

Land Valuation Under Fire in the U.S.A.

"Simply by obeying the law the tax base could be raised by eleven billion dollars"

IN MANY American States and municipalities, separate valuations have to be made of land and buildings for property taxation. Taxes are levied on the different assessments at different rates for different purposes. Since the Claremont Conference on local taxation problems (reported in *LAND & LIBERTY*, August/September, 1965), renewed efforts have been made to make a fuller use of the high potential of land-based taxes. In particular, considerable voluntary research has been undertaken to point out the inefficiency and malpractices in valuation techniques.

In the forefront of this movement, Roy Davidson and Tom Sherrard of San Diego, and Benjamin F. Smith of Grand Rapids, have drawn attention to contemporary failings. One of the most common malpractices in valuation is fractional assessment. Where the law requires "full cash value" assessment, book values for tax purposes are frequently written down by the assessors to a percentage of the full market value.

Studies by Roy Davidson have revealed that Californian fractional assessment ("the graveyard in which the assessor buries his mistakes") tends to discriminate between classes of property. On an average, residential and commercial property is valued at 20 per cent of market value, slum property at 10 per cent and vacant land at five per cent. The favourable eye which the U.S. valuers cast on vacant land is easily seen. Of 243 vacant sites considered by the Statewide Homeowners Association, 32 per cent were valued at less than 5 per cent of sale prices recorded in sale transactions, 90 per cent of the sites were valued at less than 15 per cent of market value. By contrast, 87 per cent of developed residential properties were valued above the 15 per cent level. The conclusion of the survey was that "consistent under-assessment of vacant land and slums has placed an unjust and inequitable burden on owners of improved property."

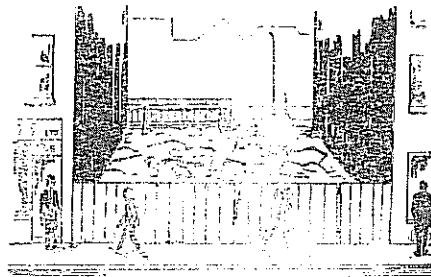
Mr. Davidson has suggested that local officials should (a) be prepared to face the risk of offending the powerful and entrenched Californian land owner interests; (b) be appointed on merit, rather than be elected; (c) consider recorded selling prices as *prima facie* evidence of market value; (d) value land regularly and re-assess vacant land annually, giving special attention to the rapidly growing areas.

Tom Sherrard reports that, meanwhile, Californians are not idly standing by. A group of enthusiasts known as Basic Economic Education Inc., recently petitioned an assessment review board to equalise all vacant land assessments. Holding that a particular home had a land valuation of 20-25 per cent of its market value while vacant land was

valued at 4-8 per cent of true value, the group asked for vacant land to be re-assessed realistically. Unfortunately the group was not allowed to present to the hearing much of the evidence it had gathered, and the petition was denied. Not content with this the group petitioned the superior court for refund of illegal tax, paid under protest. The court had to decide whether the group had been fairly heard, and ruled that unequal assessments of properties not directly comparable with the case under examination could be cited to prove a point. The case had considerable publicity, and while a firm victory for home owners has yet to be gained in California, the stage has been set for renewed efforts.

Benjamin F. Smith, of Grand Rapids, Michigan, has also been looking into assessment practice. "In California," he states, "simply by obeying the law the tax base could be raised by eleven billion dollars. In New York, by cracking down on vacant land, the tax taken in Nassau County was increased by twenty million dollars and in Suffolk County by five million." Criticising assessors' methods, Mr. Smith points out that where market or rental evidence is scarce, valuers are frightened to use the "income approach" to valuation.

In Grand Rapids, the income from parking lots, for example, with deductions for management and interest, is nearly all ground rent. One valuer, however, who did



a calculation on this basis did not dare publish the figure after capitalisation!

The bones of America's valuation problems were revealed in a report of the Advisory Commission on Inter-governmental Relations in 1963, which stated: "a somewhat exclusive characteristic of property tax administration is that few officials feel under obligation to enforce the law as written. In some States compliance with the constitution would be the cause of widespread consternation."

Mr. Smith has proposed a new method of assessing slum property by examining rent incomes of comparable proper-

ties situated on the city fringes and close to the centre. The land rent element of the fringe property can be adduced more rapidly by direct comparison with evidence of nearby agricultural rents or land sales. This rent deducted from the total rent gives the rental value of the improvements. The improvement rental is then deducted from the total rental of the more centrally situated comparable property.

The work undertaken in the U.S. by these three people is to be highly commended, for it clearly has application in different contexts throughout the world. The indicators for paths to reform are to be found in their writings:—

* “Perhaps, eventually, the difference between land and production will be expressed in assessment laws. A reform of assessment laws is a direct, simple and easily understood way to accomplish more land-value taxation.”
Tom Sherrard.

* “Only informed citizens alert to the implication of different modes of taxation can restore the balance [between land speculators, home owners, productive businessmen, workers and consumers].”

Roy Davidson.

* “Let us gather truth as factual information and give it out regardless of personalities or politics, for this is what the human conscience demands.”

Benjamin F. Smith.

These words have as much significance, if not more, in European countries where the desirability of making land-value assessments for tax purposes has not been accepted to date.

Acknowledgments: *Henry George News*, New York, September, 1965.