

Western Pennsylvania Mensa PHOENIX



Taxation Detracts

by Herb Barry

John Marshall, the fourth Chief Justice of the United States Supreme Court, stated in 1819 "The power to tax involves the power to destroy." A well conducted democratic government does not intentionally use this power. A statement with more general applicability is "Taxation detracts from the taxed activity."

Income tax is a timely topic in April for most taxpayers in the United States. This tax detracts from the activity that produces income. The income tax therefore impairs the economy because activity that produces income usually contributes to the public wealth.

Many homeowners regard themselves as owning their house and paying the property tax on it. The house is only one component of the property. The other component is the plot of land that contains the building. Taxation of buildings detracts from a desirable activity. Taxation of land detracts from an undesirable activity.

A tax on buildings detracts from the activities of constructing, improving, and maintaining a residential house or commercial building. These activities are desirable for the community. Modern or well maintained buildings provide increased facilities for residential or commercial use. Taxation therefore should be minimized on buildings.

The value of land is determined by the facilities, inhabitants, and users of the neighborhood. If a homeowner's property increases greatly in value, the change is

usually due to an increase in value of the plot of land in the neighborhood rather than an increase in value of the house.

A lot that is vacant or contains a decrepit building can become valuable if the neighborhood becomes valuable. The passive action

of retaining the property enriches the owner while decreasing the availability of property.

The community suffers from less availability and thereby higher cost of property in the neighborhood.

Taxation therefore should be shifted from buildings to land.

The city of Pittsburgh until 2001 had the rational policy of lower tax rate on buildings than on land. Property reassessments in 2000 caused increased valuations of land but not buildings for residential owners in desirable neighborhoods. The predominantly affluent owners in these areas persuaded the City Council to equalize the taxation rate on land and buildings. This increased the tax rate on buildings and decreased the tax rate on land.

This essay may be summarized by a slogan that advises "Tax bads not goods." Taxation of land detracts from undesirable retention by passive owners. Taxation of buildings detracts from literally constructive activities. Genuine reform of property taxes should include returning to and expanding the rational policy of lower tax rate on buildings than on land.

