5% interest cost over inflation, becomes due. But the deferral can't exceed the unmortgaged equity in the land and building. This deferral could also be made available to homeowners whose land value tax payment would be a certain percentage, perhaps 35%, of their annual certified income; apartment renters could be similarly protected. This tax deferral might also be offered to owners of land zoned agricultural (farmers, in other words).

3. *Withholding*—The land value tax could be withheld from the landowner's salary just like the much-more-onerous income tax is now, instead of arriving annually in one hardship-inducing lump sum; what the owner never gets in the first place, he is less likely to miss. The tax becomes more politically palatable. Or the land value tax could be made part of the mortgage payment with a bank remitting the tax to the locality. As mentioned previously, the tax could become due quarterly or monthly.

4. *Circuit-Breaker*—If the land value tax burden starts to exceed a fixed percentage of income, then the excess amount (or a portion of it) could qualify for tax relief. For example, using U.S. 1999 dollar figures, if the fixed percentage is set at 5% of income, then the maximum land value tax for a family with an annual income of \$8,000 would be \$400 (i.e., 5% of \$8,000). If the homeowner's land value tax would otherwise come to \$500, then he would qualify for a \$100 net rebate (\$500 minus \$400). No homeowner earning more than perhaps \$15,000 annually could be eligible. Or a sliding-scale circuit-breaker approach could be used: The lower the homeowner's income, the higher the percentage rebate. The cost of these circuit-breaker approaches could be met by other taxes.

5. *National Alleviation Board*—There will be some people with very low incomes living on very valuable land. The difficulties these persons face could be used as an excuse for a lower land value tax. The better way to deal with this problem is to create a board (national or local) that can grant individual reductions (perhaps temporary) in case of hardship. This board could also cover the cost (or part of the cost) of moving.

6. *Farmland Assessment Alleviation*—Farmers invest much labor and money into such improvements that are often assessed as land value, and hence they are taxed. A rough way to compensate them for these investments so that they are not taxed is to grant them a 20% land-assessment exemption; this will also help gain their political support for the land value tax. We refer here to such land investments as tree breaks, contour plowing, ponds, grading, fencing, fertilizing, irrigation, etc.

7. *Harvest Payment*—In agricultural areas, land taxes might be made payable after the usual harvest time, when farmer-landowners are more likely to find it easier to pay taxes.

8. *Farm-Price Indexing of Taxes*—Farm income often falls when farm prices or production are low, but this problem can be easily countered by adjusting the land value taxes of farmers to farm price and production indexes (for instance, if farm prices fall 10%, farmers need pay 10% or 12% less than their normal land value tax; if their prices rise 10%, then farmers need pay 10% or 12% more). Thus, when their incomes fall, so will their taxes, and *vice versa*.

9. *Purchase-and-Demolition Subsidy*—The government should reimburse owners of improvements at current replacement value if their improvement is demolished and

replaced with a newer improvement, provided the improvement-to-be-demolished is 12 years old or older, the new replacing improvement is more expensive than the old one and is constructed within one year, and provided that payment is approved in writing by the government before demolition. The purpose of this provision is to guarantee the improvement owner that he will not lose the value of his improvement (if it is to be demolished, no one will pay him anything for it); such a guarantee is just, it is a protection not now available to the improvement owner, and it will further ensure the popularity of a land value tax law.

V: Suggested State Laws to Enact Land Value Taxation

To enact land value taxation, most states in the United States needn't pass constitutional amendments; ordinary laws passed by the State Legislature would be sufficient. The legal codes in each state would have to be consulted. But for those few states requiring constitutional amendments, we give suggested wording here.

The following is the nineteenth-century wording of the Pennsylvania Constitution (Article 8, Section 1) which has allowed the State Legislature to enact local-option land value tax laws: *All taxation shall be uniform, upon the same class of subjects, within the territorial limits of the authority levying the tax, and shall be levied and collected under general laws.*

Localities, once empowered by the legislature, can, according to this state-constitutional provision, classify all land assessments separately from the building assessments thereon and set a different tax rate (percentage) for each classification, provided that the tax rates within each classification are the same (i.e., uniform).

As a result of this state-constitutional provision, Pittsburgh and Scranton (the two cities of the second-class in Pennsylvania) were empowered by state law in 1913 to tax land assessments at a higher rate than building assessments (called the Graded Tax in those two cities). In 1951, the state's 49 cities of the third-class were so empowered at their own local option (the so-called Two-Rate Property Tax); as of this writing, sixteen have done so. In 1994, the legislature allowed school districts contiguous with third-class cities to go two-rate, but most school districts and all counties have not yet been given this option, primarily because none have asked for it. In 1998, the state's boroughs (approximately 996) were so empowered at their own local option (also known there as the Two-Rate Property Tax). State laws also allow localities with so-called Home-Rule Charters to go two-rate ("two-rate" because the rates on land and building assessments needn't be the same).

A state today requiring a constitutional amendment may want to adopt a more explicit wording than the Pennsylvania constitutional wording—perhaps one of the following:

1) *Land assessments can be classified separately from building assessments for purposes of the local property tax by the governing body of all localities levying a property tax, but there must be uniformity within each assessment classification.*

Comment: This wording follows closely the Pennsylvania wording¹

2) *The State Legislature can empower the governing bodies of localities levying a property tax to set different rates (percentages) on all land assessments than on all building assessments, but there must be uniformity within each assessment classification.*

Comment: Note that this constitutional amendment grants only local option and does not mandate land value taxation. A slight change in wording can require mandating, not option, if that is desired.

3) *In order to lower the property tax payments for most homeowners, the property tax rate on all building assessments can be lower than the rate on all land assessments.*

Comment: This wording might gain more votes.

4) *State Economic Development Act: Building assessments can be exempted in whole or in part from the property tax.*

Comment: This wording might also gain many votes, but it also means that the property tax rate on building assessments will be lower than the property tax rate on land assessments.

5) *The property tax rate on all building assessments can be lower than the rate on all land assessments except for land zoned agricultural, unless the owners of such agricultural land vote, in a referendum authorized by the local legislative board, for their building assessments to be taxed at a lower rate than their land assessments. If they so vote, 30% of farmland assessments shall be exempt from taxation.*

Comment: This will compensate farmers for such in-land improvements they may have made such as grading, ponding, irrigation, contour plowing, tree-breaking, fertilizing, etc., which often get assessed as land. All this might help gain farmer approval.

6) *Taxable building assessments can be a lower percentage of current market value than taxable land assessments.*

Comment: This would accomplish the same purpose as a lower property tax rate on building assessments than on land assessments.

7) *Property-taxing localities may establish a separate tax on only land assessments in place of other local taxes, in which case they may choose to use the land assessments of the already-existing property tax.*

Comment: "In addition to" could be substituted for "in place of." A land value tax of this sort might be more preferable and popular than other local taxes.

8) *An equal amount of money can be exempted from all building assessments as specified by the legislative body of a property-taxing locality. The actual wording of the law or amendment could read as follows: "All property-taxing localities could exempt all improvement assessments from the property tax to the extent of 20% the first year, 40% the next year, then 60%, then 80%, then 100% in the fifth year and thereafter." Or it might exempt the first \$10,000 of building assessments in the first year, then \$20,000 in the next year, then \$30,000, then \$40,000, and so on.*

Comment: This would also tax all building assessments less than land assessments, but it would benefit homeowners even more than the buildings-less-than-land rate difference because the building assessment exemption would generally reduce the percentage of their assessments and therefore their property taxes more than for other property owners. For instance, if a locality decided to reduce all building assessments by \$1000, this reduction would mean more percentage-wise to a homeowner than to an owner of a large building (the locality would have to decide whether buildings assessed at less than the exemption would be eligible for a property tax rebate). Of course, if an assessment exemption is granted, the locality will have to raise its property tax rates slightly in order to make up for the lost revenue. But despite all this, new construction and maintenance would still be furthered—certainly more so than the harmful home-tax-rate-less-than-commercial-building-tax-rate used in some U.S. states.

9) *A legislative body of a property-tax-levying locality may authorize a public referendum [on any of the above suggestions], such referendum to be held at the next general election in November. The legislative body shall inform each landowner by mail, postmarked at least 10 days but no more than 20 days prior to the election, of his property tax liability if land and building assessments are taxed at the same rate, and his property tax liability if the property tax rate on buildings was to be 80% of the tax rate on land assessments. The question to be put to the voters is to be worded as follows: "Shall (name of locality to be put here) levy a tax rate on building assessments that will be 80% of the current tax rate on land assessments in the next fiscal year, then 60% in the fiscal year following, then 40%, then 20%, then 0% in the ensuing fiscal years?"*

If a referendum has approved a decrease in the tax rate on improvements, a similar future referendum can be authorized by the legislative body of the local jurisdiction; a majority vote at this referendum could authorize an increase in the tax rate on

improvements by annual installments equal to the previous rate decrease until equality in tax rates on land and improvements is reached once again.

Comment: Some municipal councils or school boards might wish to have the new property-taxing system enacted by public referendum rather than by their own action, in which case the landowners should be informed of their tax liability under either property-taxing system. This has proven to be the case in Australia and New Zealand, where landowners have frequently voted in the new property tax themselves.

10) *The state can levy a property tax only on land assessments in place of other state taxes.*

Comment: U.S. states used to levy a significant property tax, and some still do. If a state land value tax were to replace other state taxes, most voters would pay less in taxes and the state's economy would benefit because of the down-taxation of production and the up-taxation of locations.

A state could choose to empower the legislature to allow property-taxing localities to do any of these things via a state-constitutional amendment, or its state-constitutional amendment could directly empower property-taxing localities to do these things on their own accord. The latter is more direct and therefore preferable.

It should be understood that existing property-tax revenue limits would be un-affected by any of the above changes, but some states might want to make this explicit.

Any nation or state could adopt any of the land value tax suggestions mentioned in the two previous sections of this paper, particularly the alleviations. If a nation or state does not at present require the separate assessment of land and buildings, it may wish to do so, either by constitution or by law.

A special note to U.S. states: Any of the above state-constitutional legal suggestions can also be enacted into law by state legislatures in those many states where no state-constitutional revision is necessary. Only in some states is such revision required. A law is usually easier to enact than a state-constitutional amendment.

VI: Suggested Land Value Tax Laws for Localities

Ultimately, all assessment and taxation of land values should be done at the local level. Therefore, it is important that local authorities have suggested laws at their disposal. By "local authorities" we mean all the jurisdictions that levy a property tax—not only municipalities but counties, school districts (which often levy substantial property taxes), sewer districts, water districts, mosquito-eradication districts, etc.

These districts might want to legally authorize studies on this subject, none of which would cost very much. For instance, they could authorize studies to answer these questions:

- Which property owners would pay more, which less, if the current land-and-building property tax were converted to a land-primarily property tax?
- Are land values more concentrated than income, and is a tax on land values based on ability-to-pay?
- Are the land-sites in the Central Business District owned by absentees? (probably so)
- Will land value taxation make re-development of certain important sites in town more profitable?
- Has a two-rate land-oriented property tax actually promoted new construction in town? An examination of building permits issued both three years before and three years after the adoption of such a tax could determine this, especially when compared to nearby comparable towns; and the experience of other two-rate towns could be examined.

Readers wishing to conduct these studies could contact the Center for the Study of Economics, 2000 Century Plaza (#238), Columbia MD 21044, (ph.) 1-410-1177, (fax) 1-410-740-3279, which has had experience doing them.

In the foreseeable future, only a two-rate land-oriented property tax with a modest less-than-20% decrease in the property tax rate on building assessments in the first year coupled with a revenue-offsetting rise in the land assessment tax rate seems politically possible at the local level, no doubt in conjunction with some of the aforementioned alleviations. This is because the local voters are generally unacquainted with land value taxation. In the following years, a more precipitous decrease in the building tax rate could be possible; if the property tax on buildings is less than 1% (rather minute) it could possibly be eliminated in the first year. What we have here is only a transfer of taxes from building assessments to land assessments, but when studies show that this promotes new construction (as well as reduces property taxes for most voters) it can be hoped that the two-rate property tax will start spreading quickly to other cities.² These cities could eventually transfer all their local taxes to land assessments and the proposal would then likely become popular at other levels of government (internationally as well). Local gradualism is thus the key to land value tax success in the foreseeable future.

If a locality wishes to adopt a two-rate land-oriented property tax but its state or national legislature has not yet allowed such a tax, a locality could urge its state or national legislators to pass such authorization, either for all localities or just for itself, by passing a resolution similar to the following:

Resolution

[put date here]

Whereas new construction in the Town of ----- is burdened by heavy property taxes, and

Whereas land sprawl (inefficient use of land) is a prime cause of environmental degradation of the clean-and-green countryside,

Be it hereby resolved that we the Supervisors [or City Council or School Board, etc.] of the Town of ----- formally petition the State [or National] Legislature to grant all towns in the state [or nation, or just this particular town] the option (not mandate) to levy a lower property tax rate on building assessments than on land assessments.

This will reduce taxes for most homeowners, all tenants and on all new construction and maintenance, while at the same time promoting economic development at no extra tax cost to the taxpayer, since only a tax shift from buildings to land is envisioned. Perhaps this local ordinance adopted by the City Council of Pittsburgh, Pa. in December 1978 could serve as a guide for other localities contemplating a two-rate land-oriented property tax:

263.01 Levy and rate on lands and 263.02 Payment options; discount and buildings. delinquency penalty.

263.01 LEVY AND RATE ON LANDS AND BUILDINGS

For the purpose of providing revenue for the payment of the ordinary current expenses of the City, for the payment of interest on the funded and floating indebtedness of the City, and of the constituent units constituting the present City, created prior to their annexation to or consolidation with the City, for the payment of the amounts required to be paid to the several sinking funds for the retirement at maturity of the outstanding indebtedness of the City and of the constituent units constituting the present City, created prior to their annexation to or consolidation with the City, due or to become due during the fiscal year beginning January 1, 1979, and ending December 31, 1979, and for the payment of other liabilities of the City due or to become due during the fiscal year beginning January 1, 1979, and ending December 31, 1979, the following taxes shall be and the same are hereby levied and assessed upon all real property taxable for State, County and City purposes within the limits of the City, viz: ninety-seven and one-half (97.5) mills upon each dollar or nine dollars and seventy-five cents (\$9.75) upon each one hundred dollars (\$100.00) of the assessed valuation of land, and twenty-four and three-quarters (24.75) mills upon each dollar or two dollars and forty-seven and

one-half (\$2.475) upon each hundred dollars (\$100.00) of the assessed valuation of all buildings.

263.02 PAYMENT OPTIONS; DISCOUNT AND DELINQUENCY PENALTY.

(a) Discount in Advance. Taxes levied under this chapter shall be payable in advance, during the month of January, February and March of the current year. A discount of two percent (2%) shall be allowed on all taxes due hereunder and paid during the month of January. During the months of February and March, all taxes shall be payable at face value.

(b) Optional Quarterly Payments. Any taxpayer will have the option to elect to pay real property taxes quarterly as follows:

(1) Payment dates. The first quarterly payment, during the months of January, February and March; the second quarterly payment, during the month of April; the third quarterly payment, during the month of July; and the fourth quarterly payment during the month of October. Quarterly payments made at any of the respective times here provided shall be payable at face, except for the first quarterly payment which, if made during the month of January, shall be paid at a discount of two percent (2%).

(2) Delinquency quarterly payments. The first quarterly payment must be made on or before March 31 or the taxpayer will have failed to exercise the option to pay quarterly, and the entire tax for the year is delinquent. The second quarterly payment becomes delinquent if not paid on or before April 30; the third quarterly payment becomes delinquent if not paid on or before July 31; and the fourth quarterly payment becomes delinquent if not paid on or before October 31.

(c) Penalties for Late Payment. Taxes imposed under this chapter which are not paid by March 31, or in the case of quarterly payments, by the due dates set forth above, shall be delinquent and two percent (2%) of the total amount of such taxes shall forthwith be added to such delinquent taxes as a penalty for the nonpayment thereof at the times herein prescribed. Where the taxpayer makes no payment by March 31, the entire year's tax becomes delinquent as of April 1, regardless of the option elected by the taxpayer. In addition to such penalty, delinquent taxes shall bear interest at the rate of one half percent (1/2%) per month on the face amount of such delinquent taxes for each and every month, or part thereof, that the same remain delinquent and unpaid.

This is longer and more detailed than most local ordinances enabling a two-rate land-oriented property tax. For instance, the city of Easton, Pa., after a series of "whereases," once considered this motion: A tax of twenty-four mills (.024) on each dollar of assessed

valuation of all land, and a tax of thirteen and one-half mills (.0135) on each dollar of assessed valuation of all buildings, be and the same are hereby levied on all persons and property within the said City, subject to taxation for City purposes for the year 1954.

Many of the other suggestions mentioned in this study apply to localities as well, particularly the alleviations.

Lack of knowledge concerning the legal implementation of land value taxation should no longer be an obstacle for those wishing to tax location values rather than production.

Notes

- ¹ In order to help legislators and assessors to administer the two-rate property tax, the following information is given: The proposed building tax rate should first be chosen, and experience indicates that it should not be less than 80% of the current building tax rate in the first year if the electorate knows little about land value taxation (a small minority of property owners might otherwise get a suddenly higher tax bill and effectively oppose the two-rate property tax). Once having chosen a proposed building tax rate, the proposed land tax rate to go along with it can be determined from this formula: Proposed land tax rate = Revenue—(locality-wide building assessments x proposed building tax rate) divided by the locality-wide land assessments. While this is a perfectly valid formula, it may be difficult to get accurate information about revenue (you may be given this year's revenue or estimates based on future as-yet-unknown discounts and penalties) so it is best to use this formula (which is based on publicly available information): Land tax rate (proposed) = (building tax rate [current] - building tax rate [proposed]), x locality-wide building assessments divided by locality-wide land assessments, + land tax rate (current). In a locality currently taxing land and buildings at the same rate, building tax rate (current) = land tax rate (current). Both of these formulas are based on the usual property tax formula, Revenue = Assessments x rate, with the assessments set by the assessor following the free market and the rate (or percentage) set by the locality's governing body.
- ² Localities can use the formulas given in the footnote of the previous chapter to determine the proposed land and building property tax rates.