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NOT THAT MUCH! By J. J. POT (Grondvest, Netherlands)

On the last day of 1979, the City of Pittsburgh raised the 1980 tax rate on land assessment by 2.8% (28 mills) to a new level of 125 mills. The total tax rate on land in Pittsburgh will now come to 173.365 mills, since the county levy is 19.365 mills and the school levy is 29 mills (125 + 19.365 + 29 = 173.365). (Incentive Taxation, Winter 1980.)

Before the tax was raised, the levy was 173.365 - 28 = 145.365 mills. That is approximately $145 from every $1000 assessed value. Assessments are supposed to be at 25% of market value, so $1000 assessed value is $4000 market value.

Now have a look at the purse of the landowner. If he, from his money in a savings bank, gets 8% interest and the inflation rate is 6%, then the yield of his money is 2%. If he buys land for an amount of $4000 market price, he expects a return of 2% of $4000, or $80. He has to pay a tax of $145, so his land has to produce a return of 80 + 145 = $225. This $225 is the rent or rental value of his land, shared by the tax collector ($145) and the owner ($80). This rent, capitalized against a rate of 2%, the real capital value of the land is $11,250!

For 1980 the tax of 145 mills is raised by 28 mills to 173 mills. The owner expects 2% of the market price, equal to 8% of the assessed value or 80 mills. His land has to raise 173 + 80 = 253 mills of the assessed value. The yield of his land was $225. This rent will be shared by the tax collector and the owner in proportion of 173 to 80. So the tax collector gets 173/253 from $225 = $154 (an increase of $9), and the owner gets 80/253 from $225 = $71 (a decrease of $9) ... a shift of $9 from the owner to the tax collector.

Moreover, the tax at $154 is 173 mills of the assessed value. So the assessment is no longer $1000 , but only 154/173 x 1000 = $890. (173 mills from an assessed value of $890 = $154.) And the selling price of the land is the capitalization against 2% of the return at $71, that is, $3550.

So the tax increase is not $28 per assessed value of that land at $1000 last year, but only $9! And at the same time this tax raise of 28 mills takes from the owner a capital value of 4000 - 3550 = $450!