

Citizen Control of the Citizen's Business

TORONTO'S CITIZENS CAN CONTROL TORONTO'S AFFAIRS ONLY
THROUGH FREQUENT, PROMPT, ACCURATE AND PERTINENT INFOR-
MATION WITH REGARD TO TORONTO'S BUSINESS.

ISSUED BY THE
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MUNICIPAL TAXATION AND ASSESSMENT

There is no department of governmental activity
more difficult of administration than

TAXATION AND ASSESSMENT

There is no department where equity is more
essential. There is no department where
inequity has more disastrous consequences to
business and industry, on the prosperity of
which citizens generally have to depend for
their living.

PIECEMEAL AMENDMENT
OF
THE ONTARIO ASSESSMENT ACT

Owing partly to the necessarily huge increase in national taxation and partly to the spectacular increase in municipal expenditures, cities everywhere are at their wits' end to discover new sources of taxation. Too often amendments are made to municipal taxation and assessment legislation without a full appreciation of secondary results. Too often the motto is "get the money where it is easiest to get," without due consideration to the canon of equality in taxation.

An example of the results of piecemeal amendment is provided by the 1920 amendment to sub-section 8, of Section 10, of the Ontario Assessment Act. This provision originally read:

"Except as provided in clause (c) of sub-section 1, of Section 11, every person liable to assessment in respect of a business shall not be assessed in respect of income derived from such business, nor shall any person be assessed on dividends derived by him from shares in the stock of a corporation carrying on a mercantile or manufacturing business and which corporation is subject to assessment under sub-section 1 . . ."

The amendment struck out that part of the above which is underlined.

The result, known to some, but unknown to many, was that a shareholder in a corporation has to pay income tax on dividends from his shares, while a partner in a similar, although unincorporated business, would not have to pay any income tax on the profits resulting from his investment. Both concerns would, of course, have to pay their business tax.

By a legal fiction a shareholder is not an owner, and is not, therefore, assessed in respect of the business. His income from shares in a corporation is, therefore, legally liable to taxation. As a matter of fact, profits on investments in a partnership and dividends on shares in a corporation both proceed from the income from business and in the last analysis, taxes thereon in both cases come out of such income. If dividends are taxed in one case and assessed against the persons who get them, why should not profits be taxed in the other case and assessed against the persons who get them?

The argument in favor of the amendment seems to have been that as the dividends of such corporations as banks, trust companies, etc., were liable, those of mercantile corporations should be. But there are no unincorporated banks or trust companies, and therefore, no competition between incorporated and unincorporated banks and trust companies, while there are both incorporated and unincorporated mercantile and manufacturing concerns in active competition with each other. The result of the removal of the exemption is to assist the unincorporated concerns while penalizing the incorporated concerns.

It is urged that corporations have certain privileges. If so, they pay the governmental authority which grants the incorporation for these privileges. Why make them pay for the same privileges twice?

It is further urged that a shareholder can sell his shares. In what would he re-invest? A partnership? Should taxation on any form of property be such as to compel the holder to choose some other investment not so heavily burdened? Is that a proper function of government?

How the Present Method Works Out in Practice

Business No 1. Incorporated Company, Leathergoods manufacturing; invested capital, \$1,000,000; assessed value of premises \$500,000; number of shareholders 5, all participating in management and each receiving a salary of \$10,000 or represented by employees each paid \$10,000 a year for managerial services; taxes paid directly and indirectly out of proceeds of the business.

Taxes levied on business directly at 33 mills rate:

| | |
|--|----------|
| a—General or land tax on \$500,000, assessment | \$16,500 |
| b—Business tax on 60% of \$500,000, assessment | 9,900 |

Taxes levied on shareholders or managerial representatives:

| | |
|--|----------|
| c—Income tax on salaries of \$50,000, less \$10,000 exempted | \$ 1,320 |
|--|----------|

Taxes levied on profits (distributed) of business:

| | |
|---|----------|
| d—Taxes on dividends (20% on \$1,000,000 = \$200,000) | \$ 6,600 |
|---|----------|

Total taxes paid out of proceeds of business

| | |
|--|----------|
| | \$34,320 |
|--|----------|

Business No. 2. Partnership, Leathergoods manufacturing; invested capital, \$1,000,000; assessed value of premises, \$500,000; number of partners, 5; partners all participating in management and each receiving a salary of \$10,000 or represented by employees each receiving a salary of \$10,000 for managerial services:

Taxes levied on business directly at 33 mills rate:

| | |
|--|----------|
| a—General or land tax on \$500,000, assessment | \$16,500 |
| b—Business tax on 60% of \$500,000, assessment | 9,900 |

Taxes levied on partners or managerial representatives:

| | |
|--|----------|
| c—Income tax on salaries of \$50,000, less \$10,000 exempted | \$ 1,320 |
|--|----------|

Taxes levied on profits (distributed) of business:

| | |
|---|-----|
| d—Taxes on (20% on \$1,000,000 = \$200,000) | Nil |
|---|-----|

Total taxes paid out of proceeds of business

| | |
|--|----------|
| | \$27,720 |
|--|----------|

Penalty on corporation or advantage to partnership \$34,320 - \$27,720 = \$6,600.

The non-taxation of profits of partnership makes it advantageous for partners to keep their salaries at a minimum. If they were kept at \$2,000 each, the income exemptions would reduce the taxable incomes to nothing and the handicap on the corporation, or the advantage to the partnership would be increased by \$1,320, making a possible total of \$7,920.

Possibly the taxation by municipalities of income from dividends on shares in corporations and the non-taxation of incomes on profits from incorporated business may be defensible. Possibly the whole system of business taxation needs to be recast. The Bureau would like to have opinions as to these points, with reasons therefor.