Shifting Taxes from Buildings To Land in Pittsburgh*

THERE are two notable features of the Pittsburgh Tax Plan:

(1) The entire tax revenue for municipal purposes is derived from taxes upon real estate. There are no taxes levied by the City government on any other form of property or income.

(2) The municipal tax rate on buildings is fixed at one-half the rate levied upon land.

The general practice of obtaining municipal revenues largely from real estate taxes dates back many years and is followed throughout the State of Pennsylvania, this policy being in rather striking contrast to the "general property" tax system of many States under which personal property of practically all kinds is also subject to municipal taxation.

The recent tax reform movement was inaugurated in 1911, when the old classification system of taxing real estate was abolished. Under that antiquated system property classed as "built-up" was taxed at the maximum rate, that classed as "rural" was taxed at two-thirds of the maximum, and that classed as "agricultural" was taxed at one-half the maximum rate. This system gave the utmost encouragement to the holding of unimproved land and when the situation existing is 1911 is contrasted with that which we find in the year 1925 it will be observed that we have progressed considerably.

Another important step taken in 1911 was to exempt machinery. Machinery, as such, is nowhere taxable in Pennsylvania, but when it is so attached to the real estate as to become part thereof, in the legal sense, then its value is included with that of such real estate except where special exemption acts apply. Complete exemption of all machinery was provided for Pittsburgh and Scranton in 1911 and in 1915 for Philadelphia.

The distribution of school taxes was also changed in 1911 in that the tax was spread over the entire city instead of varying in each ward according to the expenses of the schools therein, a plan that had resulted in an extremely low tax rate in the down-town business district.

But the most significant feature of the Pittsburgh Tax Plan is the Graded Tax Law passed in 1913. While Scranton is governed by the same act because it is necessary to include the two cities in legislation of this kind, the graded tax law is distinctly a Pittsburgh idea. The proposal originated with the Pittsburgh Civic Commission, and literature setting forth the idea was circulated, but no general campaign was conducted, and it was largely through the efforts of Mayor William A. Magee, then serving his first term, that the measure was so quickly adopted into law.

*The writer of this interesting article is a member of the Pittsburgh Board of Assessors.—Editor LAND AND FREEDOM.

This graded tax law provided a gradual process whereby in five successive steps, corresponding to the triennial assessment periods, a proportion of the tax burden was shifted from buildings to land. In the first period the annual building tax rate was 90% of the land rate; in 1916-18, 80%; 1919-21, 70%; 1922, 60%; and in 1925 and thereafter 50%. There is of course, no loss of revenue through the graded tax law, which has no effect upon revenues or expenditures, nor does it affect the making of valuations by the assessors.

The city tax rates for 1925 are $19.50 per $1,000 on land and $9.75 on buildings, and these rates raise a revenue of approximately $15,000,000. To raise the same revenue with a flat (equal) tax rate would require a levy of approximately $15.15 per $1,000. Buildings now pay $5.40 less per $1,000 valuation than they would pay if the old system were in effect, and land pays $4.35 more per $1,000. Land now pays $9.75 per $1,000 more than buildings.

What does this mean in wholesale terms? It signifies that there has been a shifting for this year 1925 of approximately $2,400,000 in taxes from building values to land values. Land values this year pay a total city tax of about $10,700,000 while under the old system the tax would be about $8,300,000. Buildings pay this year about $4,300,000 which under the old system would be increased to $6,700,000.

These figures, however, do not show the entire tax revenue obtained from Pittsburgh real estate, as county and school tax are levied separately and under the old system. The school tax this year raises about $11,390,000 by a flat rate of $11.50 per $1,000, and of this sum about $6,310,000 comes from land values and $5,080,000 from buildings.

Adding these figures to the city taxes shows that $17,010,000 is derived from land values and $9,380,000 from buildings. If the same plan in force for city taxes applied also to school taxes it would mean an additional shifting of $1,800,000 from buildings to land, which added to the present figure would mean a total shift of $4,200,000. The rate necessary to raise both city and school taxes under the graded tax plan would be $17.16 on buildings and $34.31 on land.

To raise all city government revenue from land values alone would mean increasing the present land rates to $27.35.

In terms of assessed valuation, the total building assessments have gone up from 282 millions in 1913 to 442 millions in 1925, while land assessments have increased only from 480 to 548 millions. The assessment figures for 1925 are:

Land - - - - - - - -	$548,475,280
Buildings - - - - - - -	442,004,840
Total - - - - - - -	$990,480,120

The tax rates levied this year may be summarized as follows (per $1,000):

	LAND TAXES	BUILDING TAXES
City	$19.50	$ 9.75
School	11.50	11.50
County	6.38	6.38
Total	$37.38	$27.63

Raising school taxes on the graded tax plan would change these totals to $40.69 for land and $23.44 for buildings. Because school and county taxes are raised on the old plan, the taxes on buildings, as a whole, are actually nearly 75% of the total land taxes.

The graded tax law is the only one of its kind in the United States and naturally there has been much inquiry and much discussion as to its effects. We must remember that the graded tax is a moderate reform and is not to be confused with the Single Tax which is something altogether different; so different that it would not be fair to either to confuse the two propositions. But as has been shown, the graded tax is changing very materially the distribution of the tax burden and as a consequence is undoubtedly tending to stimulate the improvement of real estate.

Proof may not be possible because it is difficult to determine what motives are most influential in inducing the erection of a particular building. But we know that there has been less land speculation and more building since the graded law went into effect, and that Pittsburgh has had a boom in building the past few years. Whereas in 1913, the last year under the old system, the estimated value of new buildings was $13,870,000, the value for 1924 was $34,256,000; and the new construction for the past three years exceeds $100,000,000.

The Pittsburgh Civic Commission pointed out in 1912, that high land prices were one of the chief obstacles to Pittsburgh's progress, a survey showing that the average value of land per acre was higher than in other American cities and exceeded only by New York. The graded tax was proposed by the Commission as a remedy for this condition.

Unquestionably the graded tax law has had a tendency toward lower land prices; that is to say, while land values constantly rise in all growing communities, the higher tax on land has tended to stabilize land values and prevent such inflation as we have witnessed in times past in our own community and such as has taken place in other communities within the past several years.

Friends and opponents of the graded tax alike agree that the higher land tax has been influential in inducing those who had held large tracts of land idle to sell at prices that might be regarded as reasonable, for the reason that the holding of vacant land for long periods is becoming unprofitable. Yet it is fair, in speaking of the higher land tax, to point out that the increased cost of government has been responsible for this higher land tax to a greater extent than the graded law itself.

Combining city and school taxes on land, we find that we have an increase from $14.90 per $1,000 in 1915 to $31.00 per $1,000 in 1925, of which $11.80 represents the increase in the cost of public service and only $4.30 represents the increase due to the shifting of taxes from buildings to land.

So also, the building tax rate is actually higher today than it was in 1913, but thanks to the operation of the graded tax law it is only slightly higher so far as the city tax is concerned, this rate having risen from $8.90 per $1,000 in 1913 to $9.75 this year, or only 85 cents, while during this period the city tax on land has been practically doubled (from $8.90 to $19.50).

A study of official records reveals clearly that the great majority of real estate owners are saving taxes through the graded tax law, in many cases a very substantial percentage. A typical residence ward (13th) shows that out of a total of 4,252 assessments there are 3,250 cases where the taxes paid under the graded tax are less than would be paid under the old system. Of the 1,002 assessments where the present taxes are higher, 980 are vacant lots.

There is an impression that the owners of big buildings are the chief beneficiaries of the graded tax and that the partial exemption of the skyscraper increases the taxes of the small property-owner in the outlying wards. This however is contrary to the facts because the high land values in the business section much more than offset what might be said to be lost by taxes on buildings in that section. Our study shows that it is only the exceptional structure on such valuable land that is to be found among the properties paying lower taxes.

Many manufacturing plants and department stores will not show any benefit from the graded tax, but in these cases very substantial savings have been realized by manufacturers through the 1911 act exempting all machinery; while the big department store is entirely free of taxation on its stock of goods.

—PERCY R. WILLIAMS.

LONDON (England) County Council held an all-night session recently over the question of how much money to raise. Labor party members introduced the delicate question of how the money ought to be raised; they argued in favor of taxing the ground landlords. Tory members refused to join issue on the merits of that proposition, but did engage in an elaborate defense of the landowners of London.

TOWN boomers and land speculators who cry out for more public improvements are the loudest shouters for lower taxes, by which they mean that they want their land increased in value at other people's expense. Every time a public improvement is under discussion, Single Taxers should come forward and demand that it be paid for without taxing their food, clothing, shelter, amusements, etc., and without bonds.