

When Homes are Taxed

A Note on Housing, Planning and Municipal Taxation

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THE property tax, everyone agrees, is a mixed blessing. Since Confederation it has been the mainstay of municipal finance, but it is taking an increasing amount of abuse as the municipalities struggle with ever-increasing financial problems. It has suffered the epithets of modernists and moralists ("old fashioned", of "doubtful parentage"), the ponderous judgments of economists and the curses of many an industrious citizen. The most serious charges to be laid against it are that it is unfair, and that it is a serious deterrent to building.

The present acute shortage of housing and the increasing financial burdens of municipalities are good reasons for investigating the whole system of local taxation. It is possible, for example, to trace some of the blame for the housing shortage to the property tax. And what about slum growth? and urban sprawl? Strangely enough, those who dig into the problem find no ready portfolio of evidence. The little material that has been published is so general that it is practically useless for analysis.

The only recent book which sheds light on the subject is Walter Morton's *Housing Taxation*, published by the University of Wisconsin in 1955. Morton, who was particularly concerned with the effects of the property tax on dwellings, measured carefully all the costs of making and maintaining a house, putting the burden of the property tax at 2.5 to 3 per cent of capital costs. Taking into consideration interest, depreciation, maintenance, and insurance, he found that property taxes constituted 20 to 25 per cent of the total annual cost of carrying urban property.

"We cannot know exactly how real estate taxes affect the volume of construction, but the effect of an item that raises the annual cost of shelter by about 25 per cent cannot be a negligible influence upon the willingness to spend for this purpose. The home-owner is induced to keep down his monthly cost by building a smaller house, and the renter has to be satisfied with accommodation smaller than he would like. . . . The heavy property taxes now levied tend to reduce the volume of new building and at the same time the demand for housing. . . . A lifting of the tax should have the opposite results."

It is important to notice that in this study Morton distinguished between the two elements of real estate—land and improvements—in order to understand how a change in the tax levy would effect each form of property. The tax on improvements he describes as "a sales tax on

shelter." It decreases the volume of output, raises the unit cost of living space, and decreases community welfare. Because it acts as a deterrent to the creation and use of housing facilities, it probably has a depressing effect on the economy as a whole.

"When ample material and labour are available, a reduction in the tax on improvements should stimulate new construction, increase total housing space, and benefit home-owners and tenants alike. . . . A tax reduction on land will have no effect on construction but will be capitalised by landowners."

This allusion to the effect of the property tax on land values is suggestive. It is surprising that Morton didn't follow it up since the cost of lots is one of the chief obstacles to home-ownership today.

A second useful study of the effects of property tax is an Australian one, *The Reclamation of an Industrial Suburb*,* published in 1949. This is a well illustrated and amazingly thorough survey and analysis of properties, assessments, and taxes in the industrial slum of Fitzroy, Melbourne. The aim of the survey was to find out whether a change in the municipal taxation system, in particular the exemption of improvements, "would provide a force for regeneration by encouraging improvements and discouraging the holding of properties in a deteriorated condition."

Describing 140 properties on eight poor streets as typical, the research team found that the assessed values had decreased in a twenty-year period (1927-47) from 20 to as much as 90 per cent, and they point out that "these substantial decreases in assessments have meant that other properties have had to make up the loss of revenue." Their conclusion was that the present system had pernicious effects and ought to be abandoned.

"The taxation system works directly towards the production of and extension of slum properties. It penalises with higher rates those properties which are kept in better repair than the average. Those which deteriorate are rewarded with rate reductions. . . . In effect, it gives a bonus in reduced rates to those owners who have shown the least interest in the condition of the property and their tenants' living conditions."

We know all this is true from our own everyday observation, but we do not dream of the extent and seriousness of the decay, nor the increased burden such decay puts on other taxpayers, both tenant and home-owner. While the man who lays a lawn, builds a fence or improves his property in any way is called upon to pay on an increased

* 3s. 6d. from LAND & LIBERTY offices.

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assessment, the owner of a run-down property is relieved of taxes according to how much he allows his building to dilapidate.

A typical case in an unnamed eastern U.S. city was described in the November 15, 1956, issue of *The Reporter* under the title "The Life and Times of A Slum Landlord."

"Since 1935 when Dan [the slum landlord] bought his first house, the assessed value of his properties has dropped twenty-seven per cent, meaning his municipality gets nearly \$8,000 less in taxes from them each year. The city is spending forty-five per cent of its income in the slums and getting six per cent of its taxes there."

Only because their taxes are so low can "slum properties" exist. The owners of developed property, residential and business, are subsidising them. Recent studies of several big U.S. cities for example show that the central blight areas, where 33 per cent of the population lives, accounted for 45 per cent of major crimes, 55 per cent of juvenile delinquency, 50 per cent of the disease and 45 per cent of fire, police and other service costs. But these areas contributed only 6 per cent of the cities' tax revenue.

As far as the property tax rests upon the site value of a property, it rests upon the potential earning power of the site, in direct proportion to it, and without consideration of whether the owner develops his property well or poorly. In this respect the tax on land is superior to the tax on improvements. It encourages the highest use of each site and does not penalise those who build and improve. Because the property tax on land takes a portion of the annual value, whether or not the land is being well used, it is a discouragement to pure speculation, and to the "withholding" with which planners and developers are constantly faced.

In short, the property tax acts on the two components of real estate in different ways and with quite different effects on the welfare of the community. On the one hand it inhibits building and homeownership; on the other it encourages the efficient use of land and discourages speculation.

The schizophrenia of the property tax is rarely recognised. To calculate the extent of benefit to be gained by a community which exempts improvements from local taxes on property, it is not sufficient to refer to the increased incentive to build and repair. The other lever, and probably a more powerful one, is the effect of a proportionate increase in the levy on land; especially on those vacant or nearly idle downtown sites. Those are the properties which are not paying their way. Those valuable downtown sites of potentially great use, represent one of the most scandalous wastes in the economic life of any city. The direct stimulant of an increased levy on such land, along with the relief of improvements is both a stick and a carrot, prodding and encouraging development and the efficient use of land.

It is already evident that to shift the tax load on to land would result in lower land prices. And lower land prices mean lower costs for slum clearance, street widening, park

and playground projects. When the hope of speculative profit is taken out of this sort of hold-up, planning efforts will be less often thwarted.

But it is the second result, the gradual emergence of natural land-use patterns, which would so facilitate the job of curing a blighted, spotty and be-ribboned city. Ratcliffe, a standard work on the economics of urban land, says this.*

"The basic objective of city planning is to attain the same land use pattern that would emerge naturally . . . in the urban real estate market under conditions of perfect competition. . . . In the perfect market, natural zoning would result; land uses of similar or complementary character would naturally group themselves with maximum benefit to the property owners and to the community."

But the market is not perfect; hence the planner.

In so far as it would tend to produce natural patterns of land use, a shift in the tax load would unravel some of the difficult tangles facing every planner. A tax on land only would lie, not on development, but on potential, since the value varies with the potential producing power of the site. If the potential earning power of the site is great—say it is a corner lot on a main street—then the tax is great no matter the use to which the site is put—hotel, parking lot, gas station, departmental store. A lot cannot be lazy if the tax is based on its ability to pay.

Senator David Croll in the December, 1956, issue of the *Community Planning Review* drew attention to the fact that many slum areas are producing a terrific profit for their owners, whom he termed "economic vultures" who "prey and profit on low-income groups while we ignore their plight." But it is not merely the low-income groups that suffer. It is every citizen of the community who, in one way or another, pays a share of the ransom.

The flight to the suburbs and central blight are different sides of the same coin. Whilst hundreds of serviced lots lie unused throughout the town, taxes on homes and the cost of land drive people further and further out. These people have been called "freeloaders, carpetbaggers, chisellers—members of the community who are parasitical to the mother ship." (*William Zeckendorf, speaking to the American Society of Planning Officials in San Francisco, March, 1957.*) But it is as unjust to call the commuter a parasite as it is to call the slum property owner a vulture. Both are logical products of the present method of raising local revenues.

* *Urban Land Economics*, by Richard U. Ratcliffe.

MAY 30—2 GEORGEISTS ON T/V

"Who Goes Home?"—B.B.C., Friday evening, May 30

Two tutors of the Henry George School—Messrs. John Bennett (Ilford) and R. H. H. Jones (Welling)—have been invited to join the panel of 10 people who will question two Members of Parliament: N. N. Dodds, Labour-Co-op, Erith and Crayford, and T. L. Iremonger, Conservative, N. Ilford. See *Radio Times* for time and further details.