

BUREAU OF MUNICIPAL RESEARCH

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

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THE TAX BURDEN ON REAL PROPERTY

The Bureau recently received the following letter symptomatic of the feelings of many property owners:

"Can't you **really do** something to have our taxes reduced on real estate?"

Very soon the City is going to find that she has many houses on her hands—empty houses with no revenue."

Where distress is so wide-spread, and continuing over such a long period, there must be some maladjustments—other than the depression which has affected all forms of income and wealth—to account for it.

WHY THE TAX BURDEN ON REAL PROPERTY GROWS,

In addition to the narrowing of the tax base through increasing exemptions, there are three main causes of a tax burden heavier than can be borne without confiscation of capital values of real property:

1. Too heavy expenditures which must be met out of current taxation and general revenues.
2. Charging against one form of wealth or taxpaying ability the costs of services which are properly chargeable against a different form of wealth or taxpaying ability.
3. Distributing the tax burden among properties on some other basis than relative ability to pay.

The first two are certainly operative in Toronto. The third may be. Only an extensive study and detailed analysis would show.

1. Too Heavy Expenditure

The table below shows how the expenditures of the City have increased (not including debt charges on unemployment relief but including total current direct relief expenditures).

	1921	1929	1930	1931	1932	1933	1934	1935	1936 Est'd.
Total Expenditure†	\$ 25,788,318	\$ 32,760,708	\$ 35,500,110	\$ 39,061,539	\$ 37,678,877	\$ 37,613,640	\$ 38,487,241	\$ 38,698,181	\$ 38,100,151
Per Capita.....	49.34	54.83	57.11	62.28	60.13	60.32	61.16	60.63	59.67
% of Average Assessment*	3.72%	3.54%	3.66%	3.88%	3.70%	3.73%	3.91%	3.98%	3.90%
Cost of Living Index (1913 = 100) Dec.	161	160	151	135	125	123	123	127	127 (Sept.)

†Not including debt charges on unemployment relief.

*Including in 1936, income assessment equivalent to that of 1935 in order to preserve comparison.

The table shows that we propose to spend in 1936 five and a quarter million dollars more than in 1929 when the depression started. It also shows that we are spending at the rate of \$5 per person more than in 1929 and almost \$10 more than in 1921, or on the basis of the 1921 dollar, \$25.54 more, i.e. an increase of over 50% in 15 years. It shows further that the total current expenditure is almost four per cent on the wealth assessed for taxation purposes. Is this too high at the present juncture? If so, the electors are at fault. There are approximately 60,000 home owners in Toronto controlling say 180,000 votes. There are many other property owners. The total vote for Mayor, 1st January 1936, was less than 126,000. If the home owners themselves are not sufficiently seized of the importance of protecting

their own homes by getting out candidates whom they can support, or supporting candidates already offering who hold their views, what can be done by any one else? The burdens of real estate under this head are largely due to the neglect of real estate owners in the past to exercise a forthright and courageous franchise. However, "better late than never".

2. Charging Against Real Property Services Which Should be Charged to Something Else.

A municipality's expenditures may be divided into two main groups (a) Expenditures for things, (b) Expenditures for persons. No hard and fast line can be drawn between these two groups. For example, expenditure on a roadway or a sidewalk is of course made both for property and for persons. But primarily the results of the expenditures are reflected in increased value of the property and the major part of the cost is rightly charged to the property either through special or general taxation.

Again, for example, expenditure for education is primarily to provide a service to persons. Good schools are, however, a community asset and a large part of legitimate expenditure on education, particularly elementary education, is reflected in an increased capital value and earning power of property. In such a case the costs should be shared between different objects of taxation. In effect they are—but to an entirely inadequate extent—as the City taxes business and receives a share of the proceeds of the Provincial personal income tax.

Still again, there are certain so-called "Welfare" or "Social Service" expenditures which are entirely in the interests of persons. It is difficult to see how any appreciable proportion of these costs is reflected in increased capital values or current earning capacity of property. In any event, they are in quite a different category from the other expenditures mentioned.

The table below shows the main facts regarding Toronto Public Welfare expenditures in 1921 and in recent years:

	1921	1929	1930	1931	1932	1933	1934	1935	1936 Est'd.
Public Welfare Expenditure.....	\$ 1,778,852	\$ 1,977,107	\$ 2,613,415	\$ 3,358,614	\$ 3,391,362	\$ 5,019,774	\$ 6,190,916	\$ 6,665,727	\$ 6,189,992
% of Total Expenditure.....	6.90%	6.03%	7.36%	8.60%	9.00%	13.35%	16.09%	17.22%	16.25%

That is the public welfare expenditures have increased 247.1% since 1921 and now form 16¼ per cent or about one-sixth of the total expenditure

whereas they formed only 6.03% or less than one-sixteenth in 1929. In a time of depression particularly, such mounting costs of services which are not reflected directly in real property values are quite unsupportable by real property without confiscation of capital values. **For this element in the tax burden of real estate, home and other property owners are not responsible. It is due to a failure to appreciate the changed centre of gravity of community expenditures. The whole community and the Province which makes the laws under which the financial affairs of the municipality are conducted are responsible. Prompt and adequate action should be taken.**

3. Distributing the Tax Burden Over Real Properties in Proportion to Ability to Pay.

The Assessment is the basis of the municipal revenue structure. It is as important to the municipality as the rate structure of a railway or the price structure of a mercantile company. It establishes justice as between man and man, business and business, etc. If a property is assessed too lightly, others pay part of its taxes; if too highly, it helps pay the taxes of others. Unequal assessment, even if the total is correct, leads to the penalizing and may even lead to the confiscation of certain kinds of property or property in certain districts. The Ontario Act provides that a building shall be assessed at the value it adds to the land, not at the cost of construction, or the cost less depreciation, but the actual value it adds to the land. What value does it add to the land if it earns nothing over a term of years and may never earn anything again? The law evidently intends earning power either present, potential or prospective to be a decisive element, though of course not the only one, in the assessment of improvements on property.

It is held by some people who have a right to an opinion that property values on the whole have declined 50% in ten years, the decline being much greater for some kinds of property and in some districts than in others. Have assessments declined accordingly—it being understood that the necessity of stability in realty assessments will not permit assessed values ever reaching the peaks or depths of more or less speculative market values? Have changes in area and type values been followed in changed assessments? These are questions which can be answered only by careful, long and impartial inquiry. Can the City afford not to have it made? The inquiry might prove that present assessed values are scientifically and accurately made and just in application. In view of the general uneasiness, it would be worth while to have this established. Assessment is not a clerical operation merely. It is extremely difficult and is not less important than any other overhead function of the municipality.

GENERAL

It is sometimes said that all property should be assessed at the same rate, whether real or personal, whether tangible or intangible. This is based on a fallacy. It would be neither just nor feasible. Where the general property tax has been tried, if really applied it has driven out intangibles. If not really enforced, it has been accompanied by laxity, favoritism or worse. It is true that if over a term of, say, ten years, investments in real property have not produced as large **net profits after paying taxes**, as other forms of investments comparable in risk and effort, the levying of taxes is not on an economic or just basis and is due for a change.

It is evident that a deposit of \$1,000 in a saving bank producing an income of \$15 should not and cannot be taxed \$35 and that a government bond for \$1,000 producing an annual income of \$30 cannot be charged annually taxes of \$35. They neither cost the municipality as much as real estate to service, nor are municipal expenditures reflected in their values. They may be moved from place to place almost instantaneously and are as valuable in one municipality as another. Their productivity is not subject to anything the owner can do. On the other hand, while normally a large part of municipal expenditures is reflected in realty values or realty income, in cases where the net return is inadequate over a term of years, investments in realty values are penalized or even confiscated. This is not in the general interests of the public. It is bound to lead to inadequate and insufficient housing, to mean shops and shabby streets and to weakness in competition with other centres, to poorer business and indirectly to reduced incomes of citizens.

Scientific assessment is a handmaiden to effective town planning, without which as a pre-requisite any housing scheme is bound to fail in the long run and leave the city a legacy of debt without a corresponding asset. Town planning, housing and assessment are inseparable factors in municipal efficiency, but the greatest of these is town planning in its broad sense of community planning.

STEPS WHICH MIGHT HELP TO RESTORE THE BALANCE

(A) Reduction of Expenditures.

1. A close study of the civic personnel establishment.
2. An amalgamation and co-ordination of civic departments, boards and commissions.
3. Centralized purchasing for the City and all civic boards and commissions.
4. Centralized accounting and budget control and the elimination so far as possible of departmental accounting.
5. A long term capital budget and thorough-going zoning by town planning.

(B) Shifting part of the Expenditure on Social Services to Persons from real Property to Persons.

6. The transfer of the greater part of the proceeds of the Provincial personal income tax to municipalities.
7. The application of the Provincial personal income tax to much lower brackets by lowering of exemptions.
8. The transfer of a large part of the proceeds of provincial automobile taxation to cities which now receive no revenue from this source, although a great many motors owned in a city do all or a large part of their travelling within the city limits, and although links of Provincial Highways often fall within the limits of cities.

(C) The broadening of the tax base through the taxation of some types of real property now wholly or partially exempted.