

The Incidence and Principles of Municipal Taxation

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Second Instalment.

The Incidence of Municipal Taxation in Canada is the "ownership of land and any improvements thereon." Improvements in some parts of the country, however, have been wholly or partially exempted. It is intended in this article to discuss some of the advantages and disadvantages of the "ownership class" and to submit for debate the alternative of occupation.

Perhaps we might with profit reflect, first of all, upon the evolution of the municipality and endeavour in a manner to trace its growth to the present day.

The word "Municipality" comes from the Roman "Municipian," meaning a free town of Roman citizens.

In Anglo-Saxon Law, what is technically known as legal memory commences at the time of "Magna Charta (1215), when that world-famous charter was signed by King John of England at Runnymede.

It was after that time that lesser charters commenced to be given to cities, towns and hamlets by the ruling monarch, who often fearing the ambitions of his barons, sought the direct allegiance of town burgesses to assist him maintain supreme control. These special services he rewarded by bestowing upon them greater rights and privileges, also with protection from the neighbouring Baron (known now more commonly as the Lord of the Manor), who was ever ready to encroach on the rights of the burgesses, by levying tolls and exacting services, manual or military.

One can well understand that, through the succeeding centuries, these well earned privileges, accorded to municipalities, were jealously guarded, by the burgesses, who were by no means lacking in civic spirit; thus in course of time they became voluminous charters, providing for every requirement of the municipality.

The first charter of incorporation of an English municipality was enacted during the reign of Henry VI, in the middle of the fifteenth century.

The jealous preservation of these old Municipal Charters, their incorporation in many amending acts of the British Legislature have contributed in no small measure to the present day complexity of the municipal administration of that country. The principles and prevailing practices of Municipal (Local) Taxation is perhaps one of the most vital, and at the same time one of the most complex of the problems in municipal administration in Britain. Much extravagance occurs through the overlapping and duplication of work, particularly in the imposition and collection of taxes, and the traditional and arbitrary peculiarities and departures from uniformity, arising out of statutory protection given to some vested interest or institution. I would here disclaim any reflection upon the actual official administration of which I have personally the very highest regard. The municipal administration is perhaps more thorough on account of its fetters.

For a concise and interesting historical sketch of Canadian municipalities, I would refer the readers of this article to the introductory note on "Municipal Institutions in Quebec," by Mr. Recorder Weir, D.C.L., written by him as a preface to the 1902 English Edition of the Municipal Code of the Province of Quebec.

The inhabitants of this vast continent have not had to fight during centuries against the tyrannical feudal system. On the contrary most of the conquests of its people have been over the soil, and there has thus been gradual transformation in the application of the uses made of its great natural resources. Gradual occupation of vast territories by people following agricultural pursuits has now been taking place during the past three centuries. The early settlers had only to establish a municipal system of their own, and had no effect or vicious system to improve or supercede. One can therefore well understand that more attention was, and still is being paid by most citizens to their own individual pursuits than to the affairs of their local government.

The principal advantages of the ownership basis of municipal taxation appear to be:—

1.—Most tangible form of wealth upon which to base an assessment.

2.—Tax collections reduced to its simplest form.

On the other hand, many disadvantages are apparent to the careful observer, viz.:—

1.—Capitalization of carrying charges (taxes and interest) on unremunerative vacant land, tends to cause land values to rise above a reasonably estimated earning power.

2.—Causes undesirable and unhealthy congestion of the poorer dwellings, on account of the inflation of land values, which is the more anomalous in a country where land is boundless.

3.—Tenant holder does not directly feel his financial burden and responsibility in civic affairs, so his interest therein is consequently dulled.

4.—May place the welfare of the municipality in the hands of land speculators, who would be tempted to indulge in dangerous experiments in administering its affairs, for the purpose of boosting their own interests, such as extravagant and unnecessary development schemes.

5.—Perhaps the greatest evil of all is the demoralization of the farmer and the withdrawal from cultivation of large areas of suburban land.

With proper safeguards from confiscatory legislation, a reversion might now well be made in the incidence of municipal taxation, to:—

1.—Occupation basis.

2.—Profit participation (Increment tax).

The nett annual value (as already described) of a property to be the basis of municipal assessment, instead of "Assessed Purchase Value." The liability upon the great majority of the residents to directly contribute to the cost of administration of a municipality, would instil a more enlightened civic spirit, and greater efforts would be made to find the most suitable representative for the Council Board. Contributions to the municipality's revenues for taxable sources would be more widely diffused, collections would be steadier and continuous.

To further ensure collection of municipal dues, the proprietor as well as the tenant, should be held responsible, the property being encumbered with the tax.

In order to prevent an abuse by deliberately withholding land from occupation, an assessment would have to be made upon all vacant land, but vacant buildings should be at least partially exempted.

By the imposition of an occupation tax, there would be removed, the fallacious and immoral doctrine of placing a heavy and unfair burden of municipal taxation upon the non-resident owner of vacant property.

The imposition of an increment tax would do away with the evils of non-resident ownership. Safeguards to prevent abuses by land monopolists and others would be obliged to be taken, in order to ensure that good and suitable land shall always be available for would-be occupants. At the same time care would have to be taken at the time of the installation of the reform that nothing approaching speculation should occur in the imposition of this proposed system of collecting an increment tax.

This might be accomplished by:—

1.—Postponing for, say, 5 years, the liability of any property situated within the city which is sold or transferred at no higher amount than the amount at which it is assessed at in the valuation roll of the municipality; after that time the vendor of any property to be entitled to claim as an exemption from increment:—

1.—The assessment value of the property.

2.—Nett amount of carrying charges, necessary to retain the said property, assumed by said vendor, after deducting therefrom all revenues received of all revenues received.