

JUJITSU strategy for Federal Income tax reforms  
Bill Batt, November 14, 2006

There is good reason to believe that lots of changes in the Federal Income tax are in store for us soon. Right now, the greatest attention is being given to the AMT – the Alternative Minimum Tax – because it is hitting an increasingly large number of households, and in ever greater proportions of the middle class.

Had the Republicans continued to be in charge, they too would likely be interested in making adjustments to the AMT, but they also had an interest in curtailing the mortgage interest deduction and perhaps also in the property tax deduction. And since so many state income taxes piggy back on the national income tax, removing or curtailing this deduction nationally would carry over to a state-level limitation.

Why was there interest in this? Well, economists recognized increasingly how much our economy was distorted by these policies, and conservative Republican (especially Southern) politicians viewed this as a way to cut the foundation out from under the high-tax, mostly northeastern, states that were not seen as “their people” anyway. To be sure, this sentiment may be stemmed by the current resurgence of Democratic control of both houses of Congress. But with the Democrats moving toward more conservative positions and with a growing Southern base, it is not clear that these tax expenditures favoring housing are assured to continue.

If the deductibility of mortgage interest and local property taxes are indeed endangered, what can be done by proponents of taxing land to make constructive proposals to improve the soundness of our tax design? I propose that we urge the elimination of the deductibility of only the land component of real property taxes. This would impact national revenue totals only modestly, but would have a signal impact on behavior. The effect of this would be to bring political pressure on local assessors to raise their assessments on the land value. Higher assessed land values will be acceptable because there will be more deductible taxation. Currently there is not only resistance to frequent revaluation; there is also every incentive to overvalue the improvement component, especially on commercial buildings, so that the real estate owners will be able to depreciate as much of the value as possible.

To be sure, we Georgists want to tax land more and buildings less. But at the national level, our interest is seeing greater incentives in place at the local levels. And one good way to see this happen, as a waystation toward a later phase-out of deductibility at the national level entirely, is encouragement of sound local assessment and taxation of land value.