

The Graded Tax Plan

Prize Winning Plan Essay

By Walter Fairchild

The purpose of the Graded Tax is to shift the tax load from improvements on land to the value of land. This shift is proposed in order that the benefit of the expenditures of public money for public improvements and services may be spread more equitably over the areas benefited.

It is obvious that money spent for streets, parks, bridges, schools, firemen, police, street cleaners etc. increases the land values of the areas served by such public service. The task that confronts us is to devise a plan whereby the municipality may absorb into the public treasury the values created by the expenditures of this public money.

Land Value Only Measure of Benefit

Land value is the result of the presence and industry of population, and of the expenditure of public funds for social needs. It is an error to assume that a combination of building-value and land-value provides a proper measuring stick to gauge the relative advantages of a particular site in its enjoyment of the benefits of public services. Land value alone represents an equitable gauge.

Buildings Do Not Increase in Value

The increase of public works and services does not add to the value or cost of buildings. The cost of buildings tends to decrease as roads and other means of transportation and facilities are improved. The increase of land value, moreover, accrues just as much to a vacant site as it does to an improved site. In fact, city improvements may be so great as to cause existing buildings in a given area to become obsolete and less valuable.

Another reason why building-value does not constitute a proper measure for the even distribution of tax benefits and burdens is that the adequate use of particular sites for the pur-

(In our January, 1938 issue, we announced a reader's offer of One Hundred Dollars as a prize for an essay which might serve as a memorandum to city, state or national authorities for legislation leading to the introduction of the Georgist taxation proposal. The judges have been struggling for the past two months with the essays submitted. Selection of the prize winning essay was made difficult by the numerous excellent papers submitted. But, at long last, the prize was awarded to Walter Fairchild, for the paper printed herewith.—Everybody cannot be a winner, and judges are not infallible. But, it must be conceded that this essay presents a practical plan, well argued, concise. Comments and criticisms will be welcomed.—Editor.)

pose for which they are best adapted does not require the same amount of building cost in all cases.

Homes May Cost Five Times the Site

For example, adequate residence buildings cost five times as much as the land on which they are built. On the average there is \$200 of land value for each \$1,000 of building cost for new dwellings*. The average single-family house consists of five rooms, housing on the average five people, so that land value used for living purposes in Greater New York is \$200 a room, or a person. Multiplying 7,500,000 (population or rooms) by \$200 makes \$1,500,000,000 of land value used for dwellings. There is about \$8,000,000,000 of land value in Greater New York**. This leaves \$6,500,000,000 of land value used for commercial purposes, or wasted in vacant land.

Homes Pay on Six Tax Units

In Queens, Brooklyn, Bronx and Richmond, modern homes which are taxed on the building cost as well as the land value, on the average pay on a \$6,000 assessment, \$5,000 on the house and \$1,000 on the land; that is, on six units of taxation of which five is on the building and one on the land value.

Commercial Properties Pay On Two Tax Units

The average modern commercial building occupies land valued about equal to the building. Adding together the assessments on business buildings in Manhattan along its commercial backbone from Battery to Harlem,—1,100 of the world's finest—we find the land value and the building value almost equal. The ratio is one to one. The reason is obvious. The average worker occupies about 50 square feet of office or store space. At home the same worker has 250 square feet of space. It takes five times as much brick and mortar to house a man at home as it does to house him at work. An adequate commercial building therefore pays on but two units of taxation, one on building and one on land.

Vacant Land Pays on One Tax Unit

Land held idle for speculation pays on the land value only. There is more idle land in Greater New York than most of us realize. The Tax Department classifies as vacant only land which is wholly unoccupied. If a small, ramshackle or boarded-up tenement is on the site it is classified as improved. A good commercial site worth \$10,000 with a \$1,000 shack on it should be considered 99 per cent vacant. A \$20,000 slum site with a century old fire-trap on it assessed at \$5,000 is really 95 per cent vacant, because it should have an apartment house on it worth \$100,000, or five times as much as the land.

Using these measures of sufficiency Manhattan Island as a whole can be considered as only 25 per cent adequately improved, or seventy-five per cent vacant, in a social sense.

The total land value for the entire city is about 8 billion dollars, against about 8 billion dollars improvement value; making a ratio of one unit for land to one unit for buildings, or two tax units.

Graded Tax Will Check Inequality

It is the objective of the Tax Department to apportion the burden of

the budget equitably over the entire city. It fails to achieve this equity so long as it must use building costs as the measure of taxation. More than three-fourths of its energy is consumed in measuring the value of buildings.

It is the purpose of the graded tax plan to correct the discrimination which enriches land speculators and robs the home owners to an extent that makes owning a home almost impossible. Under the present tax system a \$6,000 home (taxed on six tax units at the rate of \$2.70 per \$100) is taxed \$162. If equalized to the city average under the graded plan the tax would be on two tax units at 2.7 on each \$100, or a total of \$54. The difference is \$108 a year. Capitalized at 5 per cent this difference is worth \$2,160, or nearly half the cost of the house.

Shift Made Gradually

Under the graded tax law proposed for New York City the shift of the tax from improvements to land is accomplished by increasing the rate on land and decreasing the rate on buildings 10 per cent a year for nine years, until the rate on buildings is one-tenth that on land value. Strict logic would seem to indicate that, the evil being identified, an immediate change would be more beneficial than a gradual one. But mankind resents changes that suddenly violate established custom.

The Remedy by Law Is Simple

A bill has been drafted for introduction in the City Council, providing for a gradual shift of 10 per cent a year for nine years. The full economic value of land, instead of the market price, is taken as the tax base.

There is a difference between land value and land price. The selling price of land is less than the economic value of the site to the extent of the capitalization of the present land value tax. A lot selling at \$1,000 which is now taxed at 2.7 has an annual ground rent value of 5 per cent of \$1,000 (5% being assumed as the going rate of interest) plus the 2.7 per cent tax. This is 7.7 per cent on \$1,000, or \$77 a year. If the current worth of money is 5 per cent, this makes the full economic value of the site \$1540.

Tax Base Should Be Full Economic Value

Pittsburgh has had a partial graded tax law for many years.† It has not resulted in benefit to the extent expected because of basic defects in the law which tend to defeat its purpose. The Pittsburgh law has three major defects; (1) It goes only half-way—the building rate is one-half of the land rate. (2) It uses selling price of land, instead of the full economic value, as the tax base. (3) The building value, used as the tax base, tends to increase both in quantity and relatively as the land value base decreases.

The effect of decreasing the building tax rate is to encourage new building—a good thing in itself. The effect of increasing the rate on land value is to discourage holding land idle and to decrease the selling price of land—also a good thing.

From the standpoint of the Municipality, however, the decrease of the selling or market price of land decreases the tax base for land, and as the rate continues to increase the selling price of land as a tax base tends to disappear.

These practical assessing difficulties are overcome by the simple device of using the full economic value of land as the tax base.

How to Determine Economic Value.

To determine the economic value of land we add to the market value (presumed to be the assessed value) the current tax capitalized at the going rate of interest. The tax on a \$1,000 lot at 2.7 is \$27, which would pay interest (at 5 per cent) on \$540; this added to the market value makes the economic worth of the lot \$1540.

Since 1900 New York City has assessed land values and building values separately. Since 1904 it has published a land value map which makes it easy to see where these land values are. Since 1936 it has been modernizing its recording equipment and has established a Research Bureau to check results. With these facilities it is possible to achieve an assessment that is equitable for all who own property.

Graded Plan Would Increase Tax Base

The assessed or market value of



the land of Greater New York is about \$8,000,000,000. The tax on this at 2.7 equals \$216,000,000, which is 5 per cent of \$4,320,000,000. Adding this capitalization of the tax bill to the assessed or market value establishes the full economic land value of the City at \$12,320,000,000. Adding the present building assessment of \$8,000,000,000 makes the City's tax base exceed \$20,000,000,000. This is the true present value of the "Golden Earth" under this great city of ours. The value would be enhanced by the great stimulation to building resulting from the proposed law.

Constitutional Limitations in New York

The provision in the proposed tax law to stop the reduction in the building rate at one-tenth of the land rate is made in order to retain building value in the tax base. This is necessary because of two limitations in the New York State Constitution—one that the tax rate on real estate shall not exceed 2% of the tax roll, and the other that cities may borrow only up to 10 per cent of the tax assessment roll.

The first limitation has no proper place in the Constitution and the second would become unnecessary when the graded tax plan is adopted, because the City would then be able to pay for public improvements without borrowing, and the public debt service burden on current taxation would tend to disappear.

* Value of improvements plus the value of the land from B. C. Viadeck report, New York Times, January 29, 1938.

** 1936 Report, Commissioners of Taxes and Assessments, New York City.

	Ordinary	
	Total Taxables	Real Estate
Land	\$7,565,297,281	\$7,314,943,341
Improvements	8,418,134,00	7,551,714,565
Francises	695,334,267	
Total Real Estate	\$16,678,765,548	\$14,866,628,906

† Graded Tax Law proposed as an amendment to the Administrative Code of the Charter of the City of New York.

‡ a. "Pittsburgh's Graded Tax in Full Operation" by Percy R. Williams, Pittsburgh Board of Assessors.

b. "A Practical Program for Tax Reduction" Pittsburgh Taxpayers League.

c. "Differential Taxation of Land and Buildings" by Harold S. Buttenheim, Editor, American City, N.Y.C.

d. "Practical Application of Graded Tax Plan" U.S. W.P.A. Project No. 46" (study).