THE PITTSBURGH PLAN

Results of Shifting Taxation from Buildings to Land Values

(*From an article by Percy R. Williams, Member of the Pittsburgh Board of Assessors, in the* NATIONAL MUNICIPAL REVIEW for December, 1925.)

The Pittsburgh tax plan may be briefly described as having two notable features :—

1. The entire tax revenue for municipal purposes is derived from taxes upon real estate. There are no taxes levied by the city government on any other form of property or income.
2. The municipal tax rate on buildings is fixed at one-half of the tax rate levied upon land. This latter feature is known as " the graded tax."

EVOLUTION OF THE GRADED TAX

The graded tax has been in process of evolution since the year 1913, when the law was passed by the Pennsylvania Legislature. It has now reached its goal, the ultimate point contemplated by the law having been attained on 1st January, 1925, when the half-rate on buildings became effective. The law provided for the partial exemption from taxation of improvements upon real estate, with the ratio of exemption increasing at each triennial assessment. This partial exemption has been effected, not, as commonly assumed, by reducing the assessed valuation of buildings, but by fixing from year to year a lesser tax rate on buildings than that levied upon land.

The law became effective 1st January, 1914, and there have been five successive steps, corresponding to the triennial assessment periods, in each step a certain proportion of the tax burden being shifted from buildings to land ; in the first period, 1914-15, the building rate being 90 per cent of the land rate ; in the second period, 1916-18, 80 per cent ; 1919-21, 70 per cent ; 1922-24, 60 per cent, and in 1925 and thereafter, 50 per cent.

While Scranton is governed by the same Act, it being necessary to include in its provisions both of the second-class cities of the State in order to meet the constitutional requirements, the graded tax law is distinctly a Pittsburgh idea. The proposal was originally sponsored by the Pittsburgh Civic Commission, which for a number of years was one of the most influential civic bodies of the community. But it was largely through the political influence exerted upon the Legislature by Mayor William A. Magee, then serving his first term, that the measure was quickly adopted into law.

SHIFT OF TAX FROM BUILDINGS TO LAND

Exactly what does the graded tax mean to the taxpayer in dollars and cents ? It means that buildings pay $5.40 less per thousand dollars of valuation than they would pay if the old flat rate system were in effect. It means that land pays $4.35 more per thousand than would be required under the flat rate system. Land therefore pays approximately ten dollars per thousand more than buildings.

The city tax rates for 1925 are $19.50 on land and $9.75 on buildings, and these rates raise a revenue of approximately $15,000,000. To raise the same revenue with a flat tax rate would require a levy of approximately $15.15 per thousand. The effect of the graded tax on the tax figures can therefore be accurately measured by the difference between $15.15 and the present rates, and similar calculations have been made that enable us to compare the rates required under the respective systems for each year that the graded tax has been in operation.

In wholesale terms, this signifies that there has been a shifting for this year 1925 of approximately $2,400,000 in taxes from buildings to land.

The total assessed valuations for 1925 are : Land, $548,475,280 ; buildings, $442,004,840 ; total valuation, $990,480,120.

Under the graded tax law land values in Pittsburgh pay a total city tax for 1925 of approximately $10,700,000, while at the rate of $15.15, which would prevail were the old tax system now effective, the taxes on land would be only about $8,300,000. Buildings (under the graded tax) pay this year in taxes $4,300,000, while at the rate of $15.15 this figure would be raised to approximately $6,700,000. These figures confirm the fact that there has been a shift from buildings to land of about $2,400,000, a very considerable item out of a total city tax revenue of fifteen millions.

PLAN LIMITED IN ITS APPLICATION

As the graded law tax is the only tax law of its kind in the United States, there has naturally been much discussion as to its effects, not only upon the tax situation itself, but upon real estate conditions. Therefore, before proceeding further into the discussion, it is important to note that the foregoing figures, though very significant, relate only to city taxes, in the strict sense of the term.

This fifteen million dollars raised by the city from real estate is by no means the entire tax revenue that is obtained from Pittsburgh real estate, as it is found, upon examination, that the Board of Public Education and the county of Allegheny together raise from Pittsburgh real estate the approximate sum of $17,500,000. And in the collection of this vast sum there is no exemption of buildings whatever, as neither the school tax nor the county tax are levied under the terms of the graded tax law ; this measure relating to cities only.

The Board of Public Education, representing the school district of Pittsburgh, a political unit distinct from the city itself, raises from taxes on Pittsburgh real estate the approximate sum of $11,390,000 this year, by a flat rate of $11.50 per thousand, the school tax being based upon the city's assessed valuations. Of this total sum, approximately $6,310,000 is obtained from land assessments and $5,080,000 from building assessments.

When these figures are added to the city taxes, we find that the combined taxes derived from land amount to $17,010,000, while the combined taxes on buildings total $9,380,000.

The county of Allegheny raises from taxes on Pittsburgh real estate the approximate sum of $6,110,000, by a flat rate of $6.375 per thousand. It is not possible to give the definite distribution of this sum into land and buildings, as the county tax is based upon the county's assessed valuations, which do not separate land and buildings, though the proportion allotted to each would probably not differ greatly from that shown under the city's assessments for the school tax.

These facts tend to show the limitations of Pittsburgh's graded tax system as it now stands with present legislation fully effective, and to indicate to just what extent the building exemption plan has been carried.

PLAN STIMULATES IMPROVEMENT OF LAND

Friends and opponents of the graded tax alike agree that the higher land tax has been influential in inducing those who had held large tracts of land idle to sell at more reasonable prices, because the holding of vacant land for long periods is becoming unprofitable.

We know that Pittsburgh has had a boom in building during the past few years, and official statistics of building in Pittsburgh show a very marked increase.

Whereas, in 1913, the last year under the old tax system, the total number of building permits was 3,461, and the total estimated value of new buildings was $13,870,955, for the past three years we have this record: 1922, 6,259 building permits, value $35,257,375; 1923, 7,179 permits, value $33,132,762; and 1924, 8,285 permits, value $34,256,450. This shows new construction in the past three years of over a hundred million dollars, a record which has never before been equalled in the history of Pittsburgh.

Total building assessments have gone up from 282 millions in 1914 to 442 millions, approximately, in 1925, while land assessments have only increased in the same period from 480 millions to 548 millions.

The Pittsburgh Civic Commission, in its tax revision bulletin of 1912, contended that high land prices, with accompanying high land rents, were one of the chief obstacles to Pittsburgh's progress, and a survey made at that time brought out the fact that the average value of land per acre in Pittsburgh, as shown by assessments, was second only to that of New York City. This indicated that Pittsburgh's land prices were abnormally high, and it was an avowed purpose of the graded tax plan to lower land prices or to retard the rising process. No careful analysis has been undertaken such as would be necessary to bring out all the facts as to what has taken place with relation to land values since the graded tax law has been on the statutes, but it seems beyond doubt from the evidence at hand that it has had a tendency toward lower land prices—that is to say, that while land values constantly rise in all growing communities, the higher tax on land has prevented such inflation as we have witnessed in our own community in times past and such as has taken place in other large cities in recent years.

Owners of Improved Property Benefited

The great majority of real estate owners are saving money in taxes through the graded tax law, in most cases this saving amounting to a very substantial percentage of their city taxes. It follows, of course, that the owners of vacant or under-improved land are paying higher taxes, as contemplated by the sponsors of the law, which, as already intimated, means that such land, where valuable enough to pay a considerable tax, is not likely to remain vacant or under-improved for a long period.

Owners of improved property of all classes are benefiting in lower taxes by reason of the graded tax law. Our survey of a large number of typical cases shows very great annual savings in taxes paid by various office buildings, manufacturing plants, warehouses, apartment buildings and single-family dwellings, the degree of the saving varying with the size and type of building in relation to the value of the land upon which it stands. Two of the largest downtown office building properties show tax savings by reason of the graded tax for this year of 10 and 15 per cent respectively, in each of these instances the actual savings in taxes for the one year being in excess of seven thousand dollars.

(To be concluded)

"I do not see why we should pay £120 a year or more for three or four acres of land that is not worth 10s. an acre as agricultural value," was the statement of Mr. James Corrie, Kirkconnell, at the meeting of the Southern District Committee of the Stewartry held at Castle-Douglas on 12th January (Glasgow Herald report). The occasion was the signing of an agreement for the lease of land as a quarry for road metal at Tongland, near Kircudbright. The proprietor, Colonel Maitland of Cumstoun, would receive 3d. per ton as royalty for all stone quarried; it was estimated that 10,000 tons would be taken out each year, which would come to £125.

NOTES AND NEWS

A leaflet issued by Mr. Arnold Lupton (declared opponent of land value taxation) and distributed at the recent Liberal Land Conference in London, stated that:

The value of agricultural produce in England and Wales in 1846 was £127,000,000. The value in 1924 was £300,000,000. In 1924, 1,300,000 men, women and children worked upon the land in England and Wales and produced a value of £230 per head on the average.

"This result," according to Mr. Lupton, "is creditable to the labourers, farmers and landowners."

The feature that strikes us about these statistics is that with £230 per head produced by the workers on the land (men, women and children) the average wage of the agricultural labourer is round about £78 a year.

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Opposing a Bill introduced by Mr. Thurtle (Labour M.P. for Shoreditch) in the Commons, 5th February, authorizing local authorities to give advice on birth control, the Rev. James Barr (Labour M.P. for Motherwell) said:—

Moral instincts and religious prejudices—call them what they would—were, after all, the purest, finest, and the most powerful and most potent influence in the uplift of mankind. On questions like these they were just as sure a guide as science itself, and if they chose to defy or ignore them they did so at their own peril and at the peril of the State. On those and other grounds which he had not time to state he invited the House to give the measure a determined, decided, and overwhelming rejection.

Leave to introduce the Bill was refused by 167 votes to 81.

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Negotiations have been concluded by a group of British investors, known as the Fuller Leigh Syndicate, to underwrite £2,000,000 of British capital, with a view to securing large tracts of land in Southern New South Wales around Marulan, Berrima and Mittagong, to develop mineral and other resources.—Glasgow Herald, *10th February*.

Another piece of "Capitalism" with its roots in the land, like all the rest of this fictitious humbug.

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In the "Latest Wills" column, the daily papers of 13th February carried this item:—

> Henry John Brinsley, K.G., Duke of Rutland, of Belvoir Castle, Grantham, Lincolnshire, and of 16, Arlington Street, Piccadilly, London—£930,737. In his will the Duke of Rutland says: "I leave nothing to any hospital or charitable institution, as the heavy and intolerable super-tax renders impossible any such act on my part."

* * *

A crowded meeting at the Dockers' Hall, Bedminster, was addressed, on 31st January, by Mr. D. J. Vaughan, who spoke on the land question, and urged that the solution of the problem of low wages and unemployment lay in overthrowing the land monopoly in town and country alike. The Western Press of 1st January published an excellent report of the meeting.

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Cheaper land for every conceivable purpose, for factories, for garden cities, for roads, for railways, for cottage homesteads, even for churches or cinemas, means more work, more work means more wages, and more wages means more wealth.

But always we come back to it, we must have more land, cheaper land for those who are willing and able to work it.—*By Major A. Livingstone Oke, in* John Bull, *13th February.*