

In today's inflationary economy, even the person who only gets increases in his wages to offset increases in prices finds that he, too, is placed in a higher tax bracket, although his income does not buy any more in real dollars.

In order to increase incentives and allow for inflation, certain credits and deductions are allowed. These are the so-called "loopholes" in the tax laws. Such loopholes are necessary to lessen the burden of the income tax and permit the economy to grow. The problem is that these loopholes or incentives in our tax laws have often lacked justice. The federal income tax has also spawned a large bureaucracy with inquisitorial powers.

The property tax has proven to be much easier and more efficient to handle, but it also has defects. Assessing practices may be unfair, but they can easily be cured by hiring professional appraisers, and by having nonpartisan boards of review. There are bigger problems with property taxes as now levied. The real estate tax, or property tax, is actually two opposite taxes. It is hard to imagine two taxes whose consequences for our urban, suburban and rural areas would be more different. One of the two conflicting taxes is on improvements — this is basically a sales and use tax which is paid every year instead of once, as with other products and services. If the payments in taxes made on average buildings over their lifetimes were added together, they would amount to more than half the construction cost.

The other levy in the real estate tax is the land value tax — the tax on what the property would be worth if the owners had done nothing to improve it. This value comes mostly from the enormous investment of taxpayers in providing roads and services, including schools, to make the location accessible and livable. Justice indicates that landowners should pay taxes on increases in land value that result from public works and the people they attract.

Why not tax land values alone? A land value tax would reduce costs of construction and rehabilitation, invigorate central business districts, stop suburban sprawl and allow school districts to raise revenue more easily.

Homeowners would pay less in taxes when land is taxed but not improvements. The tax is mildly progressive — in accord with ability to pay — and is the reason that revenue can be raised with the least harm to most taxpayers.

Our tax problems will be solved only by innovative approaches and radical changes in our tax policies. A land value tax may prove to be a solution to our present dilemma.

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Springfest

On May 7th, the Henry George School in New York is holding a "Springfest" for all students, alumni and friends.

The guest of honor will be Harry Pollard, President of the Henry George School of Los Angeles. Mr. Pollard will be spending two weeks in New York to introduce his Inter-student Program to the city high schools.

How To Make The Property Tax Work

Philip Finkelstein

Death and taxes share not only their inevitability, as the old saying goes, but the quality of reception they are accorded. Some taxes, like death, are regarded as more merciful or less unwelcome than others. The generally accepted standards may be stated as adequacy, equity and economic consequence.

An adequate tax is one that raises enough revenue to provide the service desired. It should not be so small as a nuisance to pay, collect and administer. Nor should it be so large as to destroy the very source that must bear it.

As for equity, the perception of any tax should be that it is fair either to those who pay, those who receive its benefits, or both.

The economic consequence of the tax should, on balance, be positive; that is, the levy should encourage sound development, production, investment and employment. If it can't do all that good, it should at least do as little harm as possible.

By all three standards the property tax as currently administered in New York State fails. The \$9 billion it raises is higher than any other state by far and the per capita payment is exceeded only by the payment in Alaska. There are taxpayers who find it confiscatory and property owners whose ability to pay is damaged or even destroyed by the tax itself.

The economic consequence of the property tax on New York State is possibly the most harmful of all. It discourages investment, development, improvement, sound growth and vital communities while it rewards deterioration, abandonment, sprawl and speculation.

The most insidious form of discrimination is that which taxes the two components of real property differently — land lightly and the improvements heavily. In New York State we are supposed to tax both the same. In fact, in most jurisdictions land is assessed very poorly if at all, and improvements, whether they be residential, commercial or industrial, are assessed as closely as possible. The result is that we make it very profitable to keep land from being properly improved, at the same time that we discourage new improvements and even the rehabilitation of older properties.

There are some people who are so fed up with the irrationality of the property tax that they propose doing away with it altogether, and raising revenue from another source. The fact is that New York State already taxes income, sales and other sources more than elsewhere. We have been so progressive in our taxation that we have progressed just about every form of income producing activity out of the state and into our competitive neighbors.

of Connecticut, New Jersey or points south and west, where such taxes don't exist or are now coming into being, at a much lower level. It seems hardly likely that the \$9 billion raised in New York State by the property tax is going to be replaced by any other form of taxation.

At this juncture in New York State we are faced with the prospect of a major revision of our property tax. The courts will no longer tolerate different levels of assessment for different kinds of property. They will not tolerate different notions of assessment in different jurisdictions. The courts have in effect mandated that all assessment reflect 100 per cent of full value.

So we find an enormous fear arising from, of all people, homeowners, who are now bearing the brunt of the tax burden, that if we move to 100 assessment, their taxes are necessarily going to go up. What is not said is that those who have been suffering an inordinate burden are likely to benefit.

The way in which we can make the property tax work for us instead of against us is to simply eliminate the biases to which it is now subject. The most fundamental one is the bias for land. If we could begin the process of assessing property at 100 per cent with the land, we can at once achieve a substantial amount of property tax relief for the homeowner who bears the greatest burden. Perhaps, most important, we would be striking the first blow for sound economic development.

We must make it clear that assessment is not a fixed figure for all time. It is an estimation of a value at a given

time, which may and does change, and it must be kept up-to-date annually. Unless the taxing jurisdiction is capable of performing an annual assessment, any outside reassessment at any given time is a waste of taxpayer money.

Now we may hear the argument that 100 per cent assessment of land value is likely to push development at so rapid a pace that we're going to gobble up all of our vacant land at once. This fear is also unfounded. Some land, desirable for development, may become available at less than an exorbitant price. Owners may not be able to speculate forever while paying a minimal tax. At the same time, those lands which we want to preserve might be a whole lot cheaper to acquire.

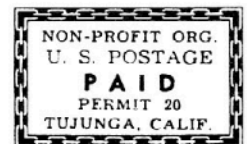
The fact is that 100 per cent assessment, particularly of land value, is eminently feasible, relatively painless, certainly far more sensible than having somebody inspect every fixture in every new house and every finished attic or basement. And it is rather quick, and certainly accurate, if we are able to utilize the new technology of the computer—and we certainly can.

If we place the larger burden of property tax on the land, we could achieve a degree of economic development that up until now has been eluding us. No matter what else we do in offering inducements and enticements and benefits to new development, they will come to nothing if the burden of property taxation is beyond that of the other states.

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