The Incidence and Principles of Municipal Taxation in Canada

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Taxation embraces for the most part the means by which the burden of public administration is distributed, and borne by those who are presumed to benefit by such administration.

Indirect Taxation (Customs and Excise duties)) was until quite recently the main source of the revenue of the Federal Government. Direct Taxation (Income Tax) has now been established and bids fair to outstrip the Indirect in the not too distant future.

Income Tax principles once adopted by the Federal Authorities supported with overwhelming precedents from other countries should be respected by all other public Authorities particularly municipal who should now avoid or abandon this method of raising revenue and leave the Government the entire field, if this is not always practicable, then the prinicple of precepting should be adopted viz:—One Authority demanding its quota of Tax product from another Authority, which collects in full and pays thereout the amounts precepted upon it. The precepts should be paid on specified dates within the fiscal period and not left until actual collections are made.

The possibility of separate Federal Provincial and Municipal Income Taxes seems intolerable to us all.

Real Estate Taxation by Municipalities.—The purposes for which taxation on Real Estate by municipalities is imposed, are broadly divided into:—

1. General Administration.
2. Special Administration.
3. Local Improvement.

General Administration comprises all the services performed by a municipal Corporation that are necessary to its maintenance and for the health, safety and comfort of its residents. They do not require enumeration here.

Special Administration may comprise all or any service which may also be general, and other services, the benefits of which however are limited to special areas of the municipality or to particular residents.

Local Improvement may be described as any Improvement. (Street, square, sewer, macadam sidewalk, etc.), that is constructed or undertaken by a municipality for the benefit of any particular property or properties.

Real Estate Taxes as we all know them in Canada fall into two dimensions:—

General Assessments, rate of which is based on the assessed value of the property.

Local Improvement Assessments, charged usually upon the frontage of the property, or may be upon other bases.

General Assessment Tax.—This Tax which is common to all Canadian Municipalities is based upon the Capital value of the property, the assessed value of Buildings (if any) is shown separate from the land. Great divergence of practice exists throughout the Dominion in establishing real estate values, the Assessors of some municipalities claim their Assessments to be at true value others openly avow a partial valuation only, some again state their assessments represent a conservative true value and admit there is an undeterminate margin between their figures and actual market values. As many writers have often stated, this want of Uniformity renders impossible any accurate comparison between municipalities either of Assessment or Tax rates and products.

The history of Canadian Municipal Taxation during the war period particularly in the Western Provinces has proved the failure of Taxation on hand only. A form of Taxation much favored during the boom period (1909 to 1913).

The wholesale abandonment for Tax Arrears, of many outlying Town lots by their proprietors, forced many municipalities to return to the practice of Assessment of Buildings in addition, and where reduced Assessment of Buildings was in vogue, then to a considerable augmentation of these assessments.

Not many tears need be shed over these pseudo single tax principles, the altruistic spirit of the reformer (Henry George) was wanting in the whole enterprise. One section of proprietors placing on others a greater burden than their own was inevitable.

Transfer of Incidence to Annual Value here recommended. "Ability to pay and Taxation in proportion to benefits received have now come to be recognized as two very sane guiding principles. To bring however these principles fully into practical utility, it will be necessary to revolutionize the incidence of the Tax and the basis of Assessment. Reversion to Assessment of Annual Value (or banking power) of all Taxable properties is here recommended as a practical means of accomplishing this object.

A Tax based on Assessed Annual value of a property will certainly become a charge upon the occupant (be he owner or tenant). There is no reason however that an owner of property be not held jointly responsible with his tenant for this tax, and that the taxes thus imposed become privileged claims upon the property in the same manner as the present real estate taxes. When property became untenanted some measure of relief from the tax would surely be sought by its owner. A carefully prepared scale of abatements would have to be prepared in order to meet this contingency.

Undeveloped vacant land under this proposed basis would bear little of this tax burden. To offset this feature "An Investment Tax" (Tax on sale profits) would be very effective and desirable. An arbitrary percentage of sale profits would have to be established. This could be approximated after the product of the Annual Tax had been established, viz:—The unprovided balance, necessary to meet the expenditures of the municipalities.

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This is not a radical reform when we consider that prenual payments in advance from the profits the land speculator anticipates he will eventually receive.

Many valuable precedents in Assessments on Annual value are obtainable from Britain and other European countries, many intangible forms of wealth would be included in the basis of assessment, a broad list of the assessable properties would be:—

Exempt properties.—Permanently exempt properties as at present existing should remain exempt from the Assessment on Annual Value.

Increment Tax product.—The product of an Increment Tax would naturally be very variable, rendering forecasting for the budget practically impossible particularly in municipalities only partially developed. To overcome this difficulty it would be advisable to appropriate the established product of this Tax to revenue of the subsequent year after collection. The revenue derived from this tax would form an excellent indication of the extent of further development a municipality may wisely undertake.

Resume of advantages of changing the Basis of Municipal Assessments to Annual value based on Earning Power.

1. Stabilises the Tax product.
2. Conforms to and brings to practical result, the accepted principles of :—
   Ability to Pay.
   Taxation in proportion to Benefits received.
3. Eliminates the speculative element from Municipal Assessments.
4. Discourages over-development by placing the burden of charges arising therefrom directly upon the residents.
5. Conversely encourages legitimate development.
6. Uniformity in Municipal Assessments attained.

Land—Occupied or unoccupied.
Land and Buildings—Occupied or unoccupied.
Rights and privileges on Land—(Passage, sporting, substitutions, Advertisement, Hoardings, etc.?
Saleable Timber.
Quarries and Mines.
Public Utilities—(Right of Way, etc.):—
- Railways and Tramways Undertakings.
- Gas and Electric Undertakings.
- Water Undertakings.
- Telephone Undertakings.
- Other Utilities.

The Assessment of Public Utilities for Municipal Taxation purposes requires very careful study. Gross profit less operating cost is much favored in Britain and the Assessable profit is distributed among interested municipalities either upon the basis of proportion of truck mileage, etc., or upon a proportion of earnings made in each municipality.