

PERTINENT FACTS

relating to

MUNICIPAL TAXATION AND REVENUE IN ONTARIO

Presented to the Business Men's Association of Greater Toronto on May 15, 1956 and subsequently revised to give 1955 figures in place of those of 1954, with some additional information.

By Ernest J. Farmer.

By far the greater part of current talk about municipal taxation and revenue in Ontario is unrealistic. It is founded neither upon attention to the essential facts nor upon consideration of the inevitable effect of the changes most frequently advocated. This is true, not only of the writings of irresponsible newspapermen, but of the utterances of public officials -- men whose position imposes upon them a moral obligation to be factual and accurate in their statements.

To make the situation as clear as possible, in what follows, important comparisons are made between conditions in 1926 and in 1955. The year 1926 is chosen because it was considered by the Bureau of Statistics to be a normal year: it was one of the years chosen as a base for calculations of price levels. 1955 is the last year for which necessary official figures are available. It would be easy to choose years (such as 1939 and 1955) which would reveal even more striking differences.

Unless otherwise stated, facts cited are taken from the Canada Year Book, the statistical reports of the Ontario Department of Municipalities, the Public Accounts of Ontario and the reports of the Toronto Assessment Commissioner. It was necessary to estimate the division of realty assessment in three important municipalities between land and building assessment in 1955. Any error so introduced cannot be of consequence, and is indeed a small fraction of the error which would arise from accepting the official totals without examination.

Because of the great difference between the price level of 1926 and that of 1955, comparisons are meaningless unless reduced to a common denominator. ALL STATEMENTS AS TO ASSESSMENTS AND TAXATION ARE MADE IN TERMS OF 1955 DOLLARS. Sixty-seven per cent (67%) is added to the official figures for 1926.

Pertinent Facts

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MUNICIPAL TAXATION AND REVENUE IN ONTARIO

With Useful Comparisons between 1926 and 1955

(All comparisons made in terms of 1955 dollars)

In 1926 welfare and education were almost altogether the responsibility of the municipalities. Federal and provincial contributions were negligible. Municipal taxes in Ontario amounted to slightly over \$170 millions, \$58 per capita. About $4\frac{1}{2}$ per cent of this total was derived from an income tax which was abolished in 1944.

Between 1926 and 1955 expenditures on welfare increased to an extent which cannot be estimated with accuracy. The 1955 figures are not available, but in 1954 the federal government spent in Ontario on old age security and old age assistance pensions

and family allowances an amount equal to more than seventy per cent of all municipal taxation. The Ontario Departments of Health and Welfare spent over \$59 millions, little less than 20 per cent of all municipal taxes. Much of this expenditure was spent for services which the municipalities would not have attempted. But it has undoubtedly saved the municipalities many millions.

The Ontario Government has also made large direct contributions towards educational costs and other municipal expenditures. Such contributions began in 1937, with grants which lessened municipal taxes by one mill. In 1955 provincial subsidies to municipalities were equivalent to 52.17 per cent of all municipal taxes.

Such expenditures by federal and provincial governments compelled huge increases in taxation. In 1954 municipal taxes in Ontario amounted to \$63.20 per capita. Customs duties, excise taxes and sales taxes (including the special 2% sales tax allotted to the fund for old age security pensions) brought the federal government close to \$92 per capita. As Ontario citizens have incomes close to 20% higher than the national average, and as these taxes (especially customs duties) take a good deal more from the pockets of the citizens than they return to the government, it is evident that Ontario citizens pay about twice as much in such taxes as they do in municipal taxes. Few home-owners pay less than four times as much in such taxes as in the direct tax on their homes; many pay more than five times as much.

Provincial taxes have increased less in proportion than federal, but more than municipal. The gas tax, unknown in 1926, in 1955 returned to the provincial treasury more than \$92 millions, \$12.20 per capita. This tax is by no means all paid by pleasure drivers. It is paid by workmen driving to work, and also adds to bus fares and the cost of goods transported by truck.

Since 1926 municipal services have been greatly improved and accordingly become more expensive. Especially, much more is spent upon schools -- providing swimming tanks in high schools is but a small item. Raising the minimum age for leaving school from 14 to 16 has added many thousands to the number of scholars. However, since per capita production in Ontario increased from \$773 in 1926 to \$1112 in 1952 (later figures not available, but both figures again in 1955 dollars) and increased rapidly during the three following years, the people are well able to afford services costing up to 50% more per capita. (It will be shown later what luxury they enjoy which they cannot afford.) On account of the expenditures by the senior governments mentioned, however, in particular on account of the provincial subsidies, per capita municipal taxes increased between 1926 and 1955 by less than one-sixteenth, from \$63.66 to \$67.05. Taxes on the average owner-occupied home, however, have increased in considerably greater proportion, as will be shown.

It is perfectly clear that any difficulties the municipalities have in financing are not due to niggardliness on the part of the senior governments. The federal government must meet great expenditures for defence; at present these cannot be cut without great danger. That government is making little progress in reducing the war debt, which would normally be rapidly reduced in peacetime. The cost of servicing this debt is greater than the federal expenditures on health and welfare. The provincial government is under extreme pressure to increase highway expenditures. It is also in great need of money to treat its civil service

fairly: while it is handing over scores of millions annually to local school boards it is paying its own university-trained technicians (even after considerable salary increases in April 1955) from \$1,000 to \$1,500 less than school boards are paying high school teachers of equivalent training and experience -- and further substantial increases in high school teachers' salaries are in early prospect. Neither government can increase its revenues without increasing taxes which in proportion take much more from the average home-owner than do municipal taxes -- unless indeed it imposes a land tax, as New Zealand and two of the Australian States are doing.

In many urban centres, however, most of all in Metropolitan Toronto, it is possible materially to improve municipal services without increasing taxes by eliminating waste. One great cause of waste is, land speculation. For a single instance, thousands of lots provided with sewers are unused, because speculators have put up the price to an impossible figure, while at the same time homebuilders provide septic tanks at a cost of from \$500 to \$1000 each, millions of dollars in all, to homes without sewerage. In most cases after a few years, in some after only a year or two, sewers have been or will be installed and the tanks become valueless. Lots on streets with good payments and sidewalks are unused while people live on streets in such condition as to cause incalculable damage to cars, and footgear. Because of scattered development people drive many millions of miles needlessly, wearing out cars, wasting time and gasoline.

Land speculation is the greatest single cause of unemployment.

When land in the natural line of development is held idle on speculation, labor may be employed elsewhere to less advantage, but a good deal of it is not employed at all. The poorer workers are those most likely to be unemployed, but even a decidedly inferior workman will produce \$3000 worth of goods or perform \$3000 worth of services in a year. A hundred thousand unemployed workmen, even of much less than average efficiency, mean a loss of over \$300 millions a year. This means not only less wages for workers but less rent for landlords and less profit for capitalists. Official figures do not begin to tell the story. Many thousands of aging Canadians, not listed as unemployed, but capable of doing work of a value of hundreds of millions a year but living in straitened circumstances, have given up the fruitless struggle to obtain employment and have reconciled themselves to idle misery.

Another waste -- possibly less in money but greater in human lives -- is caused by slums. The Reader's Digest for January 1956 tells of a survey in Atlanta, Ga., which revealed that 53 per cent of the city's revenue was spent in slum areas which provided only 6 per cent of the city's revenue. In other words, 47 per cent of the city's tax revenue went to subsidize slum landlords. Scores of similar surveys show similar if less extreme conditions. Toronto is less afflicted with slums than most cities of comparable size, but undoubtedly the city has spent scores of millions over the years subsidizing slum landlords, and other Ontario cities, even towns, have spent smaller sums. Slums are inherently uneconomic; they exist only because so subsidized. The effective way of eliminating slums is within the comprehension of a bright ten-year-old. The real problem is, how to overcome the opposition of the slum landlords. These persons are ready to spend a great deal of time and money rather than relinquish a privilege worth millions of dollars a year. They showed themselves expert in the use of the "Big Lie" technic made famous by Hitler, long before that person became known in Canada.

Municipal Taxes Analyzed.

Since 1944 Canadian municipalities have (except for licences of small important) taked only real estate. The so-called "business tax" is in fact a surtax on land and buildings used for business purposes. The tax on real estate is a composite of two taxes so radically different that any important statement which is true of one is false if applied to the other.

The value of land is in the main created by public expenditures, above all by municipal services. Other public expenditures are a factor: highways create land values not only in adjacent areas, but in the urban centres they connect. An acre of land close to King and Yonge, Toronto, is worth more than half a million acres of poorly situated farm land, because it is close to the heart of a system of communications extending for hundreds of miles. The federal government cannot improve a harbor of any consequence, a railway cannot build a branch line, without presenting millions of dollars to land holders. According to Charles Ingersoll, noted watch manufacturer, a few years after the opening of the New York Subway, a commission presided over by Judge Samuel Seabury found that if the increased land rents due to the subway had been used for the public benefit instead of going into private pockets there would have been enough to build and operate the subway without charging fares. In most cases the erection of a new school adds to the value of the land within easy reach more than the cost of building the school. To some extent land values are created by the activities of persons other than the landholder; in some cases opening a supermarket in a suburban area will add to the value of land within easy reach more than the cost of building and equipping the market. Zoning regulations increase the value of some lots and reduce that of others. The value of buildings, however, is created by the owner's labor and expenditures.

Taxes on land are strictly in proportion to the value of services received. With buildings, the reverse is the case. Other things being equal, the worse the buildings in any area, the more expensive the public services. For capita costs in slum areas are anywhere from three to six times as great as in fairly wholesome areas. Nothing can be more illogical than the present widespread practice of taxing buildings in proportion to their value.

In Saskatchewan, according to the Report of the Saskatchewan Provincial-Municipal Committee (1950) it has been a common practice of assessors to assess buildings according to volume, without regard to quality. There is more logic in this practice (illegal as it is) than in the law regarding assessments in either Saskatchewan or Ontario. It would be more equitable, however, to impose a surtax on the decrepit buildings which compel excessive expenditures.

Taxes on land limit speculation and indirectly favor production and lessen unemployment. Taxes on buildings check production -- not only of buildings but of many other things -- and are a direct cause of unemployment. Taxes on land check slum development by lessening the subsidy; taxes on buildings favor slums by making it more difficult for people to buy or rent wholesome dwellings, thus making them willing to pay rent for insanitary quarters.

The Bruce Report (1934) showed that in "areas of poor housing" (not definitely slums, but in which at most 7% of the houses were occupied by owners) the land assessment was 131.8 per cent of the building assessment; in "areas of poor housing" (in which a majority of the houses were occupied by owners) the land assessment was 50 per cent of the building assessment. If a comparison were made between buildings definitely in slum condition and owner-occupied houses the difference would be much greater. Other studies have shown that there is one exception; many houses in the luxury class, valued at over \$50,000 are surrounded by such extensive grounds that if the location is at all central the land assessment exceeds the building assessment.

Good

Trends in Ontario Assessment Practices

Until about 1932 the general practice of Ontario assessors was to assess land at a somewhat higher ratio to actual value than buildings. They favored home owners and disfavored land speculators and slum landlords to that extent. Since then the tendency has been more and more to disfavor home owners and favor land speculators and slum landlords. The following figures show the tendency. (As before, all amounts are in terms of 1955 dollars.)

ONTARIO ASSESSMENTS

Land: 1926, \$2,095 millions; 1955, \$1,723 millions. Decrease, 17.7%
Buildings: 1926, \$2,051 millions; 1955, \$4,009 millions.
Increase, 95%

Per capita:
Land: 1926, \$713; 1955, \$344; decrease, 48%
Buildings: 1926, \$696; 1955, \$800; increase, 16½%

ONTARIO TAXES:
Land: 1926, \$80,339,000; 1955, \$85,173,000; inc. 9.5%
Buildings: 1926, \$71,464,000; 1955, \$198,790,000; inc. 167%

Per capita:
Land: 1926, \$27.32; 1955, \$17.00; decrease 48%
Buildings: 1926, \$24.22; 1955, \$39.55; increase 57%

TORONTO ASSESSMENTS:

Land: 1926, \$678,193,000; 1955, \$379,641,000; dec. 34.3%
Buildings: 1926, \$625,477,000; 1955, \$815,147,000; inc. 167%

Per capita:
Land: 1926, \$1,083; 1955, \$558; decrease, 49.4%
Buildings: 1926, \$1,083; 1955, \$1,180; increase, 3.3%

TORONTO TAXES:

Land: 1926, \$17,421,000; 1955, \$17,974,000; increase, 3.3%
Buildings: 1926, \$17,775,000; 1955, \$38,599,000; increase, 117.3%

Per capita:
Land: 1926, \$31.75; 1955, \$26.35; decrease, 17%
Buildings: 1926, \$32.38; 1955, \$56.58; increase, 74.7%

HAMILTON ASSESSMENTS:

Land: 1926, \$72,230,000; 1955, \$84,950,000; increase, 11.7%
Buildings: 1926, \$133,290,000; 1955, \$251,309,000; increase 96%

Per capita:
Land: 1926, \$673; 1955, \$378; decrease, 43.8%
Buildings: 1926, \$1,088; 1955, \$1,124; increase, 3.1%

HAMILTON TAXES:

Land: 1926, \$3,000,000; 1955, \$4,170,000; increase, 39%
Buildings: 1926, \$4,930,000; 1955, \$12,339,000; increase, 150%

Per capita:
Land: 1926, \$24.72; 1955, \$18.66; decrease 28.6%
Buildings: 1926, \$40.28; 1955, \$55.22; increase, 37%

BMS:WLS
 Building assessment and tax has not been included; to do so would require too many assumptions (except in Toronto) and would make little difference in the proportions.

These figures tell a good deal less than the whole story. It has been stated that land values increase in proportion to increase in population; the increase is more nearly in proportion to total production. Indeed, as population increases land values increase in ever increasing proportion to production. Improved municipal services increase land values even apart from increase in production. In Ontario between 1926 and 1955 there was not only an increase in total population of slightly over 60%, but an increase in total production (measured in constant dollars) of over 140%. Land values have certainly increased more than 140%; few people who have noted the enormous increases in land rents and prices, in some cases in Metropolitan Toronto of fifty times and more, will doubt that the total value of land in Ontario is three times what it was in 1926. Yet assessments are actually lower, and taxes have increased less than 10%. UNDOUBTEDLY, PRESENT LAND TAXES IN ONTARIO ARE NOT EVEN HALF AS HIGH, IN PROPORTION TO ACTUAL VALUE AS THEY WERE IN 1955. Meanwhile, all kinds of inequitable and oppressive taxes, federal, provincial and local, have increased inordinately.

Demonstration in Australia and New Zealand

More than 60 per cent of the municipalities in New Zealand, and about 70 per cent of those in Australia, have done away with taxes on buildings and improvements altogether, except that in New South Wales there is still a small rate (which is very unpopular) for water and sewerage. The effects have been made clear by extensive studies by the Land Research Group in Melbourne and other economists. Before this practice had effected more than a few municipalities, most persons, both those who advocated and those who opposed it, thought that the increased rate on land would lower the selling price. However, relieving buildings from taxation led to so much more building activity, as well as increased production in other lines, that land prices actually rose more rapidly in the municipalities which adopted "unimproved value rating", as it is called in those countries, than in those countries, than in those retaining taxes on buildings. Total employment, average income from labor, number of property-owners and income from land and property, all increased more rapidly where buildings were untaxed. Land values increased so rapidly that speculation was reduced to only a partial extent - it would take much higher taxes on land to put an end to it - but speculators held idle land for shorter periods, so that they did less damage. Total municipal taxes were reduced without impairing services. Slums were completely abolished in some cities and reduced to about ten per cent of what they had been in the rest. (In Sydney there has been some recrudescence of slums in the last few years, due to rent controls.) It is probable that except perhaps in Tasmania another 20 or 30 years will see the last of taxation of buildings in these countries, as municipalities are falling in line at an increasing rate.

Ontario statutes do not at present permit municipalities to take such effective steps. They do however not only permit but require them to assess land at actual value. At present land to the value of millions of dollars is assessed at less than ten per cent of actual value and the average is less than twenty per cent. THE FINANCIAL DIFFICULTIES OF THE MUNICIPALITIES ARE NOT TO THE SLIGHTEST DEGREE DUE TO NEGLIGENCE OF FEDERAL AND PROVINCIAL GOVERNMENTS. THEY ARE DUE ENTIRELY TO GROSS NEGLIGENCE AND FLAGRANT DISREGARD OF ONTARIO LAWS ON THE PART OF MUNICIPAL COUNCILS, WHICH DO NOT COLLECT REVENUES TO WHICH THEY ARE LEGALLY AND

MORALLY ENTITLED.

As an immediate step, the municipalities could well make a beginning by doubling all present land assessments. Even tripling the latter would fall far short of full compliance with the statute. But it would permit any justifiable increase in revenue with such a lowering of the mill rate as would prevent any increase in taxes on home-owners. As already shown, such a move would have considerable effect in checking the constant increase in the need for more municipal revenue. To place municipal finances on a really sound foundation, a genuine valuation of the land of the province is necessary. This has never been attempted in Ontario, but is not nearly so great or expensive a task as the reassessment of buildings which has been effected in Metropolitan Toronto.
