Long Island's tax burden

LONG ISLAND does not have a housing problem. Housing, per se, is not a problem in either Nassau or Suffolk County. There's plenty of housing, in all kinds of communities, for all kinds of people at prices both well above and substantially below the national average.

The problem is not the cost or availability of housing; the problem is simply that of the property tax.

Of course, building costs are high, but from what I have seen around the country, Long Island builders can still provide more house for the money than in any other major metropolitan area.

Financing is tight, but most mortgage rates are higher almost anywhere than in New York State, though they might have to rise here, too, to meet the mortgage demand.

The only arena in which New York State, in general, and Long Island in particular, do not compete, is the tax burden. Besides parts of Winchester, Ramapo and Dutchess Counties, Long Island is the highest taxed region in the highest taxed state of the Lower 48.

Unlike the northern suburbs with their corporate headquarters and major industries, the property tax on Long Island falls squarely and heavily on the backs of the homeowner. As if that isn't enough, the courts have decreed that commercial property has been assessed too high, so homeowners will have to bear an even greater burden in the future.

The Advisory Committee on Inter-Governmental Relations suggests that when the tax greatly exceeds two per cent of the real value of property, that value itself will be affected.

In Nassau County, the effective tax rate is often double that limit, and in too many communities, well into the range of five per cent and over. A $2,500 tax on a $40,000 house means home values driven down by the tax and families driven out, or more likely, attracted elsewhere by a higher-priced home with lower taxes.

In any event, Long Island suffers in lagging growth, empty school-rooms, higher per-capita costs, and failure in one of the two industries in which it had been pre-eminent – the construction of good, moderate-priced housing for the average American family.

Report by PHILIP FINKELSTEIN

THE FUNDAMENTAL cause of high local taxes is that we enjoy – or suffer, as the case may be – the most expensive local government in the country. There are more layers of local government and special districts taking nibbles, pecks, and whole bites out of our property tax base than anywhere else.

The proliferation of local jurisdiction is understandable, with new suburbanites seeking to escape the anonymity of the big city, and controlling their own public destinies.

It may help to explain the scale and scope of public services demanded: school districts with college campuses and superintendents' salaries above university presidents, five levels of public parks, all with super re-creation programmes and facilities, the highest paid police forces in the country, counties with cabinet structures to support their functions and fleets of vehicles to transport them, and armies of the faithful, manning equipment that could build pyramids of salt, or pave a jungle if they were in the employ of an African potentate, instead of a Long Island town.

Yet, for all duplication and extravagance of spending at the local level, nothing is so destructive of the tax base as the way we administer the property tax itself.

The property tax is levied in theory, and in law, on land and improvements alike. Yet in almost all assessing jurisdictions, improvements bear the heaviest burden of taxation, and land the smallest.

This is the issue that will be most significantly debated politically, now that the courts have decided that we need not tolerate the inequities of the property tax as a means of financing our schools, or as a way of raising local revenues generally.

Apart from the inequity and the illegality, there is a perversity in a public policy that penalizes the property owner who builds, improves, repairs and enhances his home, his business and his community, at the same time that it rewards neglect, abandonment, sprawl, and speculation.

For this is the effect of a high tax on improvements and a low tax on land.

Why build a better building and pay more tax when *not* building – or, let's say, maintaining a shrub nursery in a residential area – will pay better, not just by selling bushes, but by letting a precious couple of acres go

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SOVIET UNION

Kremlin reviews rent subsidies

LOW RENTS are considered a major achievement of Soviet-style socialism, reports Mark Frankland in Moscow.*

They take, on average, only two per cent of a family's income, which covers a third of housing maintenance costs.

Housing subsidies have now reached £5.5 bn a year. And there is a growing awareness that heavily-subsidised rents are helping to retard economic progress.

This disparity in rental levels is illustrated by a recent Soviet newspaper report which revealed that privately-rented flats were costing a minimum of £47 a month; a comparable apartment in the public sector would cost a family £5.

The Kremlin, reports Markland, is now trying to work out a way of raising rents without violating their socialist principles. Two economists in a *Pravda* article have suggested that rents should be graded according to the desirability of the accommodation.

*'How to raise rents without being noticed', *The Observer*, 26.9.82.

And in the U.S. . .

OPEN spaces are being provided by private developers in Houston, Texas, for use as *public* parks – but not solely out of civic pride.

Kenneth Schnitzer, chairman of Century Development Corp. and the builder of some of the city's most spectacular office complexes, says the "gesture" is not only "a nice think for the city but also a nice thing for ourselves."

The amenities, he adds, raise rental income.

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every few years at ever higher prices for development?

The perversity of local taxation conspires tacitly with zoning – maybe, in some jurisdictions, more openly – to inhibit good housing, good communities and better development.

Long Island has no stock of rental housing, let alone public low-income housing, because most local zoning prohibits it. Yet exclusionary housing policies could not prevail but for tax policy that supports poor land use. Low taxes on land make it easy and profitable for current owners to keep out higher and better land uses.

IT IS EASY to scare suburbanites with the spectre of the high-rise city, but there is no excuse for the miles of endless sprawl along our major corridors, with one-storey commercial development, sprinkled with vacant lots, and derelict properties.

Apartment houses on Jericho and Hempstead Turnpikes, Northern and Merrick Boulevards, Sunrise Highway, and our other commercial arteries, would not destroy residential neighbourhoods, but help preserve them. They would provide the kids who would repopulate our empty schools and the tax dollars to support them.

Right now, most of the apartments being built on Long Island are luxury condominiums in posh locations, like North Hills and Woodbury, long held off the market by restrictive zoning, and the low land taxes that support it. These empty nesters are certainly welcome in Nassau and Suffolk, which have a lote more to offer besides climate than Arizona or Florida.

But they are no substitute for families with kids who will build and grow on the island, no substitute for our own kids, who are growing up and leaving Long Island because there is no place for them to live in such highly taxed and restrictive zoning.

A shift in the burden of property taxation, from improvements to land, would be a perfectly feasible way to implement the court decision on assessment. If we assess land at full value, we would not have to worry about improvements, or pay outside consultants or an army of "snoops" to find out who has finished his playroom, added a bath, and how much it cost.

Homeowners would benefit because most of their value is in their house, and not in their small, residentially zoned lot.

In a study we did nearby, in the Half-Hollow Hills School District of Huntington, we found that four out of five homeowners would have lower taxes if land were assessed at full value.

The environment would benefit, as pressure is taken off lower priced farmland, and development would be encouraged in under-utilized, more central locations. There would be no need to spend millions buying fictional development rights, if we zone farmland as such, and assess it accordingly low.

The farmer, of course, would never be able to sell for anything but a farm. This might remove the farmer's speculative profit, but it would ensure the maintenance of farming, where it is appropriate. The farmer should not be able to get a development price on a farmland assessment at the same time.

By far the largest beneficiary of a shift in the burden of property taxation is the local community itself.

A jurisdiction that creates values with good facilities, good schools and good services will be rewarded, and gladly, by property owners located there.

There would be no need to tax every new improvement; public services could genuinely pay for themselves with a tax on land values.

That is the soundest way to grow and politically, economically, and environmentally, the best way to go.

*Prof. Finkelstein is author of *Real Property Taxation in New York City*, New York; Praeger, 1975. This article is based on a paper he delivered at a Long Island housing conference held at State University, Stonybrook, New York.

AUSTRALIA

Tax change would help home-buyers

RESIDENTIAL property owners have made huge capital gains in the past four years, but this is cold comfort for the thousands of families who cannot afford their own homes, *writes Ian Barron*.

According to a recent study by the Commonwealth Scientific and Industrial Research Organisation:–

- **Before World War I, it took 18 months' pay for the average family to buy a house: now it takes, on average, four years' pay; and**
- **Only about half of Australian families can now afford to buy a house because of the costs.**

This dramatic change in the ability of people to obtain their own homes is partly due to a change in the tax structure.

For example, in the ten years up to 1979, total taxation as a percentage of income *increased* from 31 per cent to 34 per cent.

Property taxes, however, *decreased* as a percentage of income from three per cent to two per cent. The effect of this is to increase land prices.

The solution, according to a new book,* is to reverse this trend by shifting the tax burden on to the value of unimproved land.

Most Australian municipalities raise revenue with a property tax that exempts buildings. But, according to Dr. Hemingway: "In most instances, these taxes and rates are not vey high. They do not fully optimize land use or prevent speculation and investment in land."

Home-building permits issued in 1982 reached a seven-year low: the industry urgently needs resuscitation, and a drastic upward revision of the tax on land values would fit the bill, insists Dr. Hemingway.

He told *Land & Liberty*: "In 1980, the average price paid for a vacant home site in the Melbourne area was $15,625, and the mean after-tax earnings for Victorian male employees were $205 per week. On these figures, an average worker must save his entire take-home pay for almost 18 months if he wants a home site in Melbourne. Buyers whose earnings are below average, or who buy on terms, may spend two or more years' earnings on a site."

But a land value tax would cut the costs of sites, by removing "hope values" and increasing the supply of land onto the market. And that, says Dr. Hemingway, would boost construction.

*Les Hemingway, *Unemployment, Inflation and Taxes on Land*, Warrnambool, Victoria, June 1982.