

Statement by Professor Arthur P. Becker

At a Hearing of the Cook County Assessor

Room 569 County Building  
118 North Clark Street  
Chicago, Illinois

August 3, 1972

Professor Michael, ladies and gentlemen:

I am Professor Arthur P. Becker of the Economic Department of the University of Wisconsin-Milwaukee, and have devoted thirty years of my life to studying various aspects of the property tax. I am also Chairman of the Committee on Taxation, Resources and Economic Development and Chairman of the Property Taxation Committee of the National Tax Association. I am appearing as a witness at these hearings at the request of the Architects' Committee for Site Value Taxation of Chicago.

It is my understanding that the State of Illinois has a new Constitution that permits the classification of property for purposes of taxation with no rates more than 2 1/2 times other rates. The people of Illinois are to be commended for breaking the shackles of the uniformity rule in the taxation of property. The possibility of shaping the property tax along constructive and equitable lines can now be regarded as a challenge with a realistic hope of fulfillment. It is a pleasure for me to be here to participate in discussions as to how that challenge should be met.

The classification of property and its differential taxation can produce many desirable benefits if it is properly established so as to account for the economic differences between the natural classes of property. On the other hand, if property is classified and taxed differentially on any other basis; the results will very likely be negative; that is, it will not even be as good as the present uniform tax on property.

We might fairly ask what are these so called natural classes "of property and what makes it so important to utilize these classes, and not others in establishing a differential tax structure?" They are land, improvements (or buildings), tangible personalty, and intangible personalty. These four classes of property cannot be ignored because each has different economic characteristics of supply and demand, and responds differently to the property tax.

For example, the tax on real property is in actually two different taxes, one on land and another on improvements. Whereas the tax on land cannot diminish its supply or raise its cost, the tax on improvements both diminishes the production and supply of improvements and raises their cost.

From this it is easy to conclude that the tax rate on land should be raised while the rate on improvements should be reduced.

One might well ask whether this common sense conclusion is consistent with socially desirable goals of our time. In attempting to answer this question I have identified over 45 benefits or advantages in terms of economic\$ equity, public finance, and environmental needs and objectives. I am not alone in my evaluation of the desirability of taxing land at a higher rate than improvements. This view is shared by Dr. Dick Netzer, one of the nation's foremost experts on the property tax and Dr. Campbell R. McConnell, who is the author of the largest selling textbook in economic principles, as well as many other recognized scholars on the subject.

Time limitations make it impossible for me to do more than single out a few advantages of establishing separate classes of property for land and improvements, and the application of a tax rate against improvements that would be only 40% as high as the tax rate against land (if I am correct about the new Constitutional provisions of the State of Illinois).

# A Comparative Analysis of Property Tax Classification

## By Land/Improvements vs. Categories of Use

<u>Objective</u>	<u>Land/Improvements</u>	<u>Categories of Use</u>
1. Will the reform require the raising of income taxes or sales taxes?	No.	Yes.
2. How will it influence the size of tax base?	It will increase with stimulated building, and reduce flight to suburbs.	It will erode as political pressures grow from groups wanting preferential tax rates.
3. Will it assure an increasing supply of property tax revenue in the future?	Yes. With expansion of land and improvements values. Financial independence will grow.	Little or none. More aid will be required from State or Federal Governments. Financial dependence will grow.
4. Will it reduce the cost of housing?	Yes, due to incentives to increase the supply of housing.	Windfall gains to current home owners only. Renters will not benefit even if rates on apartments are lowered. Lower real estate taxes on residential land will be capitalized into higher land values. Future buyers will pay more for real estate. It will very likely reduce incentive to increase supply of rental housing which will lead to even higher costs of housing in future. It gives the biggest subsidy to the largest home owners.

<u>Objective</u>	<u>Land/Improvements</u>	<u>Categories of Use</u>
5. Will it stimulate private redevelopment?	Yes, decidedly.	No.
6. Will it curb urban sprawl?	Yes. It will promote a more orderly development of urban land from rural land.	No. It will hasten the flight of business if it is taxed more heavily.
7. Will it improve the competitive position of local industry and business?	Yes. Most industrial business will have a lower tax burden. Business improvements will not be penalized.	No. The taxes of all industry and business will rise irrespective of their differences in terms of improvements to land value ratios.
8. Will resources be allocated more efficiently?	Yes. The penalty of making improvements will be lowered for all property owners. Resources will flow more easily where all development opportunities exist.	No. Although there may be a slight increase in the supply of ownership housing which is already being subsidized heavily by the Federal Income Tax.
9. Will it reduce the inequity of taxing the "fruit of man's labor", namely improvements?	Yes.	No.
10. Will it tax more heavily land which man has received from Providence and whose value is determined socially?	Yes.	No.

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11. Will it promote better planning of urban land use?	Yes. It will help implement zoning decisions. Cost of effecting "linkages" will be reduced.	It is doubtful. Higher burdens on business will interfere with development and selection of the most efficient and economically feasible locations.
12. Will it promote the use of mass transit in cities?	Yes.	No. Land will be used less efficiently and population density will fall further. Mass transit will become a bigger tax burden. Dependence on automobile will grow.