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Pittsburgh's Graded Tax in Full Operation

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A discussion of the working of the Pittsburgh graded tax plan, the purpose of which is to encourage business and improvements and to discourage land speculation by decreasing taxes on buildings and increasing taxes on unimproved land.

1835

PITTSBURGH'S GRADED TAX IN FULL OPERATION

PITTSBURGH'S unique experiment in taxation has attracted widespread attention and there have been numerous inquiries, some of them from remote corners of the world, concerning the operation of the plan and the effects resulting therefrom. There has been a good deal of misconception, resulting in an exaggerated idea of what Pittsburgh is doing and leading some to anticipate something revolutionary in the way of effects.

The Pittsburgh tax plan may be briefly described as having two notable features:

1. The entire tax revenue for municipal purposes is derived from taxes upon real estate. There are no taxes levied by the city government on any other form of property or income.

2. The municipal tax rate on buildings is fixed at one-half of the tax rate levied upon land. This latter feature is known as "the graded tax."

EVOLUTION OF THE GRADED TAX

The graded tax has been in process of evolution since the year 1913, when the law was passed by the Pennsylvania legislature. It has now reached its goal, the ultimate point contemplated by the law having been attained on January 1, 1925, when the half-rate on buildings became effective. The law provided for the partial exemption from taxation of improvements upon real estate, with the ratio of exemption increasing at each triennial assessment. This partial exemption has been effected, not, as commonly assumed, by reducing the assessed valuation of buildings, but by fixing from year to year a lesser tax rate on buildings than that levied upon land. The law became effective January 1, 1914, and there have been five successive steps, corresponding to the triennial assessment periods, in each step a certain proportion of the tax burden being shifted from buildings to land; in the first period, 1914-15, the building rate being 90 per cent of the land rate; in the second period, 1916-18, 80 per cent; 1919-21, 70 per cent; 1922-24, 60 per cent, and in 1925 and thereafter, 50 per cent. (Note Exhibit "A.")

EXHIBIT "A"

COMPARATIVE STATEMENT OF CITY TAX RATES UNDER GRADED TAX PLAN*

Year	*Land Tax Mills*	*Building Tax Mills*	*Flat Tax Rate Required to Raise Same Revenue*
1914	9.4	8.46	9.05
1915	10.2	9.18	9.8
1916	12.6	10.08	11.63
1917	11.5	9.2	10.6
1918	14.5	11.6	13.3
1919	15.7	10.99	13.6
1920	19.	13.3	16.6
1921	20.	14.	17.5
1922	20.	12.	16.5
1923	20.	12.	16.58
1924	20.	12.	16.46
1925	19.5	9.75	15.2
1926	22.4	11.2	17.2
1927	22.4	11.2	17.2
1928	25.	12.5	19.
1929	25.	12.5	19.

* Compiled by Pittsburgh Assessor's Office.

While Scranton is governed by the same act, it being necessary to include in its provision both of the second-class cities of the state in order to meet the constitutional requirements, the graded tax law is distinctly a Pittsburgh idea. The proposal was originally sponsored by the Pittsburgh Civic Commission, which for a number of years was one of the most influential civic bodies of the community. But it was largely through the political influence exerted upon the legislature by Mayor William A. Magee, then serving his first term, that the measure was quickly adopted into law.

EFFECT OF THE GRADED TAX PLAN

With the graded tax plan now fully effective, it is possible to tell, in general terms, just what the new tax system means to Pittsburgh and its taxpayers.

There is, of course, no loss of revenue through the graded tax. The law of 1913 has no effect whatever on revenues or upon expenditure. It simply brings about a shifting in sources of revenue. Its effect is upon the respective tax rates on land and buildings which are fixed annually by the city council at

such figures as will produce the sum estimated as necessary to meet the expenditures set forth in the budget.

Careless writers have frequently stated that Pittsburgh has reduced building taxes 50 per cent. This, of course, is not literally true. What they mean to convey is that, through a gradual process, the building taxes levied by the city have been brought to a point where they bear a ratio of 50 per cent to the city land taxes. The building tax rate would not have been reduced as much as 50 per cent, even had real estate values and government costs remained stationary at the 1913 figures, because we must, of course, take into account the automatic increase in the rate of the land tax which has been taking place as contemplated under the law. The estimate made on the basis of 1913 figures was that, if the law were then to become fully effective, the tax rate on buildings would be reduced 40 per cent. But the proportion of land and building valuation has changed materially since 1913, building values steadily gaining on land values, and, what is more important, the cost of government service has tremendously increased everywhere, as have all costs that enter into the cost of living and the cost of doing business. So the building tax rate in Pittsburgh is actually higher today than it was in 1913, but only very slightly higher so far as city taxes are concerned, because the operation of the graded tax law has steadily reduced the ratio of the building tax to the land tax.

The city tax on buildings in 1913 (under the uniform rate plan) was \$8.90 per thousand dollars of valuation; it is \$12.50 per thousand in 1929. This means that our city building tax has gone up in this 16-year period of soaring taxes only to the extent of \$3.60 per thousand, while on the other hand, our city land tax has gone up from \$8.90 to \$25.00 per thousand, an increase of \$16.10.

SHIFT OF TAX FROM BUILDINGS TO LAND

Exactly what does the graded tax mean to the taxpayer in dollars and cents? It means that buildings pay $6.50 less per thousand dollars of valuation than they would pay if the old flat rate system were in effect. It means that land pays $6.00 more per thousand than would be required under the flat rate system. Land therefore pays $12.50 per thousand more than buildings. *The city tax rates for 1929 are $25.00 on land and $12.50 on buildings (per thousand dollars)*, and these rates raise a revenue of approximately $21,000,000. To raise the same revenue with a flat tax rate would require a levy of approximately $19.00 per thousand. The effect of the graded tax on the tax figures can therefore be accurately measured by the difference between $19.00 and the present rates and similar calculations have been made that enable us to compare the rates required under the respective systems for each year that the graded tax has been in operation.

In wholesale terms, this signfies that there has been a shifting for this year 1929 of approximately $3,500,000 in taxes from buildings to land. The total assessed valuations for 1929 are: land, $574,589,080; buildings, $562,017,070; total valuation, $1,136,606,150. Under the graded tax law land values in Pittsburgh pay a total city tax for 1929 of approximately $14,400,000, while at the rate of $19.00, which would prevail were the old tax system now effective, the taxes on land would be only about $10,900,000. Buildings, under the graded tax, pay this year in taxes $7,000,000, while at the rate of $19.00, this figure would be raised to approximately $10,500,000. These figures confirm the fact that there has been a shift from buildings to land of about $3,500,000, a very considerable item out of a total city tax revenue of $21,400,000.

PLAN LIMITED IN ITS APPLICATION

As the graded tax law is the only tax law of its kind in the United States, there has naturally been much discussion as to its effects, not only upon the tax situation itself, but upon real estate conditions. Therefore, before proceeding further into the discussion, it is important to note that the foregoing figures, though very significant, relate only to *city* taxes, in the strict sense of the term. This twenty-one million dollars raised by the city from real estate is by no means the entire tax revenue that is obtained from Pittsburgh real estate, as it is found, upon examination, that the board of public education and the county of Allegheny together raise from Pittsburgh real estate the approximate sum of $21,400,000. And in the collection of this vast sum there is no exemption of buildings whatever, as neither the school tax or the county tax is levied under the terms of the graded tax law, this measure relating to cities only.

The board of public education, representing the school district of Pittsburgh, a political unit distinct from the city itself, raises from taxes on Pittsburgh real estate the approximate sum of $13,000,000 this year, by a flat rate of $11.50 per thousand, the school tax being based upon the city's assessed valuations. Of this total sum, approximately $6,600,000 is obtained from land assessments and $6,400,000 from building assessments. When these figures are added to the city taxes, we find that the combined taxes derived from land amount to $21,000,000, while the combined taxes on buildings total $13,400,000.

The county of Allegheny raises from taxes on Pittsburgh real estate the approximate sum of $8,400,000, by a flat rate of $7.375 per thousand. It is not possible to give the definite distribution of this sum into land and buildings, as the county tax is based upon the county's assessed valuations, which do not separate land and buildings, though the proportion allotted to each would probably not differ greatly from that shown under the city's assessments for the school tax.

These facts tend to show the limitations of Pittsburgh's graded tax system as it now stands with present legislation fully effective, and to indicate to just what extent the building exemption plan has been carried. The facts cited show how far Pittsburgh is from the single tax, either "unlimited" or "limited," and thus serve to give a better understanding of the Pittsburgh tax experiment, which is really a moderate tax reform applied in a very conservative manner. Nevertheless, it marks a very distinct departure from the general practice of American municipalities and the material change which it has made in the distribution of the tax burden makes it reasonable to look for certain moderate effects upon real estate conditions.

PLAN STIMULATES IMPROVEMENT OF LAND

It is my judgment that the graded tax plan has undoubtedly tended to stimulate the improvement of real estate. It has been said that there is entire absence of *evidence* that the graded tax has influenced the erection of a single building. And perhaps actual proof that it has done so cannot be given, because it is very difficult to determine just what motives are most influential in inducing the builder to build. Yet friends and opponents of the graded tax alike agree that the higher land tax has been influential in inducing those who had held large tracts of land idle to sell at more reasonable prices, because the holding of vacant land for long periods is becoming unprofitable.

We know that Pittsburgh has had a real boom in building during the past several years and has made a record for new construction never before equalled in the history of Pittsburgh.

Building permit statistics show that building operations have much more than doubled, both in value and number, during the period of the graded tax. For the past five years, ended December 31, 1928, the totals for building construction in Pittsburgh have averaged close to 40 million dollars annually, while in the years prior to the adoption of the graded tax the totals for building construction did not exceed 14 millions in any one year.

Another index to the improvement of real estate in Pittsburgh is provided by the record of total assessed valuations. During the fifteen-year period that the graded tax has been in operation, the assessed building values of Pittsburgh have increased 280 million dollars, or in other words, have practically doubled, while assessed land values have increased only 94 million dollars.

Assessed building values increased from 282 millions in 1914 to 562 millions, approximately, in 1929. Assessed land values increased from 480 million dollars in 1914 to 574 millions, approximately, in 1929.

The Pittsburgh Civic Commission, in its tax revision bulletin of 1912, contended that high land prices, with accompanying high land rents, were one of the chief obstacles to Pittsburgh's progress, and a survey made at that time brought out the fact that the average value of land per acre in Pittsburgh, as shown by assessments, was second only to that of New York City. This indicated that Pittsburgh's land prices were abnormally high and it was an avowed purpose of the graded tax plan to lower land prices or to retard the rising process. No careful analysis has been undertaken such as would be necessary to bring out all the facts as to what has taken place with relation to land values since the graded tax law has been on the statutes, but it seems beyond doubt from the evidence at hand that it has had a tendency toward lower land prices; that is to say that while land values constantly rise in all growing communities, the higher tax on land has prevented such inflation as we have witnessed in our own community in times past and such as has taken place in other large cities in recent years. Yet it is fair, in speaking of the higher land tax, to point out that the increased cost of local government has been responsible for this higher land tax to a greater extent than the graded tax law itself. Combining city and school taxes on land, we find an increase from $14.90 per thousand in 1913 to $36.50 per thousand in 1929, or a gain of $21.60, of which $15.60 represents the increase in the cost of public service and only $6.00 represents the increase due to the shifting of taxes from buildings to land.

But while judgments may differ as to the exact effects of the graded tax upon real estate conditions, the facts as to its results in lower taxes are subject to positive proof, being merely a matter of arithmetic. Since the first of the year 1925, when the graded tax law became fully effective, a study has been made from the official records of the department of assessors which reveals some very interesting facts.

OWNERS OF IMPROVED PROPERTY BENEFITTED

While we have not undertaken an analysis of the entire city, our study of the tax situation has gone far enough to clearly indicate that the great majority of real estate owners are saving money in taxes through the graded tax law, in most cases this saving amounting to a very substantial percentage of their city taxes. It follows, of course, that the owners of vacant or under-improved land are paying higher taxes, as contemplated by the sponsors of the law, which, as already intimated, means that such land, where valuable enough to pay a considerable tax, is not likely to remain vacant or under-improved for a long period.

Owners of improved property of all classes are benefitting in lower taxes by reason of the graded tax law. Our survey of a large number of typical cases shows very great annual savings in taxes paid by various office buildings, manufacturing plants, warehouses,

apartment buildings and single-family dwellings, the degree of the saving varying with the size and type of building in relation to the value of the land upon which it stands. (Note Exhibit "B.") Several of the large downtown office building properties show tax savings (by reason of the graded tax) for the year 1929 ranging from 10 to 17 per cent, in some instances the actual savings in taxes for the one year being in excess of eight thousand dollars.

Apartment houses almost uniformly show substantial savings in taxes under the graded tax for the reason that they are usually structures of some size and value erected upon land of moderate price such as is to be found in residential districts. Several of the larger apartments show savings as high as 30 per cent, in one case the actual tax saving being over eleven thousand dollars for one year. Pittsburgh's largest hotel is shown to be the biggest tax saver, measured in dollars, the tax savings in this instance for one year being nearly thirteen thousand dollars. On the other hand, a number of manufacturing plants and department stores occupying valuable land may be found which will not show any direct benefit in lower taxes from the graded tax, but as an offset to this, it should be remembered that very substantial savings have been made by manufacturers through the act of 1911 completely exempting all machinery from taxation, while the big department store is entirely free of taxation upon its stock of goods, whereas in other cities such stores pay heavy taxes on their "personal property."

But it is the home owner who stands out as the chief direct beneficiary of the graded tax. Only in rare instances do we find a home owner who has not been benefitted to some degree by lower taxes through the operation of the graded tax law. The most striking example of the effect upon taxes on homes is afforded by an analysis of the taxes paid by property owners in the 13th ward, a typical residence ward, which shows

TAX SAVINGS UNDER THE GRADED TAX PLAN

OFFICE BUILDINGS

Name	*Old Plan Flat Rate*	*Graded Tax Total 1929*	*Tax Savings 1929*
Koppers Building	$51,850.00	$43,224.00	$8,626.00
Grant Building	51,864.49	43,242.75	8,621.74
Clark Building	60,154.00	53,525.00	6,629.00
Law and Finance Bldg.	20,881.76	16,363.50	4,518.26
Plaza Building	18,034.80	16,230.00	1,804.80
Frick Building	70,608.00	62,906.00	7,702.00
Oliver Building	86,854.00	81,157.00	5,697.00
Frick Bldg. Annex	25,965.00	23,540.00	2,425.00
Union Bank Bldg.	24,400.00	22,106.00	2,294.00
Fulton Building	27,841.00	26,008.00	1,833.00
Bessemer Building	23,054.00	21,272.00	1,782.00
Westinghouse Bldg.	14,805.00	13,231.00	1,574.00
Commonwealth Bldg.	18,491.00	18,081.00	410.00
Keystone Bank Bldg.	11,774.00	11,429.00	345.00
Carnegie Building	34,393.00	34,005.00	388.00
Keenan Building	13,611.00	13,410.00	201.00
Highland Building	9,403.00	7,373.00	2,030.00
Union Trust Bldg.	110,450.00	109,205.00	1,245.00
Peoples Bank Bldg.	17,248.00	17,070.00	178.00
Benedum-Trees Bldg.	10,925.00	9,062.00	1,863.00
Federal Reserve Bldg.	10,716.00	9,725.00	991.00
Century Building	4,845.00	4,500.00	345.00
Jones Law Bldg.	8,654.00	8,012.00	642.00
Arrott Building	15,781.00	15,515.00	266.00
Manufacturers Bldg.	13,148.00	11,050.00	2,098.00
Keystone Club Bldg.	24,603.86	22,373.50	2,230.36

HOTELS AND APARTMENTS

Name	*Old Plan Flat Rate*	*Graded Tax Total 1929*	*Tax Savings 1929*
William Penn Hotel	121,153.50	108,162.00	12,991.50
Pittsburgher Hotel	18,927.80	15,530.00	3,397.80
Hotel Roosevelt	45,372.00	44,387.00	985.00
Webster Hall	22,075.00	16,547.00	5,528.00
Fairfax Hotel	18,545.00	13,076.00	5,469.00
Schenley Apts.	47,516.15	36,208.75	11,307.40
Bellefield Apts.	6,600.41	4,684.75	1,915.66
Ruskin Apts.	18,057.98	12,885.50	5,172.48
King Edward Apts.	7,808.31	5,586.50	2,222.81
Belvidere Apts.	2,086.01	1,557.25	528.76
Terrace Court Apts.	5,020.56	3,606.00	1,414.56
Alder Court Apts.	3,607.15	2,619.38	987.77
Wightman Apts.	1,332.85	941.25	391.60
Morrowfield Apts.	15,074.22	10,459.50	4,614.72
Georgian Apts.	4,365.25	3,243.75	1,121.50
Georgian Junior	1,368.00	988.00	380.00
Morewood Gardens	15,852.34	11,109.00	4,743.34
Cathedral Mansions	18,230.00	12,738.00	5,492.00
Frontenac Apts.	4,864.00	3,463.00	1,401.00
Haddon Hall	3,595.00	2,605.00	990.00
Center Court Apts.	4,069.00	2,980.00	1,089.00
Schenley Arms Apts.	2,908.00	2,013.00	895.00
Loutellus Apts.	5,149.00	3,650.00	1,499.00
Adrian Apts.	2,197.00	1,641.00	556.00
Bayard Manor Apts.	2,513.00	1,862.00	651.00
Saybrook Apts.	4,938.00	3,685.00	1,253.00

RESIDENCES

Name	*Old Plan Flat Rate*	*Graded Tax Total 1929*	*Tax Savings 1929*
Samuel Rattner	140.60	110.00	30.60
Michael J. Feeney	566.20	470.00	96.20
John Lauderbeck	34.20	26.25	7.95
Marke Papich	52.25	43.75	8.50
Margaret Arensburg	383.42	310.75	72.67
Rose V. Kraeling	551.00	443.75	107.25
Anna R. Miller	95.57	69.50	26.07
William B. Rodgers	92.15	70.00	22.15
Mary V. Lee	41.23	29.25	11.98
Charles Masur	118.75	85.00	33.75

MANUFACTURING PLANTS

Name	*Old Plan Flat Rate*	*Graded Tax Total 1929*	*Tax Savings 1929*
Westinghouse Electric & Mfg. Co.	11,864.93	9,454.25	2,410.68
Pgh. Equitable Meter Co.	7,766.06	6,409.75	1,356.31
National Biscuit Co.	21,960.20	18,220.00	3,740.20
Eatmore Chocolate Co.	7,852.13	6,919.25	932.88
A. J. Logan & Co.	4,010.52	3,529.50	481.02
Liberty Baking Co.	6,839.05	5,498.75	1,340.30
Rieck-McJunkin Dairy Co.	10,191.98	9,126.75	1,065.23
Armstrong Cork Co.	14,987.20	12,932.50	2,054.70
D. L. Clark Co.	7,560.48	6,085.50	1,474.98
Alling & Cory Co.	4,070.56	3,606.00	464.56

that out of a total of 4,252 assessments, there are 3,250 cases where the taxes paid under the graded tax are less than would be paid under the old flat rate system, these savings ranging from 5 to 30 per cent. Of the remaining 1,002 assessments where the taxes paid under the graded tax system are higher, it is interesting to note that 980 of these represent vacant lots, leaving only 22 "improved" properties that are not paying lower taxes, and these 22 are properties that are not very adequately improved.

There has been an impression in the minds of many that the owners of large office buildings profit by the graded tax at the expense of the home owners because of the relatively small building investment of the latter. This assumption, however, is altogether contrary to the facts. The high land values in the downtown business district, known as the "Golden Triangle," much more than offset and cancel the partial exemption of the skyscrapers and other large structures in that section, while the home owner, though possessing a structure that seems insignificant by comparison with the skyscraper, is apt to find the value of his building from two to five times greater than the value of the land upon which it stands, and, of course, every property owner whose building value exceeds his land value on the assessment books is paying lower taxes through the operation of the graded tax. Nor is it essential that his building value should exceed his land value. If the land value is equal to the building value, his taxes will be lower under the graded tax as long as the present ratio between the total assessed valuations of land and buildings is maintained, the total of land valuations for 1929 exceeding the total of building valuations by about sixteen million dollars. The city building tax rate is now 35 per cent lower by reason of the graded tax than it would be under the old system and this has made a substantial difference in the tax bill of the average home owner, who is more concerned with building taxes than he is with the taxes on land.

Our survey develops the fact that it is only the exceptional business structure in the downtown district that has a value sufficient to offset the high land value and thus show a saving through the graded tax. A study of approximately 1,200 property assessments in the "Golden Triangle" (comprised of parts of the 1st and 2nd wards), shows that only 8 per cent, or about one out of twelve, pay lower taxes by reason of the graded tax. Since high land values are always to be found in the heart of the business district of a city, it is obvious that, under either the old or the new system, the downtown wards must pay the greater share of real estate taxes, but the higher the land tax, the greater is the proportion paid by the downtown section.

PRESENT STANDING OF THE PLAN

The expediency of the graded tax plan lies in the fact that it means tax relief for the majority of taxpayers and that it encourages the improvement of real estate, thus stimulating the development of the community. The justice of the graded tax plan rests upon the fact that land values are socially created, growing with the growth of population and the extension of public improvements, and are, therefore, in a peculiar sense, a natural and logical source of public revenue.

Naturally, the graded tax has not been without opposition. It has been fought by those largely interested in unimproved land, as well as by some who are opposed to the plan in principle. Its repeal has been attempted on several occasions, but its friends have rallied on each occasion and frustrated these efforts. It has been defended by the leading civic organizations and the daily press is practically unanimous in declaring for the maintenance of the law upon the statutes.

The present city administration, which is friendly to the graded tax idea,

is not proposing at this time any further extension of it beyond the limits of the present act, but takes the attitude that now that the law has become fully effective, the plan should be given a period of five or ten years in wi[illegible] to fully demonstrate its value. When the taxpayers generally awaken to the realization that the repeal of the law would mean a substantial increase in taxes for the great majority of real estate owners, they are sure to present effective resistance against any future efforts to upset the system. As the graded tax grows in public favor, it seems unlikely that there will be any backward step, and there are even now indications that, within a few years, steps may be taken by interested citizens to extend the partial exemption of improvements beyond the present point through new legislation. Whether or not this will actually be brought about is, of course, largely a question of the development of public opinion as to the advantages of the improvement exemption idea.