

Site Tax Could Replace Property Tax

by Armin Jocz

SHIFT TAX TO LAND

AMERICANS have come to accept the taxing theory based "on the ability to pay"—meaning the income tax. Yet after years of following this concept, we are still disturbed to learn of loopholes which arise in part when wealth is converted to capital assets, depreciated, expenses subtracted, and finally taxed at 25%—only when sold. Clearly all measurable wealth is not carrying its "fair share"—hence for these reasons and others enumerated in the previous article, the income tax isn't the answer to the property tax.

Our forefathers arrived at the present property tax policies when the U.S. was a "land rich and people poor" nation. Growth followed the railroads which moved people from the sea coasts to remote and previously inaccessible inland sites. The best way to encourage this growth was to give large tracts of land for railroad right-of-ways. Efficiency of development was of no concern since more land was available than conceivably could be used.

This assumption is no longer valid. Land must now be wisely used since it is a finite resource with respect to our present population and in short supply with tomorrows. You can throw away a used car but not a used city. Yet, this is precisely what we are attempting to do when we fail to renew our cities. We must halt urban sprawl and the attendant decay of downtown. The lure of building on underdeveloped land at the fringes of our cities principally benefits the speculative land owner, penalizes the taxpayer, and prematurely inflates the value of nearby farmland. This trend must be reversed.

Many prominent economists are endorsing a policy which shifts the incidence of taxation from structures to land. This one act can have a profound impact on our communities. As will be shown, it can reverse the decay of downtown, attract new industries, and reduce the taxes for the residential sector.

By more heavily taxing land in the city, owners of unused and underused land will be encouraged to develop their land—or sell to someone who will. The extent of development will be guided by the tax "break even" point as well as business potential. The figures in the table indicate the taxes to be paid by all the businesses on a typical block in downtown Beloit under both tax systems. Those to be paid under a site value system depend only on the land assessment and not the structure. Our example indicates that a one story structure would pay \$10,000 more under a site value system. A two story building would pay about \$5,000 less and a four story building \$50,000 less. Clearly this taxing scheme encourages construction.

TAXES TO BE PAID BY BUSINESSES IN A DOWNTOWN BLOCK

Number of Stories	General Property Tax	Site Tax
0	\$5,000	\$35,000
1	25,000	35,000
2	40,000	35,000
3	63,000	35,000
4	82,000	35,000
5	100,000	35,000

THIS VERTICAL construction may be a salvation for downtown. Elevators can easily and swiftly

move people vertically from one business to the next. The existing street system can move arterial traffic to central locations but can not handle all the interbusiness movement.

At first it seems awkward to tax adjacent parcels equally—irrespective of the structures value. Critics often allude to vast differences in assessments between adjacent properties. In practice this is the remote exception. The present system taxes a well constructed and maintained structure higher than a decaying one. The building which is a community asset bears the greater tax "penalty". Certainly this is undesirable since it produces results contrary to community objectives. Furthermore the present system undertaxes mobile homes for the services and facilities they receive. This, too, is inequitable. Is it right to tax a person on the basis of what he does for the community rather than what the community does for him?

NEW INDUSTRY

Would the site tax attract new industry? Many people in and out of government state that taxes rank in the top three items considered by industry before relocating. There are numerous examples of assessment freezes and tax breaks which have helped attract businesses to the south. Industry in Beloit presently pays \$1½ million in combined property and corporate income tax (20% higher than if located in Illinois and highest in the U.S.). Under the site tax, they would pay \$900,000 (22% less than in Illinois). This 40% reduction effectively creates a tax island. Furthermore, when executives plow earnings back into their business so as to grow and provide new jobs, they wouldn't be penalized taxwise. The economic incentives will be discussed in greater detail in the next issue.

When a city adopts a site tax, what will be the impact on its rural neighbors? A person contemplating purchasing land outside the city for speculation (implying there is a better use) knows that its economic use had better be assured before bringing it into the community—otherwise he won't be able to afford the taxes. This will reduce the speculative demand for farm land and the market in the area will continue to reflect the best use—farming. Expansion of cities will occur only as needs press. The invisible wave of assessment increases accompanying premature land annexations (irreparably hurting the adjacent farmer and simultaneously leading to expensive urban development) will cease. The strained feelings between urban and rural neighbors will ease.

AND FINALLY, how would a site tax affect the residential sector? In Beloit the average tax decrease will exceed 20%. More significantly is the effect on the various elements within the community. An analysis of 35 homes in a predominately black area indicates an average decrease of 39%. Homes in an area with a large concentration of retired families will receive a refreshing 36% decrease. In contrast, homes in the most exclusive sector of town would realize a modest 11% decrease.

Thus we see that a site tax would benefit a city by encouraging growth, renewing downtown, attract industry, discourage land speculation, and reduce the residential taxes.