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Tax the Slums, Not Good Housing

Shift of Tax Emphasis Helps Cities to Encourage Redevelopment Instead of Decay

Dale R. Taft in
The Providence Bulletin

One of the reasons why slums flourish is the break slumkeepers get from municipal and federal tax laws.

Slum keepers let the person keeping a better house pay the bill. They resist any murmurings of conscience to rake in the profits from an enterprise that enjoys low property taxes, no upkeep costs and good income.

Urban renewal, through slum clearance and redevelopment and rehabilitation and conservation drives, has spotlighted a number of other related incongruities. These include the lack of dollar incentives for new construction, a penalty of higher assessments for those who paint and fix up property, and the high cost of public acquisition of slumlands.

The Mirror of Public Opinion

An article in the latest Journal of Housing, publication of the National Association of Housing and Redevelopment Officials, is devoted to "ingenious use of the public taxing power" as a new device to eliminate slums.

Here and there cities are changing their taxing programs to make the keeping of slums an unattractive financial proposition instead of a highly lucrative milking operation abetted by depreciating assessments.

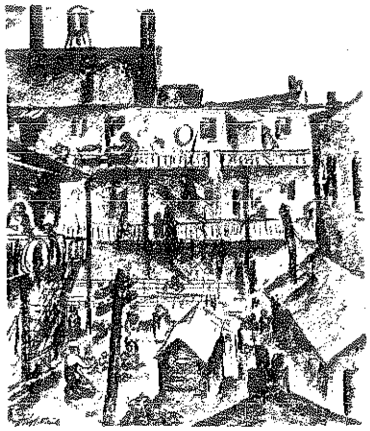
In Cook county, Ill., which is the Chicago area, an increase in tax valuations has been approved which will put the biggest bite on the owners of slums. The increase calls for an increase in valuations of up to 63 per cent on slum properties, while standard properties will be boosted only about 10 per cent.

'Bonus for Buildings'

The "tax bonus" is another incentive for good housing which is showing up in two forms—(1) tax breaks for those who rehabilitate existing properties, and (2) tax benefits for those willing to construct new buildings.

In 1955 New York City passed an ordinance abating for 12 years the taxes on the value of improvements on multiple dwellings and permitting amortization of 75 per cent of such costs over a period of nine years.

It became apparent last year that something had gone wrong. Some building owners got tax breaks for improvements which virtually turned the structures into new buildings and also managed to get their buildings under decontrolled rents. The result was a loss of revenue to the city, and former tenants were priced out of their homes. A new ordinance to correct this defect was enacted this year.



—Post-Dispatch, May 10, 1938.

Kansas City has already set up a "bonus for buildings" to stimulate new construction on redeveloped land. The plan, made possible by a state law passed in the late 1940s, assesses taxes for 10 years on the rebuilding site at the valuation before improvements and on 50 per cent of the assessed valuation with improvements for the next 15 years. After 25 years, the properties go back on the tax rolls for their full share of improved valuation.

When the project starts to pay its full amount, the redevelopment sponsor is released from the limit on his returns of 8 per cent a year.

Boston is using tax incentives to stimulate urban renewal in two ways.

Under one plan under way, the Beacon Redevelopment Corp. will leave a seven and one-half-acre site acquired and cleared for an 800-unit middle income housing development. The annual fee will include an annual excise tax of $10 per $1000 and 5 per cent of gross income or at least an amount equal to the present tax income of the land to the city.

The arrangement, made possible by a more than 10-year-old law, will protect the redeveloper from the rising Boston tax rate and will guarantee the city the present tax income.

Boston also has reached an easy-tax agreement with the Prudential Insurance Co. of America in connection with its plans for transforming 30 acres of dowdy Back Bay real estate into a center containing plaza, a 1000-room hotel, a 52-story tower office building, four retail buildings, 1750 units of rental housing and surface parking, all in a park-like setting.

Prudential has offered to sell the city 135,000 square feet of land as the site for a convention and exhibition hall. The insurance firm agreed to do all the rest of the redeveloping at its own expense, but only if the city would give it a tax break.

Assessment is to remain at the pre-improvement figure of $5,000,000 until construction begins on any building above the plaza level. Thereafter the assessment increase is to be at an amount producing an annual increase in the total tax of $150,000 in the first year and increasing $50,000 each year for the next seven years. For the next 10 years the total assessment would be fixed to produce a total tax of not more than 20 per cent of Prudential's gross revenues but not less than $3,000,000.

Questions of national significance have been raised about this plan by the Boston Municipal Research Bureau. They are:

1. "Will other Boston taxpayers consider that they are the victims of discrimination and demand comparable treatment?

2. "If urban redevelopment of this magnitude is possible only through a major change in the taxing process, does this suggest that the property tax as administered . . . is tending to stifle industrial development and urban redevelopment?

3. "Is it time to have a new look at the theory and application of the property tax?"

Among those answering yes to the third question is Arthur Rubloff, a Chicago realtor, who is quoted in the Journal of Housing article as follows: "Our real estate valuation system for tax purposes should somehow take into consideration the ultimate potential of the property. We ought to insist that land values be set high enough so as to render the maintenance of . . . outmoded structures economically impossible . . .

This, the Journal of Housing explains, is essentially the "single tax" or "site valuation" system in use in New Zealand, Australia, parts of Canada, South Africa and elsewhere. It is an idea enjoying a revival in the United States.

Under such a system, land is taxed according to its highest potential whether or not the property has been developed. No taxes are assessed against improvements on the land.