Incentive Taxation

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Land Value Taxation - AXI

Al Hartheimer

As most are familiar, the goal of LVT on a municipal level is to shift taxes off improvements (buildings) on to land. Most are familiar with the **two-rate** policy of LVT enacted 13 US cities to date.

An alternative implementation method, **Assessment Exemption for Improvements (AXI)**, is relatively new approach that takes improvement value from taxation. The AXI method establishes a "*taxable value*"; the taxable value of land is the assessed value.

First year: assessed value less the assessment exemption,
Second year: assessed value less twice assessment exemption,
Third year: assessed value less three times the assessment exemption, etc.

The taxable value of improvements cannot be less than zero. The total taxable value is the sum of the taxable value of land and the taxable value of improvements. Tax rate is computed by dividing the desired yield by the total taxable value.

AXI is particularly useful in taxing jurisdictions that have one parcel that pays a much larger proportion of the yield than most residences, such as, a shopping center or power plant. With the two-rate method, the larger taxpayer is often the largest saver, which may make adoption of that method politically unfeasible.

Using this method, the tax reduction is the same for every parcel, thus a $50,000 assessment exemption is much more meaningful for a $100,000 house than for a $10,000,000 shopping center. Each year the yield from the house is reduced substantially while the yield from the larger property is reduced only marginally. The smaller property will reach the goal of reducing the taxable value of the improvement to zero in a few years while it will take many years to reduce the shopping center improvement value to zero. Thus, the goal of shifting taxes off improvements (buildings) on to land will be achieved gradually while maintaining the proportion of tax paid by large and small properties.

How does AXI work? Please visit http://www.urbantools.org/policy-papers/implmentation.

National Conference of State Legislators Recap

Barbara Maloney and Eron Lloyd

The NCSL summit provided the IT team with a place to renew contacts with old sources and strike friendships with new ones — personal contacts and collaboration with other LVT supporting organizations, such as, the Public Revenue Education Council (PREC) are the second best source for maximizing our educational efforts.

Although lawmakers in virtually every state were scrambling to keep their (FY) 2009 budgets balanced, this year's summit in **Philadelphia, PA** was well attended. We had the opportunity to meet more than 300 state legislators as well as their respective staff members face-to-face and provide them with a brief educational and up-to-date experience relative to the theory and application of LVT. The financial challenges for each state are widespread and legislators are aware the challenges they face now will continue into FY 2010 if new legislation is not enacted.

We were pleasantly surprised by the number of international attendees from **South America,**

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National Conference of State Legislators Recap

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Joshua Vincent (left) and Al Katzenberger (right) NCSL Summit 2009

Europe, **Africa**, and **Australia**. Several delegates from **South Africa** lamented the recent loss of LVT (site value rating) in **Johannesburg**, and an official from **Perth** stopped to chat about the impact of Australia's successful LVT program.

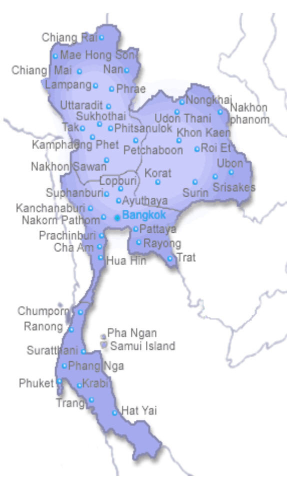
It's often difficult to track the impact of such advocacy work, particularly as it crosses the spectrum of education to implementation. This year's conference, however, saw the fruits of such effort when AFSCME Council 4 representative **Denis O'Neil** stopped by the booth. Mr. O'Neil first learned about LVT when he picked up some material from PREC at a previous NCSL conference several years ago, and ended up recently testifying in favor of it during a hearing in Connecticut that lead to enabling legislation for a pilot in **New London, CT**.

Our executive director, Joshua Vincent, was able to convey to those he met with how split-rate and/or AXI have the ability to stop the hemorrhaging of revenues, bring back the growth rate, and provide stability across their state. The Center for the Study of Economics (CSE) analysis has shown in many states enactment of either method of LVT could stop the deepening and prolonged downturn expected to continue through 2010. IT staff will continue to track and report to you on the meetings with state legislators as they progress throughout the year.

Our team would not have been able to attend this event were it not for **Al Katzenberger** of the **Public Revenue Education Council** providing the invitation. We at the CSE extend our gratitude and appreciation to Al and the Public Revenue Education Council.

LVT in Thailand?

H. William Batt, PhD



Thailand map.

According to some **Thailand** newspapers, discussions are taking place in the Thai Ministry of Finance and in the leading Thai Universities about the possibility of a land value tax to make up the shortfall in revenues that has befallen the current government. The nation's growing wealth disparity would also be redressed. Pending Parliamentary approval, LVT would be instituted nationally, and supplement a panoply of taxes that rely now mostly on commerce.

From the *Siam Homes: Thailand Property and Thailand Real Estate*, the main types of tax levied on Thailand property are:-

> ***"1.** Income Tax or Withholding Tax - This is usually between 1.0% and 3.0% - charged on the transfer of Thailand property (this is the equivalent of capital gains tax in the United States) It is calculated on a most complex formula based on the Land Department assessed value of the Thailand property, the length of time owned and the personal income tax rate. (Normally paid by the seller)*
> ***2.** Transfer fee of 2.0% of the Thailand Land Department assessed value, on all transfer of Thailand land or structure ownership. This fee is payable to the officer at the Thailand Land Department on the day of the transfer of ownership. (Normally paid by the buyer)*
> ***3.** Stamp Duty - on all purchase/sale of Thailand property there is a stamp Duty of 0.5% charged on the Thailand Land Department assessed value or purchase price, whichever is the higher. This tax is not charged if Specific Business Tax is applicable to the transaction. (normally paid by the seller)*
> ***4.** Specific Business Tax (SBT) of 3.3% only levied against the Thailand property owner who has been in registered possession of the Thailand property less than 5 years or against all sales by companies.(Normally paid by the seller)*

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LVT IN THAILAND?

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> ***5.*** *The Land Tax levied on Thailand land is so minute, that in practice the body charged to collect it, rarely bothers to do so, and if they do, they usually wait several years until the amount accumulates.*
> ***6.*** *The Structures Usage Tax is only charged on Thailand property used for commercial purposes and is collected by the municipal office or district office."*

Should LVT be instituted, it would restore a pattern of taxation that existed until the modern era, when Western Advisors urged its replacement by tariffs and other tax regimes.

Thailand would be the third Asian nation now contemplating adoption of LVT, the others being **Korea** and **Taiwan**. **Hong Kong** and **Singapore** have long relied upon land rents to finance its public services.

Additional information

Retired Admiral Suthon has translated *Progress and Poverty* into Thai and has continued to maintain the Thai translated website http://www.geocities.com/utopiathai/. He has steadfastly kept interest alive through news feeds other centers.

http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6W53-4HMNG22-2&_user=10&_rdoc=1&_fmt=&_orig=search&_sort=d&_docanchor=&view=c&_searchStrId=974952472&_rerunOrigin=google&_acct=C000050221&_version=1&_urlVersion=0&_userid=10&md5=b46b762ff429a037a124e01f69bcfa70

http://www.siamexpatlaw.com/phuketlawonline/index.php/thai-law-and-legal-information

Bangkok

"Thai Real Estate Association president Kittipol Pramoj na Ayutthaya said most property associations and property firms agreed with the proposed law, because it would encourage landlords to use their land rather than leaving it idle."

(a Tool for 'fairer land distribution 'By Somluck Srimalee, The Nation published on July 21, 2009)

Commentary

Steve Cord, EdD

What New London (CT) Can Choose to Do

The State Legislature of **Connecticut** has recently authorized the city of New London to reduce its building assessments (not its land assessments) in the property tax. If the New London city council would do that, most taxpayers would pay less property tax.

Here's how to do this: issue a credit on all building assessments, specifying that no credit can exceed the building assessment. This is exactly what would happen:

1) All renters (whether residential or business office) would then get a space-rent reduction – because there'd be less building tax passed on to them and the land tax can never be.

2) Most property owners would pay less property tax, because they'll save more with a reduced tax on their building assessment than they'll pay more because of the property-tax increase (especially if only the land-assessment tax rate is increased).

To be precise: if a property owner's building-to-land ratio is less than the citywide average, that property owner will save with this adjustment (which we can call AXI for short – assessment exemption on improvements). That's usually true, certainly always for building owners in a city like New London.

3) The City of New London will get the same revenue as before this reform because the reform will be completely paid for by the property rate increase (preferably only a land-assessment increase). This is what is called revenue neutrality.

4) Economic development will be furthered because it will be taxed less, and all land-sites will be taxed more (and will therefore have to be used more productively).

Win-win-win-win. Even Mrs. Kelo, the famous homeowner, comes out a winner!

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Q & A excerpt - IT Summer, 1975 and the Message Remains Strong Today

Consider the Moral Aspect

Q: This bulletin has generally stressed the economic benefits of LVT. But what about the even more basic moral aspects?
A: Well, here is the basic proposition: a landowner as landowner produces nothing, yet has an income. He either rents out his land, or sells it. Now if he has an income without producing anything, then others must necessarily produce without getting a full return for their efforts. Is that just?

Q: But don't landowners contribute land to the productive process?
A: They permit its use, to be sure, but neither they nor anyone else made the land. Landowners per se contribute no labor or product made by labor.

Q: But they bought their land with labor.
A: Mere purchase cannot justify a title. After all, we can purchase stolen property—but not justifiably.

Q: But don't landowners allocate land sites to their proper use?
A: No, the free market, subject to proper zoning, does that. At best, landowners follow the dictates of such a market.

We need **YOUR THOUGHTS — "Do you think that an economic or tax proposal can have a moral aspect?"**

Send Us a Question, Comment Or Suggestion	By mail	Center for the Study of Economics 413 S. 10th Street Philadelphia, PA 19147	By email	Barbara@urbantools.org (*Please write "IT Newsletter"* in the subject line)