

## MAKING LAND MORE TAXABLE COULD REDUCE PROPERTY TAXES FOR PHILADELPHIA OWNERS

by Edward J. Dodson, Cherry Hill, NJ

Philadelphia has long been one of the great cities of the American continent, a place immigrants have flocked to for the chance at a better life. As with all cities, Philadelphia experienced (and continues to experience) periods of growth and decline. Too much of the city shows the deep scars left by the loss of industrial employers and the decay of an aging housing stock occupied by people who simply do not have the money to keep them up. At the same time, the central part of the city -- historic, convenient and well-served by the best amenities of urban living -- thrives. The challenge for the city's elected officials, and for all of the citizens who live here is to save and nurture what is good and to remove what is not. Ever since the 1960s the effort has been made piecemeal and with very mixed results. Why is this the case and what realistically can be done to make this city work and work well for all its citizens?

Study after study has been done to trace the process of decline. We know that Federal funding for highways contributed to a mass exodus of people and businesses to the suburbs. In these more enlightened days of concern for open space and the environment we decry the loss of prime agricultural land to development and the creation of sprawl across the landscape. At the same time, we remember that our cities were long plagued by air, water and ground pollution from industries that produced not just goods but brownfields that to this day are barren and abandoned. When these factories shut down nothing replaced them. Philadelphia went on the dole in order to survive financially -- dependent on Federal and State assistance to meet the social service demands of a population suffering from higher and higher unemployment and the ills that come with urban decay.

The City could not persuade other levels of government to underwrite all of the city's expenses. On the principle that everyone and everything and every transaction is fair game for taxation, Philadelphia's leaders began to raise taxes. When more businesses and more residents moved out and the tax base shrank, the City made up the difference by increasing tax rates and inventing new ways to tax. Not surprisingly, this approach to balancing the budget did not generate increased economic activity. Deals had to be struck with individual businesses to get them to stay in the city or to come here. The City granted property tax abatements to builders who put up new buildings or opened new businesses, with the expectation that the people employed would pay in wage taxes what the owners and builders did not. Analysts who have looked at the data conclude that this approach to revitalizing the City's economy has not been successful. The real need is to create an urban environment that is attractive,

where people want to be every day, where they can live, work and place in safety.

Two things the politicians seem to have learned are this: first, that wealth and income must first be created before government can tax it away, and second, if government taxes take too much away, people will leave and take their incomes and their businesses with them. In Philadelphia, the next real hurdle to be overcome is getting the politicians to use this knowledge to restructure public policies so that the cycle of decline ends once and for all time!

The mayors, council members and civic leaders of other cities - in the Commonwealth, even -- have discovered how to get there and are gradually moving in the direction of turning their entire communities into enterprise zones. The key to this process of regeneration became possible early in this century when the state constitution was amended to permit certain cities in the Commonwealth to adopt what is sometimes called a "split rate" or "two-rate" property tax, at other times "land value taxation." Activists in Pittsburgh, a city plagued by terrible air and water pollution and by a blighted urban center fought to remove as much of the property tax from homes, office buildings and other "improvements" as possible. Only land parcels would be taxed, if they could have their way.

The constitutional amendment set the stage for a long process of city-by-city movement toward land value taxation. Today, fifteen Pennsylvania cities (including Harrisburg, Scranton, Allentown, and Pittsburgh during 1913-2000) tax land at a higher rate than they tax buildings. To the extent they do so, all have experienced more new construction and rehabilitation of buildings than close-by communities of similar size that still tax property the old (Philadelphia) way. Not long ago, Governor Ridge signed a bill extending the same option to all of Pennsylvania's boroughs.

What is so good about turning the property tax into a land value tax? For one thing, people who own buildings are no longer penalized for making improvements. They can add an addition or do a "gut-rehab" on an old building and their property taxes stay the same. Under land value taxation, the owner of an office building occupying a full city block and the owner of an adjacent surface parking lot taking up the same amount of land area pay the same land value tax. For the building owner, the cash flow from the business will normally mean the annual tax is not a very heavy drain on income. For the owner of the surface parking lot, the annual tax may take most or all of the income.

The owner of the office building is providing space for dozens of businesses, employing hundreds of people who are contributing to the city's economy. The owner of the  
(continued on page 12)

## MAKING LAND MORE TAXABLE ...

### PHILADELPHIA

(continued from page 11)

parking lot is providing space for a hundred cars, employing two or three people. In reality the parking lot is a land speculation. A high enough land value tax will push the owner of the parking lot to develop the land more appropriately (i.e., to its "highest and best use") or sell the parcel to someone who will. Zoning (we need to encourage mixed-use zoning so that people can commute shorter and shorter distances to and from work) and the market will take care of the rest.

Eliminating the tax on the things we build and the economic activity we want -- constructing new homes, for example -- while encouraging owners of land to use land productively is the starting point for turning Philadelphia into an enterprise zone. The second step is to reduce the wage tax -- preferably to zero but at least as low as the surrounding suburban communities. Other nuisance taxes on businesses need to be gradually removed as well. The City controller can schedule out these reductions based on annual forecasts of revenue from the remaining sources.

What makes the shift to a land value tax that much more appealing and promising for Philadelphia is the fact that Philadelphia is responsible for the funding of the schools as well as other city services. In all of the cities that have adopted at least a partial land value tax, the school districts continue to tax land and improvements at the same rate. This waters down the impact considerably. Yet, the mayors of Harrisburg and Washington have credited their use of this tax shift as playing an important role in encouraging businesses to stay or expand and stimulating housing rehabilitation.

For Philadelphia, the impact of a similar shift in tax rates from improvements to land would be immediately beneficial to the overwhelming majority of property owners. Even for those business owners who end up with a tax increase, the potential for increased business activity means higher profits. Studies on cities of various sizes tend to show that most homeowners receive some reduction in taxes under a land value tax. How much of a reduction depends on the percentage of value that rests in their home versus the lot the home sits on. Thus, high density residential properties -- row homes, high rise condominium units and almost all properties outside the most desirable historic neighborhoods -- benefit by the shift. Unimproved or grossly under-improved parcels of land would receive the highest increases.

What I have outlined above are all the practical reasons for overturning the way we have allowed government to raise revenue. These reasons are important; they are the arguments politicians respond to. Perhaps I would have spent the last twenty years advocating these changes -- writing letters to the editor, testifying at public meetings and dedicating time to grass roots politics -- even if these were the only reasons. There is,

March-April 2001, GroundSwell, Page 12

however, something more -- a powerful moral argument. I do not talk about it much, but I believe that the earth is our common heritage. Parcels of land have value because of what we as a community create and not what any one individual does. The proof of this is demonstrated by the fact that people who manage to gain control over land and hold it long enough tend to become rich even if they do nothing.

Speculation in land has always been the great American ethic, despite the Horatio Alger myth. Land owners have made sure that over the last two centuries and longer that they paid as little as possible to sustain our Democracy, while people who actually produced goods and services carried the load. Morally, this is just wrong. What we produce with our labor and with the things we make ought to be ours to keep and use and consume as we see fit (so long as we do not infringe on the rights of others). A title to a parcel of land allows the holder to deny access to any others, to monopolize the parcel. As Thomas Paine put it in a pamphlet titled "Agrarian Justice," the landowner owes to society a ground rent for this privilege -- no more but no less.

-----  
(editor's note: Ed Dodson is affiliated with the Henry George School of Philadelphia, is a Board member of Common Ground-USA, and has worked in real estate development and housing finance for 25 years. He may be emailed at [ejdodson@home.com](mailto:ejdodson@home.com).  
---