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Appropriateness of Property Taxes in an Equitable Tax Structure

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APPROPRIATENESS OF PROPERTY TAXES IN AN EQUITABLE TAX STRUCTURE

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The property tax constitutes one of the interesting anomalies in American public finance. Primary dependence of state and local units of government on this source of revenue goes back to the Colonial period. Somewhat over half of the income of these units continues to come from taxes on personal and real property. But despite this tradition, there is no tax about which less is known concerning its incidence and economic effect. No major tax has been more criticized for the inequity of its impact. About none have there been more predictions of imminent rejection by the legislatures of the various states.

The major problem concerning the property tax is that, because of early origins, it has been surrounded by a substantial accretion of outmoded law and procedure. Methods of administering the tax which worked reasonably well in the Colonial period are still cherished with a touching though misplaced fidelity. The role of the township has all but disappeared in the structure of government, yet in North Dakota and many other states township assessors still make their annual rounds. Those taxpayers who realize they benefit from the archaic administration of the property tax are predisposed against change. Those who may be disadvantaged have no evidence to which they can point, and prefer to suffer the ills they know rather than those about which they can only speculate.

The purpose of the present article is to make a broad examination of the property tax, particularly as it applies to real property in North Dakota. Does it have an appropriate place in the state and local tax structure? Can some useful, if somewhat indefinite, conclusions be drawn about the income groups on which the burden falls? What are the effective rates of the tax, and how do North Dakota rates compare with those in other states? Some attention will be given to the major sources of inequity in the property tax—exemptions and poor assessment. Finally, an effort will be made to outline the major steps which need to be taken to bring the ad-

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ministration of the tax into the Twentieth Century and to make it a respectable component in the state and local structure.

Prior to the 1930s the states relied on property taxes for about forty per cent of their revenue, and local units obtained about ninety per cent from this source. Currently (1963) the states derive only about three per cent of their income from property taxes. However, local units still obtain eighty-seven per cent of their tax revenue from this source. In North Dakota the State derives almost four per cent and the local units almost ninety-seven per cent of their revenue from property sources. The action of the 1965 Legislative Assembly in North Dakota in exempting personal property from taxation will reduce dependence on this source. However, even if the exemption survives the referral action this summer, local units will still be dependent almost entirely upon the property tax for revenue over which they have some control.

THE EQUITY OF A TAX ON PROPERTY

One of the accepted tenets of tax policy is that equity on the state and local level is best served by a balanced structure of taxes, rather than reliance upon a single type of tax. A tax levied on any particular basis tends to bear heavily on taxpayers in some categories and lightly on taxpayers in other classifications. Because the sales tax is regressive in being based largely on family expenditures, equity is improved by including in state structures a tax based on net income after deductions. Each major form of state or local tax—sales, income or property—has a somewhat different basis, and taxpayers who almost escape taxes levied on one basis may incur a significant obligation when another is used. Periodic review should be given to the relative importance which taxes levied on different bases should have in the state and local tax structures.

Despite some erosion of the property tax base through exemptions, the state and local units have, over the past ten years, increased somewhat the portion of their total revenue derived from this source. This indicates that, despite criticisms of the property tax, there is still acceptance of its appropriateness as an important component in the state and local structure. The acceptance, moreover, is not due just to inertia. There are valid arguments in terms of tax equity for continuing to place a substantial reliance on the property tax, at least for local governmental revenue.

Local units of government are the creatures of the state, and have such responsibilities and powers as may be delegated by the state legislatures. Hence, the state must see to it that the local units have financial resources to meet their responsibilities. If sufficient funds are not available locally to provide essential services, they must be provided by state aid. However, effectiveness of local government and local fiscal responsibility is better achieved by local units having adequate sources of their own, rather than having to go, hat in hand, to the state treasurer. That there are too many units of local government is generally agreed, but it is also agreed that those which should remain need to be made more effective.

Local units need to have state aid in defraying some social costs which should not be entirely a local responsibility: *e.g.*, education, stream pollution, et cetera. But, beyond a foundation of essential services, local areas should be able to make their own choices between public and private goods. Having the ballot box available as a means of expressing the local preference pattern is meaningless if the local units are dependent on a state formula for their funds. It is ironical that many of the groups most vigorous in supporting local governmental responsibility are most anxious to undermine local financing by exempting certain kinds of property and contributing to other kinds of tax erosion.

There has been some experimentation with sales, income and other taxes to bolster local sources of revenue. Except for very large municipal units, these have generally been unsatisfactory. The property tax has several advantages which make it uniquely practical as a source of local revenue. The peculiar advantage of using real property as a tax basis for local units is that it cannot be moved from one taxing jurisdiction to another to find the lowest level of taxation. Hence local units are spared the kind of removal threats to which state legislatures are exposed when new taxes on business are suggested. Local units would be even more vulnerable to this kind of pressure, and hence have to have a basis which lacks mobility—at least mobility in the short-run sense.

Property taxes also have the distinct advantage that the mill levy rate can be precisely adjusted, within whatever limitations may be provided by law, to obtain the revenues needed by the taxing unit. Even though assessment may be centralized at the county level or on some other basis, local units are able to determine their own level of public expenditures and adjust the mill levy to achieve the budgeted amounts. Another advantage of the property tax is that local units can usually depend upon it to yield the desired amounts of revenue. Stability of yield obviously places a strain on the ability to pay when property owners experience a crop failure or other business loss. This signifies that property taxes should not be relied upon as the entire revenue source but they should have a place in the state and local revenue structure. In a year of crop failure, a farmer will have no income tax liability and can minimize his sales tax payments; however, property taxes should be continued as a means of covering the fixed cost of retaining the essential services of local government.

In North Dakota there is also a special reason to continue with a substantial reliance on property taxes. This grows out of the fact that the state ranks second among all states in the ratio of estimated non-residential property values to personal income.[1] In North Dakota the actual value of non-residential property was estimated at four times personal income, whereas in the median state the ratio was 1.67. In the Middle Atlantic states, non-residential property values about equaled personal income for the year.

The very high ranking of North Dakota in property values relative to current income reflects the low rate of return on farm property, relative to other types of income-producing property. Prices of farm acreage, especially in the Plains states, have been rising substantially more than farm incomes. In part, this has occurred because farmers have been willing to pay high prices to achieve more optimum size units. The dispersion between property values and flows of current income, however, is also due in part to the fact that personal income estimates are based on census reporting and federal income tax returns. Bureau of the Census data do not adequately reflect farm income. Under the income tax laws, farmers are able to use depreciation allowances and other devices to minimize taxable income which are not available to most other taxpayers. Therefore, income which includes increased asset values, tends to be higher than that which is reported on income tax returns. These higher realized incomes are reflected in higher land prices, since the amount a farmer is willing to pay for land is related to expected realized income, not reported income after accelerated depreciation and other special allowances. There is considerable evidence that many farmers are able to accumulate substantial asset values, even though current taxable income may be relatively low. This provides an important justification for basing part of the tax structure on accumulated property values.

The high level of property values relative to incomes in farm states, with its implications for an appropriate tax structure, is also evident from a new type of equity analysis based on a "representative" tax system. By a representative system is meant one which applies to each state a structure and schedule of rates which represent the weighted average of all the 50 state systems.

This new approach was developed by the Advisory Commission on Inter-governmental Relations to estimate the relative fiscal ca-

1. U.S. ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, MEASURES OF STATE AND LOCAL FISCAL CAPACITY AND TAX EFFORT 66 (1962).

pacity of the several states. It is significant that if all the states were to apply such a representative structure, the per capita yield *from property* in North Dakota would be twenty-two per cent *above* the national average.[2] In contrast, the yield from all other taxes would be two per cent less than the national average. The differential is due to the higher ratio of property value to personal income which prevails in North Dakota and other Great Plains and Rocky Mountain states. The "representative" tax approach also indicates that North Dakota has a substantially higher fiscal capacity, measured in terms of property values, than measured on other tax bases. This greater fiscal capacity of the property tax component of the North Dakota tax structure provides a strong argument for continuing reliance on this revenue source.

The increased land values also provide another justification for continuing a substantial reliance on the property tax. It is one of the accepted axioms of taxation that the present purchasers of income-producing property purchased it at a price which took into consideration the expected level of taxes. Insofar as taxes reduce the net income from land, they are capitalized in the form of lower purchase prices. In the case of farm land, it must be assumed that purchase prices are determined by expectations concerning the net income to be derived from the land. Expected net income after taxes is capitalized at an appropriate rate, *e.g.*, that on first mortgages, to determine the price which will enable buyers to realize a rate of return appropriate to the risk involved.

If, for example, the net return on a particular piece of land is expected to be four dollars per acre before real estate taxes, and if real estate taxes amount to one dollar per acre, then the after tax, net return amounts to three dollars per acre. If a capitalization rate of six per cent is used, the capitalized net income value of the land is fifty dollars. A knowledgeable purchaser would pay only this price. If, however, the tax were to be removed, the present owner would experience a sharp increase in the value of his property, since the net income value would go to four dollars per acre. A purchaser could probably be found who would now pay 66.67 dollars per acre for this land, since he would still realize a net return of six per cent on his investment. Hence, the elimination or any sharp reduction in the tax on real estate provides an unexpected windfall for existing property owners. Their gain would be at the expense of other taxpayers who would have to pay more to maintain existing levels of governmental services. The elimination of the land tax would be of no benefit to new purchasers of real property, since the new tax advantage would be offset by higher purchase prices.

2. *Id.* at 60-61.

The principle of tax capitalization also affects other kinds of income-producing property. To the extent that purchase prices are based on expected net income, existing owners of residential or commercial and industrial property also experience a windfall gain from property tax elimination or reduction. Although this principle is more clearly manifest for real property, it also applies in connection with personal property. The price paid for equipment in a factory, a stock of merchandise, or even a carload of feeder cattle will be based on expected net income. Hence, any sudden remission of taxes benefits existing owners of property, but is of less benefit to subsequent owners.

Another reason for continuing to use property as a basis for a significant part of the state and local tax structure is that there is a substantial correlation between the taxes paid on property and benefits received from local government. This applies particularly to urban property which benefits directly from police and fire protection, street maintenance, sewage and garbage removal. The substantial direct benefits to local owners justify the much higher tax rate paid by urban, as compared with rural, property owners in North Dakota. The exemption of farm residences and buildings in North Dakota can be justified to some extent on the basis of the minimal direct services rendered by rural units of local government. Rural property owners do benefit, however, from road construction and maintenance services provided by township and county governments. Local residents also receive a significant part of the benefit from local schools, even though society generally is benefited and should provide a substantial part of the financial support.[3]

In addition to the direct benefits which accrue to property owners from the services of local government, there are substantial indirect benefits. Obviously, property owners are benefited from counties maintaining a system of recording deeds and mortgages. Property values are enhanced when the community provides some of the social and cultural amenities which make the community a more attractive place for businesses and home owners. To the extent that property does benefit directly or indirectly from the services of local government, it would be unjust to shift the property tax burden to income, purchases or some other basis.

In terms of equity, the principal argument against property taxes is that they are not based upon ability to pay. It must be

3. Some writers who despair of achieving even reasonably equitable assessment, and who have observed the erosion of the property tax base, suggest that the property tax, at least in urban areas, should be replaced with a family of user charges. Charges for water, fire protection and street construction and maintenance would be levied on a benefits received basis, rather than on the basis of market value of the property. See SPENGLER, THE PROPERTY TAX AS A BENEFIT TAX; TAX POLICY LEAGUE, PROPERTY TAXES 165-173 (1940).

acknowledged that the year-to-year correlation between income from property and ability to pay taxes may not be good. Over the longer term, or over the expected period during which the asset will be held, there should, however, be a good correspondence between property values and ability to pay. This is brought about because prices generally reflect the capitalized, expected net income from the property. In a free market, deviations from expected income values will be rather quickly adjusted. Due to the equilibrating forces of the market, the tax on property values as used by the United States and Canada tends, in effect, to be equivalent of the tax on annual rental values used in England and Western Europe.

If property is properly assessed, there should be a high degree of long-term correspondence between income realized from the property and the taxes required. A major deficiency in this relationship occurs because of the lack of adjustment for indebtedness which may exist against the property. If it were practical for the local units to do so, the property tax would be more closely correlated with net income if it were imposed on a net worth basis.

A more serious deficiency in property ownership as an indicator of ability to pay is created by exempting certain categories of income-producing property. Whenever one class of property is exempted, an advantage is created for some property owners relative to others. The exemption of farm machinery creates an important advantage for farmers in intensive agriculture, relative to the extensive operators. Similarly, the exemption of business personal property discriminates in favor of these owners, as against owners of business real property. It should be noted that the inequity resulting from exempting certain income property is not an inherent defect in the property tax. The objection to the property tax which is inherent, and is probably most difficult to remove, is the difficulty of proper assessment. Before discussing the wide variations between assessed and market values, it will be appropriate to discuss the relative burden of the property tax and the extent to which it may be shifted to people other than property owners.

EFFECTIVE TAX RATES ON RURAL AND URBAN PROPERTY

Because there are wide variations between states and regions in dependence upon the property tax, there are marked differences in the rate of property taxation relative to market values of property. Where dependence upon the property tax is high, as it is in the New England and Northern Plains states, it would be expected that the effective rates of taxation would also be high. Differences in effective property tax rates are also related to the degree of urbanization, because property taxes are used mainly to support services of local government and these are more adequate in urban areas. Because of these distinctions, it is essential to discuss effective property tax rates in terms of two separate categories—farm real estate and urban property (residential and business).

Since farm land constitutes forty-one per cent of the total assessed value of all property in North Dakota, it is appropriate to focus attention first on trends and inter-state comparisons of effective tax rates on this class of real property. Because the basis for comparing effective rates is property values, it is important, first, to call attention to the rising trend in rural land values in North Dakota. The postwar increase in farm land values in North Dakota and the Northern Plains states is indicated in the following tabulation.[4]

Farm Real Estate. Average Value Per Acre of Land and Buildings

Year	North Dakota (Average Value per Acre)	Index Numbers (1957-59=100) North Dakota	Northern Plains	48 States
1940	$13	29	31	30
1945	19	43	46	46
1955	36	83	90	85
1960	53	111	109	111
1964	63	131	126	131

Relative to the 1957-59 base period, the average per acre value of farm real estate in North Dakota increased somewhat more than average values in the Northern Plains states, but at about the same rate as the national increase.

Taxes per acre have increased substantially during the postwar period. However, taxes on farm real estate in North Dakota have not increased in proportion to the increase in land values. Taxes levied per acre and per 100 dollars of full value of farm real estate since 1935 are as follows:[5]

Taxes Levied on Farm Real Estate

Year	North Dakota Amount per Acre (Dollars)	Amount per $100 of Full Value
1935	0.23	1.31
1940	.22	1.70
1945	.25	1.12
1950	.43	1.45
1955	.50	1.35
1960	.65	1.18
1963	.72	1.17

4. U.S. DEPARTMENT OF AGRICULTURE ECONOMIC RESEARCH SERVICE, AGRICULTURAL FINANCE REVIEW 64-68 (V25 Supp., Dec. 1964).

5. U.S. DEPARTMENT OF AGRICULTURE ECONOMIC RESEARCH SERVICE, FARM REAL ESTATE TAXES 8, 12 (Dec. 1964).

Despite the fact that farm real estate taxes on a per acre basis have almost doubled since 1950, the average rate in North Dakota per 100 dollars of valuation has declined since that date. It should also be pointed out that the average rate per 100 dollars of full value is lower in North Dakota than for many other states in the Northern Plains area. The following tabulation indicates the relative level of rates and trends since 1950:

Taxes Per $100 of Farm Real Estate

Year	N. Dak.	Minn.	S. Dak.	Nebr.	Kans.	Mont.
1950	$1.45	$1.54	$1.32	$1.09	$1.09	$1.14
1960	1.18	1.35	1.23	1.23	1.15	0.82
1963	1.17	1.52	1.17	1.33	1.20	0.90

These data indicate that, relative to full value, taxes on farm real estate in North Dakota are somewhat below the level of other states in the Great Plains area. The decline in the effective tax rate in North Dakota and South Dakota since 1950 is in contrast to the increase in Kansas and Nebraka and the relatively stable level in Minnesota.

In addition to comparing effective tax rates in North Dakota with those of other states in the Northern Plains, it is necessary to comment on regional differences. Relative to the $1.23 average rate for the Northern Plains in 1963, the rate in the Northeastern states was about two dollars per 100 dollars of full value. The rate in the Corn Belt states was $1.22, and for the Southeastern and Delta states it was only about fifty cents per 100 dollars of value. These regional differences reflect not only differences in relative reliance on the property tax, but also differences in degree of urbanization and in state support of local functions such as education and road construction.

Effective tax rates on a specific kind of property, *e.g.*, farm real estate, provide a rather reliable basis for interstate comparisons of the burden imposed by a specific tax. On the basis of the foregoing data, it would appear that real property taxes do not place North Dakota farmers at a competitive tax disadvantage with farmers in most other states. An exception to this generalization should be made for the southern states and those in the Southwest where there is a very low reliance on property taxes as a source of state and local revenue.

The relative tax burden on farmers in the various states cannot, however, be judged solely on the basis of taxes levied against real property. In most states which have a substantial livestock industry, or where farm machinery costs have increased sharply, farmers pay a substantial tax on personal property. Wide variations exist between states with respect to taxation of farm personal property. Four states—Delaware, Hawaii, New York, Pennsylvania—exempt all personal property from all state and local personal property taxes. North Dakota will be included in this category in 1966 if the "tax package" passed in the 1965 Legislative Session is allowed to stand. Alaska exempts all personal property lying outside corporate limits, and some southern states exempt all livestock and farm machinery. Other states, such as Illinois and Montana, exempt none of the major categories of farm personal property. In most states the personal property subject to tax is assessed at full market value or at some uniform fraction of full market value. However, four states use a classified property tax. For example, Minnesota assesses farm machinery, tractors and livestock at twenty per cent of true value. Montana assesses farm machinery and tractors at twenty per cent of full value, but assesses livestock at 33 1/3 per cent of full value.[6]

The exemption by the 1965 Legislative Assembly of all personal property from taxation will serve to reduce the relative tax burden borne by North Dakota farmers. In addition to benefiting from elimination of the tax on household goods, clothing and musical instruments, farmers will be freed of the 2.4 million dollars they currently pay on farm livestock and the 5.5 million dollars on farm machinery. The only other group which will receive a comparable or greater benefit will be the owners of merchandise stocks and inventories who had 3.5 million dollars in personal property taxes levied against them in 1962. Farmers will of course pay their share of the one per cent sales tax designed to provide a replacement fund for revenue lost in exempting personal property. Since some income tax rates have been increased, and because personal property taxes will no longer be a deductible item, farmers will also pay somewhat higher income taxes.[7] Despite these offsets, there seems to be little question that the elimination of the personal property tax will reduce the relative tax burden borne by North Dakota farmers.

The 1965 legislation exempting personal property included provisions designed to prevent any increase in the tax burden on real property. Taxing districts are to receive from a "replacement fund" an amount equal to the portion which personal property tax revenue bore to other tax revenue in 1964. In new bond issues the portion

6. U.S. DEPARTMENT OF AGRICULTURE ECONOMIC RESEARCH SERVICE, TAXATION OF TANGIBLE PERSONAL PROPERTY USED IN AGRICULTURE 11 (1962).

7. Tax Department data indicate that in years prior to 1963, the average income tax paid by farmers was about three-fourths that paid by non-farmers. However, beginning in 1963 average income tax payments for farmers have been substantially in excess of those paid by non-farmers.

of the debt service which would ordinarily have been borne by the personal property tax will, after 1966, come from the replacement fund. On bonds already outstanding, debt service costs will have to be assessed entirely against real property after the new law goes into effect. However, the mill rates on real property for operating fund purposes are to be reduced by an equivalent amount. These provisions in the law give rather adequate assurance that the tax burden currently being borne by personal property will not be shifted to real property. An exception may occur in taxing districts where there may be a marked increase in the ratio of personal property to real property. In these cases the amount obtainable from the replacement fund would be restricted to the 1964 ratio of personal property tax to other tax revenue in the taxing district. The law, however, provides that a revision of this ratio can be made in subsequent years when the 1964 ratios may become inappropriate.

With the exemption of all urban and rural personal property from taxation in North Dakota, it becomes even more important to compare effective tax rates on real property in both sectors of the economy. The first reliable estimates for the various states were made by the Advisory Commission on Inter-governmental Relations in 1962.[8]

The following are the Commission's estimates of effective property tax rates on the major categories of rural and urban property.[9] Effective rates for each class of property are computed by dividing actual tax collections from that source by the estimated market value of taxable property in that classification in the state.

	Effective Rates on	
	Single Family Dwelling	Farm Real Estate
Great Plains States	1.2	1.2
Minnesota	1.5	1.4
Iowa	1.1	1.1
Missouri	.5	.8
North Dakota	1.2	1.1
South Dakota	1.3	1.4
Nebraska	1.4	1.3
Kansas	1.0	1.1
U. S. Average	1.3	.9

The effective rates on farm real estate given above are somewhat below the Department of Agriculture estimates given earlier.

8. U.S. ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, MEASURES OF STATE AND LOCAL FISCAL CAPACITY AND TAX EFFORT (1962).

9. *Id.* at 131.

The pattern of variation between states is, however, quite comparable. North Dakota rates were somewhat below those for the Great Plains. However, they were above the national average, mainly because the average rate in the sixteen southeastern and southwestern states was 0.5.

The data indicate that in 1957 effective tax rates on single family dwellings in North Dakota were equal to the average for the Great Plains, and slightly below the average for the U.S. The average rate for the New England States was two per cent, and for the southeastern states it was 0.7 per cent. These regional differences reflect varying degrees of urbanization as well as varying degrees of reliance on property taxes for state and local revenue.

The effective rate on single family residences in North Dakota is somewhat above the rate for all farm real estate in the state. This difference occurs despite, as will be pointed out later, the fact that assessment levels tend to be somewhat higher on rural property. The difference is due principally to the very much higher mill rates which are levied in urban taxing districts. The contrast in 1964 mill rates in four North Dakota counties is indicated in the following:

County	Mill Rate in District Having Highest Rate	Mill Rate in District Having Lowest Rate
Cass	173.58 (Fargo)	63.31 (Rush River Township)
Burleigh	173.64 (Bismarck)	69.12 (Burnt Creek Township)
Grand Forks	180.12 (Grand Forks	79.72 (Bentru Township)
Ward	191.42 (Minot)	79.40 (Tatman Township)

The much higher mill rates in the urban places are attributable mainly to the better services required by property owners in these areas.

Because of the wide variation between states in the proportion of urban and rural property, computations of overall effective tax rates on all locally assessed real property tend to be rather meaningless. Richard Netzer, in a recent study, estimated the rate in 1962 for North Dakota to be 1.5 per cent after deducting the value of exempt property.[10] This figure was identical with the national average rate.[11]

Another measure of the relative burden of the local property tax is its magnitude relative to personal income in the state. In

10. NETZER, THE PROPERTY TAX, study to be published by the Brookings Institution, Washington (1965).

11. The Census of Governments' estimate of the average effective rate of local general property tax for locally assessed realty in 1962 was 1.4 in North Dakota. States having a high percentage of urban population tended to have much higher effective tax rates. See PROPERTY TAXATION IN 1962, p. 8.

North Dakota property taxes amounted to 48.86 dollars per 1,000 dollars of income accruing to persons in the state in 1962.[12] This was somewhat above the national average of 43.33 dollars, and reflects the fact that North Dakota relies on property taxes for a larger share of its revenue than most other states. It is mainly, however, a reflection of the high level of property values relative to personal income in North Dakota.[13] All of the primarily agricultural states had a high ratio of property values to net income, and those which relied to a substantial extent on property taxes had high ratios of property taxes to personal income. However, all three adjacent states had substantially higher property tax collections per 1,000 dollars of personal income than North Dakota. The ratio for Minnesota was 61.35 dollars; for South Dakota it was; 59.37 dollars and for Montana, 58.81 dollars.

These data indicate that even though North Dakota ranks above the average of all states in property taxes relative to personal income, it does not rank high when compared with other agricultural states which derive a substantial portion of their state and local revenue from property taxes. In his unpublished study of property taxation, Netzer observed that farmers do pay substantial property taxes when compared with farm income and farm net product, but that farm property taxes are low relative to the capital employed in agriculture.[14] It was his contention that the disparity was a reflection of the markedly lower rate of return on investment in farm land, relative to non-agricultural investment.

Regardless of the comparison base which is used, real property tax rates in North Dakota are not high relative to most other similarly situated states. If personal income is used as the basis of comparison, North Dakota ranks below most other agricultural states which rely heavily on property taxes. If the comparison is based on property values, North Dakota also ranks below most other states in the Northern Plains area.

SHIFTING OF THE PROPERTY TAX BURDEN

In any consideration of tax policy, it is important to recognize that the real burden of a tax may not fall on the person or corporation making the actual payment. This is most readily seen in a manufacturer's excise tax where the burden is shifted forward in the price charged to the ultimate purchaser. For some kinds of property it is extremely difficult to determine what degree of tax shifting takes place and what taxpayers bear the final burden.

Taxes on tangible personal property used in business, *e.g.*, those

12. CENSUS OF GOVERNMENTS, COMPENDIUM OF GOVERNMENT FINANCE 73 (1962).
13. U.S. ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, *op. cit. supra* note 1.
14. NETZER, part II, *op. cit. supra* note 10, at 9.

on merchandise stocks, tend to be shifted forward to consumers, since these are reflected in the markup as a normal expense of doing business. Exceptions occur in the short run when competitive circumstances force specific business firms to absorb increased taxes in the form of lower profits. Property taxes assessed by the State against railroads and public utilities are automatically shifted forward to consumers, since the rate of return permitted by regulatory commissions is a return after these kinds of taxes. A tax increase may, however, be absorbed for a year or two before a nonretroactive rate increase is approved by the regulatory commission. An exception will also occur in the case of railroads faced by a declining demand for their services. Here, despite higher rates being permitted by the commissions, railway companies may find it impractical to increase them adequately to cover rising costs including property taxes.

In the case of household goods, the owners have no alternative but to bear the burden of the tax. This is also true for the license fee on individually-owned automobiles which in North Dakota serves in lieu of property tax.

Because only part of the taxes on non-residential property are shifted forward in higher consumer prices, they are only partially regressive in nature. They tend to be regressive in the lower parts of the income range, but as the upper incomes are approached they again amount to a higher percentage of income.[15]

Taxes on houses tend to be borne by their occupants, whether they are owners or renters. It is recognized that in the short run, where rental housing is adequate, owners of rental housing may be unable to pass forward their taxes to tenants in higher rental charges. Where the tax can be shifted to tenants, the tax on housing becomes markedly regressive[16]. Taxes on owner-occupied housing tend to be regressive, because assessors assess lower-valued homes at higher ratios to market value than the more valuable homes which are less frequently placed on the market. This explanation, however, is not valid in the larger cities where assessors have adequate sales-ratio data. The more significant general explanation is that low income families tend to spend a much higher proportion of their income on housing than do middle or upper income families.

Traditionally it has been assumed that the present owners of unimproved farm land purchased it free of the tax. At the time the tax was originally levied or increased, the burden fell on the existing owners, but subsequent owners are assumed to have purchased it free of the tax. Levying new or increased taxes on land

15. See Musgrave, *Distribution of Tax Payments by Income Groups*, 4 NATIONAL TAX JOURNAL 37 (1951); also UNIVERSITY OF WISCONSIN TAX STUDY COMMITTEE, WISCONSIN STATE AND LOCAL TAX BURDEN 58 (1959).
16. MORTON, HOUSING TAXATION 144-76 (1956); also see NETZER, part III, *op. cit. supra* note 10, at 24-29.

will not reduce the supply, but will reduce the attractiveness of investing in land relative to other income-yielding property. The theory that present owners buy the property free of the tax, however, ignores the fact that if the land tax were repealed, the owners of the land would gain either in increased net income or in higher sales values. Hence it can be argued that so long as the tax is in effect the incidence is on the present owners.[17]

The theory that property taxes are capitalized in lower asset prices also ignores the use to which tax revenues are put. If they are devoted to public services which enhance the value of the land, it may easily happen that the effect of the tax will be to increase rather than reduce property values. Despite faults which can be found with traditional incidence theory, it is still apparent that any reduction or elimination of taxes on unimproved land would constitute a windfall gain to existing owners and would be of no advantage to subsequent purchasers since the advantage would be counterbalanced in the higher purchase prices.

If the agricultural economy were one in which farm commodity prices were determined by market forces, taxes on farm improvements and farm personal property could be assumed to be shifted forward to purchasers of those commodities. This cannot be the case when farm prices are determined by Congressional policy, particularly when support prices may not be high enough to reflect increased taxes as well as other production costs. Hence it seems apparent that most of the burden of farm personal property taxes falls on the property owner. It is one of the anomalies of the agricultural situation that farmers as consumers and purchasers of machinery have a substantial amount of manufacturers' excise and other taxes shifted forward to them. Due, however, to the inelasticity of farm commodity production and the current system of support prices, they are probably unable to shift to consumers the burden of their personal property taxes.

The determination of where the actual burden of taxes rests depends, however, not only on possibilities of forward or backward shifting, but also upon the benefits which may accrue from expenditure of tax funds. Benefits received analysis is also essential if an estimate is to be made of the regressivity of property taxes. Taxes on housing tend to fall more heavily on lower income groups. However, determining what income groups bear the real burden of a tax requires that some estimate be made of whether the same income groups share disproportionably in the benefits.

In North Dakota it is relatively easy to determine what expenditures are made from property tax revenue. Local units in 1962

17. DALTON, PRINCIPLES OF PUBLIC FINANCE 47 (1954).

obtained all but about 2½ million dollars of the 82 million dollars in property tax revenue collected in the State. Aside from about 24 million dollars which they derive from state aid payments and about 2½ million dollars from other taxes, the local units were almost wholly dependent upon property tax revenues. Hence expenditures by the local units are primarily expenditures out of property tax revenue. A comparison of the distribution between income groups of the benefits from local governmental expenditures and the incidence of the property tax will provide an indication of where the true burden of the tax falls.

In 1962 direct current expenditures of local units in North Dakota, exclusive of interest payments, were as follows, in millions of dollars:

Education	50.0
Welfare and Health	3.0
Highways	13.5
Police, Fire Protection, Sewage	6.7
General Control and Other	16.4
Total	89.6

Of these expenditures (principally out of property tax revenue) it is clear that a large portion of the benefits from the first two will go to lower income families, and hence may be regressive in their impact. Benefits from highway expenditures and police, fire and sewer services are likely to be closely correlated with property ownership. The substantial degree of regressivity in the education and welfare benefits from local government may more than offset the regressivity in the tax burden. It is likely that low income groups in particular receive more in benefits than their share of the burden of the property tax. In a recent analysis for the country as a whole, it is estimated that expenditure benefits for the lowest income groups are one and a half to two times the tax burden.[18] This ratio of benefits to tax burden is also likely to be prevalent in North Dakota. It would also seem that upper income families in the state derive less, as a group, from expenditures made from property tax revenue than they pay in taxes. If this is true, then the property tax in the state, despite regressivity of its incidence, results in some transfer of real income from upper to lower income groups.

The property tax also shifts resources from expenditure in the private sector of the economy to investment by the public sector in education and human development. Looked at particularly from the viewpoint of the national economy, this is appropriate since the evidence indicates that the social rate of return on investment

18. NETZER, part III, *op. cit. supra* note 10, at 43.

in human capital is higher than that on physical capital.[19] Such a shift of resources to investment in public education may, however, impose a burden on a state such as North Dakota, which exports much of its developed human capital. This subsidy to other states will be somewhat corrected by the new aid-to-education bill which will assist the poorer states to increase their investment in human capital.

Because of the uncertainty of tax shifting and the inability to trace out the income groups that benefit from property tax expenditures, it is impossible to provide any clear outline of where the inequities occur with respect to the property tax. It is true that some income and some occupational groups may experience a net sacrifice that is greater than others. These inequities are likely to be small, however, compared with those which result from discrimination in property tax legislation or vagaries in administration. That there is an appropriate place for the property tax in any good state and local tax structure can hardly be denied. Faith in its appropriateness, however, is being undermined by evidence of serious deficiencies in the law and its administration.

THE NEED TO IMPROVE ASSESSMENT OF REAL PROPERTY

The most serious problem in achieving equity in property taxation is securing uniform assessment. For some categories of personal property, particularly intangibles and household goods, this difficulty has been sufficient to bring about the complete exemption of these classes of property in many states. The action of the 1965 Legislative Assembly in North Dakota in exempting all personal property from taxation was motivated in considerable part by the inequities and administrative costs involved in assessing household goods. Equitable assessment of merchandise inventories, farm machinery and livestock is less difficult to achieve. However, the Legislative Research Committee and the Legislature have, over the past few years, been unable to find an acceptable basis for exempting only certain kinds of personal property. If the legislative decision to exempt all personal property survives referral, the assessment process will be greatly simplified. Rural assessors will then need to be concerned only with farm land, and city assessors only with real property. This should make possible substantial reorganization and consolidation of the assessment procedures, and marked improvement in the equity with which such real property is assessed.

Unless there is substantial improvement in the assessment of real property, the Legislature is likely to incur the same kind of

19. SCHULTZ, THE ECONOMIC VALUE OF EDUCATION 38-63 (1963); see also Becker, *Underinvestment in College Education?*, 50 AMERICAN ECONOMIC REVIEW 346-54 (1960), who estimated the rate of private monetary return on total private costs of college education to be ten per cent in 1950.

pressure for relief from real estate taxes as occurred with respect to personal property. To point up the need for improved assessment, there needs to be specific awareness of the inequity which currently prevails. Adequate evidence of this is available from Bureau of the Census studies of taxable property values and the recent sales-ratio study by the State Tax Commissioner's Office.

The quality of assessment is best revealed by sales-ratio studies which contain an adequate and representative sampling of ratios of assessed values of different kinds of property to recent sales prices. The Bureau of the Census, in the portion of its 1962 assessment study applying to North Dakota, had sales data (sales price for properties subject to arms-length sales) which could be compared with assessed valuations for 772 farm properties, 1,714 nonfarm residences and 274 commercial and industrial properties.[20] For 1,600 previously occupied nonfarm residences, the average sales price was 9,477 dollars whereas the average assessed value was 1,526 dollars. This resulted in a simple sales-based assessment ratio (assessed value as a percentage of sales price) of 16.1. The simple and weighted ratios for the three different classes of locally-assessed real property in 1961 were as follows:[21]

	Ratio of Assessed Value to Sales Price (Per cent)	
	Size-Weighted Average	Simple Average
Commercial and Industrial Property	13.2	10.7
Farm Property	15.0	23.2
Non-farm Residences	13.0	16.1

The size-weighted data indicate that farm properties were assessed at a somewhat higher percentage of sales value than urban property.

For nonfarm residences, data were available to indicate the wide variation in assessment levels between areas of the state and within particular areas.[22] For the seventeen different local areas, it was found that five had median assessment ratios of less than ten per cent, nine had median ratios between ten and twenty-five per cent, and three had median ratios between twenty-five and forty per cent. The average deviation of the area ratios from the median ratio for all areas (13.2 per cent) was 6.2 per cent.[23] This indicates that *on the average* the median ratio for any specific area could

20. 2 CENSUS OF GOVERNMENTS, TAXABLE PROPERTY VALUES 40-44 (1962).
21. *Id.* at 41-42. The assessed values used are "final valuation against which taxes are applied" and hence represent *taxable* value as defined in the NORTH DAKOTA CENTURY CODE.
22. *Id.* at 98.
23. In the 1957 study, the median area ratio was twelve but the average deviation per area from the median area ratio was only half as large (3.1). 5 CENSUS OF GOVERNMENTS, TAXABLE PROPERTY VALUES IN THE U.S. 87 (1957).

be expected to vary between about one-half and one and one-half times the median for all seventeen areas.

The Census data also revealed great variations in assessment ratios *within* particular areas in North Dakota. The measure used to designate this kind of variation is the coefficient of intra-area dispersion. For example, if the median assessment ratio on all properties within an area is thirty per cent, and if the average deviation of other ratios (sum of the difference between the median ratio and each of the individual item ratios divided by the number of items) is fifteen, then the coefficient of dispersion (dividing the average deviation by the median ratio) would be fifty per cent. This figure reflects the percentage by which the various individual assessment ratios differ, on the average, from the median assessment ratio. Of the seventeen areas in North Dakota, it is significant that five had a coefficient of intra-area dispersion of fifty per cent or more.[24] In these areas this would mean that if the mean assessment ratio was twenty per cent, taxpayers could expect, *on the average*, that assessment ratios on their properties would vary between ten and thirty per cent. In other terms, it means that the average property owner can expect to pay property taxes which are fifty per cent more or less than they should be if all assessment was uniform. It has generally been accepted that a coefficient of dispersion amounting to fifteen or twenty per cent should be about the maximum level of tolerance.

A special advantage of Census of Government data on assessment ratios is that a basis is provided for comparing the quality of assessment in the various states. The comparison data are available for only one class of property—nonfarm residences. However, if there is a wide dispersion of sample assessment ratios from the median ratio for this kind of property, it may be assumed that similar dispersions exist with respect to other kinds of property. Measures of inter-area and intra-area dispersion from the median assessment ratios are available for each of the states. The coefficient of inter-area dispersion (average deviation per area divided by the median area ratio and expressed as a percentage) for the seventeen areas sampled in North Dakota was forty-seven per cent.[25] Only one other state had a higher level of inter-area dispersion. This indicates that there are wider differences in the level of assessment between communities in North Dakota than for most other states. Census data also indicate that the differences in assessment ratios *within* communities is greater than in most other states. The coefficient of intra-area dispersion in North Dakota was 33.9 per cent of the median area.[26] Only six other states had a wider range of average

24. *Id.* at 99.
25. 2 CENSUS OF GOVERNMENTS, *op. cit. supra* note 20, at 98.
26. *Id.* at 99.

dispersion. These data indicate that there is greater need in North Dakota for a state effort to secure uniformity of assessment than there is in most other states.

The 1962 Census study also indicated that there was a strong tendency for lower ratios of assessments to sales value to occur for the higher valued property.[27] Lower valued property tended to be over-assessed and higher valued property tended to be under-assessed. This indicates that assessment involves not only a random unfairness to taxpayers, but also a substantial degree of regressivity. This regressivity in assessment of residential property is consistent with an analysis by Glenn Fisher of regressivity in assessment of farm land in North Dakota.[28] In this study it was found that the coefficients of dispersion for assessment ratios on farm land in thirty-one counties ranged up to fifty-four per cent in one county, and that there was a pronounced tendency for assessment ratios to be higher for inferior quality land and lower for the better quality land.

Because of wide concern about the quality of assessment, the 1961 Legislative Assembly created the office of state supervisor of assessments in the State Tax Department and in 1963 required him to make sales ratio and other studies of property assessment in the various counties, cities and villages for the purpose of properly advising the various assessors of the state and for the purpose of recommending changes to the Board of Equalization.[29] The law also provided that where the number of sales of property were insufficient, the supervisor was to make appraisals of property to determine the ratio of market value to assessment value. The urgency and importance of the sales ratio studies was increased markedly by the legislative requirement also that the ratios were to serve as the basis for determining the amount of state school aid paid to the various counties. Counties which had low levels of assessment relative to the state-wide average would have their state aid payments reduced proportionately.[30] In 1965 the Legislative Assembly suspended for two years the use of sales ratio studies to determine school aid payments.

Data from the sales ratio study completed by the state supervisor of assessments in 1964 indicate a wide variation in the level of assessment between counties, and within each of the various counties. A total of 13,464 verified sales were used in the study with at least eighty sales in each of all but four counties. Sales data were edited to exclude sales to relatives, religious organizations, and others

27. See data on price-related differentials in CENSUS OF GOVERNMENTS, TAXABLE PROPERTY VALUES IN THE U.S. 100 (1962), and TAXABLE PROPERTY VALUES IN THE U.S. 89 (1967).
28. KOENKER AND FISHER, TAX EQUITY IN NORTH DAKOTA 53 (1961).
29. N.D. Sess. Laws 1963, ch. 374.
30. N.D. Sess. Laws 1963, ch. 157, § 18.

which were not representative of the independent market. The average ratio of assessed value to sales value for farm property varied from 16.4 in McKenzie County to 43.1 in Kidder County. This indicates that the level of assessment relative to sales was almost two and one-half times as high in Kidder as it was in McKenzie County.

The pattern of assessment ratios for both farm and residential property is indicated in the following tabulation for the ten counties having the highest and lowest percentage ratios in the State.

Counties having the lowest
average ratio of assessed to sales value

Residential Property		Farm land	
McKenzie	13.9	McKenzie	16.4
Sioux	14.8	Hettinger	16.5
Mountrail	14.8	Slope	17.8
Walsh	16.1	Cass	17.9
Pembina	18.1	Adams	18.0
Golden Valley	18.8	Golden Valley	18.4
Stark	18.9	Bowman	18.6
Morton	19.4	Stark	18.7
Foster	19.7	Trail	19.1
Richland	19.8	Grant	20.1

Counties having the highest
average ratio of assessed to sales value

Residential Property		Farm land	
Oliver	36.7	Kidder	43.1
Bottineau	34.5	Foster	41.1
Benson	34.4	Eddy	40.2
Billings	33.5	Sargent	36.7
Kidder	32.4	Dickey	35.8
Dickey	31.0	Benson	35.2
Griggs	29.0	Pierce	34.5
Mercer	28.1	Cavalier	34.2
Burke	27.8	Griggs	34.0
LaMoure	27.8	Stutsman	33.7

The above data indicate that the average level of assessment was somewhat higher for farm land than for nonfarm residences. This tends to be consistent with census ratios given in the foregoing discussion. It is significant to note that in at least one county (Foster) the average assessment ratio for farm property was twice as high as the ratio for residential property. The impact of the difference in terms of equity may be somewhat offset by countervailing differences in the mill rates levied. Generally the ratios determined by the state supervisor of assessments were substantially higher than those given for comparable property by the Census of Governments study. It is interesting to note the geographical distribution of counties with high and with low average assessments. Most of the counties having very low average assessments tended to be located in the southwestern portion of the State or the eastern border counties. This may reflect a more rapid increase in farm land values in these two areas over the past several decades, which has not been matched by comparable increases in assessed values.

In addition to showing rather wide differences between average levels of assessment in the different counties, the Tax Department's sales-ratio study, as made by the state supervisor of assessments, reveals a substantial amount of dispersion within counties. Coefficients of dispersion were very much lower for the larger urban places. There were nine for Bismarck, eleven for Grand Forks and Minot, and thirteen for Fargo. For some of the smaller towns the coefficients ranged as high as fifty-two for Beulah, forty for Stanley, thirty-nine for Bottineau, and thirty-six for Hettinger. These data indicate that the larger towns which made better use of trained assessors and sales data were able to achieve a quite acceptable equality of assessment. For farm land the coefficients of dispersion ranged from forty-four for McKenzie, thirty-four for Mountrail, and fifty-six for Rolette, to fifteen for Trail and Renville, sixteen for Sargent, and seventeen for Towner and Stark. To some extent these differences may be due to a paucity of good sales data in certain counties. However, in general, the data indicate intolerable departures from what are generally considered to be acceptable standards of uniformity in assessment. Certainly these and the Census of Governments data indicate the need for effective action by the Legislature, the State Board of Equalization, and the State Tax Commissioner's Office for the improvement of property tax administration.

IMPROVING ADMINISTRATION OF THE PROPERTY TAX

In the foregoing sections of this paper an attempt has been made to demonstrate that there is an appropriate place for the property tax in state and local tax structures. The most important objection to this tax is that property is poorly assessed and that there is therefore an inequitable allocation of the burden to property owners. The assessment to sales ratio studies demonstrate the validity of this objection. Poor assessment need not, however, be a necessary accompaniment to the property tax. The problem is mainly that in most states no real effort has been made to modernize the organization and administration of the assessment process.

One of the first requirements in achieving better property tax administration is for states to take a hard look at their property tax laws. Property tax law is frequently a haphazard accretion of legislative action over many years and often includes a patchwork of conflicting amendments. In any rewriting of property tax law, primary consideration should be given to the basic policy issue of what kinds of property should be exempt. The principal guideline here is that exempt status should be given only those kinds of property which cannot be assessed with reasonable administrative costs and reasonable achievement of equity. Application of this criterion suggests immediately elimination of the tax on intangible personal property (which has long been exempt under North Dakota law) and would also suggest the exemption of household goods. Whether the exemption should also extend to merchandise stocks, major kinds of farm machinery and livestock is more questionable. These classifications do require more specialized knowledge and time on the part of the assessors, but given these, a relatively high level of equity can be achieved. The market value of each of these kinds of property can be estimated with a fair degree of accuracy and the inequity resulting from the exemption of these classes of income-producing property may be more significant than the administrative advantages accruing from their exemption.

If the recent legislative decision to exempt all categories of personal property in North Dakota is allowed to stand, then it will be particularly important to scrutinize any proposals for exempting real property. North Dakota law has in the past been rather free from real property tax exemptions such as homestead exemptions, subsidy exemptions to new industry, veterans' exemptions and exemptions to the aged.[31] The major exemptions granted have been rather liberal exemptions to religious and charitable institutions and the exemption of all farm buildings. If farm machinery and livestock continue to be exempt as personal property, it may be appropriate, in terms of general tax equity, to inquire whether such a major category of real property as all farm buildings should continue to be exempt. It is recognized that farm buildings should not pay taxes equivalent to similarly valued buildings located in municipalities. The difference in availability of fire protection and other local services would, however, be approximately reflected in the mill rates, and should not require the complete exemption of farm structures from the tax rolls.

In addition to making an equitable determination of what property should be exempt, a reformulation of property tax laws should also spell out clearly the basis for property evaluation. Establishing clear, uniform standards for assessing property will, however, not be very helpful unless there is established a government organiza-

31. However, the 1965 Legislature broadened considerably the Disabled Veterans Homestead Exemption Bill. Also, it amended the Municipal Industrial Development Act to provide a five-year income and personal property tax exemption to lessees of the property. (S.B. 167 and H.R. 789).

tional structure which will bring about the actual application of these standards. The experience of Ohio, California and other states proves that effective property tax administration is possible.

The first step in achieving improved administration is to establish an effective state supervisory agency. Such an agency should have as its prime function the supervision of assessment in all the taxing districts. Sales-ratio data are essential if a state supervisory agency is to have objective evidence of local departures from assessment standards. One of the important functions of a supervisor of assessments is to minimize competition in under-assessment, since the goal of many assessment districts is to keep their assessment levels low relative to other districts and thereby pay less than their fair share of state or county taxes. The temptation to this is compounded when school districts with low assessment levels can obtain a disproportionate share of school aid funds. Some of the adverse results of competitive underassessment can be offset by equalization procedures. However, it is much more effective to keep the practice from occurring through an effective state program for uniformity of assessment. In North Dakota it is assumed that the state supervisor will effect local assessment practices mainly through making sales-ratio data available and working with the various county supervisors.

The state supervisory agency should also have the responsibility for central assessment of railroad and public utility property. This is essential in order that there may be reasonable equity between centrally assessed and locally assessed property. Recent court cases are causing many states to take steps to correct the substantial differentials in assessment levels which have persisted.[32] In North Dakota the State Board of Equalization and the Tax Commissioner's Office have started a six-year program to bring the assessment levels on state-assessed property down to thirty-five per cent—a level more closely approximating the average of locally assessed property.[33]

A most important step in obtaining good property tax administration is to have assessment districts which are large enough so that well-trained full-time assessors can be used. The standard recommended by the National Association of Assessing Officers is districts large enough to warrant use of one full-time assessor and one full-time assistant. In North Dakota this would mean shifting to a county assessor plan, although city assessors would probably still be used in the major cities. If all personal property remains exempt from assessment the county unit for assessment will be-

32. *E.g.*, Fargo Forum, Dec. 25, 1964, p. 17, col. 7; report on the Dulton Realty Co. tax case in Minnesota.
33. See minutes of North Dakota State Board of Equalization for Aug. 6, 1963; Proceedings of State Board of Equalization 1963.

come even more justifiable than it has been in the past. This is particularly true in view of the fact that the state law requires assessment of real property every other year. If assessors need to be concerned only with real property, they should be able to cover much larger areas and be appointed on a full-time basis. They should become well-trained experts in real estate valuation and should be supplied with tax maps, soil surveys and other professional tools.

In 1947 when Iowa went over to a county assessment basis it reduced its number of assessment districts from 2,500 to 120. A similar shift to a county assessment system occurred in Nebraska and Kansas. In South Dakota, the law still permits local assessors within the counties, but they have been abolished in thirty-seven of the counties and the total number reduced from 1,800 to about 230. These data indicate that counties can serve as appropriate sized assessment districts in predominantly rural areas. In North Dakota, particularly if assessment is confined to real property, the counties may in many instances constitute too small a unit and counties should be permitted to make joint use of a professional assessor. Most of the reluctance to make the transition to a county assessor plan comes from property owners who were benefiting from low assessment levels in their district or individual assessments which were low. Much of this vested interest in inequity could be removed if the state and county supervisors of assessment can point up areas and instances of substantial underassessment. If the appointed assessors can be well trained, and if the state supervisory agency has adequate research facilities and enforcement authority, most of the significant departures from equitable assessment can be eliminated.

The procedures and professional standards of property tax administration need not be appropriate to the 18th Century. If they are modernized the administration of the property tax can be made as efficient and as equitable as those used for the sales and the income tax. If efficient administration can be achieved, local units of government will be spared the clamor for extending exempt status to new categories of property and further erosion of their revenue base. Property as such is not inherently an inequitable basis for taxation. The difficulty is that, like other forms of taxation, it cannot survive antiquated administrative procedures. If these procedures can be modernized, the property tax can and should be continued as one of the important components in the tax structure of state and local governments.