Pittsburgh tax shift yields promising trends

Report from The Center for Local Tax Research

IN DECEMBER, 1978, the City of Pittsburgh, Pennsylvania, doubled its 1979 municipal property tax rate on land to 98 mills from the 1978 rate of 48.5 mills, while keeping the tax rate on improvements unchanged at 24.75 mills. In other words, Pittsburgh, which had since 1925 taxed land at twice the rate of improvements, began in 1979 to tax nearly four times the rate of improvements.

Advocates of this land tax increase claimed that the higher land tax would encourage improvement and rational development, and would provide equity in taxing those with greater ability to pay, in contrast to a proposed wage tax increase, which would fall primarily on wage earners living in Pittsburgh.

Opponents of the land tax claimed that the tax would interfere with development, increase the abandonment of built-up properties, and create high rates of turnover and instability in residential neighbourhoods.

At the request of Councilman William Coyne, The Center for Local Tax Research gathered and analyzed data on Pittsburgh's building development with the intention of determining which of these predicted effects were resulting from the higher land tax.

But first, a number of points should be noted. Pittsburgh property owners also pay property taxes to their school districts and to Allegheny County. Neither the county nor the school districts, however, use the differential tax rates, but apply a flat rate to both land and improvements. The effects of the land tax, therefore, would not be as pronounced as the four-to-one ratio might lead casual observers to expect.

A proliferation of other taxes since the 1940s has also diluted the relative effects of shifts within the property tax. In 1945, just before Pittsburgh's "postwar renaissance", land tax paid 54% of the general municipal budget (water budget excluded). Even after the 1979 land tax increase, land is now paying only 33% of the budget.

The housing market has been slow nationally, and a conclusive market reaction to the land tax cannot be expected to fully display itself within the first nine months of a tax change. What follows must be clearly understood as an initial reaction.

Finally, the findings are not based on independent field work by the research team. The study relies on data from various City of Pittsburgh departments and from Census Bureau files.

THE EVIDENCE indicates that the tax change was accompanied by positive trends in Pittsburgh's community development, when compared to previous years and to surrounding areas.

Building Permits Up. For the first nine months of 1979, the number of building permits issued for extensions, additions, and alterations to existing structures has increased by 36% over the same period in 1978, from 2,467 permits to 3,357. The estimated value of the work involved in 1979 permits ($33.7 million) is below that of 1978 ($40.9 million).[1]

The larger number of jobs coupled with the smaller value indicates a trend toward more small home improvements, rather than large commercial undertakings. This evidence runs contrary to the fear that the high land tax would result in homeowner neglect and neighbourhood deterioration.

Demolitions Reduced. Further evidence against any trend toward deterioration is provided by the drop in the razing of structures throughout Pittsburgh. For the first eight months of 1979, the number of razed structures was only

Tory plan to curb rates on vacant property

LOCAL authorities are to lose the right to levy the full rates charge on empty properties.

At present, 198 authorities use their discretionary power to penalise property owners who keep buildings vacant.

The government has decided to reduce the maximum allowed level to 50%. But the reasons given by Local Government Minister Tom King merely expose the deficiencies in the existing rating system.

This local property tax is levied on the capital value of land and buildings. Rates on unoccupied properties raised about £55m in 1979/80.

Mr. King has now told the House of Commons standing committee* which is reviewing the Local Government Planning and Land Bill that rates on empty premises:

- Had little effect in encouraging owners to sell or let their empty premises; and
- Discouraged useful modification of industrial properties.

In some extreme cases, said Mr. King, owners had demolished or damaged their properties rather than continue paying rates.

THESE effects were entirely predictable, given the practise of levying rates on improvements –

BUILDING PERMITS, RAZED STRUCTURES AND PROPERTY SALES
CITY OF PITTSBURGH, 1978 AND 1979

	1978	1979	Percent Change
1. Building Permits– Jan. to Sept.			
New Buildings	201	158	−21.4
Extensions and Additions	185	221	19.5
Alterations	2,282	3,136	37.4
TOTAL	2,668	3,515	31.7
2. Razed Structures– Jan. to Aug.			
Razed by Owner	146	78	−46.6
Razed under Condemnation	266	216	−18.8
Razed by Owner After Condemnation Proceedings	37	51	37.8
TOTAL	449	345	−23.2
3. Property Sales– Jan. to Aug.			
Total Residential	4,077	3,816	− 6.4
Owner Single Unit	2,786	2,656	− 4.7
Owner Multiple Units	77	62	−19.5
Rented Single Unit	1,040	941	− 9.5
Rented less than 5 Units	69	95	37.7
Rented Greater than 4 Units	105	62	−31.0
Commercial and Industrial	290	304	4.8
Vacant Lot	412	480	16.5
TOTAL (including unknown)	4,781	4,601	− 3.8

Source:
1. *Monthly Reports*, Bureau of Building Inspection, Dept. of Public Safety, City of Pittsburgh.
2. *Demolition Reports*, Ibid.
3. City Information Systems, City of Pittsburgh.

345, or 104 less than for the same period in 1978.[2] Such a substantial drop, a reduction of 70% in demolitions, coupled with the increase in home improvement permits, indicates a trend toward improvement and away from abandonment and deterioration.

Regional Trend Overcome. 1979 was difficult for the housing industry nationally, and in the Pittsburgh region generally. In the four-county Standard Metropolitan Statistical Area which includes Pittsburgh, the number of new dwelling units authorized has fallen 17.8%, from 4,400 during the first eight months of 1978, to 3,618 for the same period in 1979.

In contrast, within the City of Pittsburgh, the number of new dwelling units authorized increased 14.8%, rising from 162 to 186.[3]

Homes Sales Down, Vacant Lot Sales Up. Further evidence that Pittsburgh's new tax policy may be on the right track is the decrease in the sale of residential properties and the increase in the sale of vacant lots.

Residential sales decreased from 4,077 in the first eight months of 1978 to 3,816 for the same period in 1979, yet vacant lot sales were higher during 1979, increasing from 412 in 1978 to 480 in 1979.[4] These data indicate again that homeowners are not letting go of their properties any faster in 1979 than the previous year: on the contrary. On the other hand, the owners of vacant lots were unloading their properties at a rate 14% faster than the previous year. Assuming that these sales reflect an intent of the buyers to put improvements on some or most of these empty sites, a continuation of this trend would signify better land use and a strengthened tax base for the city.

DURING the period under study, no other significant policy initiatives were undertaken by Pittsburgh which would have affected activity on real property per se. While it is too early to conclusively attribute this activity to the higher land tax, the impacts detected nevertheless indicate positive changes in Pittsburgh's development since the 1979 tax increase was imposed. More comprehensive data over an extended period should be gathered to confirm these trends.

As Pittsburgh landholders become more aware of the tax advantages on highly improved properties, and of the substantially higher taxes on sites that are vacant or underdeveloped, it would not be surprising to see the beneficial effects magnified. The evidence gathered so far certainly offers no basis for anticipating the negative consequence predicted by the land tax opponents. Rather, the data suggests that Pittsburgh may continue this policy with some degree of confidence. Indeed, an even higher tax on land value, holding all other taxes constant, would appear to be in order both as a further revenue and as an incentive for sound urban development.

1. *"Monthly reports"*, Bureau of Building Inspection, Dept. of Public Safety, City of Pittsburgh.
2. *"Demolition reports"*, Ibid.
3. Table 3, Report C-40, Bureau of the Census, U.S. Dept. of Commerce.
4. Computer tabulation of sales of taxable properties classified by type of use. City Information Systems, City of Pittsburgh.

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rather than charging a high percentage of the annual value of land alone.

A tax on buildings is known to deter fresh capital formation. If the tax can be avoided by reducing the building to a state of disuse, some owners – speculating in the rising capital value of their land – have every incentive to become destructive.

And the fact that owners are not encouraged to sell demonstrates that the incidence of taxation is too low.

A rational reform: remove the tax on capital improvements, and place a high rate on the annual value of the land – irrespective of whether it was used or not.

This would have a dual effect. Owners could not side-step the tax, and they would have every incentive to *improve* the usefulness of their buildings.

THE TORY Government's fallacious reasoning is exposed by its claim that its proposed amendments to the law will help to ease the problems faced by small businesses.

Only small speculators will benefit!

Mr. King also intends to vary the maximum rate chargeable, depending on the type of property and its location, to help depressed areas.

But reductions in tax liability merely mean that the pressure on landowners to develop their properties will be eased off. This can only *add* to the delays in improving run-down areas such as Britain's inner cities.

Mr. King also intends to abolish an additional mandatory penal surcharge on empty commercial property. He said: "It costs more to administer than it produces in revenue because of the many exemptions."

**Hansard*, 15.5.80, cols. 1132-3.

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