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GRADED TAX COMMITTEE

11 PARK PLACE, NEW YORK CITY

Room 205

HOW TO PROTECT THE CITY'S TAX BASE WHILE SHIFTING TAXES TO THE SITE

The present real property tax base in New York City is about \$16 billions: \$8 billions on land and \$8 billions on improvements.

When taxes are lifted from the buildings and put on the site the taxes collected from site values must be doubled eventually in order that the City may receive the same revenue from real property that it now gets.

SELLING PRICE NOT FULL VALUE

The land value of New York City is assessed at \$8 billions. This is the amount that the City Assessors estimate that all the land sites will sell for in a normal market besides paying an annual tax of 3%.

To determine the full value of land the tax burden on it must be added to the selling price. A buyer discounts the tax in figuring what he can afford to pay for a site.

Adam Smith, the great economist, said:

"Taxes upon the sale of land fall altogether upon the seller. The seller is almost always under the necessity of selling and must, therefore, take such price as he can get. The buyer is scarcely ever under the necessity of buying and will, therefore, only give such a price as he likes. He considers what the land will cost him in tax and price together. The more he is obliged to pay in the way of tax the less he will be disposed to give in the way of price."

This is just as true today as it was 150 years ago.

HOW TO DETERMINE FULL LAND VALUE

The full value of a site is the selling price added to the capitalized tax rate. A lot will sell for \$1,000 because it will pay interest on that sum at 5% and, in addition, will pay taxes at 3%, a total of 8% on \$1,000, or \$80 a year. Its full site value is \$1600. $\$80 \times 20 = \1600 . (Capitalized at 5%).

Expressing this another way selling price is the full land value decreased by the capitalized tax rate.

Increasing the tax rate on site value does not decrease the full land value but it does decrease the selling price. If the selling price is used as the tax base, the higher the tax rate the lower will be the selling price and the less the City will get in revenue.

LAND SHOULD BE ASSESSED AT FULL VALUE

In order to protect the City's tax base the assessor should assess land at its full value as though it were free from any land tax. When this is done the land value tax base will not decrease as the tax rate is raised. On the contrary the

present tax base will be increased by the amount of the capitalization of the tax rate. Putting this in figures we get:

Present land value tax base \$8 billions
 Annual value to owners at 5% . . . \$400 millions
 Annual tax at 3% 240 "
 TOTAL annual value \$640 "
 Full value of land capitalized at 5% \$12.8 billions
 (\$640 millions x 20 = \$12.8 billions)

Under the rule of Adam Smith the selling price would be \$12.8 billions if free from tax.

For convenience a round figure of \$12 billions may be taken as representing the full land value tax base of New York City.

TAX REVENUE CONTRASTED

At present 3% on \$16 billions (land and improvements) is \$480 millions.

Under the Graded Tax a 4% rate on the full land value base of \$12 billions will produce \$480 millions.

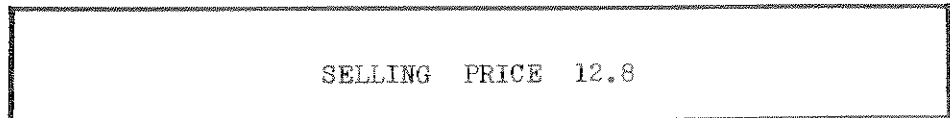
On \$12.8 billions the tax rate to produce 480 millions would be 3.75%.

Under this plan the City retains its full tax base, the improvers of the sites can have their burden lifted, speculators in land will lose, but the community's future will be stable.

TAX EFFECT ON LAND VALUE TAX BASE AND SELLING PRICE

Land Value in Billions of Dollars 0 .4 .8 12.

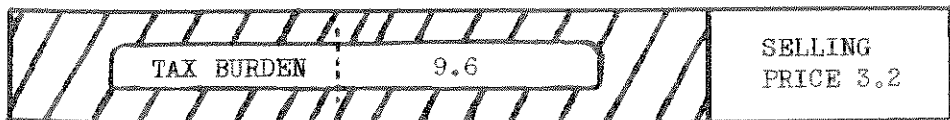
1. As though untaxed



2. Under present tax



3. Under Graded tax



An explanation of the Graded Tax and examples of how it works in dollars and cents is given in News Bulletins 1 and 2. These may be obtained from Graded Tax Committee, Room 205, 11 Park Place, N.Y.C.

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