LVT: Six steps to

By Prof. Steven Cord

HUNDREDS of land reform experts, from many countries as well as from the United Nations, have urged the adoption of a heavier tax on land values in place of as many other taxes as possible.

The land value tax can claim many advantages.

It has already been adopted in a number of places in the world and with marked success.

- The higher the tax, the more the incentive for landowners to utilize their land effectively in response to the demands of the market (and as limited by land use plans). Who could afford to keep land vacant, or in partial use, if he had to pay the full annual land rent in taxation?
- The higher the tax, the less individual labour and capital investment need be penalized by taxes. This could provide a powerful incentive for an economic surge, particularly in the agricultural and construction sectors.
- A high tax discourages absentee landownership. Who would want to collect rent from a tenant, only to pay it over to the government at the end of the year?
- If eventually the tax on land values becomes substantially high, then it will deter land speculation and, by reducing the taxes on labour products which are passed on to the consumers, it will reduce consumer prices.
- Because land prices would be lower, investment money which would have gone into the purchase of land would be diverted into the production of machinery and buildings. Land, no matter how highly taxed, cannot be reduced in supply (in fact, if taxed, land previously held off the market would be released for productive use).

These are only the *economic* reasons for taxing land more, labour and capital less.

There are compelling *moral* reasons also; a landowner *qua* landowner produces nothing, so whatever return he gets must come out of the labour of others. A landowner reaps, but he does not sow.

Furthermore, land values are created by the community when it provides roads, schools, hospitals, police and fire protection, jobs and shopping facilities.

Shouldn't the community tax what it creates – land values – before it taxes the value of wages and investments which individuals create?

DESPITE all the clear advantages which the land value tax affords, there are some short-run or special-case problems which must be seriously considered before it can be introduced.

Here are six alleviations of those problems:

1. National Land Rent Dividend.

Land values are very unequally distributed among the population so a tax on land values would be very much in accord with the ability-to-pay principle.

Nevertheless, there may be some hardship cases. Some small farmers would pay more taxes than they are now paying, as would some poor elderly homeowners. While it could be said with some justice that if they can't pay the tax, they are not using their land efficiently and should sell it to someone who can, still, humanitarianism requires that we help them over their short-run plight.

‘All people can share in opportunities afforded by nature’

Also, good politics requires it – my experience in trying to spread land value taxation in western Pennsylvania indicates clearly that such people are numerous and powerful enough to obstruct the adoption of such a tax.

Even those who would pay less under a switch of taxation on to land oppose it out of sympathy for the losers.

Fortunately, there is an easy solution. The government could levy a slightly higher land tax rate than it would otherwise require, it could then distribute the extra revenue on an equal basis to all voters in the country (that should get the voters out to the polls!).

This could be called the National Land Rent Dividend.

The dividend should not be so high as to encourage shiftlessness – it should be like a Christmas bonus.

The dividend would immediately create a strong pressure group in support of the land value tax.

Because land ownership is so unequally distributed, fully 95 per cent of the population would get back more in dividend than what they would pay in extra surtax to finance the dividend.

Could this possibly fail to guarantee popular support for the land value tax, especially since it is one way by which all people can share equally in the opportunities afforded by nature?

2. Agricultural Land Tax Index.

Farming is a risky business. In some years, the harvest is good, in others not. Commodity prices rise and plummet. In bad years, many farmers might be hard put to pay their land value tax – unless tax is indexed to agricultural production and prices.

If the total value of sugar production, let us say, falls off 20 per cent from normal, then the land value tax which sugar farmers are required to pay should be reduced by 20 per cent, or perhaps 30 per cent. If the total value of sugar production is 10 per cent above normal, then the land value which sugar farmers pay should be increased 10 per cent, or perhaps 15 per cent.

If the government finds that its revenue from an indexed land tax is too uneven, it could set aside a small amount of the land tax each year (bigger amounts in above-normal years), and draw on that extra fund in below-normal years.

3. Tax Deferral.

In cities, elderly poor homeowners might be hard put to pay the land value tax. So the government should allow them to defer their land value tax, in whole or in part, until they sell or bequeath their property. At time of sale or bequest, the back taxes must be paid out of the value of the estate.

This is how it could work: if the land value tax on the residential property of a poor elderly homeowner is more

PITTSBURGH'S land taxers have helped to notch up another success.

Over the years, they have campaigned to shift the burden of the property tax on to land – with a measurable degree of success.

And this year the tax on land will be 15.1 per cent of assessed values (which are officially set at one-quarter of market value).

Thus, in five years, the ratio of the land to building taxes has moved from 2-1 up to 5.6-1.

The new rates for 1983 will raise the same revenue as the old rates in 1982.

But, says Steven Cord, the editor of *Incentive Taxation:*

"If taxing buildings less and land more encourages new construction, as theory and experience indicate, then the city could hope to get more revenue in the

PITTSBURGH PROPERTY TAX
Per cent of assessed value

	Land	Buildings	Ratio
1978	4.9	2.4	2.0-1
1979	9.7	2.4	3.9-1
1980	12.5	2.4	5.1-1
1981	12.5	2.4	5.1-1
1982	13.3	3.2	4.2-1
1983	15.1	2.7	5.6-1

meet objections

than, say 10 per cent of his total income, then the excess plus reasonable interest is deferred as a lien against the property to be collected by the government when the property is sold or otherwise transferred.

The amount of deferral should not exceed the amount of the unmortgaged part of the property value, and the mortgage payment precedes the tax deferral lien. Such a deferral could be extended for a one-year period to unemployed landowners and to other landowners subject to special hardships.

4. LVT Instalment Payment.

Hardships would be created if the land value tax fell due in one big annual lump sum. Many taxpayers would be caught short of ready cash.

Tax bills could be issued quarterly, perhaps monthly. Rent is customarily paid quarterly or monthly. Alternatively, the taxpayer could require his mortgagee or employer to pay the tax withheld from his mortgage payment or salary.

5. Interim Reassessment Adjustment.

When land is taxed, it could be re-assessed annually. If not, a problem would develop – the re-assessment, when it comes, might be much higher than previously, especially in inflationary times. This would result in sudden increases in the taxes that some landowners have to pay, with possible hardship and opposition.

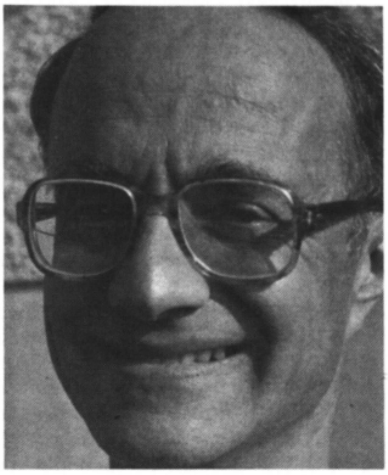
‘There is no need to keep land value tax low’

There might even be pressure to delay re-assessments, or for re-assessment increases to be less than market value increases.

To avoid this, all land assessments could automatically be adjusted annually, until the next re-assessment, according to changes in the general price index. If, for example, the general price level increases 10 per cent, then all land assessments could be automatically increased 10 per cent, but all such inflation adjustments are negated by the next reassessment.

6. Purchase and Demolition (PAD) Guarantee.

When neighbourhoods change to higher uses, land values shoot up. So do land assessments and taxes. The old owner may not be in a position to pay the new higher tax and he may not be



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able to sell his house which might now have a negative value since it must be demolished to make way for a new and more appropriate improvement. He would face severe hardship from which zoning regulations give him inadequate protection.

Examples of such neighbourhood changes to higher uses are – agricultural use to single or multi-family residential use, to industrial or commercial or natural resource use.

Suppose, for example, a single-family neighbourhood becomes ripe for apartment house development. A homeowner there cannot pay his higher land value tax any more since it is now predicated on apartment house use. He cannot sell his land site if the full annual value is taxed away. And his house has no value at all – it will be demolished, unless he can move it to a more appropriate location, and that is unlikely. He has problems.

Fortunately, a solution exists: the government could pay the old owner the appraised value of his about-to-be demolished house. This would give homeowners and others a real feeling of security since they need never fear that rising land value taxes would expropriate them.

It would make land value taxation even more saleable, especially at high rates.

Additionally, it would significantly spur the re-building of cities. No longer would the prospective developer have to expend a larger sum for the purchase and demolition of a useless be incurred even before actual construction can begin.
truction can begin.

Some technical provisos are needed to accompany this Purchase and Demolition (PAD) Guarantee: the building would have to be at least 12 years old and the guarantee should not exceed the land tax times twice the interest rate percentage.[1]

THE TAXATION of land values can do more than provide revenue for the government: it can also provide a powerful stimulus to economic growth.

One way of ensuring that the land value tax provides maximum incentive to land owners to develop their sites fully would be to announce in the first year that the tax would start at a base figure and move upwards by equal increments over a 10-year period to the full tax rate.

In this way, land owners would have plenty of time and incentive to adjust to the new tax, and put their land to the best-possible use.

Although there may be certain short-run or special-case problems arising from land value taxation, we have seen how they are certainly amenable to a solution. There is no need to keep the land value tax rate low in order to protect those few people who might experience hardship. They can be adequately protected by the six adjustments described above.

I recommend them for reasons of humanitarianism as well as good politics.

REFERENCE

1. The rationale for these provisos can be found in *Catalyst:* HGFA, 580 N. Sixth Street, Indiana, PA 15701, pp.55-56.

future."

Mr. Cord is Professor of History at Indiana University, Pennsylvania. For years he and his co-workers have worked to inform state and city officials about the virtues of land value taxation.

Copies of *Incentive Taxation are regularly mailed to politicians to show them how a tax on buildings is a constraint on economic growth.**

The latest evidence is based on a study – conducted for the Center for the Study of Economics by Daniel Sullivan – which revealed that 78 per cent of a random sample of over 500 homeowners paid less with a tax shift to land.

The Cord campaign promises even greater gains in the future. For example, the Pittsburgh Council had actually approved an even larger shift in the land-to-buildings tax ratio for 1983; this was postponed at the request of shop-keepers. And there appears to be a breakthrough in the attitude towards land taxation emanating from the Mayor's office. The Mayor has the power of veto over tax changes.

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