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AN INTANGIBLES PROPERTY TAX FOR THE DISTRICT OF COLUMBIA

by Jonathan Rowe

The opinion is building in the District that the sales tax on food must be repealed. In addition, there are pressing needs in a number of areas for which the elected city council will be asked to provide. A property tax on intangible property would more than make up the revenue that would be lost from repealing the food tax, and it would provide millions of additional dollars to help meet these other needs. The tax would affect only those taxpayers most able to pay, it would be easy to administer, and it would bring numerous beneficial side effects. The objections commonly raised against the tax are not based on fact.

What Is An Intangible Property Tax?

An intangible property tax is a tax on paper property--stocks,

bonds, franchises, and the like. Originally, property taxes included all kinds of property--real estate, business equipment and machinery, inventories, stocks and bonds, everything. But the tax has been riddled with so many loopholes that today real estate bears most of the burden. An intangible property tax would simply spread the burden around, in keeping with the original intent of the property tax.

Why Should The District of Columbia Have An Intangible Property Tax?

1. The District needs the revenue it would raise.
2. It is fair. How can we continue to tax the homes people live in, the food they eat, and the wages they work for, and not tax the stocks and bonds of wealthier taxpayers who are much more able to pay, especially when the income these people receive when they sell these stocks and bonds already gets favored treatment under the federal income tax laws?
3. It is practical. Nationally, well over half of all the property in the U.S. consists of intangibles. The value of privately held corporate stocks alone has been increasing at

twice the pace as real estate. The District of Columbia cannot afford to let such a rich source of property tax revenues go completely to waste, when its low and middle income taxpayers are so overburdened and when the District has so many pressing needs to meet.

Who Would Pay The Intangible Property Tax?

The intangible property tax would be paid almost entirely by the wealthiest taxpayers who can most afford it. In 1971 around 90% of the U.S. families making \$10,000/yr. or less owned no stocks or bonds, while of the families making over \$25,000/yr., 68% did own such property.

Intangible property is uniquely the property of the rich. Over 70% of all corporate stock in the U.S. is held by the wealthiest 1% of the population.

Moreover, these people are already favored by unjust tax loopholes. When stocks or bonds are sold, the owner pays a special "capital gains" rate that is only one-half what working people pay on their earnings. The interest from state and local bonds is completely exempt, and millionaires regularly take in

hundreds of thousands of dollars^{a piece} each year that is completely tax-free due to this loophole.

Thus the intangible property tax would help plug up some of the worst loopholes and inequities in the over all tax system. And generous exemptions would protect those middle and lower income people owning stocks and bonds from suffering an unjust burden.

How Much Would the Intangible Property Tax Raise?

A very rough and conservative estimate, based on IRS data, is that a tax on intangible property at just one-fifth the rate applied to real estate would have yielded over \$21 million in 1972. This is more than three times what the food tax now raises. The estimate, moreover, does not include the intangible property of trusts and estates. Nor does it include state and local bonds.

How Would the Intangible Property Tax Work?

The intangible property tax could work in a number of different ways, and the details are not important here. In essence the tax would be based upon the income the intangible property

produces for the owner--either in dividends or interest, or in profits from being sold. The necessary data is largely available already on D.C. and federal income tax returns (to which the D.C. Department of Revenue has access.)

This method would not make the intangibles tax just a part of the income tax. When property tax assessors value office buildings, apartment buildings, and the like for property taxes, they base their estimates on the income this real estate yields. Thus intangible property would be treated in much the same way as income-producing real estate.

The tax would include mainly stocks, bonds, franchises, and other common types of intangible property. It could also include interest from savings accounts and certificates of deposit, provided there were a generous exemption for small taxpayers. In fact, this exemption could apply only to savings accounts in institutions which reinvest at least a certain percentage of their deposits back into the District of Columbia. In this way the intangibles tax could help stop the outflow of mort-

gage money to the suburbs, and help make more money available for homes and businesses here in the District.

Do Any Places Already Have Intangible Property Taxes?

Yes! As mentioned, intangibles were included originally in the property taxes of most states, and in at least 20 states intangible property taxes are still on the books (although not always enforced.) Florida is a state that successfully administers an intangibles tax, and several years ago Connecticut instituted an intangibles tax as outlined here that raised \$70 million the first year with little administrative effort. (The next year a Republican administration came in and repealed the tax.)

In addition, nine states compensate for the lack of property taxes on intangibles through special income taxes on them.. Ohio, Michigan, New Hampshire, Massachusetts, and Colorado are among these states. Massachusetts, for example, taxes income from intangibles at 9%, while taxing earned income at only 5%.

Pittsburgh and Philadelphia, Pennsylvania, are two cities which have intangible property taxes to help pay for public schools.

What Objections Are Raised Against Intangible Property Taxes,
And How Are They Answered?

Objection: The intangible property tax discriminates against people who own this kind of property.

Answer: This is nonsense. First, the current property tax discriminates in favor of people who invest in paper property, and against people who own and invest in real estate. In addition, the income tax discriminates in favor of people who buy and sell pieces of paper, and against people who work for a living. The intangible property tax will simply put owners of intangible property on equal footing with the owners of real estate. So doing, it will encourage more investment in real estate in the District. This investment, if properly channelled, would result in needed jobs, housing, and small-business facilities for D.C. residents.

Second, intangible property would still be taxed at a much lower rate than would real estate.

And third, as we have seen, the owners of intangible property

are the people most able to pay taxes. And they are the people who are most able to take advantage of loopholes in other taxes. So it hardly is unfair to tax them.

Objection: The intangible property tax subjects the owners of intangible property to "double taxation".

Answer: This is the boogey that the opponents of intangible property taxes always drag out. It goes like this: intangible property ^{supposedly} just stands for physical property. For example, a share of stock just stands for the physical assets of the corporation. Since these assets supposedly are already subject to property taxes, so the argument goes, to tax the stock as well is to tax the same property twice.

This "double tax" argument is full of fallacies. For example, stock does not stand just for physical assets. It also stands for intangible ^{corporate} assets such as patents, goodwill, and the like.

Even much physical corporate property is exempt from property taxes under special loopholes. Studies have shown that double taxation could occur at most with only about one-fifth of all intangible

property.

But the real answer to the "double taxation" complaint is "So what!" Double taxation occurs all the time. We tax the wages people work for and then we tax them again when they are spent for food and other necessities. We tax real estate and also the income it produces for the owner. Whats so special about the owners of intangible property that they should be treated differently?

Objection: The intangible property tax is unworkable because this property is too easy to hide from the assessor.

Answer: This objection may have had some validity 50 years ago, but today it has none whatsoever. D.C. and federal income tax returns already provide much of the necessary data, and if more is needed, it would be simple to include a special intangible property tax schedule with the D.C. income tax forms sent out to all taxpayers. There is no reason why there would be any more cheating on intangibles taxes than there is on other taxes now.

Objection: A property tax on intangibles would cause

wealthy people to move out of the District.

Answer: This argument is always raised to scare public officials away from taxes that affect the wealthy, and it just doesn't wash. First, the tax wouldn't be heavy enough to make it worthwhile for people to move out just to avoid it. Second, the wealthy people who payed the tax could deduct these payments from their federal income taxes, so the tax would actually be a way of getting more revenue sharing out of the federal government. Finally, by ending the discrimination in the property tax against real estate, it would actually encourage people to put money into real estate in the district, as opposed to putting their money into stocks and bonds. In turn, the real estate tax base would get a boost.

Objection: The intangible property tax would unfairly burden elderly widows and other needy people who depend on small investments for their subsistence. And it would unfairly burden ordinary people with small savings accounts.

Answer: Sorry again! As already shown the vast bulk of

intangible property is owned by the very wealthiest people, and a generous exemption would protect any "widows and orphans" who clip coupons for their subsistence. Similarly, a generous savings exemption, as described above, would protect the modest savings of small D.C. taxpayers, while making more mortgage money available for D.C. residents.

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