

# Incentive Taxation ã

Reduce Property Taxes for Most Voters

## Farewell

After almost 30 years of continuous eight-times-a-year publication, I am retiring as editor. Center for the Study of Economics Executive Director, Joshua Vincent, and Edward Dodson, a member of the Henry George Foundation of America Board of Directors, will succeed me. I will go on to other projects.

*Incentive Taxation* started life in 1974 as *Tax-Free New Towns*, dedicated to the proposition that new towns could prosper if they were totally tax-free and the full land rent was substituted instead for public revenue; this would lead to every land-site being used productively.

The new-town movement collapsed in the 1974-75 real-estate depression. Since 1974, there haven't been any new towns established that I know of.

All new towns face the same daunting problem: huge up-front expenses (such as road-building, school establishment, public utilities, new govt., etc.) - all before any revenue comes in.

Columbia, Md., for instance, was established as a new town in 1966 and faced bankruptcy in 1974. But fortunately, it was bailed out by Connecticut General Insurance Company, and the owner, James Rouse, became one of America's richest men, in large part because of land speculation, when he died a few years ago. Columbia is now very successful.

After a few issues, I changed the name of the publication to *Incentive Taxation*. In 1980, we expanded to our current 8 1/2" x 11" size and have been publishing ever since under the auspices of the Center for the Study of Economics.

### Empirical Studies Stressed

The publication has specialized in publishing empirical studies on the effects of a two-rate property tax. I induced 20 localities to lower their percentage tax rate on building assessments and make up the lost revenue by raising the tax rate on land assessments. This

was full revenue neutrality. Why should land and building assessments be taxed at the same rate?

Then I performed 18 *empirical* studies to see how the building-to-land tax switch affected new construction and renovation. This could easily be done by an examination of the building permits on file at city hall. These studies, therefore, were based wholly on original source information (building-permits issued are used by the U.S. Census Bureau to measure new construction and renovation).

I found that in 17 cases out of 17, new construction and renovation *increased* in the three-year period after the two-rate adoption as compared to the three-years-before.

In our 18<sup>th</sup> study we found a tax shift away from land resulted in a construction decline.

Many construction and renovation projects take some time in preparation, I used a three-year period—if longer, other factors might have influenced construction and renovation decisions.

Whenever I could, I compared the building-permit record of the two-rate localities with comparable neighboring-but-one-rate localities, and in *every* case the two-rate localities out-constructed and out-renovated their comparable-but-one-rate neighbors.

*If a little building-to-land tax shift booms new construction and renovation, shouldn't we expect a major shift to have a major beneficial impact?*

Note: The 18 studies studied property-tax shifts that were so slight, the only *measurable* effect that could be detected was on new construction and renovation and not any thing else, such as municipal bankruptcy, population change, local business activity, etc. These were affected more by other factors. Don't over-claim.

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*Incentive Taxation* also reprinted the

building-permit studies done elsewhere in the world, mainly by **Allan Hutchinson** of Australia. The results were similar.

Recently, for a new book I am writing, I reviewed back issues of *Incentive Taxation* to get some empirical evidence that land value taxation works well. I was overwhelmed. The back issues contained *literally hundreds* of empirical studies proving that. After I reached 237 empirical studies, I stopped because there will be few people who will wade through such a mass of evidence.

However, I had reviewed only about a quarter of the back issues of *Incentive Taxation!* I think I could reach 1,000!

### But -

The political response has been underwhelming. I did get 20 two-rate shifts (I had to visit these cities about 65 times to widen the shifts) - *but there was no political resonance*. The two-rate proposal advocated by this publication has prevented the stealing in the U.S. of about \$2 billion from labor and capital - not bad.

It has not become easier to get more two-rate shifts, let alone a single tax on land rent. The voters have been unaware of the proven economic benefits and their elected officials haven't enlightened them. Workers continue to be taxed.

The unknowing electorate, in its ignorance, may rescind its two-rate property tax ("why can't we be like other cities?" and suffer), but they can never rescind our 18 studies (but these studies can be disregarded).

*Incentive Taxation* has *proved* conclusively that we benefit when we replace the taxation of produced good and services. Ethics works economically. When we disregard ethics, we suffer.

Well, goodbye. It's time for me to move on. Best wishes, Josh & Ed.

-Steven B Cord

# *How to Be Popular And Win Elections*

Get your city to pay the federal 7.65% Social Security and Medicare payroll tax of all its residents with a surtax on land assessments. If necessary, do this in two annual installments.

This could be done by any jurisdiction (including counties, school districts, states, and federal government). It would have these definite advantages:

- All wage earners would be reimbursed by the city for their federal 7.65% payments in the following year; they would all win.
- Most voters would pay less in taxes (because their payroll-tax deduction would exceed their extra land tax)
- Doing this would be completely revenue-neutral for the city
- Your jurisdiction's economy would greatly benefit because all land-sites would be more efficiently used.

This tax switch can be easily administered. Wage earners in your jurisdiction would have their federal tax deducted by the IRS just as now, but in February they would give their W-2 forms to city hall (either in person or by mail; photo-copies would suffice). These forms show their 7.65% federal payroll payments. They would then be reimbursed by check.

A surtax on land assessments would pay for the cost of this payroll-tax reimbursement (just divide its cost by the jurisdiction's total land assessments). We could show you how you could easily estimate the cost of this reimbursement before you need go public with the tax switch.

Any city doing this would attract national attention. Nothing, however, will be done unless you act.

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# *From the Editor*

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**SBC** Since our study #15 was so favorable to two-rate **Allentown**, let us hope that the **Allentown City Council** will continue transferring the property tax from buildings to land. All sixteen of our other empirical studies fully support this transfer.

**SBC** Philadelphia's assessment ratio of buildings to land is 3.44:1. As a result, the city gets 22.5% of its property-tax revenue from land (for a total of \$33.2 billion). The city controller proposes to start with rates that will get 50% from land and 50% from buildings.

**SBC** Politicians – you must allow us to take the tax-reductions-for-most-voters proposal even to your opponents.

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

**SBC** A Brookings Institution study (December 2000) found that vacant land constituted **15.4%** of the land area in the 70 U.S. cities of more than 100,000 which were studied - but this 15.4% did not include abandoned buildings (tables 2 & 3).

**SBC** Two-rate down-taxes existing buildings. They're more likely to be renovated, but if your town is perfect (needs no improvement) this may not be so important.

**SBC** A 1994 study by the Center for Public Dialogue shows that a building-to-land shift in the Washington D.C. property tax would allow homeowners in all 56 districts of the city to save on property taxes, with the biggest savings going to tenants and poorer homeowners.

**SBC** Those who say, "I know what I mean, but I just can't put it into words" –don't what they mean.

**SBC** IRS and taxpayer costs of figuring out income taxes amount to 12% of the revenue collected (Bill Ahern, Tax Foundation., in February 2001).

**SBC** When the capital-gains tax rate is increased, revenue declines.

**SBC** 1% of U.S. income tax returns were audited in 1997 (FSA newsletter, 4Q01).

**SBC** Be kind to farmers: in the April-May 1986 issue of *Incentive Taxation*, it was reported that farm land in Alberta, Canada was assessed at 65% of its market value while farm improvements were assessed at 32 ½% of their 1977 market value. This is exactly equivalent to the two-rate property tax approach. We presume that is still being done.

**SBC** The U.S. could have abolished slavery if it had gradually increased the tax rate on assessed slave property. That would have been quicker and less deadly than an eventual civil war.

**SBC** Tax Locations, Not Things Produced. Think about it.

**SBC** "To thine own self be true."

# *Imagine.....*

## *No Taxes On Production At All*

*Without Any Lessening of Governmental Revenue*

The annual rent of land is currently insufficient to replace all taxes on labor and capital-investment, but -

1. Gradually shifting taxes off human-produced commodities and services onto land (as the two-rate property tax does) increases their production, as fully substantiated by *all* 18 empirical studies reported in this publication.
2. This increased production increases land rent.
3. A tax on this increased land rent can replace other taxes, thereby further increasing land rent, which, if taxed, can replace still more other taxes. This process can continue until the land rent tax replaces all other taxes.

Note: a tax on land rent is the opposite of all other taxes, except that it also produces governmental revenue.

For a society free of all taxes on production - *tax location, not production*