

## Puzzling Question

It is widely believed that our system of municipal taxation is the most equitable that is in use in any country. Do the investigators of H. Bronson Cowan in Australia and New Zealand confirm this belief? What is the most striking difference between it and the site-value system under which land values only are taxed?

### *Mr. Cowan's Reply*

There is room for wide disagreement on this point.

Our system automatically divides taxpayers into two groups. One includes those taxpayers only who are making the most effective uses of their sites. Their properties are those which are promoting the development of the municipality and of which the citizens have reason to be proud. They include the finest factories, office buildings, hotels, banks, shops, warehouses, apartment houses and the great majority of average homes.

The second group comprises those taxpayers, and only those, who, for various reasons, are using their sites to the poorest advantage. They include all the most inferior properties a considerable percentage of which are a detriment to the community. Many of these are in the main business areas and in slum and blighted sections. They include all the most inferior factories, hotels, office buildings and other structures, such as those enumerated above, as well as slum dwellings and vacant land.

When our municipal councils set their tax rates they (for the most part unknowingly) automatically impose excess taxation on the properties in the first group in order that they may reduce the taxes resting on those in the second class. The more highly the properties in the first group are improved the more their taxes are increased. These increases may be as much as ten, twenty and even twenty-five times greater than the taxes that would be imposed on them under the site-value system.

The more inferior the properties in the second group are the more their taxes are reduced. The percentages of reduction vary in different municipalities. They may run as much as 60 to 80 per cent.

We cannot increase the taxes on large office buildings, apartment houses and other well-improved properties, as many people advocate, without increasing the taxes imposed on the great majority of householders and without reducing the taxes on the properties in the second group. In this respect each group represents a complete and separate identity. What affects one affects all.

Thus our municipalities are, in effect, discouraging the erection of every type of better-class buildings and "bonussing" the multiplication and retention of inferior types of properties. In large cities these increases in taxes on better-class buildings and subsidies to owners of inferior properties run into millions of dollars a year.

Under site-value taxation this separation of taxpayers disappears. All taxpayers pay taxes on the same basis—the value of their sites. Thus the erection of new buildings is not discouraged nor the multiplication of old structures encouraged.

The improvement of the latter is, in fact, promoted by the removal of taxes from improvements.