

THE RELATION OF HOUSING TO TAXATION

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Housing involves two elements. First, the land, and secondly, the house built on the land.

The first element, land, represents the opportunity to build. The second, houses, represents labor and material used in the exercise of such opportunity.

Municipalities, as a rule, have made both of these elements the subject of taxation, although the two are diametrically opposed to each other in their fundamental nature.

Land value, broadly speaking, represents the advantage at a particular location for utilizing the services rendered by the municipality.

The cost of a building is the cost of labor and materials at current rates. The purchase price of land is the amount paid by the builder for the privilege of building.

Taxation is payment for governmental services.

The advantages from governmental services paid for by the annual budget are distributed throughout the city in proportion to land value. That is to say, land value is the estimation by the public of the proportionate advantage which one site has over another.

The term "housing" as used in this discussion relates particularly to the building of modern dwellings at moderate rentals. The movement has for its objective the elimination of slums and the substitution of decent habitations.

Every movement to build decent homes and eliminate slums, whether by public money or private enterprise, breaks on the rock of land value in private hands.

The solution of this problem, therefore, must center on a true analysis of the phenomenon of land value.

We are told that there are 67,000 old-law tenements in New York City, which make up the so-called slum areas.

A study of these slum areas will show that the privately owned sites do not and for years have not paid their share of the City taxes.

Tenement House Commissioner Post has stated that the City renders \$3.00 of service for every \$1.00 collected in taxes from these slum areas.

Two issues are paramount in this administration:

1. The City requires additional revenue.
2. The slums must be cleared.

The City has the means to accomplish both of these objectives in its Tax Department.

It is not sufficient to say that "real estate is overburdened."

Most adequately improved properties, and particularly homes, are overtaxed. Vacant land and sites encumbered with worn-out, useless buildings are undertaxed.

Queens homes and other residence sections are discriminated against.

In Queens County, the assessment for home building and improvements is, on the average, about five times the assessment for land value. There are stated to be 175,000 separately owned homes in Queens. On the average, homes in Queens are worth about \$5,000, built on lots worth about \$1,000 each.

This represents the average adequate improvement for homes. Experienced builders say that an adequate improvement for a home should be at the ratio of five to one; that is, five dollars for the building to one dollar of land value. This rule is born of experience.

Manhattan favored against other Boroughs.

We find the following situation in 1934:

<u>Borough</u>	<u>Assessments</u>		
	<u>Land</u>	<u>Improvements</u>	<u>Total</u>
Manhattan	\$4,684,011,697	\$4,050,148,369	\$ 8,714,160,066
Bronx	672,381,511	1,253,892,328	1,926,273,839
Brooklyn	1,601,443,840	2,415,216,479	4,016,660,319
Queens	923,888,923	1,624,503,765	2,188,372,688
Richmond	139,290,025	164,479,620	303,769,645
Total	\$8,000,995,996	\$9,148,240,561	\$17,149,236,557

Manhattan pays on about \$600,000,000 less for improvements than for land value, whereas Bronx pays on about \$600,000,000 more for improvements than for land; Brooklyn pays on about \$800,000,000 more for buildings than for land; Queens on about \$340,000,000 more and Richmond on about \$25,000,000 more. This differential in favor of Manhattan and against the other four boroughs makes a total of about \$2,365,000,000. The tax on this is about \$60,000,000 a year. This means that every year upwards of \$60,000,000 is diverted from these four boroughs in favor of land values in Manhattan. In this fact lies the chief cause of the piling up of high land values in Manhattan, which go to the private owners of the land instead of into the City Treasury.

Bronx, Queens, Brooklyn and Richmond are the chief residence sections for small home owners. In these four boroughs the holding of land is comparatively widely distributed among small property owners whereas on Manhattan Island

all of the land is owned by about two per cent of the population.

The effect of excessive taxation on improvement values is to "peak up" land values in favored locations, particularly in Manhattan, and is the chief cause of the abnormal values placed on so-called slum areas in Manhattan, which represent land value only, the buildings in most cases being outmoded and worthless.

Sound taxing principle requires a tax to be levied according to benefits received from the expenditure of tax money.

Increasing business resulting from increasing population, from better advantages of transportation and from other public facilities increases the site value of the land in the area affected.

Industry can pay a high rate for a site where business advantages are centered.

Manhattan sites are the chief recipients of the benefits of the City's expenditure of money. Manhattan sites, on the other hand, in proportion to benefits received, pay the least of any of the boroughs.

The City Tax Department records for 1933 show that assessed land values for the entire city amount approximately to eight and a half billions, whereas the total for land and buildings is approximately seventeen billions. In round figures, improvement assessments equal land value assessments.

Each site, therefore, if it is bearing its share of the tax burden and paying its proportion for benefits received from tax money, should be improved to an assessed value at least equal to the assessed land value.

Every site in Manhattan (and elsewhere) that is assessed for less on its buildings than it is on its land is absorbing and wasting public money at the expense of sites which are improved for value greater than the land value.

The great bulk of sites in Manhattan, in respect to numbers, area, and valuations, are grossly under-assessed.

A few sites are tremendously over-assessed and unjustly overburdened with taxation.

Twelve Blocks in Hell's Kitchen

This Association recently made a survey of twelve blocks of land lying between Ninth Avenue and Eleventh Avenue, running from West 47th Street to West 53rd Street. This is part of the neighborhood commonly called Hell's Kitchen.

These twelve blocks contain 688 taxable parcels, having a total assessed land value for 1934 of \$15,099,610. Of these 688 parcels, only 16 are improved to an amount equal to or more than the land value, leaving 672 parcels inadequately improved or not improved at all.

The land value of these sixteen adequately improved parcels is \$880,550, with total improvements of \$4,569,000.

The total land value of the remaining 672 parcels in these twelve blocks (excluding the sixteen parcels that are adequately improved) is \$14,219,110, with total improvements amounting to only \$5,455,000, leaving a difference of \$8,764,110 of value, which is not taxed and is not paying its share for benefits received.

Applying the rule that each site should pay on improvements equal to the land value, these 672 inadequately improved sites in these twelve blocks are underpaying the City

for the year 1934 the sum of \$238,383.79 at the 1934 tax rate.

The Other Side of the Picture

In Block #1060, between Ninth and Tenth Avenues and 50th and 51st Streets, the New York Telephone Company owns twelve lots in the middle of the block assessed for \$250,000, on which it has built a magnificent building assessed for \$3,220,000, total \$3,450,000. This is an over-assessment in comparison with the general average of the city of \$2,990,000.

The New York Telephone Company paid its tax bill of \$93,840 on these twelve lots, which is \$81,328 per year more than its share and more than it receives in benefit. The rest of the block is disgracefully under-improved and correspondingly under-assessed, except a parcel of four lots at No. 438-442 West 51st Street owned by Parker & Stewart, which has a building assessed for \$70,000 on land assessed for \$50,000--a \$20,000 over-assessment. Excluding these two parcels, the remaining fifty parcels in this block are assessed on a total land value of \$1,119,550, with total improvements assessed for \$422,000. Their aggregate tax bill is \$41,930.16. They underpay the City \$18,972 on the present application of the budget for benefits received from the 1934 budget.

The adequate improver of land creates employment by erecting a building and by operating and maintaining it.

The holder of land out of adequate use destroys the opportunity to build, thereby directly causing unemployment of labor, for the relief of which the industrious are overtaxed.

Ability to pay taxes, in the long run, must be measured by just payment for benefits received from the expenditure of tax money. Otherwise the tax base is weakened or destroyed.

The remedy for the housing problem lies in the City Tax Department. It is demonstrated that modern dwellings at moderate prices cannot pay interest on the purchase price of a site and also pay taxes to the City on that site and, in addition, pay a tax on the building two or three times greater than the tax on the site; all of which must be added to interest and depreciation charges on the building itself.

Projects with public money propose that the City give up its taxes both on the site and on the building. The adoption of such proposals would destroy the City's tax base.

The True Principle of Taxation

The true rule or principle should be that every site improved with a modern dwelling should pay a tax to the City equal to the annual value of the site and no more.

The spread of the City budget proportionately over all sites would result in an annual rate, levied on site value only, approximately twice the current rate of taxation. Mathematically, this would be the same as though the current rate was applied to land value and improvement value separately on a site where the improvement value equalled the land value.

As a corollary to this rule, every site in the City should be equally well improved. This result would come as an economic necessity if the full rate were levied on the site, even though not adequately improved. Adequate improvement would follow by virtue of the necessity of providing income to pay the tax.

Some persons argue that modern housing should be encouraged by the exemption by the City of the new buildings provided the project pays a tax equal to that now received by.

the City from the site in its slum condition. This proposal is subject to two criticisms. The first is that taxation must be uniform and all sites should be treated alike. The second objection is that if this principle were continued throughout the city, the City's tax base would be cut in half and only half of the present budget would be collected.

The City, in the long run, must collect its entire cost of government. It is possible to do this by spreading the annual budget over the taxable area of the city in proportion to the resulting advantages; that is, in proportion to site value.

Failure by the City to collect the full value of benefit accruing to a site encourages the owner to keep the property in a depressed condition and is a direct cause of slum conditions.

Adequate Improvement

A modern dwelling that costs only as much as the site on which it is built is at best a tax payer only. The effect, however, of increasing the tax on the building as its value is raised above the site value, tends to discourage further improvement. On the other hand, if the tax burden is limited to the value of the site, then a builder will not stop when the taxpaying edge is reached but will be encouraged to go on and improve the property to its full advantage.

Experience of builders has shown that the cost of a dwelling, to be advantageous, should be at the ratio of from three to five times that of the site on which it is built. This would furnish more ample space for each family, as well as providing jobs for those engaged in the building trades.

This principle of making each site pay its

full share of taxes finds its expression in two practical proposals:

1. That the total tax imposed upon any site improved by a modern dwelling shall not exceed in any instance the annual value of the site alone.

2. Every site in the city which is vacant or not adequately improved shall pay an additional excise tax for the privilege of holding such site out of use. The special excise tax should be at the current rate of taxation, to be added to the regular tax in the proportion that the land value of the site exceeds the improvement value. Any plot which is partially improved shall be liable for this special excise tax only to the extent of the difference between the current assessment for land and the current assessment for improvements. For example, if a site assessed for \$25,000 is occupied by an old tenement assessed for \$5,000, the additional excise tax would be levied on the difference; that is, on \$20,000.

The application of this principle would benefit every owner of a site who has acquired it for the purpose of building. The construction of an adequate dwelling would produce the revenue to pay the proper share of taxes levied on the site. He would not be penalized for any excessive additional tax.

The speculative holding of slum sites and vacant land out of proper use, on the other hand, would be discouraged and made unprofitable.

In this proposal lies the only effective and permanent solution of the slum problem in our city.