

PRESIDENT'S ADVISORY  
PANEL  
ON FEDERAL TAX REFORM

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President's Advisory Panel on Tax Reform

Dear Tax-Reform Panel members:

As a tax payer and a citizen the tax system I want and the country deserves is one which is both equitable and economically efficient. Economists have long recognized that a tax on ground rent or land value does not create any waste or excess burden or deadweight loss on the economy. The prominent economist Milton Friedman has called a land-value tax (LVT) as "the least bad tax." Adam Smith in his Wealth of Nations wrote that ground rent is the "species of revenue which can best bear to have a peculiar tax" levied on it.

Taxing land value would work like today's property tax, except that the value of buildings would be exempt. The tax would be based on the market price of the plot of land, regardless of its current use or the value of any improvements on the site.

I propose that a revenue-neutral tax on land values completely replace the current federal income tax, both personal and corporate. The land-value tax would be assessed by the counties, as property taxes are usually assessed today, supervised by boards with representatives from the federal, state, and local governments. The counties would transfer some of the funds to the cities and some to the state. The states and District of Columbia would then transfer funds to the federal government in proportion to the population of each state. This method is authorized by the US Constitution, and was implemented several times prior to the civil War:

The Advisory Panel seeks a reform that would simplify taxation. LVT would eliminate all record keeping by taxpayers. There would be no audits. There would be no cheating. Land cannot hide or be taken out the country. The taxpayer would be sent a bill, monthly, quarterly or as most convenient to the taxpayer, and will pay as it does for the utility service. If he wanted to, he could appeal the tax, which would be much simpler than the tax trials of today. We would do away with almost all tax accountants and lawyers.

The Advisory Panel seeks to share the tax burden equitably. LVT is equitable for several reasons. First, government services increase land value, so LVT pays back value received, rather than giving landowners an unearned implicit subsidy. Second, once LVT is in place, new land buyers pay less for land, and so have no burden at all, since what they pay in tax they save in mortgage interest. Third, most homeowners would gain, because typical homeowners also earn wages and interest, and there would be no income tax on wages, interest, or dividends, or the value of the building. LVT is also good for the renters, since tenants already pay property tax with their rent, they would pay no extra tax. Retired homeowners that receive a fix income beyond the minimum taxable income will be relieved of any tax obligation beyond the LVT, and even this could be delayed and collected at the time the estate or trust is settled.

The main problem with LVT is the transition, since LVT would reduce the price of land. However, LVT would promote an ownership society, because housing would be more affordable. The transition to LVT would not be disruptive if it were implemented gradually. However, it would be best for the economy if the burdens of the income tax were lifted as entirely and as soon as possible. I propose that current real estate owners be

compensated by special 20-year tax-transition inflation-protected zero-coupon bonds. The interest rate on the bonds would start out at the treasury-bond rate and gradually diminish to zero by 20 years. The bonds would be bought back by the government as the economy grows and prospers, freed from the deadweight loss of today's taxation.

LVT would promote growth like no other tax. A flat-rate income tax or a value-added tax or a national sales tax might be better than today's tangle tax system, but would still impose a significant excess burden specially on low income earners and retirees.

LVT has the no excess burden. There would be no federal tax on work, investment, interest, dividends, or business profits.

Several economic studies have concluded that land rent is about 20 percent of the national income (1). This is enough to finance government goods and services if we exclude transfer payments such as social security and Medicare. LVT can be supplemented with user fees and pollution charges. It can also include charges for the use of the electro-magnetic spectrum.

Another benefit of LVT is a smoothing out of the business cycle. A real estate boom, which is really a boom on land values, diverts bank loans to speculative purchases, and when the boom bursts, land values fall, loans are not repaid, and banks suffer losses. High real estate prices also choke off investments. LVT stops this speculative boom and subsequent bust.

Taxing land value is a more fundamental tax reform than adjusting the current income tax, but if the goal is to promote ownership, growth, equity, and simplicity, we cannot possibly do any better than the tax that economists from Adam Smith to Henry

George to Milton Friedman have agreed does the least damage to the economy and may indeed even do some good, for been fair, equitable and just.

#### Reference

1. Fred Foldvary. 2005. "Geo-Rent: a Plea to Public Economists." *Econ Journal Watch*.  
[http://www.econjournalwatch.org/main/index.php?view\\_issue=1&categories\\_id=6](http://www.econjournalwatch.org/main/index.php?view_issue=1&categories_id=6)