

## TAKING TAXES OFF HOUSES

### The New York Tax-Exemption Policy Contrasted with the Pittsburgh Plan

The Legislature of the State of New York passed an Act, Chapter 949, on 27th September, 1920, empowering counties and cities to exempt from taxation until 1st January, 1932, new structures (except hotels) used exclusively for dwelling purposes, if built since 1st April, 1920, or begun before 1st April, 1922.

This Act has been adopted by municipal ordinance in the cities of New York, Saratoga, Plattsburg, Little Falls, Mechainville and Beacon.

In New York City, the Ordinance (No. 112) took effect on 18th February, 1921, and early in 1922 was amended to include dwellings begun before 1st April, 1923, which will likewise have the benefit of the exemption until 1st January, 1932. The New York City Ordinance, in a special clause, limited the exemption so that it is granted to the extent of only \$1,000 per living room, including kitchen but not including bathroom, provided that the total amount of such exemption shall not exceed \$5,000 per dwelling, whether self-contained or a separate part of multiple apartment houses (tenements).

The tax-exemption in respect of new houses applies to the structure *only*. The ground on which the houses stand is taxed as land on its selling value. In this connection it should be explained that in New York, the valuation of every property is made every year, so that the land value and the value of the building or improvement is shown in separate columns in the valuation roll. The ordinary rating law requires that land plus structure (although valued separately) are aggregated for taxation purposes and are taxed on the combined value. The new ordinance has made this change: that for a period of years, new structures used for dwelling purposes are exempt to the extent stated above. All other buildings and (pre-existing) houses, and all land whether covered or not, continue to be taxed at the full selling value. In New York City the average rate of taxation on land and buildings (the rate varies in the different boroughs constituting the city) was 2.79 per cent in 1921, equivalent to about 6½d. in the £ of selling value. Personal property is also taxed at selling value and at about the same rate of taxation.

The latest report to hand regarding the progress of housing in New York City is that of the New York WORLD, dated 3rd December, 1922. There it is stated that "homes for 114,330 families have been planned in the metropolitan area under tax exemption at a total outlay of \$685,000,000 with housing for 571,650 persons." But not all this structural value is exempt from taxation. In the case of many houses the value exceeds the limit already mentioned, and in the result the exemption will apply only to \$200,000,000 worth of construction. The meaning of the facts is clear enough. Tax-exemption, complete in respect of some houses and partial in respect of others (coupled with other factors still to be discussed), has given a great stimulus to construction. The WORLD illustrates its pages with pictures of the many types of houses now being provided.

An earlier and official report compares the state of the house building trade in 1920 (before tax-exemption) with that in 1921 after the tax-exemption Ordinance began to operate. The figures covered the period 26th February to 17th September of each year, and showed as follows:—

	1920.	1921.
Houses .. .. .	5,675	14,780
Tenements .. .. .	62	824
Estimated cost of dwellings and tenements ..	\$48,291,778	\$162,881,954
Families provided for ..	8,588	33,588

The comparison, in effect, reveals a four-fold increase in dwellings after tax-exemption was applied.

On 4th February, 1922, the ESTATE RECORD AND BUILDERS GUIDE reported that nearly 50,000 dwellings had been built or were under construction since the tax-exemption Ordinance was passed, and added that "rental values were reflecting a downward tendency through the substantial number of new habitations available."

### TAX EXEMPTION AND SUBSIDIES

The policy of exempting new houses from taxation has been criticized because it simply gives a subsidy to some privileged house-owners, paid to them by the rest of the taxpayers. The criticism is justified. It is wrong to confer such benefits on some to be enjoyed by them at the expense of others. But that said, the New York plan must be considered in the light of other important factors, and it stands comparison with the results of the very different method of subsidy adopted in this country. In New York, with its population of 6½ million, new dwellings numbering 114,300 will have been provided in two years—equivalent to one dwelling per annum for every 114 of the population. In this country, with its population of 42,000,000, it has taken nearly five years to produce 176,000 dwellings—equivalent to one house per annum for every 4,770 of the population. In New York the houses have been provided by private enterprise. Not a cent of public debt has been incurred, not a cent spent upon government or municipal housing departments, with their armies of officials, inspectors and expensive experts. In this country money was given out of public funds and was used indiscriminately to pay for the building of houses and the losses incurred. The local authorities in charge of housing schemes were saved the payment of any deficit exceeding the produce of a 1d. rate, and were therefore not directly interested in economy. Public funds were dissipated in the purchase of land at prices much in excess of any value previously attributed to it for rating purposes. Rings and trusts and gross profiteering have followed in the wake of this prodigal extravagance. £200,000,000 or more have been added to the public debt. The average annual loss per house built is more than £50—in some places the annual loss is £90 per house.

As to the amount of subsidy given by tax-exemption in New York, that cannot at present be stated at an average of so much per house, since facts are wanting in regard to the number of dwellings wholly exempt from taxation. The aggregate exempted value, \$200,000,000 is the total value of construction that is not taxed; it comprises both those dwellings that are wholly exempt (because the value does not exceed \$1,000 per room and \$5,000 per dwelling) and houses of greater value which are exempted from taxation to the extent of \$1,000 per room and \$5,000 per dwelling. The subsidy can, however, be calculated by the measure of the increase in the general tax rate made necessary by the exemption. That increase measures at the same time the new burden borne (the subsidy paid) by all taxpayers except those who own a structure partly or wholly exempt from taxation.

The average tax rate in New York City in 1921 was 2.79 per cent of selling value. As \$200,000,000 building value, otherwise assessable, is exempt, the taxation annually remitted amounts to 2.79 per cent of that sum, i.e., to \$5,580,000. The total taxable valuation of New York City in 1921 was \$10,186,000,000, constituted as follows:—

	Million Dollars.
Ordinary real estate—	
Buildings and improvements ..	4,348
Land value .. .. .	4,920
Real estate of corporations ..	277
Special franchises .. .. .	428
Personal estate .. .. .	213
	<hr/>
	<u>\$10,186</u>

Of that total valuation, \$5,580,000 makes up only 0.055 per cent, which is equivalent to about one-eighth of a penny in the £ of selling value. Or, translating this into a measure of annual value (to adapt it to British terminology), the subsidy is equivalent to an added rate over the whole city of 2½d. in the £ of annual value.

The fact of the subsidy in New York is not denied. It is the method that is under discussion. New York took the direct road to the removal (at least for 10 years) of taxes from new buildings under a system of taxation which, at the same time, levies a considerable tax on all land, including vacant land, assessed at true market value. The land on which the houses are built continues to be taxed as land. It is re-appraised for taxation once a year, so that, as the value of the land grows with the development of new districts for housing purposes, the municipality gets not only a large but also an increasing revenue from those districts.

Finally, in regard to the New York subsidy method, it should be observed how land value (the value of land apart from improvements) predominates in the assessment of the city, and how therefore land value will have to bear its share of any increased taxation that results from the exemption of new houses. The present tax of 6½d. in the £ of selling value, plus the knowledge on the part of owners of vacant land that if they do not find a builder before the time-limit expires, they will have this vacant and valuable taxable land on their hands, has checked land speculation. Land has been sold for housing these last two years at prices considerably less than the value at which it had been assessed two years ago.

On the other hand, in New York, all buildings and improvements (except new houses) are also taxed 6½d. in the £ of selling value and will also bear any added rate. This is the real fault of the New York scheme, which, instead of distinguishing between land and improvements, and exempting *all* improvements, whether new or old, gives special privileges to those who own new houses and continues to tax all other improvements.

#### THE PITTSBURGH PLAN

The New York scheme, for all that it has done, is but a temporary and passing expedient, which is found wanting when compared with the sound principles of promoting industry applied in Pittsburgh.\* There the city is reducing the tax-rate on *all* buildings, new and old, and is correspondingly increasing the tax-rate on land value; it is doing so as an abiding measure of justice that will continue

\* In Pittsburgh and Scranton, Pennsylvania, land and buildings are appraised for municipal taxation, in accordance with American practice, at selling value. Until the year 1914, land and buildings in Pittsburgh and Scranton were taxed at the same rate of taxation. Under the provisions of a State Law passed in 1913 the rate of tax on buildings in these cities, as compared with the rate on land value, was reduced for the years 1914 and 1915 so that it was 90 per cent of the rate levied on land value. In 1916 to 1918, the rate was reduced to 80 per cent; in 1919 to 1921 it was reduced to 70 per cent; in 1922 to 1924 it will be reduced 60 per cent of that levied on land value. In 1925 and thereafter, the rate of tax on buildings will be 50 per cent (that is, one-half) of the rate levied on land value. Thus, by a gradual transference, the taxation on buildings is being reduced. Correspondingly, the rate on land value is being increased—since to get the same revenue, as taxes on buildings are decreased the tax on land value must be raised.

As reported in the February issue of LAND & LIBERTY, this change in taxation has already been accompanied by very notable industrial development. In 1922 came the fourth instalment of the transference. In that year the city issued 6,231 building permits of construction estimated to cost \$35,334,735, being \$17,140,043 more than in 1914, the previous best year; and the total for 1922 includes \$15,263,170 for housing. For a city of 625,000 (the population of Pittsburgh) these are certainly striking figures.

There is now a powerful agitation going on in Pittsburgh for a new law enabling the city from 1923 onwards to continue the process of exempting buildings until ultimately land value alone is taxed. Meanwhile, by an overwhelming majority of voters in the State, a demand has been carried for an amendment of the State Constitution to give *all* cities the power to exempt industry from local taxation, and concentrate their taxes on land value.

to reap its bountiful harvest as time goes on. In New York, after all, only some new houses are exempted, namely, those whose construction is begun before a given date; and after that date, with the artificial stimulus to any more new houses withdrawn, the building activity is likely to subside. Moreover, the exemption now granted is short-lived. When the period expires the taxes will be imposed on the new tax-exempt houses, unless, of course, the law is amended to continue the exemption for another period or make it permanent; or, better, unless the exemption is extended so as to include all houses and buildings, new and old. The danger, however, is that the present privilege will not influence thought in that direction, but will rather induce other taxpayers to demand that the owners of the new houses be taxed like the rest of the community. In the same way, the special privileges of the small landholders in Scotland, whereby they pay no rates on agricultural improvements, have not so much advertised the benefits of giving this relief to industry, as created a grievance among other ratepayers subject to heavy taxation. A special privilege will never advance reform.

The people of Pittsburgh, thanks to straightforward land value taxation, are enjoying a remarkable impetus to all their industries; and incidentally, owing to that prosperity, coupled with reduced taxation on houses themselves, they have prospects of an increase in new houses far exceeding the results of the purely *ad hoc* scheme adopted in New York. Pittsburgh, in fact, teaches the lesson that "housing reform" standing alone cannot accomplish anything like so much as a policy that not only takes taxes off houses but also promotes industry, raises wages and removes unemployment by reducing the burden of taxation on all improvements, correspondingly increasing taxes on land values and so securing the better use of land for all purposes.

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There is some talk of adopting in this country a scheme of tax-exemption of new houses. How such a scheme would be worked, in view of our rating system, is difficult to see. It would be impossible for any local authority to "exempt houses." They would have to exempt the land as well, because house and land are one indivisible rateable subject according to British rating law. Accordingly, if a new area was developed and all the "new houses" (and land) were exempt, the "subsidy" to that district from the rest of the municipality would have to be the full cost of all the public services performed in the district. There would be no means of collecting revenue from the rent of the land on which the houses are built. And, in the absence of any land value rate or tax, the "subsidy" would inevitably be anticipated by the owners of the land lying ready for development. It would be absorbed in higher prices of land, and in the encouragement to this anti-social speculation, the housing problem would be as far from solution as ever.

It has been said that if new houses were occupied free of rates the local authority would lose nothing, because the cost of the public services, within the area developed, would be no greater. There would, therefore, be really no "subsidy" payable by any body. The statement may be true of one house if that were the only one built. But when houses are multiplied, all kinds of increased public services are called into being—sewage, street lighting, cleaning, maintenance, etc., and ultimately schools, libraries, etc. If, then, the new houses are exempt from rates (and other houses are rated) the district newly developed does not pay the rate-revenue it otherwise would pay, and the rest of the municipality must make good the difference. This is not to say that houses ought to be taxed. On the contrary. With the development of the district, it is the value of the land that increases. The value of the land very accurately reflects the value of the useful public services performed. What is required, therefore, is the taxation of land values over the whole area, and the exemption of houses and all buildings, both

new and old. We ought to reject any subsidy policy of taxing some houses more, so that others should be taxed less.

On these grounds we differ from those who think that the exemption of new houses from taxation and the continued (and increased) taxation of old houses is a desirable policy; or that, without the taxation of land values, any exemption at all will remedy the shortage. We differ from those also who think that house-building can be put in a compartment by itself. Houses grow where industry flourishes. They will arise only if wages can be earned and spent, for they are as much a man's wages as are his food, his clothing, and his other necessities of life. It must always be remembered that wages are an important factor in the housing problem.

The first step to any hope of housing reform is to secure the valuation of land apart from improvements and the taxation of land values. Nothing is to be gained by any *ad hoc* tax-exemption schemes applying only to new houses, and less still from subsidy schemes to provide houses in charity to those who can find neither work nor wages. The case is abundantly proved that only a straightforward indiscriminating tax or rate on *all* land value and a corresponding reduction of taxation on *all* improvements can produce the conditions of freedom in which the people will get all the houses that are theirs for the making.

A. W. M.

### BY-ELECTIONS

#### East Willesden, Mitcham, Darlington and Liverpool (Edge Hill)

In connection with the by-elections in East Willesden, Mitcham, Darlington and Liverpool (Edge Hill) the United Committee has addressed the following letter to the candidates standing in the Labour and the Liberal interests:—

DEAR SIR,

In view of the pending by-election, the importance of the Taxation of Land Values as an issue at this time, and the fact that this reform is one of the items in the programme of the Labour (Liberal) Party, we should much appreciate, for the sake of our many supporters who are interested in the campaign, your replies to the questions enclosed.

We should be glad also to be favoured with a copy of your election address and copies of any publications you are issuing in which the Taxation of Land Values is advocated.

Yours faithfully,

### QUESTIONS

1. Will you, if elected, press for immediate legislation to revalue all the land, so as to ascertain its present market value apart from improvements, and to impose a Budget Tax on the value of all land, with the corresponding reduction or abolition of the taxes now levied on improvements, on consumption, and in restraint of trade?
2. Will you, if elected, promote and support legislation for the levying of local rates on the market value of land and the exemption of houses and other buildings and improvements from assessment?

### CANDIDATES AND POLLING DATES

#### East Willesden

Mr. W. Harcourt Johnstone .. ..	Liberal
Col. G. F. Stanley .. ..	Conservative

Polling day, 3rd March.

General Election: Sir H. Mallaby-Deely (Conservative), 12,525; Mr. W. H. Johnstone had 11,211.

#### Mitcham

Lieut. Ernest Brown .. ..	Liberal
Mr. J. Chuter Ede .. ..	Labour
Sir A. Griffith-Boscawen .. ..	Conservative
J. T. Catterall .. ..	Ind. Conservative

Polling day, 3rd March.

General Election: Dr. T. C. Worsfold (Conservative), 10,934; Mr. A. E. Bennetts (Liberal), 5,898.

#### Darlington

Mr. W. J. Sherwood .. ..	Labour
Mr. W. E. Pease .. ..	Conservative

Polling day, 28th February.

General Election: Right Hon. H. Pike Pease (Conservative), 13,286; Mr. W. Sherwood (Labour), 9,048; Mr. T. Crooks (Liberal), 4,420.

#### Edge Hill, Liverpool

Mr. J. H. Hayes .. ..	Labour
Major Hills .. ..	Conservative

Polling day, 6th March.

General Election: Sir W. Watson Rutherford (Conservative), 14,186; Mr. J. H. Hayes (Labour), 9,520.

### REPLIES TO QUESTIONS

In answer to the letter from the United Committee, Mr. W. Harcourt Johnstone, Mr. J. Chuter Ede, Mr. W. Sherwood and Mr. Hayes replied "Yes" to both questions. Mr. Johnstone advocates the Taxation of Land Values both in his election address and in a special letter to the electors.

Mr. Ernest Brown wrote: "I am putting the Taxation of Land Values in the very forefront of my campaign, and I am glad to inform you that the appeal is being well received."

At Mitcham both Labour and Liberal Parties have issued election literature declaring for the Taxation of Land Values. At East Willesden the Liberals have displayed 50 ft. posters, "Tax Land not Food."

The United Committee has undertaken (in Mitcham in association with Mr. Munn of the English League) in these constituencies the distribution of leaflets similar to those used at Whitechapel.

### AMERICAN FARMING

In districts with reliable rainfall, such as in British Columbia, around Vancouver, and under irrigation in California, he was struck with the marvellous increase of small holdings. California had over 100,000 small holdings under 50 acres, and they were increasing at the rate of 10 per day. These were regarded as the backbone of the State. The Government had established a Land Settlement Board, which constituted small holdings on the Colony system. These had proved successful, and there was an enormous demand. Co-operation had worked wonders for them and the State. . . . America, like ourselves, was only learning dairy farming, and was importing butter from the Danes, who were greatly ahead of us. Scotsmen should produce butter cheaper than the Danes, because we had the advantage in soil and climate, and the Danes bought their feeding stuffs at mills in Glasgow and Leith.—*From an address, 7th February, by Mr. James Dunlop to the Agricultural Discussion Society, Glasgow.*

Mr. Dunlop is an agriculturist of some standing and has thrice crossed the Continent of America studying agricultural conditions in the various States.

Have you enrolled as a member of the Oxford Week's International Conference on the Taxation of Land Values, 13th to 20th August? See page 44.