

## CHAPTER VIII.

### TAXATION OF IMPROVEMENTS.

**§ 1. Should improvements be taxed?** Buildings and most other improvements upon land are easily visible, and they cannot easily be removed; and therefore it seems to most superficial thinkers that such improvements are certainly proper subjects for direct taxation.

But it is obvious that most of the reasons for the exemption of visible chattels from taxation apply with equal force to improvements upon land. These are really nothing but chattels attached to land; and the fact that they are so attached makes no difference in their real nature, and should not lead to their taxation.

A little consideration will make it clear that a tax upon improvements is not, in the long run, a strictly direct tax. If the building taxed is occupied by the owner as a residence the tax is levied upon and in proportion to his living expenses, just like a strictly revenue tariff. If he occupies it only for business purposes the tax must, in the long run, be added to his ordinary business profits; otherwise he would be driven out of business by the competition of others, who were able to recover such taxes from their customers. If he rents the building to others they must repay the tax; otherwise no one would put up new buildings to supply the demand of increasing population. Thus in any case taxes upon improvements are

indirect taxes, which must be in the end repaid to the original taxpayer, with a profit out of the earnings of the masses. Like tariff taxes, they are eventually paid by men in proportion to what they spend, not what they have. They, therefore, bear with far more severity upon the poor than upon the rich; and they tend, like tariff taxes, to increase the inequality between the two classes.

Moreover, the value of buildings and other improvements upon land cannot be assessed with even approximate equality, by the most honest assessors. The value of the rich man's house will inevitably be under-estimated; while the value of the multitude of cheap houses will be relatively, if not actually over-estimated.<sup>1</sup> The tax on improvements, therefore, like that on personal property, is not a really direct tax; and it cannot be fairly apportioned among the taxpayers. These taxes are as bad as a tariff for revenue, because they fall upon consumption and are paid chiefly by the poor; and they are worse than such a tariff, because they cannot be as honestly and efficiently collected.

There is but one reasonable excuse for taxing buildings and improvements upon land, when personal property is not taxed. They cannot run away. All other objections to taxes on visible chattels apply with equal force to taxes on chattels affixed to land.

**§ 2. Tax upon all improvements indirect.** Intelligent residents of cities have so long been accustomed to the idea that taxes upon buildings distribute themselves among tenants, that it will meet with ready acceptance. But when we go further and assert that taxes upon the value of other improvements, and especially upon the

<sup>1</sup> This is true everywhere. But it has been shown, conclusively and in detail, that this unjust discrepancy is carried to an enormous extent in Chicago.

value added to land by cultivation, is not a direct tax, but distributes itself in the same way, the doctrine will be considered novel. The vast majority of farm owners and farm hirers have never thought of such a thing. Yet the one proposition must be as true as the other. Let us candidly inquire into the facts.

Our first inquiry must be into the nature and average value of the class of improvements now referred to, which may perhaps be called "absorbed improvements," since they are so completely absorbed into the land as to be inseparable from it. Buildings can be torn down. Fences can be removed. But the value added by plowing, stubbing, clearing, manuring, pasturing, and cultivation cannot suddenly be taken away. Even fences cannot profitably be carried off; and drains or similar works cannot be removed, although they may be destroyed. The average value of such improvements, entirely exclusive of buildings, is shown to be \$40 per acre, in Massachusetts<sup>1</sup>; and it can hardly be less than \$20 per acre in any place where the work of cultivation has been thoroughly done.

Dealing first with the case of the tenant, and assuming the improvement of the land to have been made or paid for by the landlord, it would seem to be just as certain that the average rate of interest upon this added value must be paid by the tenant, in addition to the mere ground rent, as that such interest must be paid upon the value of a dwelling-house. For, if all farm tenants combine to refuse such payment, all farm landlords will cease to make such improvements. The process of enforcing payment of this increased rent might be much slower than the like process with respect to buildings; but the end would surely be the same. This being conceded, how could there be any difference with regard to taxes on these

<sup>1</sup> Census 1885; vol. 3, p. xlviii.

improvements? If the landlord had to pay such taxes, without being able to recover them from his tenant, his interest upon the investment would fall below the rate which he could obtain upon other property; and he would cease to invest in farm improvements. Gradually, new tenants would find no improved farms ready for them; and they would offer to pay taxes and interest on improvements of all kinds. The tenants' supposed combination would thus be broken; and the tax would be shifted upon all tenants.

Dealing next with the community at large, it would seem obvious that the tax upon such improvements, quite as much as the tax upon factories, mills, or shops, would be ultimately added to the cost of production and would be distributed among the consumers of farm products, just as surely, in the long run, as taxes upon imported goods or home-made whisky. Undoubtedly, it would take a long time to complete the transfer, if taxes upon improvements were newly imposed. But as they have been collected regularly, for time, whereof the memory of man runneth not to the contrary, they are most certainly distributed to-day, with as near an approach to accuracy as any other indirect taxes whatever. If taxes upon consumption are to be got rid of, taxes upon all kinds of improvements of land, which can be ascertained and separately valued, must be abolished.

**§ 3. Taxation of improvements injurious to the public interest.** The taxation of improvements upon land is in many ways attended with injury to the public good. No attempt will be made here to deal with this subject exhaustively. Only a few obvious results will be mentioned.

It has already been pointed out that the tendency of all taxation upon things of human production is to dimin-

ish the quantity and degrade the quality of such things. This principle applies to land improvements as much as to movable chattels; and if movables should be relieved from taxation, while fixtures remain subject to it, the weight of taxation upon them would of course be greatly increased; and their production would be more than ever discouraged.

Beautiful buildings are a source of constant instruction and delight. Those who design and erect such buildings, in places where they can be easily seen by multitudes of people, are public benefactors. But beauty in a building attracts the attention of the assessor, and leads to an increase of valuation far in excess of its actual cost. It is no answer to say that the assessor will reduce the assessment, upon evidence that he has overvalued the building. He will not have *overvalued* anything. He will simply have *undervalued* the ugly buildings more than the handsome ones. The effect will be to increase the burden upon handsome buildings, precisely as much as if they were overvalued, yet without the possibility of a remedy. Thus the taxation of buildings is a constant and severe discouragement to the development of architectural taste and beauty.

§ 4. **Proof from experience.** The mere substitution of good glass for bad, in the front windows of a house, usually leads to an increase of the assessment, to an amount twice or thrice the cost of the improvement. Cases could be given in which the expenditure of \$200 in making the front of a house neat and agreeable has been promptly followed by an increase of \$2000 in the assessment, thus imposing a permanent fine of 25 per cent. per annum on the cost of the improvement. It is dangerous even to mend a broken gate or repair a rotten front walk. Shrewd house-owners confine most of their im-

provements to the interior or the rear of their houses, so that the assessor shall not see them, on his annual rounds. There are many houses in large cities, having no external signs of difference, which differ in cost by from \$50,000 to \$200,000, by reason of interior improvements, which the assessor knows nothing about. Yet if \$10,000 had been spent upon the front of one of these houses its assessment would have been increased at least \$20,000. The more honest and faithful the assessor may be, the worse will be his work in such cases.

Nor is it merely in matters of taste and beauty that the system works evil. Houses are cramped and badly built, in order to avoid taxation. In the city of Brooklyn, thousands of houses have three full stories in the rear, but only two and a half in front, for no other reason than that, by the custom of assessors, such houses are charged as only two-storied houses, thus reducing taxation upon them 20 or 30 per cent. below three-storied houses on the same block. Old, decayed, and unhealthy houses are patched up for years, simply because if they were completely rebuilt the tax upon them would be increased to such an extent as to destroy all the profit. We reproduce, at the verge of the twentieth century, the absurd oppressions of the thirteenth, when every rich Jew kept the front of his house filthy and broken down, so as to deceive his Gentile plunderers, while indulging in magnificence in the secrecy of his inner rooms.

The same thing is true in rural districts. A farmer who ventures to beautify the outside of his house, to build a model barn or stable, to make his fence an ornament, instead of a nuisance, or even to make his lawn and garden beautiful or his farm neat, must expect to pay a large fine for his rash act. He is treated worse than a criminal; for if he had committed a crime he would be fined only

once in his life for one act; but if he has dared to beautify his house and farm he must pay a new fine for every year of his life; and his heirs must go on paying it forever. The virtues of the father are visited in penalties upon the children to the third and fourth generation.<sup>1</sup>

**§ 5. Just and equal assessments impracticable.** Justice and equality in the assessment of buildings and other improvements of land are nearly as impracticable as in the case of ordinary visible chattels. The most honest assessors cannot appraise them with even a reasonable approximation to equality. This can be proved both by theory and by experience.

The value of a dwelling-house, for example, cannot be fairly decided by any outside inspection. In cities nothing is more common than to find houses almost precisely alike in outside appearance, which differ greatly in comfort, luxury, and market price. One is well built; the other is not. One is warm in winter, and cool in summer; the next house is the reverse. One has well arranged rooms; the other has not. One is simple externally, but has an interior air of comfort, which makes it always salable; its next neighbor has precisely the same outside, but is so unhomelike, that it gives one a chill to cross its threshold. One has a plain and unattractive interior; the next house is permanently decorated with magnificence and taste. One is decorated with a sham magnifi-

<sup>1</sup> Mr. Wells's famous Report on Local Taxation (1871) contains some admirable illustrations on this point. He mentions instances in which every improvement made upon a railroad was made an excuse for a great increase in its taxes, to the plain discouragement of such improvements and to the peril of human life. He tells how, after the building of one handsome railway station, on the New York Central Railroad, had been punished by a heavy tax, Mr. Vanderbilt refused to build any more new depots. The hideous structures which still remain at Buffalo and other important stations, are a continuing testimony to the folly of taxing new buildings.

cence, which would cause any assessor, if admitted to inspect it, to put a high value upon it. Another is adorned with such perfect simplicity and harmonious beauty as to cost and be salable for twice as much ; yet no assessor would ever guess it.

These are not imaginary cases ; they are illustrations taken from a multitude which have come under the writer's own observation. Houses could easily be pointed out, in large cities, which are assessed at about the same value, and which present substantially the same external appearance, but which differ in cost by \$50,000, \$100,000, and even \$250,000. Probably this entire difference would not be realized upon a sale ; but a large part of it certainly would be.

**§ 6. The wealthy relieved : the poor burdened.** It follows that the dwellings of the very rich will inevitably be assessed, by an honest and unprejudiced assessor, at much less, in proportion to their real value, than the dwellings of those in moderate circumstances. As a matter of course a dishonest assessor will value rich men's houses at still lower rates ; because it is from rich men that bribes can be most easily obtained. In any event, the most valuable houses in cities are sure to escape their full share of taxation.

This, again, is no mere theory. It is a notorious fact. A recent investigation, conducted by a fearless and impartial journal in Chicago, has demonstrated this fact, so far as that city is concerned, in great detail and with conclusive proof. This inequality of assessment is carried to such an enormous extent in Chicago as to leave no room for doubt that it is largely due to actual bribery. But it is found (in a much less degree) in cities where not the slightest suspicion attaches to assessors.

Precisely the same thing is true with respect to office buildings, mills, factories, and all other buildings used for



business purposes in large cities. It has been matter of common rumor and universal belief in one such city, that the office of assessor, in one small ward, full of great office buildings, was worth \$75,000 a year to its occupant.

§ 7. **Farmers unequally burdened.** What buildings are likely to be assessed with reasonable equality, as compared with each other? Can there be any doubt that they are farm buildings and village dwellings? Among these, substantial uniformity of style and cost prevails. The difference will be, for the most part, a matter of a few hundred dollars. Interior decorations are unknown. But, whatever variations there may be, all are familiarly known to the whole neighborhood. The village assessor usually knows all about them; and, if he does not, he has only to ask a few questions at the village store.

The consequence is that with respect to improvements upon land just as much as with respect to personal property, farmers and villagers are sure to be taxed more fully and accurately than the residents of cities; while the richest city residents will pay the smallest share of the tax, in proportion to the value of their property.

The full effect of the taxation of improvements upon farmers and other residents of rural districts must, however, be reserved for a later chapter, dealing with affirmative propositions. Up to this point, our work is purely negative. The example of Nature herself has been followed. We have been engaged in finding out what is bad, not in determining what is good. That is next to be undertaken.