

curtail or limit such evils. Under this system the landlord has to continue to pay the same taxes on the land whether he has a building and supplies housing services or not. This means that if he allows his building to run down, he will not get a tax cut from the municipality, but *will still have to pay the same taxes.*

Only recently was it recognized in the United States that the burden of supplying adequate housing cannot be met successfully by public agencies. A Congressional Research Service came to the conclusion that only the private sector could solve the problem through the adoption of site-value taxation by the Government.\*

If this is the right policy to adopt, should we wait for a chaotic situation in our cities before considering this method? Or shall we as conscientious people

\* *Property Taxation: Effects on Land Use and Local Government Revenues.* A background study prepared by the Congressional Research Service for the Subcommittee on Inter-government Relations of the Committee on Government Operations, United States Senate, February 24, 1971. Government Printing Office, Washington, D.C.

start to think immediately and adopt policies to prevent these predicted evils? It is in our hands to determine the future we want by adopting the right policies.

If we assume that the total amount of property taxes collected should remain equal to those collected under the present system, then calculations in many places of the world have shown that most home owners will enjoy reduced taxes under the site-value taxation method. The ones who will have to pay more taxes are those who hold big, valuable urban sites with a relatively small capital investment (building) on it. Thus site-value taxation will give incentive to improve the use of land and will enhance equity in our society.

Under the present system, efficient landlords who hold valuable building assets have to pay high property taxes and are actually subsidizing other land owners who hold underused or unused land and who consequently pay less taxes. It is clearly in the interests of efficient landlords, builders, and developers—as well as of the community—to adopt site-value taxation.

## Retrograde Proposals

From *House and Home*, USA, April

PERRY PRENTICE\*

**"Shifting our school costs from property taxes to a federal sales tax won't help homebuilders or buyers . . . What's needed is a uniform statewide tax on land only."**

**B**EFORE homebuilders and homebuyers start cheering for proposals that would provide property-tax relief by taking school costs off the property tax, they should take a good long look at what that kind of unthinking relief is costing homebuilders and homeseekers in Europe.

As any competent economist could have predicted, the resulting low property tax has been capitalized into impossibly high land prices. So, for example, a 50ft. x 100ft. lot for a small house in a suburb of the capital of Switzerland would sell typically for 220,000 Swiss francs, or a bit more than \$55,000. And on the outskirts of London, land zoned residential is priced as high as \$192,000 an acre.

### The Culprit

Low property taxes are the biggest reason why land prices in Europe are so crazy high - why private enterprise has been priced out of most of the housing market, why from 50 per cent to 80 per cent of all

new housing has to be government-built or government-subsidized; why up to 85 per cent of all new housing construction is limited to land-intensive apartments (mostly high rise) instead of land-expensive houses.

In our own country under today's mis-application of the property tax, the owners of good homes (whose ratio of improvement value to land value is high) do, indeed, carry an unfair share of the property-tax burden as compared to slum owners and speculative owners of idle and under-used land (whose ratio of improvement value to land value is low). But the right way to correct this unfairness is not to shift more of our school costs to a highly regressive federal sales tax or to finance them through bigger federal deficits that would feed inflation.

The best way to correct this unfairness would almost certainly be to shift all the basic costs of public education to a uniform statewide tax *on land only*, as recommended by the Governor's Fiscal Policy

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Commission in Oregon. This would be far better for homeowners (and homebuilders) than the New York proposal to levy a uniform statewide tax of \$2.04 per \$100 of true value on both land and improvements - a proposal that would actually increase the property tax on most homes.

Sooner or later, everyone will have to recognize that what we call the property tax is not just one tax; on the contrary it combines and confuses two opposite and conflicting taxes whose consequences could hardly be more different. Said the consensus of a round table of urban experts co-sponsored (amongst others) by the Council of State Governments and the National League of Cities:

"One of the two conflicting taxes fused and confused in the property tax is the tax on improvements - the tax on what past, present and future owners of the property have spent or will spend to improve it. And it must be obvious to anyone that heavy taxes on improvements are bound to discourage, inhibit and often prevent improvements.

"The other levy confused in the property tax is the land tax - the tax on the location value of the site, the tax on what the property would be worth if the owners had never done anything . . . to improve it, the tax on the value that derives mostly from an enormous investment of other peoples' money . . . to create the community around it and make the location accessible, livable and richly saleable. And it must be obvious to anyone that heavy taxes on the location could put effective pressure on the owners to put their sites to better use so as to bring in enough income to earn a good profit after paying the heavier tax.

"All this is so obvious that you would think every city would try to tax land heavily and tax improvements lightly if at all, but just the opposite is the case. Almost every community collects two or three times as much money from taxes on improvements as from taxes on land; in fact many communities tax improvements more heavily than any other product of American industry except hard liquor, cigarettes and perhaps, gasoline."

#### **Biggest tax shelter**

Conversely, these communities so under-assess and under-tax under-used land that its price has been skyrocketing 6.19 times as fast as the rest of the price level. Under-valued land has become by far the biggest and most profitable tax shelter of all - a tax shelter in which landowners can get rich in their sleep, without working, risking or economizing. The result: Homebuilders and buyers must pay: 1) heavier taxes to make up for landowners being so under-taxed and 2) much too high a price for land because landowners are under almost no tax pressure to sell.

The under-taxation of land that is so good for land-owners is bad for everyone else.

1. It is bad for the land developer because the more land developers have to pay for raw acreage and the farther out into the boondocks they have to sprawl to find acreage they can afford to buy, the less margin they have to cover their land-development cost and the less profit they can hope to make on the development dollars they risk.

2. It is bad for the homebuilder because the more he has to pay for his lots, the less money he has left to build more sales appeal into his houses, the greater his risk of having to price his product out of the market and the less his chance of selling his houses at a good profit.

3. It is bad for the subcontractor, the building-materials dealer and the building-product manufacturer. When a builder has to pay \$5,000 too much for his land, he has to take that \$5,000 out of his house somewhere or go broke. So he passes the squeeze on to his subs, his dealers and the building-product manufacturer.

4. It is bad for the mortgage lender because the more water there is in the land price, the less real value the mortgage will represent and the less his security.

5. And it is bad for the Realtor because Realtors live by making sales and today's crazy land prices are pricing thousands of sales clear out of the market.

#### **An old story**

More than twelve years ago *House & Home's* first special issue on land and land use noted that homebuilders had voted four to one that land was their most critical problem and quoted NAHB economist (now executive vice president) Nat Rogg that "today's land situation is a killer for the builder."

The concluding headline was:

"The only way land-price inflation can be prevented is to tax land more heavily."

That would be a far better solution to today's housing problems than the enormous subsidies the federal government has been pouring into housing - subsidies that HUD Secretary George Romney says can now run over the years as high as \$148,280 to enable a moderate income family to rent a little \$17,500 apartment, subsidies that have gone mostly to offset the subsidy-accelerated inflation in land prices that accounts for so much of the 84 per cent increase in housing costs since 1967.

So a uniform statewide tax on land only would be a many-times-better solution to our school-cost problem than proposals for shifting the cost of education to other tax sources in order to ease the property-tax burden on homeowners without correcting what is so obviously wrong with the way the property tax is now applied.