

Broadening of the Basis of Municipal Taxation

By JOHN APPLETON

In urban centres in the Canadian West more than usual study is at present being given to methods of taxation. The municipal councils are not doing this from choice. Generally speaking they are faced with very serious difficulty in obtaining sufficient revenue to meet current and debt service expenditure, which has arisen, not from any decline in business activity or disappointing results of productive efforts in the districts which they serve, but from the collapse of land values and the dependence on them for public revenue. Vancouver's expansion to a great extent was due to hopes of additional business arising from the opening of the Panama Canal, which have not been realized, and, therefore, her troubles may be excused to some extent on this ground. The same holds good in respect to other Pacific Coast points. Winnipeg has suffered materially from contraction in land values, but it cannot be said that any trouble has been experienced there as to adequacy of public revenue.

The extent of the deflation of land values may be gauged by the experience of Regina, where 80 per cent of the taxes in 1917 were levied against land, the assessed value of which was \$83,000,000 in 1913, and last year \$47,000,000. In Edmonton land values dropped from \$191,000,000 in 1914 to \$80,000,000 at the present time.

What has occurred in these cities in the decline of assessed values is typical of the experience of practically every other city with the exception of Winnipeg. Despite the extraordinary character of this decline, it is the opinion of many practical men that the bottom has not yet been reached. Professor R. M. Haig, Ph.D. of Columbia University, who some time back was asked by the Minister of Municipalities of Saskatchewan to report upon the taxation in urban municipalities of that Province, says:

"In spite of the radical nature of these reductions" (referring to those taking place in the Saskatchewan cities), "however, there is reason to question whether they are radical enough. Over-assessment is complained of on every side. A comparison of the level of land valuations with those obtaining in similar communities elsewhere indicates that there is a sound basis for complaint, and that even at their present level, land values are undoubtedly still considerably over-assessed. The disorganized state of the realty market makes accurate assessment exceedingly difficult. Indeed, only a very rough approximation can be hoped for under these conditions. But the observation of the investigator has convinced him that the present level of assessments is beyond a doubt above the true market value of the land."

Here is the opinion of a careful outside observer, who has compared the values of land in urban centres in Saskatchewan with those of similar communities elsewhere. In his judgement the bottom has not been reached, therefore in so far as land constitutes a base for taxation it is still unstable. However, it remains the most promising source of taxation. On the basis of its present value, in order to obtain the same revenues, higher levies have to be made, and these are reaching such a point as to cause land to be abandoned in quantities that constitutes a serious problem to municipal authorities. It should not be forgotten that the higher levies, which in the case of the Saskatchewan cities rose from 14.6 mills on the average in 1913 to 24 mills in 1917, were made despite the existence of very startling arrears. Until quite recently Saskatchewan cities were restrained from levying more than 20 mills, a rate considered to be the maximum beyond which it was unsafe to go. That Province has subjected its cities and towns to regulations more stringent than any other Province. It requires that tax sales be held regularly, and this wise precaution has done much to keep her cities from financing upon tax arrears to an undue extent. An exception is the case of Prince Albert, which city last year had an overdraft of \$450,000, secured on arrears of taxes. Vancouver furnishes an instance of the danger of spending liberally when anticipating that taxes will be paid to a reasonable proportion of the amount levied. On those not paid it borrowed very freely. So great, however, are the arrears, and so loth is the municipal authority to hold tax sales, that collecting them now by the ordinary tax sale process is regarded as impossible. Commenting on the

situation, the "Financial Times," of British Columbia, says the local council made a serious mistake in deciding against a tax sale this year, and added:

"Without a threat of a tax sale over the head of the taxpayer in arrears, there is little incentive for him to pay his taxes. What could be in the mind of the council that would lead it to defer in this important matter? It, perhaps, is going under the delusion that now the war is over there will dawn such prosperity that all those in arrears will come crowding into the city hall with cash to pay their taxes. They do not seem to appreciate that the city is today properous, and that the holders of properties are better able to pay their current taxes and arrears of taxes than they have been, not only since the beginning of the war, but since the collapse of the real estate boom. The fact remains that the aldermen of that city do not favor allowing property to go to tax sales under existing conditions, but they cannot long persist in that attitude without risking default in meeting their obligations, especially those which have been the security for tax arrears."

Statutory power was obtained under the Vancouver charter to capitalize taxes up to the end of the current year, but after the 15th of September, 1919, the land or property liable for these taxes can be sold if the owners have not paid to the city one-tenth of the taxes capitalized, together with interest thereon at 8 per cent, per annum from the first of January, 1919—the Act requires that the land "shall be put up for sale." A similar arrangement has been put into effect in Victoria, and in Calgary.

In the next Province eastward—Alberta—the tax arrears have reached proportions quite as serious as those in British Columbia, and extraordinary steps are being taken, not only to collect taxes, but to give special aid to those who manifest some desire to face their obligations. Edmonton's plan is that the taxpayer would offer the city a note for the 1914 and 1915 taxes, but he must arrange either with a bank or anyone else to discount this note at its face value when endorsed by the city. The endorsement of the city would be strictly under the condition that the city should not be liable on the endorsement until first of July, 1920, that the rate of interest as against the city should not exceed 6 per cent per annum, payable half-yearly, and that the whole transaction should not in any way affect the city's right against the lands in question either for these particular arrears, if the note is not met, or for subsequent taxes. Under this arrangement the taxes for 1914 and 1915 only are being provided for.

Professor Haig tells us what proportion of taxes on land bears to the total levied in Saskatchewan cities, the range being from 76.1 per cent in Moose Jaw to 96.1 per cent in Swift Current. In the Provinces to the west land to a slightly greater extent is the source of tax revenue. Without exception, the municipal authorities agree that some broader base must be obtained. Vancouver, Edmonton, Calgary, Lethbridge and other Western cities have deserted the "single tax" and are now imposing new taxes.

Among the various suggestions made not the least interesting is that of the Union of Saskatchewan Municipalities that public utilities be made to bear a portion of the burden of taxation, in the form of a franchise tax, even upon the municipally-owned utilities. That Province has one privately operated public utility of importance, the Moose Jaw Electric Railway, and it appears to have been a fortunate circumstance for that city that its street car service was not municipally owned. Without exception of other similar utilities in the West, when operated publicly, have been veritable "sink-holes." Water and electric light services have a better record. At present privately operated utilities are severely taxed and it would be equitable that where in the same field municipal utilities operate they should be taxed on precisely the same basis as others.

As to other methods of extending the tax basis opinion varies. Commissioner C. J. Yorath, of Saskatoon, who has had a varied experience in practical administrative work is opposed to a business tax, and on the other hand, Professor Haig, who reported for the Government of Saskatchewan, says: