

The Exemption of Improvements and Land Value Taxation in Pittsburgh

By The Hon. William N. McNair

Mayor of Pittsburgh

The Pittsburgh Graded Tax Plan—although as yet limited in its scope—has meant lower taxes for the great majority of ratepayers in Pittsburgh.

City taxes on all buildings are now one-third lower under the Graded Tax than they would be were the old flat-rate system still in effect.

No loss of public revenue results, as City taxes on land are approximately one-third higher under the Graded Tax than they would be were the old flat-rate system still in effect.

The Graded Tax Plan is based upon sound economic principles, recognizing the truth that high taxes on improvements and low taxes on land values retard development, while lower taxation of improvements and higher taxation of valuable land promote development. The "land question" is of fundamental economic importance in any plan for solving the housing problem, for providing better living and working conditions, or for promoting better business.

Under the old idea of taxation, those who improved real estate always bore the principal burden of taxation—the greater the improvement, the higher the taxes. Vacant or poorly-improved land was lightly taxed, assessments thereon being comparatively low. The Graded Tax Plan undertakes to correct this situation and has materially reduced the burden on improved real estate. Justice, as well as progress, demands that the Graded Tax be extended as rapidly as possible, allowing, however, a reasonable time for all to adjust themselves to the more scientific revenue system.

The Graded Tax law enacted in 1913 provided for a very gradual adjustment of the tax rates through five successive steps, beginning in 1914 with a rate on buildings, 90 per cent of the land rate, and ending in 1925 with a rate on buildings of 50 per cent of the land rate, with each step a portion of the tax burden being shifted from buildings to land values. Since 1925 the City rate on buildings has been just half of the rate on land. This ratio continues indefinitely, as long as the present law stands without amendment.

The building tax rate applies uniformly to all buildings. The land tax rate applies uniformly, not merely to vacant land, but to all land. In its practical effect, however, the Graded Tax falls more heavily upon the owners of valuable vacant land and less heavily upon the owners of land improved

Land Value Taxation in Pittsburgh

with buildings ; the increased land tax being more than offset by reduced building tax wherever the value of the building exceeds or equals the land value.

Tax savings under the Graded Tax Plan are not confined to any particular class of real estate owners. Striking examples are given covering various classes of improved properties—apartments, single-family dwellings, office buildings, manufacturing plants, warehouses, hotels, etc. It is not, of course, claimed that all owners of improved real estate save through the Graded Tax, but the great majority do.

The effect of the Graded Tax in any particular case is determined by merely calculating the difference between the total City taxes paid under the present separate rates and the total taxes that would be paid at the flat rate on both land and building values of \$15.20 per \$1,000. While the average tax rate for the entire city is about \$15.20 per \$1,000, the average tax rate of the great majority of the taxpayers is much less than this figure, since the majority pay the lower rate on the greater portion of their taxable valuation. A small minority of the taxpayers, having larger holdings in land than in improvements, pay an average rate higher than the \$15.20 rate.

In other words, if (through the Graded Plan) a taxpayer has received a reduction in building tax which exceeds his increase in land tax, his actual net saving as an owner of both buildings and land will be equal to the amount by which the reduction on the one hand exceeds the increase on the other. It is not a matter of how his building value compares with that of some other taxpayers who may happen, for instance, to own a "skyscraper." The only essential point is how one's own building value compares with his own land value, since the modest home of the poorest citizen may greatly exceed in value the piece of land upon which it stands, while amidst the high land values of the central business district it requires a large and expensive building to equal the value of the site, land values in cities being almost solely a matter of location.

Every property owner whose assessed building value exceeds or equals his land value, is now paying less taxes under the Graded Tax law. He would increase his tax savings in the same proportion by the proposed extension of the Graded Tax Plan.

Since three million dollars of the 1936 City tax levy has been shifted from buildings to land, it is a reasonable estimate that the total actual savings to owners of improved real estate are probably as great as two million dollars annually. This estimate allows a deduction of one million dollars to cover that portion of the tax shifted from buildings to land which falls upon the owners of improved real estate (who are, of course, subject to both land and building taxes) and which, therefore, is deducted from their individual savings on building tax in order to arrive at their net savings on their properties as a whole.

Probably more than 95 per cent of all home-owners in Pittsburgh pay less taxes under the Graded Plan. Though tax savings, measured in dollars, are naturally much larger in the case of highly valuable commercial properties, the home-owner stands out as the chief direct beneficiary, and his tax savings in proportion are usually greater than those of improved property owners in any other class.

Hon. William N. McNair

An analysis of the taxes paid by the real estate owners of the 13th Ward of Pittsburgh, a typical residence ward, gives perhaps the clearest proof of the above statement. In this ward, out of a total of 3,272 owners of improved properties, 3,250 pay from 30 to 5 per cent less by reason of the Graded Tax system. Only 22 "improved" properties in this entire ward failed to show a saving—in these latter cases the structures have relatively little value as compared with that of the site.

Taxation is undoubtedly one of the great issues in the minds of the people to-day. The relation of taxation to housing is particularly significant. Many students of the question are now coming to see that the housing problem will never be solved while the land problem remains unsolved. Land must be made available at prices which prospective home builders can afford to pay and land speculators must not be permitted to stand in the way of needed housing projects. But the land question will never be solved while the taxation remains unsolved. The taxation problem will never be solved while assessors are required to tax real estate as though land and buildings were one and inseparable.

In providing the public revenues of any city, the less we tax land the less is the pressure on owners to sell or use the land for housing projects. The less we tax improvements, on the other hand, the greater inducement there is to erect new homes or improve old ones.

After 20 years of taxing houses less than land, I think the people of Pittsburgh are heartily in favour of the system and no one of consequence in Pittsburgh seriously proposes a return to the old system which prevailed prior to the Act of 1913. Pittsburgh is moving in the right direction. But the Graded Tax Plan has not yet had an opportunity to demonstrate its full value, for it does not yet apply either to school or county taxes which must also be paid by owners of Pittsburgh real estate and which, combined, are approximately equal to the city tax.

Nor has the Graded Tax been extended as far as it ought to be in the raising of city revenues. City taxes on buildings may be reduced much further to the great advantage of the entire community. Much greater benefits will be realized if Pittsburgh's present tax policy is so extended in scope as to materially reduce all taxes on improvements and eventually to *eliminate* all taxes on improvements.

I know of nothing my administration could accomplish that would be a greater real and lasting benefit to the people of my city; and, as interest grows from week to week and from month to month in the study and discussion of economics and taxation, I feel that we are making substantial progress towards our goal.