the Henry George News

PUBLISHED BY HENRY GEORGE SCHOOL OF SOCIAL SCIENCE • MAY, 1971

How Taxes on Buildings Can Gradually Be Removed and the Loss of Revenue Made Up by Collections from Land Values

by MITCHELL S. LURIO

THE City of Boston, with its almost hopelessly lopsided assessment structure, is the toughest place in which to apply a method of shifting taxes from buildings to site values. The present system discourages improvement and new construction; the proposed method would encourage improvement and new construction, thereby increasing the supply of housing, the tax base and the demand for labor.

With a tax rate in 1970 of $156.80 per thousand of assessed valuation, a one family house in Boston whose rental value is about $200 a month plus heating cost, might have a market value of about $20,000. (The old rule-of-thumb was that market value was about 100 times monthly rental—but this rule and others like it can be very inaccurate because of widely fluctuating mortgage interest rates, tax rates, and ratios of assessed values to real values; the assumption made, however, is accurate enough to bring out the point that I wish to make). Obviously there would be a revolution if such a house were assessed at $20,000 when the tax rate is $156.80 per thousand, for the tax alone. before any other costs of ownership, would be $3,160 a year.

Brookline has a $59 rate and assesses at about 75 percent of market value. A similiar house in Brookline, with a market value of say $20,000, might be assessed at $15,000 and the annual real estate tax would be $885. The Boston house, then, would have to be assessed at 28 percent of $20,000 or $5,600 which at $156.80 per thousand, makes the tax $878 a year.

Why does Boston have such a low assessment and such a high tax rate? The answer is easy. To get more taxes from business by assessing business buildings much nearer 100 percent of market value. But nobody can afford to build in Boston unless he can make a special deal for a low assessment, which discriminates against existing owners, or is subsidized by government at taxpayers' expense.

A reassessment of the city is out of the question—for either the poor would have to pay a lot more than they are paying or the rich would pay a lot less, and the city's income would shrink much faster.

If under these circumstances, without revolution and without a loss in revenue, there is a method that will renew the city, everyone should advocate it. In the past the resistance came from landed interests who foolishly assumed that the new method might hurt them financially. The fact is that they have lost far more by resisting this change than would have been the case otherwise.

In 1970, Boston's taxable real estate was assessed for 1.460 billion dollars (buildings at 1.011 billion and land at 0.449 billion). It is sad to note that in the 1930's, Boston's land was assessed at a figure twice as high, in much bigger dollars. And it is amazing that in 1969 (the 1970 figure is not yet available or at least was not in the 1970 Real Estate Board book) *tax-exempt* real estate was assessed for more than *taxable* real estate.

A big part of the tax-exempt real estate is owned by local, county, city or town, state and federal agencies but there is a very substantial amount owned by private schools and colleges, hospitals, charitable institutions, and churches. It would be most desirable to collect a tax on the land value of part or all of these tax-exempt lands and eliminate the personal property tax altogether and at once. This tax is a nuisance; it is expensive and inequitable and hampers industry.

For my figures and assumptions which I have simplified though using actual figures as a base, I start with assessed real estate of 1.5 billion dollars, 1 billion in buildings and 0.5 billion in land values. I use a tax rate of $160 per thousand. To bring the rate on buildings down to zero in 20 years, I lower the building rate by 5 percent a year or in the case of Boston by $8 a year. To produce the same amount of revenue (including personal property tax revenue) I assume that enough tax-exempt privately owned land becomes taxable to take the place of personal property taxes, and have computed the increased tax rate on land values each year as the building rate goes down each year. The result is shown in Table I.

Vol. 34, No. 5 **May, 1971**

The Henry George News is published monthly as an alumni activity of the Henry George School of Social Science, 50 E. 69th Street, New York, N. Y. 10021.

Publication Committee: Dorothy Sara, Oscar B. Johannsen, Sydney A. Mayers and Lancaster M. Greene, chairman. Editor: Alice Elizabeth Davis. Subscriptions $1 a year; single copies 10¢. Second class postage paid at New York, N. Y.

Opinions expressed herein are not necessarily those of the Henry George School.

TABLE I

Year	Building rate per thousand	Land rate per thousand
Present year	$160	$160
Year 1	152	176
Year 2	144	192
Year 3	136	208
Year 5	120	240
Year 10	80	320
Year 15	40	400
Year 20	zero	480

On the assumption that the city continues to use the present uneven assessments and that land assessments do not fall, we can see the tax effect on five parcels of real estate, ranging from unimproved to well-improved, each parcel having a total assessed value of $30,000.

Economists agree that when the tax on land goes up, its market price falls. The owner cannot pass the tax on to a tenant. It comes out of his, the owner's, pocket. That is because the supply of land is fixed whereas the supply of commodities goes up and down with demand. I agree with this principle, but in this case, the original land assessment is so much lower than market value, that the assessment need not be lowered and the burden on well-kept homes will not be increased.

We can now see the tax result on several parcels as the new rates go into effect.

TABLE II

Parcel	#1	#2	#3	#4	#5
Assessed Value					
Land	$30,000	$15,000	$10,000	$ 6,000	$ 5,000
Building	0	15,000	20,000	24,000	25,000
Total	$30,000	$30,000	$30,000	$30,000	$30,000
Annual tax at rates in Table I					
Present year	4,800	4,800	4,800	4,800	4,800
Year 1	5,280	4,920	4,800	4,704	4,680
Year 2	5,760	5,040	4,800	4,608	4,560
Year 3	6,240	5,160	4,800	4,512	4,440
Year 5	7,200	5,400	4,800	4,320	4,200
Year 10	9,600	6,000	4,800	3,884	3,600
Year 15	12,000	6,600	4,800	3,360	3,000
Year 20	14,400	7,200	4,800	2,880	2,400

Because the total building assessment of 1 billion is twice the land assessment of 0.5 billion; parcel #3, where the same ratio of building to land is assumed, pays the same total tax each year. The vacant lot owner, who is given several years' notice before the new system goes into effect, can improve or sell. When the lot is properly improved it is no burden taxwise to the owner.

New business buildings, where the structure is worth say five times the site value, will gradually pay lower taxes and there will be an inducement to others to improve their property without being penalized as they would be today for such improvements. Over a period of years the wide disparity of assessment ratios would iron itself out. New construction makes employment, enlarges the tax base, swells payrolls, cuts down relief and helps solve the city's ferments, which are largely economic.

•

This Tax Is Unfair

Desperate cities in search of cash are painfully exposed in a Time magazine article (May 3), "Trying to Change an Unfair Tax." The dilemma is a familiar one. Cities look for their main source of revenue to the property tax, and fiscal experts admit this is badly administered because of erratic, unfair and sometimes grossly illegal assessments. Assessors tend to be poorly paid and ill trained—often they are elected officials with no qualifications for the office.

Ralph Nader has recently drawn wide attention to the large amount of business and industrial real estate that is undertaxed, amounting to a national scandal. Tax-free property proliferation is something we have come to accept, but few realize the proportions it has reached. Alfred Balk, in *The Free List*, a Russel Sage book, estimates that a third of the nation is on this list—that's approximately $600 billion worth of tax-free land. He notes that the Chrysler Building in New York—up to now the world's tallest tax exemption owing to a 1859 charter granted to Cooper Union—will lose this distinction to the twin towers in lower Manhattan. These are being built by the Port Authority—a "Frankenstein monster in exemption exploitation," which causes the city a loss of some $7 million in taxes.

Mr. Balk urges states to narrow the legal definitions of property eligible for tax exemptions. If localities must exempt certain groups, states should reimburse them for the loss, and local assessors should be forced to publish more comprehensive and accurate exemption data, he thinks. Making federal and state land immune from local realty taxation leads to a profligate waste of land. Since the property tax is here to stay, the basic step seems to be to change the structure. "Realty taxes are a fusion of two separate levies," Mr. Balk says, "one on the value of locations and the other on buildings," and most cities collect two to three times as much from buildings as from site value. This, he observes, rewards speculators. High taxes on improvements also discourage new construction and improvement of older buildings.

Quoting Perry Prentice and Dick Netzer, two well known authorities in this field, he concurs in favoring the Henry George proposal of shifting taxes from buildings to the building sites. This would "help hard-pressed center cities by giving businessmen more incentive to keep their corporate headquarters and factories in town." Mr. Balk concludes that "the public has every right to a fair shake and local governments have every need to get rid of the evil side effects of the existing property-tax system."