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A Brief Explanation

of

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Pennsylvania's

NEW GRADED TAX LAW

AS APPLIED TO THE
FORTY-SEVEN CITIES

of the

Third Class



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Let Us Tax Land and Not Buildings

Pennsylvania has become a pioneer in the field of city taxation. Ever since 1914, Pittsburgh and Scranton, the two Cities of the Second Class, have enjoyed the benefits of the Graded Tax Plan. This is a plan whereby City Fathers levy a relatively higher tax on land and a lower tax on buildings and improvements. In 1953 this privilege was extended to the forty-seven Cities of the Third Class by a special act of the legislature in Harrisburg. Franklin, Oil City and Titusville are all in this category.

In most states of the union land and buildings are taxed alike. Sometimes the legislature, as in New York, requires that the land and building assessments be made separately and that taxes be levied on each equally. Despite the fact that in many states this procedure has custom and tradition in its favor it is not a good method of taxation and is becoming more and more suspect in intelligent circles.

Before City Fathers can take advantage of the permissive legislation which grants them the right to shift the burden of taxation from buildings to land the people need to be informed as to the ultimate benefits of such a plan. Since the results of this shift are bound to be good for all concerned it should be an item of interest to every citizen to understand why a tax on land is better than a tax on buildings and improvements.

Some people, who have not thought the problem through, yawn and say "You have to have so much money to run the city government. What difference does it make whether you assess it against the land or the buildings?" Our reply to this is that it makes a world of difference for the simple reason

that land and buildings are as different themselves as chalk and salt.

In the first place land is a fixed quantity. You can neither increase nor diminish the amount of land. Moreover, land, whether it is to be used as a site for a building, a source of raw material or an area for the growing of crops has been produced without human labor. It is the gift of the Creator. It is God-made. It is there without any man having anything to do with it.

Buildings and improvements, on the other hand, are all man-made. They represent the results of human labor and are never fixed quantities. Under certain circumstances they may be increased beyond the power of the imagination to conceive. What New Yorker of 1850 could have imagined the fabulous building enterprises that have marked the growth of that city in the past hundred and ten years?

The most important difference between land and buildings is the way that socially created values tend to attach themselves to land and to be reflected in the price of the land. By socially created values we mean those economic benefits that accrue when a city has supplied sewers, streets, water lines, fire and police protection; when the business community has supplied electric power, gas and telephone lines; and when the social forces have supplied churches, schools, libraries and museums. All these things conspire together to give land value. Such things never add to the value of buildings which are worth only what it would cost to replace them. It is plain therefore that there is a great difference between land and buildings. Let us begin to treat them as though they were different. We maintain that socially created values should be collected by society for its needs and that individually created values should remain in the possession of those who produce them.

A building can be improved, rebuilt, trimmed up or torn down. Improvements may be nil or they may be extensive. What happens to the man-made part of real estate is determined by many factors, not the least of which is the system of taxation involved.

For purposes of illustration let us suppose that suddenly taxes were to be placed 100% on land and its value. In other words, having decided how much money is needed for local government and services, the decision is made to levy all taxes against the land and to declare that buildings are no longer subject to taxation. Immediately every person who owned land would realize that improvements could now be made without penalty from taxation. Heretofore an owner of a building had to be careful about making improvements lest he be visited by the assessors whose duty it was to levy a higher tax against the property. With no fear of this taking place the owner could now plan improvements to the extent of his new ability. Under the old system many a badly run down building was left to deteriorate because the owner did not feel that he could afford to improve his holding and keep paying the consequent tax year after year. Across the country thousands of such buildings are up for forfeiture of taxes or they produce such small amounts of revenue as to be useless to both the owner and the taxing body.

Should such a system of land value taxation be introduced merchants would immediately begin to think in terms of fixing up their stores with new fronts or remodeled interiors. Owners of old buildings would leap at the chance to put them back into proper condition. This would be possible since there would be no fear that after spending money on improvements the government would come along and penalize them for thus improving their property.

Owners of vacant lots would also be in a new situation. With the tax all being levied against the land value the owner of a vacant lot would now be obliged to pay as much tax as that being collected on either side. Should the owner not care to put a building on the lot himself he would be obliged to sell the lot to someone who might have that privilege. This would tend to bring vacant land into use and the common welfare would be served. We want more of everything that is produced by human labor. To tax land value only would be to encourage owners of vacant land to improve their property. Thus would labor be given work and people who sell building supplies would be given an opportunity to market their goods.

Taxes should be so levied as to encourage and not discourage the production of wealth. We make a great mistake when we tax anything that is the product of human labor. To do so tends to diminish the amount or quantity of that product. What we want are more and better buildings, more and better conveniences, more and better of everything. The simple expedient of placing a tax on land value and untaxing the products of labor is the only direct way for government to encourage increased production and economic activity.

When it is understood that new buildings or improvements are no longer to be taxed there will be an almost immediate reaction in favor of building activity. Building supply houses will be swamped with orders. Carpenters, electricians, plumbers, roofers, plasterers, paperhangers, etc., will all be in great demand. Merchants will find business picking up. Bankers will be busy negotiating new loans. Real estate operators will be busy making new deals. Fire underwriters will be writing new business. In fact everybody in the community will find their situations improving.

For one month we have been walking and riding through the streets of Franklin. Rimming the downtown area in several directions are old and dilapidated buildings. These buildings are so badly in need of repair as to be almost useless. The assessors must have taken their condition into consideration and placed a very low assessment upon them. Their near worthless condition contributes to the much too low evaluation of the land upon which they sit. These two factors conspire to rob the city of tax revenue. Let taxes be lifted from the buildings and let the owners know that they can build anew or improve without tax penalty and they will quickly put their buildings back on a sound paying rent market. The city in its turn will see new value being given to the land and in due time will levy a more substantial tax upon the land itself. This would however be so much less than that which an owner would now have to pay if he dared to put his building into good repair that he would be happy to pay an additional land value tax as long as he could rent out a respectable building without having to pay excessive annual charges for putting that building into first class condition.

Many of the larger buildings on Liberty Street have long since seen their best day. One is being abandoned by one tenant after another until it has occurred to the owner that the third floor should be entirely cut off. Such an idea could only seem sensible under the present system which makes it practically ruinous to think of spending enough money on the building to put it back into rentable shape. To do so would be to invite bankruptcy for the subsequent tax would eat up all the profit. Such an owner would gladly pay twice as much in taxes on land value as he is paying now on land and an old building if the city would allow him to put the building into good repair and then "get off his back" and allow him to receive a proper return on his investment.

If anything can be done to improve business conditions or to improve the appearance of a city it should be welcomed with open arms by all hard working people. Any policy that tends to stifle initiative or to put brakes on human effort should be done away with as an enemy to the common welfare. To tax buildings or improvements is such a force and it should be set aside as a public policy. The fact that we have taxed buildings from time immemorial does not matter. It is a bad policy and should be stopped. We like to see our homes neat, our places of business looking prosperous and our main streets looking modern and up to date. All over America the main streets in every town look like old red brick mausoleums instead of places where people live and work. The simple expedient of untaxing buildings and improvements would go far to institute sweeping changes in our general appearance.

Pennsylvania's new Graded Tax Law points the way to that day when all local taxes might be shifted from buildings to land value. We wish it were immediately possible to make this shift but such is not the case. There are three taxing authorities with which the people of Pennsylvania cities have to deal. They are the City, the Board of Education and the County. In most cases all three use the tax rolls prepared by the City. Each has the power to collect taxes and to determine what the millage rate for their sector is to be. In Franklin the City millage is 13, the School Board claims 16 and the County collects at the rate of 3 mills per dollar of valuation. In Oil City these figures are 15, 25 and 3 respectively. In Titusville the City and School Board use the same assessment roll and their rates are 7 and 10. Their assessments are higher than those used by the County and this accounts for the fact that the County requires a millage of 9.

As the law now stands it is only the City that is privileged to shift taxes from buildings to land. In

the future this same privilege should be granted to School Boards and County authorities and when that becomes a reality then and only then will it be truly possible for us to attain our imaginary objective. We drew a picture of what would happen if 100% of taxes could be shifted to land value as a projection of the possible when the big fact about taxes becomes clear, namely that buildings, which are products of human labor, should never be taxed.

Since it is impossible now to attain that 100% stage just how far can we go and what advantages would immediately accrue if a City were to embrace the full potential of the Graded Tax Law? Let our readers remember now that we speak only of that part of the tax burden which is controlled by the city. As mentioned above it represents in Franklin 13 mills, in Oil City 15 and in Titusville 7.

This procedure could be followed:

1. In order to get full and immediate benefit from the policy of untaxing new construction let the City Council declare that on and after such and such a date there will be no taxes levied against any new construction either in the form of new buildings or improvements on old buildings. Thus any person planning to build a new building or planning improvements on an old building would know that his maximum penalty or additional tax, if you prefer, would be figured at 19 mills per dollar of assessed valuation rather than 32. The 13 mills levied by the city would be waived. This is a 40% reduction in the tax that would otherwise be collected and would represent a sizeable saving. There is little doubt that it would be a sufficient inducement to persuade many owners to put their buildings into better condition.

2. Let the City Council declare that on and after such and such a date that all assessments on buildings and improvements be frozen and that from that time on there will be no change either up or down in the assessments on buildings and improvements.
3. Let the City Council declare that it shall be the policy of the city government to shift the tax burden from buildings and improvements to land value by a gradual process extending over a five year period. Using the year of declaration as a norm let the Council declare that each year for five years 20% of the tax hitherto levied against buildings and improvements be shifted to land value so that by the end of the five year cycle the entire burden of taxation will be carried by land value.

This procedure, if followed, would not greatly change the total tax paid by each property owner at the beginning of the second year. It would however tend to indicate the direction that the plan will take in any specific case and the owner will have an opportunity to consider whether or not a shift in overall plan is called for which might involve the sale of the property or a general plan for the improvement of the property in order to take advantage of new opportunities of a revenue producing nature.

Careful consideration of such a system of taxation reveals that all individuals concerned benefit. Most owners of land are also owners of buildings and the advantages of untaxing buildings are so extensive that a land owner as such is really never hurt. The only exception to this rule is the owner of vacant land whose only purpose is to hold his land out of use in the hope of obtaining a high price in its sale. By every standard of value such a policy is

inimical to the public welfare anyway and should not be encouraged. Under the present system, by virtue of the fact that the land is vacant, the tax on that land is so low that the person owning it is really encouraged to do an unsocial thing. Correct the law and you can deal effectively with the condition.

Opportunity has at least begun to knock in Pennsylvania cities. Ours is an educational campaign designed to point out the benefits of shifting all reality taxes from buildings to land. A veritable flood of new business would automatically come to any community that would tax land value rather than buildings and this would be a phenomenal increase if it could be done clear across the board. Since it can be done on the city level now the doors are open for citizens to cash in on very definite savings on their tax bill. Experience in Pittsburgh indicates that home owners would be the first to benefit. Even those who own commercial buildings would find their situations greatly improved even though there might be a higher tax imposed than before. The gain that would come from untaxing even in part the buildings would offset the disadvantages of paying more on land value. Their opportunity for property improvement would make the difference.

If there is any validity in our theory and if a phenomenal building boom would result should this plan be made 100% effective it stands to reason that to immediately go 40% of the way, which is what the 13 mill levy of the city would represent, would greatly increase building activity and bring about many changes. This is no mere "pep talk" to the business leaders of this city. It is a clean-cut recommendation, which, if put into effect, would start hundreds of people doing things for their own good and ultimately for the good of the town. Should the City of Franklin, with its 13 mill levy, take this turn

in the road it could demonstrate to all the Cities of the Third Class that The Graded Tax Law is loaded with a new brand of economic power.

Our purpose is fourfold. We want to get over the simple idea that a tax on buildings and improvements is inimical to the public welfare. We want to point out the fact that there is now a law which grants City Fathers the right to deal effectively with their own tax sector. We are eager to have this Graded Tax Law applied, limited though its total effect might be. We also want to encourage citizens to ask for similar legislation on the School and County levels. If the people of Franklin were permitted to include School Taxes based upon a millage of 16 in a general program of land value taxation we could literally turn the city into an economic beehive. People would look upon it as just downright fantastic. If and when some city has this right and claims it the whole world will stand in awe of the amazing progress that will automatically follow.

Nothing can or will be done about this plan until large numbers of thoughtful people carefully consider the plan and, upon seeing its advantages, are willing to speak to their councilmen in favor of its adoption. These men are your representatives. They cannot afford to go out too far ahead of their constituency. They want to serve both your wishes and your best interests but these two must coincide in the minds of the people in a democracy such as ours.

Why this simple plan has not become a part of the American tradition is hard to say. It should have been adopted years ago. However it is now within the reach of all citizens of the Cities of the Third Class in Pennsylvania. Will you help open the doors so that we might all receive a veritable flood of good things? Logic and common sense point the way to real economic improvement. Your town has it with-

in its power to start its own building boom and its own upswing in the business cycle. Help your town to encourage new industries to settle within its borders and along with other things worth knowing just remember that any encouragement a town can give to industries, either now or for future development, is a good thing. Industries give work and pay wages to people and should be helped and not hindered in the process. Any alert mind will instantly recognize that such a plan would attract new industry to a community. If we can say to an industrial group that any new construction would be 40% free from taxation what better inducement could possibly be offered?

Incidentally this cause is being advocated by a small group of practical idealists now being represented in the vicinity of Franklin, Oil City and Titusville by the author of this pamphlet. Resources are quite limited. Education is the process to be employed and only YOU the individual citizen can ultimately do anything constructive about this important matter. We cordially solicit your interest and help.

We are here to educate, not to agitate. If you have questions and want a more detailed explanation of these matters just call the number listed on the front cover.