

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

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

**I**N 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."

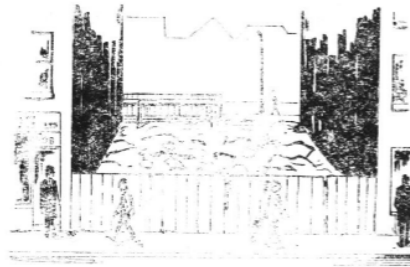
Mr. Davidson has suggested that local officials should (a) be prepared to face the risk of offending the powerful and entrenched Californian land owner interests; (b) be appointed on merit, rather than be elected; (c) consider recorded selling prices as *prima facie* evidence of market value; (d) value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

## Down to Earth Reasoning

BY G. K. R.

**R**ECENT NEWS of interplanetary exploits tends to lift us off the problems of the earth, but down to earth we come with the Government's proposals for a Land Commission.

A rational Moonman with no knowledge of economics would probably have difficulty in understanding the nature of the land problem and how it has arisen. He would argue that plenty of land is available. It can be seen without difficulty. He would further argue that the real cost of using land is nothing, since it has cost nothing to produce. In his cosmic logical way he might think that civilised earthmen were fools to devote their energies to unreal problems. The animals, for example, do not seem to have difficulties of this kind.

In his ignorance of economics, however, the Moonman would have to be excused for not realising that one piece of land does not have the same attributes as another, and

that man has divided land up over the course of centuries into many tiny parcels and allotted these parcels by a complex procedure to specific uses and specific people.



If, to enlighten our interplanetary traveller, we tell him of this, and further explain that the result is that rent arises, originally out of the different productive attributes of land, he would doubtless conclude that the legal sanctions enjoyed by the current owners of land to appropriate rent gives those owners, in the face of an expanding population, considerable advantages of wealth and power.

If we were to add that against this background the state has imposed planning legislation, which further limits the use of land by owners and potential renters or purchasers in the alleged interests of orderly development, and that the effect of this is to increase the rent rewards that can be realised, our Moonman might concede that very real problems exist.

Left alone to work things out for himself, the man from space would probably conclude that land rent arises from the endowment of nature and the accumulative efforts of earthmen. Taking the problem a stage further, he would also probably conclude that since nothing can be done to prevent land rent arising, the best thing for the community to do would be to take it from those who benefit from it personally without toil and redistribute it on a more equitable basis.

Unfortunately, politicians and academics do not see the problem in such a simple-minded way.

Occasionally, however, a dissenting voice may be heard. The Liberals, for example, dissatisfied with the Land Commission Bill, and mindful of the results of earlier unsuccessful legislation, decided to vote against it. To take this stand required courage, particularly since nearly everyone is now agreed that something needs to be done about the problems of private land ownership. While the Government has tended to emphasise the supply side of the problem and its related brother of increasing costs within a framework of planning legislation, many others in the professions and the pressure groups are appreciative of the need for a rational solution to what has been colourfully called the "land scandal."

The need to act in political terms however often leads to compromise rather than true reform. Those who with the best intentions support the present Government's proposals show little signs of original thought or indeed of simple applied logic. Only the Liberals appear to be moving in the truly progressive direction.