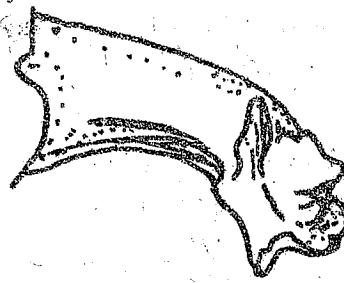


The Gargoyle



"A throat, mouthpiece, spout." Opinions expressed herein are those of the writers and not necessarily endorsed by the Henry George School.

HENRY GEORGE SCHOOL of NEW JERSEY

Issue #206

MARCH 1977

THE PROPERTY TAX IS REALLY TWO TAXES

Real estate taxes are generally regarded as burdensome and many proposals are offered to relieve the taxpayer, particularly the homeowner and the elderly. Most proposals ignore the fact that the property tax is not one tax but two very different taxes. They have exactly opposite effects on our social and economic life. One tax is levied on the value of man-made things such as buildings and their contents. The other tax is levied on the value of the site that goes with the building. The taxpayer pays the total tax.

When taxes are reduced on buildings and other man-made things, people have a greater incentive to build or improve them. The "property" tax on improvements is equivalent to an annual penalty for making improvements and creating wealth. Tax increases on real wealth such as houses, stores, factories and machinery make them more costly to construct and possess. This part of the property tax has no socially desirable effect. Tax relief on such real wealth is beneficial to everyone. Total elimination of this portion of the property tax is an excellent long-range goal.

The part of the property tax that is levied on the value of the site needs careful examination. The total area of dry land is fixed, for all practical purposes. The available supply can be and is artificially restricted by being withheld from use by outright denial or by uneconomic pricing.

The tax on the value of a site affects the potential market price of the site by decreasing the net income of its owner. Lowering this tax increases the actual or potential net income to the owner, consequently the market price would go up. Increasing the tax on site values has the opposite effect; lower net income and a lower market price.

This site value portion of the general property tax can not be passed on to anyone else by the owner. He is already getting whatever the market will bring, if he has the site on the market. If the site is taxed very lightly or not at all, the owner incurs little or no penalty by withholding the site from use. He can bide his time until prices of sites go up to whatever point he chooses.

Consider then the effects of a rising tax rate on values of land. As the rate goes up, the owner has an increasing incentive to improve the site so that it will bring in appropriate income to more than cover the tax. If he chooses not to use or improve the site, he has an increasing incentive to sell to someone else, increasing the supply of land, as far as the market is concerned. The higher the tax, the more the pressure on the selling price, to the buyer's advantage.

A genuine reform will provide for greatly reducing the tax rate on improvements and simultaneously increasing the rate on site values. This would result in stimulating employment and economic activities without new government programs, subsidies and bureaucratic empires.

HOWARD M. THOMSON