Mathematics for the Site Value Tax Legislator

by W. D. STOWE

WHEN legislation is being formulated to promote collection and application of land site rental for public use, the effect of the wording in the basic constitutions and the collateral statutes requires consideration.

Let us view an entrepeneur who has $5,000,000 to invest, and aims at a return of 10 per cent to cover current profits and risk. He calculates that in his enterprise he can allot $1,000,000 for land, $1,000,000 for buildings, $1,000,000 for equipment, and $2,000,000 for working capital. The assessed value of the land being at its total productive value, is $1,000,000, and the sum of the tax rates in the area totals 100 mills for the several political divisions having jurisdiction. The problem of the entrepreneur is to find a plot which to him has a physical and social value (net ordinary productive yield) worth $100,000 per year. Really, it is a matter of indifference to the entrepreneur whether the assessment is $500,000 with a total public rate of 20 per cent (200 mills) and no cost to obtain title (a nominal cost of say $100 is negligible for our purpose), or if assessment is $300,000 with a total public rate of 30 per cent and an outlay of $100,000 at 10 per cent investment value to obtain title. The entrepreneur's cost upon money devoted to land occupancy is still $100,000 per annum.

The entrepreneur's gamble in selecting the site is whether, if the public rates upon assessed value should increase by say 10 per cent, the increased "tax" cost will be accompanied by increased benefit to the entrepreneur's particular business. If he be a manufacturer with land site in the center of the town, the increased public charges might be of no corresponding benefit. If he be a merchant, an added public charge may have coincided with an increase in value of the site for the particular enterprise.

From the public assessor's point of view, let us contemplate capital as worth 8 per cent on the average, risk and secured. Site values, as such, are considered as naturally worth 7 per cent per annum of capitalizable total value, and the rate is 70 mills for all public requirements. The annual advantage of the site over the margin must be at least 7 per cent unless it is to become a burden on the other elements of the enterprise. If there be $1,000,000 assessment upon a land site at full productive value, the annual yield at 70 mills to the governmental divisions totals $70,000, and there remains $10,000 per annum to the entrepreneur for which he might be willing to invest $125,000 of capital. Thus the yearly cost of this site which is assessed at $1,000,000 is $70,000 payable to the governmental divisions and $10,000 payable for $125,000 from whatever source it is obtained, title holder or creditor. If for the sake of earning 8 per cent or more upon the remainder of capital invested in the enterprise, or for some other reason, the entrepreneur is willing to pay more than $125,000 for title to the land site, such consideration will modify what in this particular case is the market price of the particular site.

We may still think of the entrepreneur as devoting practically $1,000,000 to his land site, as that amount invested with a yield of $80,000 to take care of the yearly costs of the site. From stockholders or creditors he obtained $125,000 for direct investment in land title and $875,000 for extended investment in equipment of the enterprise. Or, the margin in his enterprise may obviate the need of raising the $875,000 at all, the natural use value of the site being covered by the other earnings of the investment but thus reducing the net profit of the more limited operation.

Let us note that the "market" value of the site we have just been considering is $125,000 and if $70,000 is to be obtained for use of the governmental divisions under statute which requires "assessed" values to be tied with but small modification to "market" values, the rate of levy needed is 560 mills upon that valuation, although it would be only 70 mills upon total productive capacity of $1,000,000. The officially assessed value of real estate, as in Pennsylvania for example, is likely to be the basis against which statute permits only a limited rate of tax to be applied; and further, it is the initial basis upon which is computed the borrowing capacity of a local community. Statute is apt to direct that assessed value be "actual" value, and the courts until now lean heavily upon "market" value as to what shall be designated the actual value.

It is to be borne in mind that to the degree that the ideal of devoting to public use all of the site value rentals comes more and more to be realized in practice, market value will approach zero. Hence anticipatory amendments in current statutes may well be sought to insure that *actual* value in the minds of assessors, and in the view of the courts, shall be determined not as necessarily close to market value, but rather tied to market value after adjustment to eliminate the effect of whatever may be the total of public rates levied upon the site. The removal of limit upon rates that may be levied upon land, and statutory language requiring full valuation according to potential productivity are of a piece with desirable public revenue reform.

William Quasha of Manila, a former member of the faculty of the Henry George School, will return to New York next month for a visit to the school. He left New York in 1942 to join MacArthur's staff and fell in love with The Philippines, resolving to make his home there. Now a corporation lawyer in Manila, he is actively interested in taxation reform. His latest project for Henry George education there was the purchase of 100 copies of *Progress and Poverty*, also copies of *Taxation's New Frontier* by Joseph S. Thompson, and reprints from the House and Home issue of August, 1960, devoted to land. He has been giving these to prominent senators and to professors in universities and reports that the letters of appreciation he received are most encouraging. This gift was incorrectly attributed to Lancaster M. Greene of New York in the December HGN (page 15). Mr. Greene visited Mr. Quasha in Manila recently, but it was Mr. Quasha who paid for and distributed *Progress and Poverty* and other literature.

As Masonic Grand Master of the Philippines this year, and past commander of all their American legions, Mr. Quasha is in a unique position to bring the land problem to the attention of leaders of thought. He will attend the Masonic Grand Masters' Conference in Washington, D. C. in February.