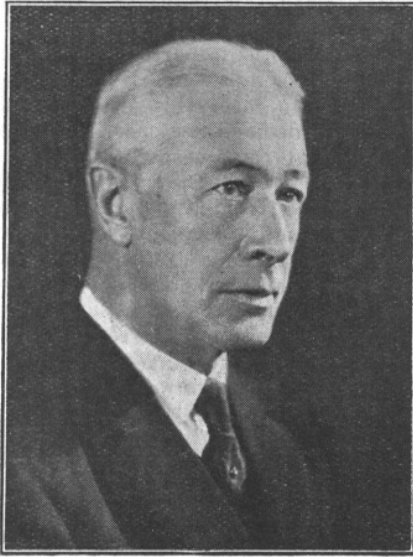


VALUATION OF LAND IN THE UNITED STATES

By Lawson Purdy, LL.D.



*Former President, Department of Taxes and Assessments,
City of New York*

(From a Paper read for Mr. Purdy by Mr. F. C. Leubuscher at the International Conference in Copenhagen, Session 24th July)

From very early times in the United States a considerable part of local revenue has always been derived from a tax on the capital value of land. . . . In the United States, local taxes falling upon real estate are always measured by the market value of real estate. In almost all cases throughout the United States the law requires the assessment of real estate at its actual cash value, sometimes called full value, or, as in the City of New York, at "the sum for which such property would sell under ordinary circumstances."

Federal, State and Local Revenues

In the United States, local governments, called cities, towns, villages, or some other like designation, pay out of their own revenue for many services which in other countries are performed by and paid for by some larger unit, sometimes the national government and sometimes the state government, as in Australia or Germany. . . .

In 1923 taxes for the Federal Government of the United States amounted to \$37 per capita and for the states to \$12.32 per capita, and for counties to somewhat less than \$8 per capita. All states are divided into counties which in some states perform few and simple functions and in other states perform more important and costly functions. On the average, however, counties have less revenue and spend less money in the aggregate than do the states. Town and village government is generally less expensive and the expenditures per capita are very much less than in cities. There were 248 cities in 1923, each having a population of 30,000 or more, and the per capita revenue receipts in those cities was \$54.43. These cities had a population of 39,172,000, which is 35.4 per cent of the total population of the United States.

Speaking generally, the United States is supported by an income tax levied on natural persons and corporations, by a tariff on imports and by excise taxes levied on the manufacture of tobacco and by various license taxes called excises. In 1923 about one-half the Federal

revenue came from income and profits tax, one-seventh from customs, and the balance from miscellaneous taxes and excises. The States received, in 1923, 28 per cent of their revenue from the direct tax on the capital value of real estate and personal property, 27 per cent from various license taxes, and the balance from special taxes and miscellaneous. The counties are almost exclusively supported by the tax on the capital value of real estate and personal property. This tax is commonly called the General Property Tax.

City Revenues

The average total revenue receipts in the 248 cities were, as stated, \$54.43 per capita. Of this amount, the General Property Tax, that is to say the tax on the capital value of real estate, and personal property, accounted for \$35.12. There is some duplication in these figures as county taxes are levied with city taxes and part of state taxes are generally levied with city taxes. In the 12 cities having a population of 500,000 or over, the average per capita revenue receipts was \$62.65, ranging from \$43 to \$87. In the 11 cities in the next group, having a population of 300,000 to 500,000, the average per capita receipts is \$59.08 and ranges from \$27.77 to \$106.

Two-thirds of the city revenue comes from the General Property Tax and about four-fifths of this tax from the tax on real estate. There are no statistics available for all cities separating the proportion of the tax on real estate which falls on land and the proportion which falls on improvements. It is safe to say, however, that about one-half of the tax on real estate is paid by the tax on land and half by the tax on improvements

Improved System of Valuation

Commencing about thirty years ago, there was an intelligent effort in various cities to bring about an equitable assessment of real estate, in order that a larger part of the burden might be imposed on land, as distinguished from improvements and personal property. Thirty years ago it became more and more apparent that the system of taxing personal property in the same way and at the same rate as real estate was impracticable and led to gross inequity and injustice. These practical considerations were supplemented by the theoretical arguments of those who saw in the taxation of personal property either double taxation or a tax imposed on thrift and saving. . . .

The heavier burden of the tax on real property with the development of the civil service, led to better and better assessments of real estate. At the same time, was developed a system of state supervision, through state tax commissions, of the work of local assessors. It gradually became apparent that to bring about an equitable assessment of real estate it was desirable to separate the assessment of the land from the assessment of the improvements. By 1923 it was the law in 28 states that land and improvements should be assessed

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separately. In two other states this was the law for certain cities. In 1903 the Charter of the City of New York was amended so as to provide for the separate assessment of land in assessments of real estate, and, at the same time, a requirement was added for the publication of the annual record of the assessed valuation of real estate.

Method of Assessment and Tax Levy

In many of the cities of the United States the assessment of real estate is *in rem*; that is to say, the assessors are under no obligation to recognize the owner of the real estate. The name of the owner may be unknown to the assessor. The assessment is made by a description of the real estate itself and in many places, as in the City of New York, by what are called block and lot numbers. The whole city is divided into blocks of an ordinary area of about four acres, more or less, the blocks being bounded by streets, waterways, or other natural boundaries. Those block numbers and boundaries are never changed except for very serious cause. Within the blocks the separately assessed parcels of real estate known as lots are numbered from one up. The assessment is imposed upon the lot number in a certain block number. When the tax is levied it is levied against those numbered parcels and the assessment roll, which is the final tax list, carries these numbers.

Method of Tax Collection

If the tax should not be paid within a certain time, which is three years in the City of New York, a proceeding is instituted against the lot by its numbers; the city claim for taxes, called a tax lien, is sold to the purchaser who bids the lowest rate of interest for which he will carry the claim, and the city receives the amount of the tax with interest from the purchaser of the tax lien. Thereafter, if the interest on the tax lien should not be paid, or, if the amount of the tax lien should not be paid within a certain time the purchaser may foreclose the tax lien, in all respects as he would foreclose a mortgage. Should he be unable to ascertain the owner of the real property, which would not often happen, he may procure an order from the court authorizing him to serve notice of the proceedings by publication.

The city, therefore, is not concerned as to whether the land is occupied by the owner or leased for a short or long period of time or whether there are two or more sub-lessees. It is concerned only with the real property itself and out of that real property it collects its tax. The owners of the fee and the lessees, if any, are obliged to settle the matter of the taxes between themselves as they see fit.

Valuation Published and Made Annually

In the City of New York the assessment roll is published by what are called sections, into which each of the five boroughs is divided for assessment purposes and for the registration of deeds. Any one of the sections of the annual record of the assessed valuation of real estate may be purchased for two dollars by anyone who desires to have the record in convenient form for inspection. For about \$86 one may purchase the entire assessment record of the whole City of New York.

In the City of New York and in most of the American cities, the assessment of real estate is made annually, and in every case it should be made annually, for the value of land changes rather rapidly in growing cities and it is the height of injustice that one who owns property declining in value should pay a tax based on an assessment greater than the value of the property,

while another is paying on an assessment based on a value much less than the property is really worth. . . .

In many states are now held annual meetings of assessors, taxing officials, and citizens interested, at which problems of taxation and assessment are discussed, which help to engender greater activity and more intelligent effort on the part of officials throughout many of the states.

Land Value Maps

In 1909 in order to secure greater uniformity and greater accuracy of assessment, there was published in the City of New York a book called the *Land Value Maps of the City of New York*, and that book has been published annually since that time. It is obvious that if one desires intelligently to compare the assessment of land on one block with the assessment on another block or street there must be a common unit, and many years ago the practice arose of using a common unit of value. Probably the most common unit throughout American cities is the lot 100 ft. deep and the measure is the value per front foot of a lot 100 ft. deep. In some cities where lots are generally deeper than 100 ft. a different unit has been adopted, as 125 ft.

In the City of New York the unit is 100 ft. in depth. On the land value map, on every street and wherever the value changes the unit value is set down, in figures, as so many dollars per front foot for a lot 100 ft. deep and 25 ft. in width. These units do not take into account the influence caused by proximity to a corner because the increase in value caused by corner position varies in different parts of a city and for different uses. Ordinarily the greatest increment due to a corner position arises in the business part of the city, where there are retail shops and where two streets of approximately equal value intersect each other. At such a point a lot 25 ft. by 100 ft. in size may be worth from two to three times as much as a lot distant from the corner. On the other hand, in a residential territory where detached houses are the rule and lots are 40 ft. or 50 ft. or more in width, the corner parcel, 25 ft. by 100 ft., may not be worth over 20 per cent in excess of an inside parcel.

If a lot is greater or less in depth than 100 ft. its value is computed on the basis of tables devised to show the ordinary increase or decrease in value for a lot of greater or less depth than the standard lot. Such tables are in general use and are a valuable guide to the assessor, although they must be used with discretion and judgment, for in one place the value of a lot only 30 ft. deep may be a much larger proportion of the value of a lot of full depth than in some other place, and again in certain territory a lot only 30 ft. deep may be, like damaged goods, of almost no use whatever and worth much less in proportion than it would be in the first instance. . . .

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The use of the land value map and its publicity exert a strong check upon any favouritism by the assessor. If the assessment of any one lot departs from the unit set down on the map the burden of proof is on him to show why it does so depart. The map makes it easy for property owners and their agents to analyze the assessments and make objection if the assessments are not fair.

Since the first publication of land value maps in 1909 their use has spread to many cities throughout the country and state tax commissions whose duty it is to supervise local assessors are more and more urging the use of land value maps and, where they have the power, requiring their use.

Thirty years ago not only were assessments rather poorly made and unequal, but running through nearly all of them was the evil fallacy that land that was not used to its normal capacity, because it was producing little or nothing should be assessed lightly. It was difficult to combat that fallacy directly but the pressure for full value assessments, because of high taxes, conjoined with the better system of assessing has changed the attitude of mind in many places, until to-day it is rather common to find that assessors and the public demand that land shall be assessed for all that it is worth and that discretion shall be used in assessing buildings.

How Much Rent is Taken by Taxation

Those unfamiliar with the taxation of capital values must bear in mind always that we are dealing throughout with assessment on market value. Market value is reduced by any tax imposed on that value. It may be that 6 per cent will be regarded as a common capitalization rate; that is to say that if a lot produces a net return to the owner of \$60, its selling value will be \$1,000. If that is the value untaxed, a 2 per cent tax rate, levied on the market value which would remain after the tax were imposed, would take $\frac{1}{4}$ of the net income. The value of the property then would be only \$570. The tax would amount to \$15 and the net income would be 6 per cent on \$750, or \$45. A 6 per cent tax rate would take one-half the income, the value of the property would be \$500, the tax would be \$30, and the net income would be \$30. We are dealing with tendencies, of course, and it is not possible, for any particular parcel of land, to say precisely what the effect of a tax will be at any given time and place. We can say with certainty that any tax will tend to reduce market value and will tend to reduce it in the proportions already stated.

I have before me a table for 215 of these cities prepared by the Detroit Bureau of Governmental Research which shows comparative tax rates for 1925. The actual tax rates are given for all these cities and then there is given a tax rate adjusted to the estimated actual value of property. The total is not given nor the average for all the cities. The rate for the City of New York is given at 2.47 per cent; for Chicago, 3.15 per cent; for Philadelphia, 2.43 per cent; the other cities vary much. Some tax rates are below 2 per cent, a few are above 3 per cent; most of them appear to range between 2 per cent and 3 per cent. This study checks perfectly with the Census estimate for 1923 by which it appeared that the average tax rate on true value was 2.44 per cent.

Let us assume that the average rate of taxation on the true value of land is 2.4 per cent. In some of these cities the capitalization rate is not more, probably, than 6 per cent. In a few of the cities it may be as high as 8 per cent. In a city with a capitalization rate of 6 per cent, 28 per cent of the economic rent goes to the public or, to put it in another way, the public

receives 40 per cent as much as the landlord receives. If the net income of the landlord were \$60, the assessed value would be \$1,000 and the tax at 2.4 per cent would be \$24, which is 40 per cent of \$60. If the capitalization rate anywhere is 8 per cent, and I do not believe that it is more in any city, in such a city with a tax rate of 2.4 per cent, 23 per cent of economic rent goes to public purposes and the landlord receives somewhat less than four times as much as the state receives.

According to the Detroit study, the adjusted tax rate in the City of New York is 2.475 per cent. The capitalization rate in the City of New York is certainly not more than 6 per cent. That is to say, the value of land is at least as much as the net income capitalized at 6 per cent. In New York, then, about 29 per cent of economic rent goes for public purposes.

A Tax on the Value of Land is Practicable

We have in the United States a system of taxation which in many respects leaves much to be desired, but it is a fact beyond dispute that for a large part of its history it has been relying in considerable part upon a tax on the value of land; that for the last forty years that tax has been increasing rapidly; that the methods of determining the tax have improved from year to year, have reached a high degree of proficiency in some places, and are in course of improvement and perfection as time goes on. It is beyond cavil that part of the system of taxation in the United States which works most effectively, with least injustice, as between persons similarly situated, which does not, in fact, take anything from the income that any man earns, and does effectively give to the public a part of the value that is created by the whole people of the United States.

AYLESBURY CHAMBER OF COMMERCE

Councillor Rupert East addressed the Aylesbury Chamber of Commerce, 19th October, on the subject of "How to Reduce Your Rates and Taxes," Mr. G. T. Hunt, President of the Chamber, occupied the chair. The *Bucks Advertiser* gives an extensive report of the address.

Mr. East carefully analyzed the figures for national and local expenditure. The gross national expenditure for the year 1913-14 was 277 million pounds, and for 1925-26 the budget estimate was 849 millions, or taking the net figures, 195 and 799 millions respectively, the expenditure being more than quadrupled. Allowing for the difference in money values, now 70 per cent higher than in 1914, the national expenditure was much more than double. Comparing a few main heads of expenditure for the same years, they found that the Consolidated Debt services, due to the war, had grown from 24½ millions to 355 millions; Army, Navy, and Air Force from 86 to 144; Post Office from 25 to 55; the Civil Service Departments 4½ to 12½; Police and Prisons from 5¼ to 13; Education 19½ to 52; Old Age Pensions 12½ to 26; Ministry of Health 5 to 22½; Ministry of Labour 5 to 18; and the Ministry of Pensions (created after the war) 66 millions. Taking the income, taxes and post office receipts in 1913-14 amounted to 194 millions, and in 1925-6 734 millions. If the figures were compared on a *per capita* basis, they were raising £3 11s. 4d. per head of the population in 1914, and £15 16s. per head in 1924.

Coming to the all-absorbing expenditure by local authorities, and treating them to a like comparison, they found that the total expenditure in England and Wales in 1914 was 114 millions, loan charges 34½,