



# Tax the Land, Not the Building

You would encourage home, apartment, store and other construction, and would help to clear slums and blight automatically if you impose a realty tax on the land, but not the building. This is the theme of a new book, "The Self-Supporting City" soon to be published by the Schalkenbach Foundation. The author of this work here summarizes his ideas

By GILBERT M. TUCKER

WITH the constant expansion of governmental activities, it is doubtful if we can hope for any substantial and permanent cut in taxes but it should be possible to ease the tax burden of the realty owner. If we must struggle with a heavy burden it can be carried far more easily in a wheelbarrow than in our arms; we believe that the real evil of realty taxation lies more in the way that taxes are levied than in their magnitude. Taxes, even higher than today, could be imposed in a way which would make them far less onerous to legitimate business.

Consider what we mean by real estate — land and buildings, two things as far apart in their nature as the poles. Land, the gift of the Creator is rigidly limited, but buildings we can go on erecting until the end of time, if we have access to land and are willing to work. The value of the building is the product of individual enterprise while the value of the land is the product of the common life and of government. Taxing buildings discourages their construction, raises costs and restricts supply; taxing land values does not decrease

the size of the city a particle but rather makes land more available by bringing it on the market.

City land seldom earns any substantial income unless occupied by a building. There is some demand for parking lots and, when the circus comes to town, a vacant lot may earn something, but it is almost invariably true that a vacant city lot brings in little but tax bills. It is true that there may be possibility of profit, through the enhancement of value resulting from what others do, but this is not income and is justly called unearned increment, for the vacant lot produces nothing and earns nothing.

It follows then that, if building is impossible, the land itself becomes worthless. The great difficulty which confronts the real estate man today is that we so tax buildings that the tax-collector harvests most of their earnings, leaving so little to the owner that there is no profit or incentive in building. By a crazy tax system, which penalizes the use of land, we destroy much, and sometimes all, of its value.

Consider three actual examples, all in one city, but they can be duplicated almost anywhere. There

is a fine, wide, well-located lot, with frontage on two good residential streets where the demand for housing is apparently limitless. The lot was sold years ago for an apartment house development, but after razing existing buildings — and destroying whatever value they had — to cut tax bills, it was found that, were plans carried out, taxes would absorb so large a part of the earnings of the buildings that the investment was not attractive. Events dragged along, the owners paying taxes for years. Finally, tired of sending good money after bad, they quit. The property is now in forfeiture, its value totally wiped out, worth nothing to the owners and yielding not a penny of tax revenue.

A second example is a house in the same block, which I formerly owned. It is a fine old house, with the accent on old. It is obsolete by today's standards and demands and it is difficult for the property to earn its taxes. Were it possible to replace the old residence by a modern apartment, for which both location and lot are excellent, the property should become very profitable, but high and arbitrary taxation of improvements renders building practically impossible, and so the holding was sacrificed for a mere fraction of what it was once worth.

The third example is in the outskirts of the city where there has been a premature subdivision of building lots. There are many of them assessed at \$400 each. A very few are occupied by houses, assessed at \$3,600, and taxed at about \$144 a year — nearly enough to equal interest on their cost. But most of the lots are vacant, taxed at \$16, and nearly all are delinquent and in forfeiture. They are worth nothing, so long as houses suitable to the locality are prohibitively taxed. Untax improvements and these lots would find a ready sale. Houses would spring up like mushrooms and most of these lots, yielding nothing in taxes today would be again productive of tax revenue. In all these instances, and they could be multiplied indefinitely, the effect of taxation of buildings is to destroy the value of the land, to cut tax collections, put realty into "the dog house" and aggravate a terrific housing problem.

The way to clean up the whole difficulty is to untax all buildings. Tax the vacant lot and the lot next door with its skyscraper the same and the vacant lot will not long stand idle. It will pay to build upon it, whether the district be com-

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mercial or residential. Real estate will again come into its own, its values no longer eaten away by an idiotic tax system, first consuming the value of buildings and then of the land. Who would continue to maintain an old rattery, half vacant not be torn down, as they are today, to cut tax bills, letting the lots stand idle and vacant.

Were we to untax buildings and comparable improvements, it would be necessary to increase the levy on sites to counterbalance the resulting loss of tax revenue, but such an increase would not offer the slightest obstacles to building and improvement. Rather would the reverse be true for, instead of a higher tax on land values being a deterrent to building it would give an added incentive. Property would have to earn an income to justify its holding. In New York and in Albany, for example, it would be necessary to double the levy on land values but go back to our illustrations and see how it would work out. What would it signify if the tax bill on the big lot were increased from \$2,000 to \$4,000, were it possible to erect a highly profitable million dollar apartment house? As for the writer's former holding, the tax would have been increased by about three hundred dollars a year, but what of it? An untaxed \$60,000 apartment would have earned a very good return. And, were it pos-

or occupied by fly-by-night tenants, paying — or more often jumping — nominal rents, were it possible to erect a modern building, for responsible and respectable tenants, without increasing the tax costs a penny? Slums would go, too, to be replaced by modern housing, but good and useful buildings would be able to erect untaxed \$3,600 houses on the cheaper lots, the saving would cover interest and amortization on a loan which would make it possible for many a would-be house-owner to build.

Tenants would be better off but home-owning would be greatly stimulated. Mortgages would be cheaper and safer and city finances would be stabilized. Municipal improvements would be put on a sound business-like basis and could be made not only self-liquidating but even profitable. Certainly the town with buildings untaxed, and with idle and unused land brought onto the market, would attract industries and residents and would forge ahead. That these results would follow is not just idle guesswork but it is borne out by experience, wherever programs framed on these principles are in effect. Notably Denmark shows what can be expected — let the doubter investigate for himself what such reforms have done in that progressive little country. In Pittsburgh, a very small start has been made on a sound program and it bids fair to blaze the way to going further.