

LAND TAX A MUCH BETTER IDEA THAN TAXING INCOME

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Many Times readers agree that the federal income tax has so many problems that it would be best to replace it with a better system.

Some favor a flat-rate income tax with the elimination of most credit and deductions, which would be a major improvement.

However, so long as the income tax exists, the political pressure is always there to grant privileges to special interests or to pass tax credits and loopholes that will gain votes.

The deeper problem is that any income tax hurts savings and artificially makes labor more expensive, reducing employment while lowering net wages.

Some folks favor a national sales or consumption tax. The problem is that the total of federal, state, and local sales taxes would amount to over 25 percent. That's quite enough incentive to evade the tax, so the federal and state governments would have to put in massive enforcement.

Not only would sellers need to document and report all transactions, but consumers — that's you and me — would need to show that they paid a sales tax on all possessions and services.

Folks would have to be audited on their possessions to make sure the tax was paid, and you would need to keep receipts of all payments for services, too.

Income-tax audits would be replaced by surprise knocks on your door by government inspectors who would go through all your possessions and records.

Just as income taxes penalize savings, sales taxes penalize borrowers. Suppose you borrow \$10,000 to buy a car. You have to borrow an extra \$2,500 to pay for the tax. Plus, you have to pay interest on the \$2,500 in addition to the \$10,000.

Some say we should discourage consumption, but the whole purpose of production is to provide consumption. If we discourage consumption, we discourage production, leaving fewer jobs and less investment.

Many of those who call for federal sales taxes may not realize that we've been there, done that, and it failed.

During the 1800s, the federal government was funded by consumption taxes, including tariffs. The sales tax was paid for by revenue stamps attached to products.

In the late 1800s, many felt that the federal sales taxes were regressive since the rich paid a much smaller portion of their income in taxes. The "Progressive Movement" back then favored a switch to an income tax to make the rich pay a bigger portion of taxes.

Now many want to switch back to the system that was rejected 100 years ago. We truly don't learn from history, it seems.

Fortunately, there is a third option other than income and sales taxes.

We can get all the revenue government needs from the value of natural resources, including all types of land.

When we tax land rent, we just send the owner a bill. There is no need for audits, inspections, or complicated record-keeping. With a land tax, there is no invasion of privacy. And the best part is that even the landowner is not hurt, once the system is in place.

Today, if you borrow \$100,000 to buy land at 10 percent interest, you pay \$10,000 per year in mortgage interest. With a land tax, you pay close to zero for the land, and you pay \$10,000 per year for the tax on the land rent.

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A new owner is no worse off with a land tax than without it, because the price of land goes down to compensate for the tax.

But that's not good news to those who own land today. So the transition to a land tax would have to be gradual.

Most homeowners would gain tremendously, since the tax on the land portion of their home would be much less than combined taxes that now take about half your income away.

If you earn \$40,000 and have \$100,000 worth of land, you are now paying about \$20,000 per year to the government instead of the \$5,000 you would pay for the land tax (the tax would be about 1/20th of the current price of land).

Corporations owning commercial land would pay more, but in the long run, investors would gain by not having to pay any tax on interest, dividends and capital gains.

This third option, a tax on land and natural-resource rents, is called incentive taxation because it does not destroy incentives the way income and sales taxes do.

It does not burden the economy the way sales and income taxes do.

Yet almost all the discussion is on changing the income tax or switching to a sales tax. While we're thinking about tax reform, why not consider the one reform that would preserve privacy and not hurt the economy?

Economists have known for 200 years that land taxes are the best, or as Milton Friedman put it, the "least worst." When will the public catch on?