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How to Transform the Property Tax Into a Graded Tax

By STEVEN CORD

I

MANY URBAN AUTHORITIES have been urging that the present local property tax be improved by raising the tax rate on land values and lowering the tax rate on improvements; in other words, that there be two tax rates instead of one. The purpose for doing this is two-fold: by taxing land more heavily we penalize underuse of land, and by simultaneously un-taxing buildings, we make them cheaper to construct, operate and maintain. We could therefore expect a construction boom to result, as well as a reduction in the cost of real estate (1). Such a reform has been called the Graded Tax because it should be introduced gradually, or in graded steps (2).

The procedure for transforming the ordinary property tax into a Graded Tax is simple enough, and by itself should offer no cause for hesitation to anyone contemplating such a change. Here is the way to do it:

First, a locality should decide how long it wishes to take to introduce the Graded Tax. A too sudden introduction might cause some hardship to those landowners whose total property tax bill will jump because they have not properly improved their land in the past; they should be given enough time to adjust to the new tax rate situation. But there is no sense in delaying the impact of the reform by stretching its introduction over too long a period. Five years should generally suffice, especially where the school and county tax rates will be unaffected.

If a city has a property tax rate of 40 mills, then its five-year building tax rate schedule under the Graded Tax would look like this:

1975	100 per cent	40 mills
1976	80 per cent	32 mills
1977	60 per cent	24 mills
1978	40 per cent	16 mills
1979	20 per cent	8 mills
1980	0 per cent	0 mills

Determining the land tax is now simple enough: it should be increased from year to year to an extent sufficient to provide the additional revenue required to replace the loss in revenue resulting from the lower tax rate on buildings.

II

OF COURSE, it isn't strictly necessary to contract now for a constant reduction of the building tax millage for any period into the future. The millages for both land and building can be changed intermittently, each year, as the city council may decide.

Harrisburg, Pa., for example, changed its property tax rate from 16 mills in 1973 to 17 mills on buildings and 23 mills on land in 1974, and is seriously contemplating a 16–28 differential in the near future.

If a city needs more tax revenue, an easy opportunity for introducing the Graded Tax presents itself. Instead of raising the property tax rate for *both* land and building, the city should collect the additional required revenue by raising the land tax rate *only*.

If this is coupled with a slight reduction in the building tax rate (necessitating a slightly higher land tax rate), then the city fathers could offer a reduction as well as an increase in the property tax rates, thereby making the pill easier to swallow.

If a city can reduce its tax intake, then it should reduce the tax rate on buildings only. Whenever the city's revenue requirements change, another opportunity is presented to widen the differential in tax rates.

But if the land value tax is as good as the urban land and tax experts say it is, then after a certain point it behooves a city to set up a five-year schedule, as indicated above, and move more quickly toward the full exemption of improvements from taxation.

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1. Here is a very incomplete list of recent endorsers: *The Nation's Cities*, the Urban and Regional Affairs Committee of the U.S. Chamber of Commerce, former Senator Paul Douglas, Ralph Nader, *Time*, *Life*, Tax Foundation, American Institute of Architecture, *Better Homes & Gardens*, Professor Dick Netzer, the American Assembly.

2. The term "graded tax" derives from Pennsylvania experience. Technically, in public finance, it is called a differential tax on land and improvements.

Cheiron Society Meets in Ottawa

THE 7TH ANNUAL MEETING of Cheiron, the international society for the history of behavioral and social sciences, will be held at Carleton University June 5–8, 1975. The emphasis of the meeting will be interdisciplinary. For information write Dr. M. E. Marshall, Carleton University, Ottawa, Ontario, Canada K1S. For membership information write Dr. Elizabeth S. Goodman, 115 West Royal Drive, DeKalb, Ill. 60115. [From Dr. Goodman.]