Principle into Practice in Budapest

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In 1919 the municipality of Budapest introduced a system of land-value taxation. The following account is taken from the paper "Low-Income Housing: Technology or Policy?" presented to a conference in Bangkok June 1977, organised by the Asian Institute of Technology.

THE municipality of Budapest, Hungary, instituted land-value taxation and simultaneously lowered the existing tax on house-rents, a combination which discouraged land speculation and encouraged building. The measure was the result of the leadership of my teacher and associate, the noted Dr. Julius J. Pikler (1864-1952), who brought about its acceptance and, as Chief Valuation Officer, directed the appraisal work. The implementation of this tax reform proved to be neither complicated, nor difficult, nor did it encounter taxpayer-resistance.

It seems worthwhile to follow the provisions of the statute one by one, together with the explanatory notes of its author (in parentheses) and enlarged occasionally by contemporary remarks.

Section 1: Collection of the land-value tax begins January 1, 1919.

Section 2: Subject to the tax: land of every description within the boundaries of the town.

(There is no discrimination whatever between developed and undeveloped land or between "building" land and "agricultural" land.)

Section 3: Exempted: land belonging to the State, the Municipality, or the King or Queen; land, which, together with the improvements upon it, is permanently, wholly and without any fee or recompense (entrance fees, rent, etc.) open to the use of the whole public (e.g. churches, free schools, museums, etc.)

(In one of the towns—Ujpest—which also adopted the land-value tax, this whole section was omitted and no exemptions at all were inserted into the statute. They accepted the principle that if the use made of a site is not worth paying the site-value tax, then that use does more harm than good.)

Section 4: The rate is to be paid on the basis of the capital value of the lots, whereby the value of improvements, which happen to exist on, in, or under the ground, are not to be taken into account.

(Valuation of improvements—a difficult task anyway—is altogether unnecessary in a land valuation, where the value per square unit of the different lots can be entered on a map and be easily compared lot by lot by anyone and everyone.)

Section 5: The value of the sites to be reascertained every third year.

(It was soon realized that the only correct method would be yearly revision. When the first valuation system is completed, it is much easier and much less work to keep it up to date by yearly revision. The continuous registration and investigation of the sales and other transactions is an easy task that has to be done the same way whether the interval of revision is short or long, and it keeps the valuations continuously and reliably up to date. The longer the interval, the greater the revaluation and the farther we get away from a true, continuous and operative valuation.)

Section 6: The market values are to be kept in a permanent register (the "cadastre") which is to lie at the Valuation Office. The rolls have to state for each site the following data:

1) registration number; 2) street; 3) house number (or other means of identification); 4) name of owner; 5) acreage in square units; 6) type of shape (for this purpose eight simple categories were devised); 7) length of front; 8) average depth; 9) value per square unit; 10)value in whole; 11) yearly sum of the tax to be paid.

Section 7: The market value of the sites, expressed in value per square unit is to be ascertained by the Valuation Office, and the tax is determined on the value so ascertained. The Office makes its valuation with the help of a Committee of experts elected and delegated by the Magistracy from the members of the Town Council. This Committee serves as a consultative and advisory section of the Valuation Office, its opinion not being binding upon the Valuation Office, which alone is responsible for the valuations.

(The valuation work proved to be much easier than thought in advance. The assertion that it is impossible to separate and value land apart from the improvements is a naive mistake, if not a humbug. The mistake arises partly from confusing the sporadic valuation of a single lot by itself with a general valuation embracing all sites on a given date. In the second case, each of the valuations is controlled not only by the valuation put down for the left and right neighbours and by that of the opposite side of the street, but also by the valuation—always per square unit—of all the other sites in town. So the work turns out to be in effect a work of comparing and relating values.

The valuation work was started with what was known to be the most valuable site in town. Careful determination of the value per square unit of this site was followed by establishing the value of a rather removed site. The question was not as much to determine the absolute value, but a rather simplified one: if the value of the first site is X per square unit, what is the value of this other site. This was

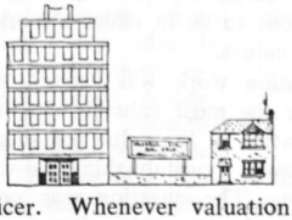
solved in much less time than the first one. A third, even more removed site was chosen next and soon a network of twenty-five to thirty fixed points was established over the whole area of the town, and by this method the groundwork in principle was done. These twenty-five to thirty fixed points had then been studied and thoroughly examined for some days as to the correctness of the relations of values. This was followed by selecting and valuing another fifty points located between those already fixed—always from the standpoint of correct relation to the previous ones, but of course nevertheless always guided and controlled also by the commonly known absolute level of land values—and making the network of fixed points even denser. And so the work went on with ever-quickening speed. The valuation of the 36,000 sites within the town was carried out with a very small staff within a very short time.)

(The site values should be always set clearly—say 15-20 per cent—below the indubitable market value. This way, unnecessary quarrels and endless appeals can be avoided and the task peacefully accomplished. The fiscal revenue of the tax can be augmented by raising the rate, from 0.5 per cent to 0.75 per cent to 1 per cent and so on, but never by straining after 100 per cent valuations.)

With the specialized computer techniques available today, establishment and yearly revision of the land-value tax-rolls can be done at a nominal cost and within quite a short time.

(The valuation roll consists of two parts. One part contains the single schedules, one for each site. They contain the complete description of the site. The other part consists of the "street rolls", one leaf for each side of each street with one horizontal line for each site. Thus, the values per square unit and the description and dimensions of the sites can be most easily compared by the landholders as well as by the Office. The important column is the ninth, showing value per square unit. Following this column vertically, the values per square unit can be compared and criticized and the cause of every difference must, without any explanation, be found in columns 6, 7 and 8—shape of the lot, length of front and average depth.

All that was said about the reliability and just measure of land valuation applies, however, only where there is an independent Valuation Office and an independent and therefore fully responsible Chief



Valuation Officer. Whenever valuation is entrusted to a Committee or Board that performs it by deciding questions by vote of those present, the work is sure to be perverted and in the long run becomes unserviceable.)

Section 8: The Valuation records are to be printed and published in book-form in each period of revaluation, the books are to be made available at cost at booksellers, the general public is to be informed of publication by placards and in the journals. The book shall contain for each site the data listed in Section 6 and be supplemented by publication of the alterations which have occurred in the course of the valuation (corrections by the Office, objections, appeals, etc.)

Section 9: The first resort for objections is the Valuation Office itself. The time allowed is thirty days from the official publication of the valuation. Entitled to make objections are not only the landholder but every interested citizen of the town. The objection of an owner or part-owner against the valuation of his land delays the payment of the tax until the settlement of the objection by the Valuation Office. The Valuation Office has to give a written decision.

(This provision proved to be very efficient and useful. A great many of the objections were peacefully settled by the Valuation Office itself without any further complications, greatly reducing the originally already small number of appeals, which did not exceed six per cent of the sites valued.)

Section 10: The decision of the Valuation Office can be appealed within fifteen days to the Committee of Appeals. Everyone who had lodged a complaint, as well as the Town Attorney, are entitled to appeal.

Section 11: The fifteen members of the Committee of Appeals are elected by the Town Council for each single taxing period. The Committee elects its Chairman; the chief of the Valuation Office reports the cases before the Committee, but is not entitled to vote.

Section 12: The appeals are to be dealt with street by street. The parties shall be invited and are entitled to plead. The sessions shall be held in public.

Section 13: Third legal forum: appeal (on matters of law) before the National High Court, within fifteen days after the decision given by the Committee of Appeals.

Section 14: The rate of the land-value tax is yearly one-half of one per cent of the land value established under Section 4. The tax rate has been set at this low level because the whole idea of land-value tax was new at that time and there was no actual experience at hand as to the impact of this tax. The principle once established, in the absence of adverse market reactions the tax rate can be gradually raised until it approaches the level of the full yearly land rent, while correspondingly reducing taxes on rentals, on improvement values, etc.

Section 15: The land-value tax is a first charge on the estates.

Section 16: Part-owners of sites are jointly and sev-

erally responsible for the tax.

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Section 20: As of January 1, 1919, the three per cent tax on house rents is being reduced to 1½ per cent of the house rent.

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This statute serves as an unique example of how a principle—laid down by Henry George forty years earlier—can be translated into practical legislation. Its merits are to be found to a significant degree in what it does not contain.

The statute is quite straightforward and comprehensive, as it takes into account no other circumstance whatever than the market value of the sites, and knows no "gross value", "full value", "assessable value", present or future "use value" or other such complexities. The tax rate is the same whether the site is "agricultural" or "building site", used or developed or not, whether the value be great or small, whether the owner be rich or poor, young or old, or living in town or abroad. The landowners immediately understood that they had only to see whether the market value of their sites was fixed in the right relation to that of their neighbours and to that of the remoter sites. Seeing that any favouritism is absolutely and technically excluded by the simplicity and transparency of the system, the landowners themselves were quite helpful in carrying out the valuation work in the smoothest way.

Based on the techniques developed in Budapest, the land-value tax system was extended to the other seven significant cities in the country.

The political vicissitudes following the end of World War I in Hungary, however, thwarted the full development of this important reform. After two revolutions and foreign occupation, a reactionary government took power. It made no efforts to maintain and develop any kind of "progressive" reform. Also, the worsening inflation of the currency made the revenues of the land-value tax less and less significant. Although the statute itself has never been rescinded, collection of the tax was lifted in 1921.

Land-value taxation is being practised in many areas and municipalities around the world. Its power to improve social conditions in general, to promote the healthy development of cities, to eradicate or prevent slums and urban sprawl, is often obscured by the application of half-measures, of compromises and "ameliorations".

The clear and simple Budapest statute, in being true to the principles of equity and justice, may well serve as a blueprint for local taxation reform for any city in the nineteen seventies.

Computerisation: Simpler Still with SVR!

THERE is more to taxation than tax bills. And a computer-based mapping system in Switzerland may some day have enormous impact on the way in which U.S. property owners are taxed, says publicity material for the system's manufacturers.

Today, in the U.S. and Europe, tax assessors determine the value of land and improvements on the basis of comparable sales, building costs, inflationary trends and the mystique known as the assessor's art.

"Many of the elements that should be taken into account in determining property value aren't even considered. Important information about a building may be stored in a dozen offices that are not even tied to the assessor," explains Jose Villalobos of Calma, a Californian manufacturer of interactive graphics systems.

One of those systems has been installed in Kanton Aarau, a "county" adjacent to Zurich. Here it is being used for advanced work in municipal cadastral applications. A cadaster is the total information known about a piece of property.

Until recently in Kanton Aarau, title records and tax information were maintained by hand ledgers. Consequently, there was a backlog for updating the records—often years. Hand-drawn property lines were often inaccurate and vital information as to the value of the property was not recorded—a situation which also exists in the U.S.

One of the more sophisticated local governments in Europe, Aarau purchased a CalmaGraphic Interactive data management system, which is being used to "digitize" (convert to computer code) each individual parcel of land in the city, its zoning, its use and its ownership—in some cases going back as far as four or five centuries.

The digitized information is then stored on computer magnetic tape where it can be instantly recalled and presented on the system's television-like screen or in a hard copy map on its high-speed plotter.

Once this step is completed, Kanton Aarau will begin to add other factors to the cadaster of each parcel—its historic significance, the quality of architecture and building materials, and the age of the structure, for example. Each of these factors can be weighted and the system would automatically compute and develop a more equitable tax base.

For example, a building that is rewired or termite-treated has some element of value greater than one that has not been cared for in that manner—even on the same block. And these kinds of details are normally recorded in the building department or escrow records in the U.S.

"Reaching the point where they were made a permanent part of a building's history would be an important step in improving tax assessment practices—in the U.S. and Switzerland," added Villalobos.

One can only add that if the system of property taxation were changed so that the site value

alone became the basis of assessment, how much more simple would computerised assessment and updating become!