

# TAXPAYERS DIGEST

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"Only what is socially just is economically sound"

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## PROGRESS REPORT

A comprehensive survey of the field of property taxation has been made by the Advisory Committee on Intergovernmental Relations. It has established beyond doubt that there is growing public resistance to the property tax as it is being administered: with widespread malpractices and grave defects, as well as undesirable economic consequences.

It is not generally argued that the property tax as such is an undesirable form of taxation to be replaced by some other kind of governmental revenue. If properly and scientifically handled, it can offer a solution to financing of local government very close to the ideal.

The difficulties of just and equitable appraisals of improvement values, even where the intentions of the administrators or assessors are entirely honest and above board, are enormous. One of the most serious shortcomings here are the lack of competent personnel, which is notorious over wide areas of the nation. Some of the reasons of this situation are: inadequate salaries for experienced men due to insufficient appropriations by county boards, and more attractive jobs with higher salaries and less political involvement being offered by private industry and business; difficult and time-consuming appraisals of large-scale, complex business and industrial properties, etc.

There is often also the desire by county and state tax administration officials to create or maintain a favorable business climate, which is then translated into favored treatment of commercial properties, and consequent shift of the tax burden to private homes. Within the last twenty years, this burden has grown in Oregon from a previous approximately 1% of market value of homes to approximately 2-1/2% of such value, with no legally fixed upper limit for possible future tax increases.

Another facet of the property tax situation is the fact that unimproved or underimproved land has been favored taxwise to the point where improvements feel the full impact of heavy property taxes, while run-down property or vacant land, though extremely valuable in many cases, has received tax advantages, thus giving aid and comfort to Public Enemy No. 1, the land speculator. This is borne out by the statistical fact that the average proportion of the cost of the building site for homes has increased from about 12% two decades ago, to the present high of about 20% of the total cost of a home.

With the heavy burden of property taxation resting on improvements, it is only natural to see wide-spread reluctance by homeowners to go in for even normal upkeep of the property, especially at a time when the general as well as the individual economic situation is less promising. This attitude, of course, is conducive to the formation of blight and slum conditions.

The U.S. Congressional Joint Economic Committee under the chairmanship of Senator Paul Douglas of Illinois has recognized the great economic importance of the problem involved, and has therefore included the following statement in its report on the 1964 Economic Report of the President:

"Coordination in housing and community development programs is lacking in one critical area, notably the myriad methods of taxing real property. The State and local governments have failed to make maximum use of the enormous potential inherent in the property tax for either the prevention or the cure of poor housing and other blight conditions. In fact, since the tax is based on the value of the land and improvements, those who permit their property to deteriorate, reducing area property values, are rewarded with lower property taxes. Landlords who enhance the value of their property have their assessments raised.

"We do not undertake to suggest what would be a proper method for a State or local community to tax the property of its citizens. We do recommend, however, that a model uniform property tax code be drafted, which would encourage, rather than discourage, the best economic uses of land."

There are instances where such a move toward relief of property taxes on improvements has already been put into practice in the United States. One is in the State of Hawaii, where a tax law has been adopted in the Second Legislature, 1963 (H.B. No. 22) to the effect that taxes on improvements will be reduced in steps of 10% down to 70% of taxable valuation, with options by the counties later to go down as far as 40%.

In Pennsylvania, the State Constitution permits the taxing authorities, if authorized by specific state legislation, to differentiate between land and improvements in the levying of taxes. A bill granting to third-class cities (population 7,000 to 125,000) the optional privilege of taxing land values at a higher rate than improvements was passed by the Senate on April 17, 1951, by a vote of 50 to 0, and by the House on the following August 2 by 184 to 1, and was signed by Governor John S. Fine as Act No. 299 on August 17, 1951. As the legislature has set no fixed ratio between land and building tax rates, such as now prevails in second-class cities, it is quite possible that some cities may go farther than Pittsburgh and Scranton have gone. Larger than third-class cities can optionally tax improvements at rates as low as 50% of those on land, and Pittsburgh has done so since 1925.

Other states that have shown interest in this sort of thing, are Michigan where in the 1964 Legislature H. B. No. 204 was introduced to make it permissible to tax land and improvements at different rates. In California in 1963, 38 Assemblymen introduced the Assembly Constitutional Amendment No. 20 which provides

that cities or counties may reduce the rate of taxation on improvements or entirely exempt them from taxation.

At the recent United States Conference of Mayors in New York, Mayor Clarkson of Southfield (near Detroit, Michigan), introduced Resolution No. 11 incorporating the same idea, namely to reduce taxes on improvements or entirely exempt them from taxation, which resolution carried unanimously.

The need for similar action in Oregon has been recognized by Tri-County Tax Research, Inc. which organization has set up a special committee under the chairmanship of Clyde V. Brummell. At its first meeting on July 9, a very interesting and intriguing plan was submitted by a committee member, Mr. Earl Taft, of Portland, Oregon. This plan contains the ingenious idea of using the square-foot area of improvements, possibly in combination with certain zoning provisions, and assess taxes on a uniform scale per square-foot.

The great advantage of such a method would seem to lie in the enormously simplified appraisal and assessment procedures, since the qualifications of tax assessment appraisers need only be to read a measuring tape properly. There would also be reestablished among neighbors the friendly and secure feeling of equal and just treatment in this process, which in itself should recommend this method to every member of the community.

We can see as further advantages following from the proposed appraisal method the aim being realized which the Douglas Committee recommended (see above), and also meeting any possible objection by some to a complete abandonment of taxes on improvements. It would further safeguard the community's interests in taxing additional floor space in high-rise buildings with its increased residential or business occupancy and consequently increased demand for services by the community.

## NOW IT'S JOB TRAINING TAX CREDIT

A report from Washington, D.C., mentions a further application of tax exemption, or tax credit as it is called nowadays.

The National Tool, Die and Precision Machining Association is credited with thinking it up, and the influential Federal Committee on Apprenticeship (FCA) is sponsoring it: a plan for tax credit on the expenses of job apprenticeship training. Labor officials feel the plan will help combat technological unemployment, and the FCA said in its report to Mr. Wirtz, U. S. Secretary of Labor: "Cost to the employer is the greatest single bar to an adequate apprenticeship and training program in America."

Not only is there an ever widening area of tax exemptions or tax credits, but the public is asked to finance its own job opportunities, with private enterprise the gaining party. Socialism is for the birds... unless there is something in it for business.

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## "VALUE ADDED" TAX

There is being tried a new variety in the general field of sales and excise taxes. It is the 'value added' tax, gaining ground, if not popularity, in Europe. A business will pay this tax only on the value added by it to the product, not on the entire sales price.

In practical application, it opens up a vast area of new possibilities in changing corporate policies: in as much and in so far as this 'added value' tax may replace part of the corporation profits tax, the Federal government would not subsidize further costly items of expenditures to the tune of 48%, the new rate in 1965.

Opponents say, it would shift the burden from corporations to individuals. But this argument is based

clearly on an optical illusion: the customers pay the corporation tax now, and would continue to do so under the 'value added' tax.

Some government sources say the 'value added' tax could be used as an alternative to higher social security taxes. As these taxes approach the 10% level, employers will feel greater pressure to replace labor by machinery. But the 'value added' tax would be neutral in this respect.

The only certainties about it are: (1) it would be an additional tax, with relief in other taxation doubtful; and (2) it would bring still greater complexity into the already strained field of tax administration, and higher cost of collection.

With all these complexities in the field of taxation, we feel sure that a simple tax on land and resource values would be less costly to administer, be less subject to evasion and concealment, be more just and less prone to give rise to tax-influenced business decisions.

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#### MODEL UNIFORM PROPERTY TAX CODE

We received the following communications:

Advisory Commission on Intergovernmental Relations (April 22):

"Differential taxation of land and improvements, in favor of improvements, under property taxation continues to receive considerable attention. To date, however, there has been relatively little action, primarily, one can suppose, because local governments rely so very heavily on the property tax that they dare not experiment with it.

"The differential in favor of improvements in the Pittsburgh area is so very small as to be totally inconclusive. Recently, the Hawaii legislature revised their property tax in this direction providing for a gradual transition over a period

of ten years. We should begin to receive some reactions to it in a few years. The principle of differentiating in favor of structures is reported to be operative in some of the Australian states, but information on that experience is also incomplete. It would need to be looked at by someone familiar with taxation in the United States to appraise it from the viewpoint of its possible usefulness here.

"The Commission's work in property taxation has related to strengthening assessment administration and State support of local efforts to improve assessment procedures."

Sincerely, L.L. Ecker-Racz,  
Assistant Director

The George Washington University,  
(May 4):

This is in response to your letter of April 23, 1964, requesting information and suggestions on the implementation of a model tax code that would promote the best economic use of land in the United States.

"We are currently working on this problem under the auspices of the Lincoln Foundation but are not yet in a position to reach any conclusions or make any concrete suggestions. It is possible we will have some ideas regarding the use of property taxes to deter the growth of urban blight and stimulate healthful urban development in about 90 days."

Sincerely, A.M. Woodruff, Dean.

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