

How the Graded Tax Plan Works in Pittsburgh

2-3561

Effect on Land and Building Valuations and Tax Rates
for City Purposes, 1914-1938

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THE city of Pittsburgh, Pa., in 1914 adopted the Graded Tax Plan for city taxes. Under the Graded Tax Law the rate was reduced on buildings and increased on land in five sections at two- or three-year intervals, reducing 10 per cent each time, so that after ten years, that is, after 1924, the tax rate upon buildings was one-half of the rate of land.

Two points are to be noted. The first is that the differential is in the rate of tax and not upon the amount of tax revenue realized. The second point is that the plan applies to the city tax only and not to school and county taxes.

The total millage (tax rate) for 1938 is as follows:

| | Land | Building |
|--------------|-------|----------|
| | mills | mills |
| City | 20.6 | 10.3 |
| School | 11.25 | 11.25 |
| County | 8.00 | 8.00 |
| | 39.85 | 29.55 |

Taking all of the taxes together, the building rate is about 74 per cent of the land rate.

Increased Building Construction

The reduction of the tax on buildings tends to encourage new construction. On this point Percy R. Williams, Chief Assessor of the city of Pittsburgh, writes as follows under date of May 2, 1938:

"... We believe that the lower rate on buildings has had a considerable influence in encouraging the erection of new buildings since 1914. The answer to your question in a general way is that the increase in building values has been due

almost entirely to the volume of new building construction during this period. There has never been any arbitrary increase in building values on the part of the Board of Assessors but, as you know, there have been very material fluctuations in building construction costs and in market values due to periods of scarcity when demand tended to overtake supply of buildings. At times some upward revisions were made in the valuations of older buildings, but such upward revisions have been much more than offset by recent downward revisions in valuations which have made due allowance for depreciation and obsolescence. . . ."

In the year 1914 the total building-value assessment was \$281,871,100; in 1938 it rose to \$546,169,870, an increase of 93.77 per cent.

The land-value assessment in 1914 was \$481,057,710, and rose to \$552,691,800 in 1938, an increase of 14.89 per cent.

In other words, the building assessments of Pittsburgh almost doubled in 25 years, whereas the land assessments increased only 14.89 per cent. The accompanying table shows the assessments on land and buildings and the tax rates and revenues for city purposes, and population and per capita land values of Pittsburgh for each year from 1914 to 1938 inclusive.

An increase in the amount of taxes levied on land value tends to depress the selling price of land. The opposite influence is the tendency of land values to rise as population increases. There is also a general tendency of land value to increase faster than population because of advance in invention and the productive arts. The increase in land value is further augmented by the improvement in municipal services.

ASSESSMENTS, CITY TAX RATES AND REVENUES, AND PER CAPITA LAND VALUES, PITTSBURGH, PA., 1914-1938

| Year | Land | | | Buildings | | | Population* | Land Value Per Capita |
|------|---------------|----------|------------------|---------------|----------|------------------|-------------|-----------------------|
| | Assessment | Tax Rate | Expected Revenue | Assessment | Tax Rate | Expected Revenue | | |
| 1914 | \$481,057,710 | .0094 | \$4,521,942 | \$281,871,100 | .00846 | \$2,384,630 | 557,647 | \$863 |
| 1915 | 489,191,010 | .0102 | 4,997,948 | 290,833,300 | .00918 | 2,669,850 | 563,023 | 853 |
| 1916 | 483,382,070 | .0126 | 6,090,614 | 299,202,850 | .01008 | 3,015,965 | 568,409 | 850 |
| 1917 | 482,149,040 | .0115 | 5,545,231 | 310,793,800 | .0092 | 2,859,303 | 573,790 | 840 |
| 1918 | 482,132,590 | .0145 | 6,980,923 | 320,438,820 | .0116 | 3,717,090 | 579,171 | 832 |
| 1919 | 480,131,130 | .0157 | 7,538,059 | 325,889,000 | .01099 | 3,581,520 | 584,552 | 821 |
| 1920 | 479,850,740 | .0190 | 9,117,164 | 334,656,810 | .0133 | 4,450,936 | 590,707 | 812 |
| 1921 | 480,434,540 | .0200 | 9,608,691 | 349,311,750 | .014 | 4,890,365 | 601,370 | 799 |
| 1922 | 487,939,620 | .0200 | 9,758,792 | 380,238,310 | .012 | 4,562,860 | 606,099 | 805 |
| 1923 | 532,688,420 | .0200 | 10,653,768 | 396,176,380 | .012 | 4,754,117 | 617,503 | 863 |
| 1924 | 530,730,600 | .0200 | 10,614,612 | 420,501,430 | .012 | 5,096,017 | 622,332 | 853 |
| 1925 | 518,175,280 | .0195 | 10,695,268 | 442,004,840 | .00975 | 4,309,547 | 627,061 | 875 |
| 1926 | 518,219,170 | .0224 | 12,230,109 | 465,897,650 | .0112 | 5,218,054 | 631,790 | 868 |
| 1927 | 554,616,950 | .0224 | 12,423,420 | 505,396,600 | .0112 | 5,660,442 | 654,702 | 847 |
| 1928 | 574,238,300 | .0250 | 14,355,938 | 535,849,140 | .0125 | 6,698,114 | 661,541 | 868 |
| 1929 | 575,938,670 | .0250 | 14,375,967 | 563,104,930 | .0125 | 7,038,812 | 665,270 | 863 |
| 1930 | 576,882,690 | .0260 | 11,998,950 | 587,781,070 | .013 | 7,641,154 | 671,000 | 860 |
| 1931 | 588,387,850 | .0255 | 15,003,661 | 614,042,360 | .01275 | 7,829,040 | 673,709 | 873 |
| 1932 | 586,692,810 | .0230 | 13,493,935 | 621,573,310 | .0115 | 7,148,093 | 675,900 | 868 |
| 1933 | 586,330,100 | .0206 | 12,079,430 | 625,257,730 | .0103 | 6,440,155 | 678,500 | 864 |
| 1934 | 566,581,170 | .0206 | 11,671,634 | 614,224,490 | .0103 | 6,326,512 | 681,100 | 832 |
| 1935 | 562,169,420 | .0206 | 11,580,690 | 609,719,210 | .0103 | 6,280,108 | 683,700 | 822 |
| 1936 | 562,169,420 | .0206 | 11,580,690 | 608,718,930 | .0103 | 6,269,805 | 686,300 | 819 |
| 1937 | 556,552,050 | .0206 | 11,464,972 | 543,891,880 | .0103 | 5,602,086 | 688,900 | 808 |
| 1938 | 552,691,800 | .0206 | 11,385,451 | 546,169,870 | .0103 | 5,625,550 | 691,500 | 799 |

* Estimated for non-census years.

Savings to Improvers of Land

Where the holder of land improves to an amount equal to or greater than the value of the site, the graded tax will operate in his favor.

Where a site is unimproved or the improvement is worth less than the site, the graded tax will appear to be disadvantageous to the holder of the site. On the other hand, the graded tax will favor the holder of an unimproved site when he improves it to a point where the building is worth more than the site. The graded tax will tend to discourage speculation in vacant or poorly improved sites, but will encourage the adequate use of the site by the holder.

Let us assume that the average home in Pittsburgh is worth \$5,000; land \$1,000, building \$4,000. The following indicates the savings to the owner of such a home in Pittsburgh under the present Graded Tax Plan, which applies to city taxes only. Figures are also given showing the saving that would result if the graded tax were applied to the school and county taxes. It must be remembered that these figures are based on the Pittsburgh graded tax rates, where the differential is fixed for buildings at one-half the rate fixed for land values. The following calculations are by John C. Rose, of Pittsburgh, May 26, 1938.

The Graded Tax Plan Applied to Homes

| THE GRADED TAX PLAN | | |
|---------------------------|-------|----------|
| Land | .0206 | |
| Building | .0103 | |
| Equivalent flat rate..... | .0155 | (.01548) |

The following table shows the tax rates and savings on a \$5,000 home (land: \$1,000; building: \$4,000):

| | | | |
|----------------------------|--------------|---------|---------------|
| Old flat rate (.0155)..... | | \$77.50 | amount of tax |
| Graded tax (.0206)..... | \$20.60 | | |
| | (.0103)..... | \$41.20 | |
| | | \$61.80 | " " " |
| | | \$15.70 | saving |

If the present graded tax were to apply to the school and county taxes also, the additional savings to the \$5,000 home owner on the basis of present assessed values would be approximately:

| A GRADED SCHOOL TAX | | | |
|------------------------|--------|---------|---------------|
| On a \$5,000 Home | | | |
| Present flat rate..... | .01125 | \$56.25 | amount of tax |
| Proposed graded tax: | | | |
| Land | .015 | | |
| Building | .0075 | \$45.00 | " " " |
| | | \$11.25 | saving |

| A GRADED COUNTY TAX | | | |
|------------------------|-------|---------|---------------|
| On a \$5,000 Home | | | |
| Present flat rate..... | .008 | \$40.00 | amount of tax |
| Proposed graded tax: | | | |
| Land | .0106 | | |
| Building | .0053 | \$31.80 | " " " |
| | | \$ 8.20 | saving |

A 4-to-1, a 5-to-1, or a 10-to-1, graded tax for the city, the school and the county would, of course, effect a progressively larger saving than the 2-to-1 plan.

In all these cases, the actual and the theoretical graded tax rates will yield the same total revenue as the flat rates, but the incidence of the graded tax is much different. Under the Graded Tax System the owner who improves his land—thus helping to make his community a better place in which to live—is not penalized, but rather is rewarded and encouraged to build better homes. The flat rate, on the contrary, penalizes home owners.

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