

Tax the Land Not the Building

By Gilbert M. Tucker

With the constant expansion of governmental activities, it is doubtful if we can hope for any substantial and permanent cut in taxes, but it should be possible to ease the tax burden of the realty owner. If we must struggle with a heavy burden it can be carried far more easily in a wheelbarrow than in our arms. We believe that the real evil of realty taxation lies more in the way that taxes are levied than in their magnitude. Taxes, even higher than today, could be imposed in a way which would make them far less onerous to legitimate business. Taxing buildings discourages their construction, raises costs and restricts supply. Taxing land values does not decrease the size of the city but rather makes land more available by bringing it on the market.

City land seldom earns any substantial income unless occupied by a building. There is some demand for parking lots, and, when the circus comes to town, a vacant lot may earn something, but it is almost invariably true that a vacant city lot brings in little but tax bills.

It follows then that, if building is impossible, the land itself becomes worthless. The great difficulty which confronts the realtor today is that we so tax buildings that the tax-collector harvests most of their earnings, leaving so little to the owner that there is neither profit nor incentive in building. By a crazy tax system which penalizes the use of land we destroy much, and sometimes all, of its value.

Cites Examples

Consider three actual examples all in one city; but they can be duplicated almost anywhere. There is a fine, wide, well-located lot with frontage on two good residential streets. The lot was sold years ago for an apartment house development, but after razing the existing buildings—and destroying whatever value they had—to cut tax bills, it was found that, were plans carried out, taxes would absorb so large a part of the earn-

ings of the buildings that the investment was not attractive. The owners tired of paying taxes and the property is now in forfeiture, its value totally wiped out, worth nothing to the owners and yielding not a penny of tax revenue.

A second example is a house in the same block which I formerly owned. It is obsolete by today's standards and it is difficult for the property to earn its taxes. Were it possible to replace the old residence by a modern apartment, the property should become very profitable, but high and arbitrary taxation of improvements makes building practically impossible and so the holding was sacrificed for a mere fraction of what it was once worth.

The third example is in the outskirts of the city where there has been a premature subdivision of building lots. There are many of them assessed at \$400 each. A few houses have been built, assessed at \$3,600, and taxed at about \$144 per year—nearly enough to equal interest on their cost. But most of the lots are vacant, taxed at \$16, and nearly all are delinquent and

in forfeiture. They are worth nothing, so long as houses suitable to the locality are prohibitively taxed. Untax improvements and these lots would find a ready sale.

Untax Buildings

The way to clean up the whole difficulty is to untax all buildings. Levy the same tax on the vacant lot and on the lot with its skyscraper and the vacant lot will not long stand idle. It will pay to build upon it, whether the district be commercial or residential. Real estate would again come into its own, its values no longer eaten away by an idiotic tax system which first consumes the value of buildings and then of land. Slums would go, too, to be replaced by modern housing, but good and useful buildings would not be torn down as they are today to cut tax bills, letting the lots stand idle and vacant.

Were we to untax buildings and comparable improvements, it would be necessary to increase the levy on sites to counterbalance the resulting loss of tax revenue, but such an increase would not offer

the slightest obstacles to building and improvement. Rather would the reverse be true, for, instead of a higher tax on land values being a deterrent to building, it would give an added incentive. Property would have to earn an income to justify its holding. In New York and Albany, for example, it would be necessary to double the levy on land values—but go back to our illustration and see how it would work out. What would it signify if the tax bill on the big lot were increased from \$2,000 to \$4,000, were it possible to erect a highly profitable million dollar apartment house? As for the writer's former holding, the tax would have been increased by about \$300 a year, but what of it? An untaxed \$60,000 apartment would have earned a very good return. And, were it possible to erect untaxed \$3,600 houses on the cheaper lots, the saving would cover interest and amortization on a loan which would make it possible for many a would-be house-owner to build.

Tenants would be better off and home-owning would be greatly stimulated. Mortgages would be cheaper and safer and city finances would be stabilized. Municipal improvements would be put on a sound, business-like basis and could be made not only self-liquidating but even profitable. Certainly the town with buildings untaxed and with idle and unused land brought onto the market would attract industries and residents and thus would forge ahead. These results are borne out by experience. For example, Denmark—let the doubter investigate for himself what such reforms have done in that progressive little country. In Pittsburgh, a very small start has been made on a sound program and it bids fair to blaze the way to going further.

Albany, N. Y.