Realtors Demand Tax-Proof Shelter

By WINTHROP L. UPTON

Although real estate carried but one-third of the national tax burden in 1939, as compared with one-half in 1902, the "realtors" are far from satisfied. At the recent meeting of the Federation of Tax Administrators, the plea was made by the National Conference of Real Estate Tax Payers that real estate is overburdened, that a top limit should be fixed for taxes on real estate, and that sales taxes should be depended on for additional revenue.

The National Conference of Real Estate Tax Payers is sponsored by numerous realty organizations. Its tender solicitude for real estate, coupled with its complete willingness to let the long-suffering public "take the rap" is thus understandable.

The specific proposals offered to the Federation of Tax Administrators by the National Conference of Real Estate Tax Payers embodied six points, as follows:

1. The placing of a ceiling on real estate taxes through placing in each state an overall limitation on the aggregate real estate tax. Nine states now have such a limit.
2. Relation of taxable value of real estate to productivity (meaning income) of real estate.
3. Continuous effort for governmental economy and efficiency.
4. The drawing of financial support for education from a broader tax base.
5. Amendment of Federal inheritance tax laws to permit not less than ten years for the liquidation of estate properties, to avoid unnecessary losses through forced liquidations. Elimination of the capital gains tax as applied to real estate.
6. Creation of a Commission on Taxation and Land Policies of the United States, to study overlapping of the 175,000 taxing units in national, state and local taxation, consider economic and social effects of present tax maladjustments, and evolve proposals for readjustment of the whole national-state-local tax structure.

Let us look at this program and see what its real significance may be.

Proposal 1: Since no "ceiling" on taxes on cigarettes, gasoline, food, or incomes is embraced in our theory of taxation, why should real estate be singled out for this special protection? This smacks of class legislation in its worst form. The proposal strikes at the heart of the problem and forces us to recognize the distinction between land and wealth —the distinction between the collection of ground rent by the community for the common benefit and its retention by individuals.

As a primary answer to this proposal we submit that **no government has any right in equity to collect any taxes on anything until all the natural earned revenue of that government has been collected.** All the people of the Commonwealth have together created every dollar of land value in the Commonwealth and should collect every dollar of ground rent from titleholders before paying a single dollar of taxes. When the Association can show that the full ground rent of all land has been paid to the government, and prove the claim by establishing the fact that the land has no selling price, then we must willingly grant that the titleholder has liquidated his obligation to the community; but as long as there is a selling price for a land site, that fact proves that the titleholder is keeping for himself some part of the ground rent.

Proposal 2: Basing the taxation of land on the income derived from it by the owner is tantamount to encouraging land speculation, punishing the users of land. Under this proposal vacant and unused land would be tax exempt, and crops and buildings would bear the brunt of taxation.

In the year 1937 if all ground rent had been collected by the State of Massachusetts there would have been an actual surplus to apply on funded debt of around 30 million dollars. Giving landholders credit for all taxes on buildings, the subsidy to them exceeded 145 million dollars. The question of whether a specific site would pay more or less as ground rent than it actually paid in combined taxes on land and buildings would be answered entirely by the degree to which the advantages of the site were developed. If a titleholder cannot or will not develop properly the site desirability as measured by value, it is his own business; but that does not relieve him from the responsibility of paying to all the people through government the ground rent **which all the people have already earned.** If the burden of ground rent on underdeveloped property is too great for him to carry he always has the option to turn loose.

Proposal 3: When rent is privately appropriated, government efficiency and economy merely benefit the landowners. Good government tends to stimulate production, which in turn increases rent. The returns to capital and labor are not materially increased.

Proposal 4: The proposal to shift the cost of education and other social services is characteristic. All opposition to the improvement of social services always originates with landowners' protective organizations.

Proposal 5: The public appropriation of rent should and could do away with inheritance taxes. Estates based upon landholdings would disappear. Estates based upon capital would disappear if the capital were not productively used. To destroy capital aggregations which are actually used in production is against the public interest, for from such a use the public gains in greater satisfactions or lower prices.

Proposal 6: A commission to study, recodify and adjust our tax laws might be beneficial if it started with a theory of taxation, rather than with a theory of exemption and special privilege. But in the present state of public ignorance and in the light of past experience with political bodies it must be expected that the results of such a tax commission would be merely a reflection of the pressure exerted on it by the various groups interested in "reform." How often do we see a public official courageous enough to defy a clamorous powerful minority in his concern for the general welfare?