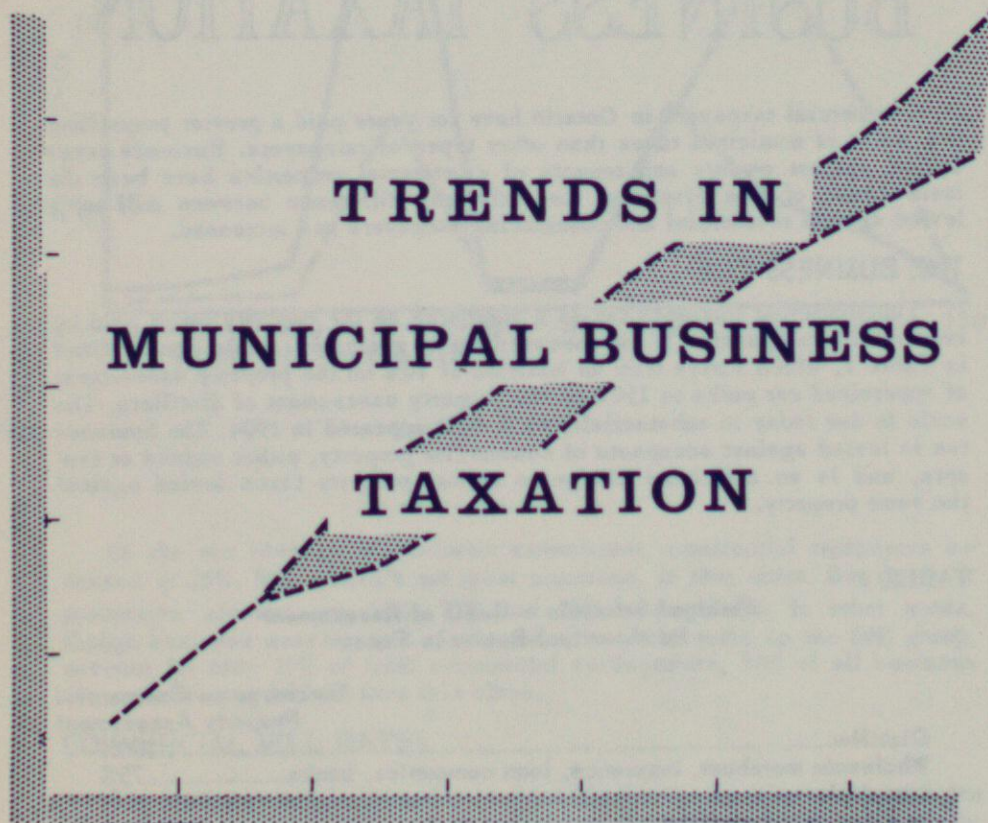




# CIVIC AFFAIRS

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# TRENDS IN MUNICIPAL BUSINESS TAXATION

Commercial taxpayers in Ontario have for years paid a greater proportionate share of municipal taxes than other types of ratepayers. Business taxes levied against owners and tenants of commercial properties have been the main cause of this disparity. Recently, the difference between mill rates levied against residential and commercial ratepayers has increased.

## THE BUSINESS TAX

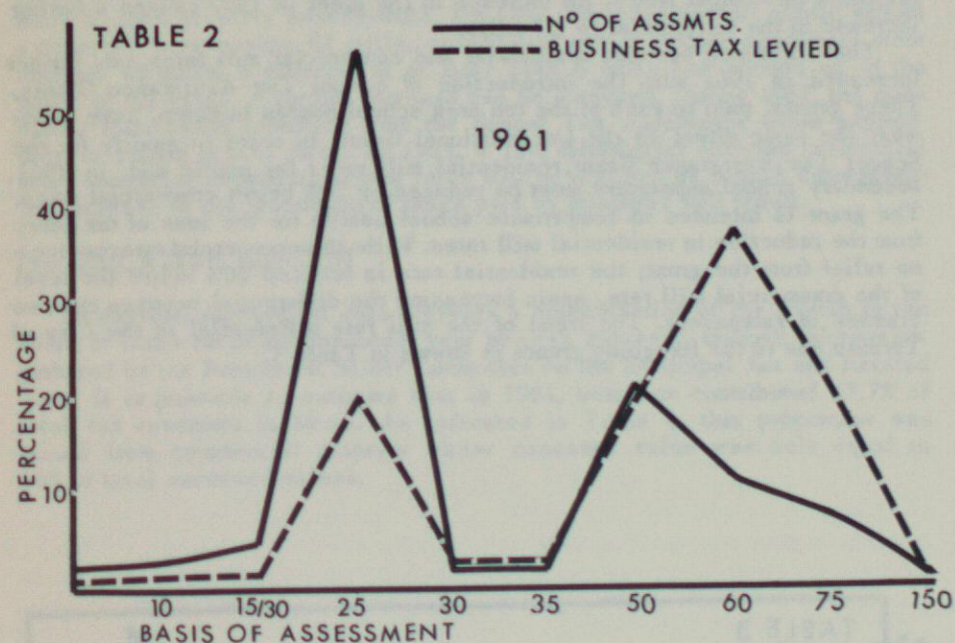
The municipal business tax is a surcharge on the property taxes paid by commercial ratepayers. It is assessed on a graduated scale, summarized in Table 1, which varies from an addition of 10% on the property assessment of supervised car parks to 150% on the property assessment of distillers. The scale in use today is substantially as it first appeared in 1904. The business tax is levied against occupants of commercial property, either owners or tenants, and is an additional charge to normal property taxes levied against the same property.

TABLE 1

Abridged Schedule - Basis of Assessment for Municipal Business Taxes

	Surcharge on Commercial Property Assessment
Distiller.....	150%
Wholesale merchant, insurance, loan companies, banks.....	75%
Manufacturer.....	60%
Fuel dealer, department store, printer, professional services.....	50%
City retail merchant, telephone company, restaurant, hotel.....	25%
Supervised car park.....	10%

In 1961, on a supplementary assessment for business taxes of \$472 million in Metro Toronto, business taxes of \$29 million were levied. This represented approximately 12% of all municipal taxes, totaling \$233 million raised by the thirteen tax levying authorities in Metro. These revenues were derived from 45,000 commercial assessments, according to the distribution shown in Table 2.



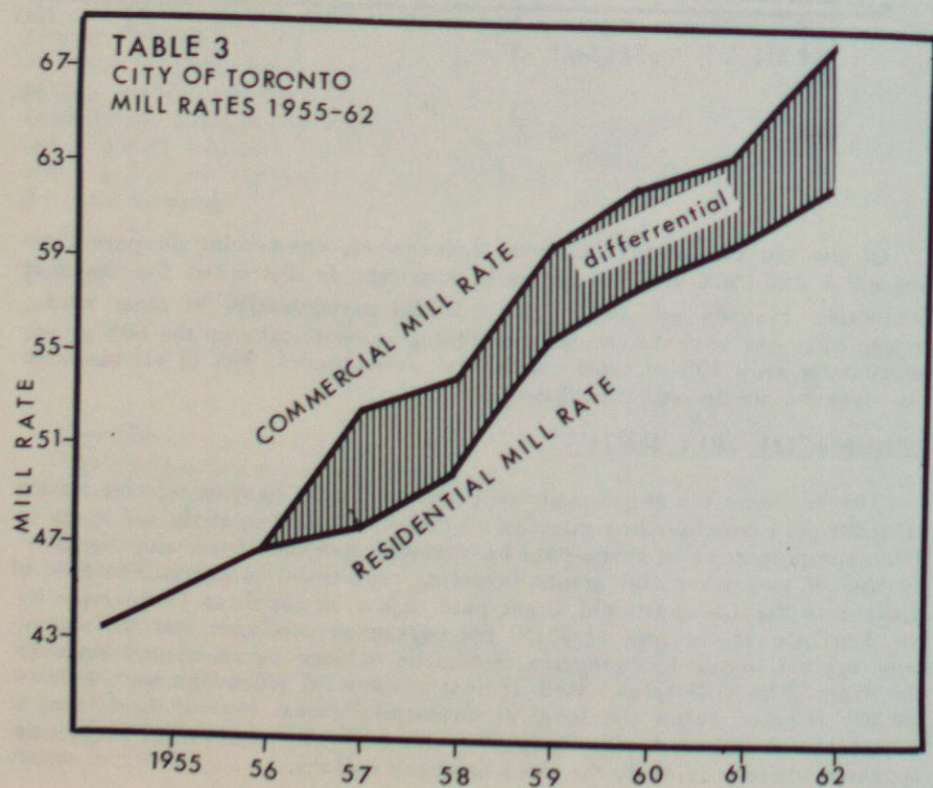
Of the ten classes of business assessment, commercial ratepayers assessed at 25%, 50% and 60% are most numerous, in that order. But the most productive classes are 60%, 75% and 25% respectively. In other words, though business assessments of manufacturers, who make up the 60% group, account for only 10% of total commercial assessments, 38% of all business tax revenues are derived from this class.

## COMMERCIAL MILL RATES

The business tax is primarily responsible for the heavier relative burden of municipal taxes borne by commercial ratepayers. But in 1957, and again in 1960, the proportion of taxes paid by business was increased with the introduction of two provincial grants favouring residential property. The first of these was the Unconditional Grant paid to the Metropolitan Corporation by the Province at the rate of \$5.50 per person on condition that the annual levy against residential property owners be reduced by an amount equal to the grant. The mill rates levied against residential properties were consequently reduced below the level of commercial rates. For the first time, a differential between levies against residential and commercial properties appeared where previously the rates had been uniform.

In 1961, the Unconditional Grant, amounting to \$8 million, accounted for a differential equivalent to 3.61 mills between residential and commercial tax rates throughout Metro. An increase in the grant in 1962 caused a further increase in the differential to 3.7 mills.

The difference between residential and commercial mill rates was further increased in 1961 with the introduction of School Tax Assistance Grants. These grants, paid to each of the ten area school boards in Metro, have somewhat the same effect as the Unconditional Grant. In order to qualify for the School Tax Assistance Grant, residential mill rates for public and, in 1963, secondary school supporters must be reduced by 10% below commercial rates. The grant is intended to compensate school boards for the loss of tax money from the reduction in residential mill rates. While the commercial rate receives no relief from the grant, the residential rate is reduced 10% below the level of the commercial mill rate, again increasing the differential between the two classes of ratepayers. The trend of the mill rate differential in the City of Toronto due to the foregoing grants is shown in Table 3.

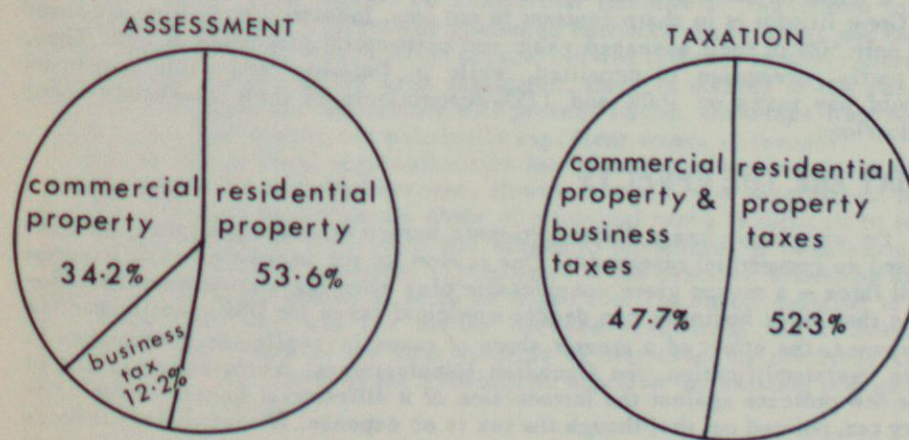


The Table shows that in 1956, before the introduction of differential mill rates, all taxpayers in the City, both residential and commercial, paid 47.25 mills on their property assessments. By 1962, while residential public school supporters were paying 62 mills, commercial public school supporters were charged 68 mills. A differential of more than 6 mills had opened up in the space of six years. A further increase can be expected. During 1962, the mandatory differential resulting from the School Tax Assistance Grant applied only to public school rates. In 1963, a 10% differential between residential and commercial secondary school rates will be required as well. A corresponding increase in the proportion of taxes paid by business will result.

**THE RELATIVE BURDEN**

Incomplete assessment data prevents a determination of the growth in the share of taxes borne by business, year by year. However, through information gathered by the Provincial Select Committee on the Municipal Act and Related Acts, it is possible to estimate that in 1961, business contributed 47.7% of total tax revenues in Metro. As indicated in Table 4, this proportion was raised from commercial property whose assessed value was only equal to 34% of total assessed values.

**TABLE 4**



To illustrate the relative burden on residential and commercial ratepayers in 1962, a manufacturer in Toronto with a property assessment of \$5,000 would pay property and business taxes totaling \$546.00. A residential property of identical assessed value, would pay \$310.00. Thus, the taxes of the commercial ratepayer would be 76% greater than those for the residential property in spite of equal property assessments. Because of the graduated base of the business tax, the differential with other types of commercial properties could be smaller or greater.

The cumulative effect of this added burden on business is shown by the fact that in 1962, commercial ratepayers in Metro paid \$34.7 million more in municipal taxes than they would have paid if they had been subject to the same treatment as residential property owners. Residential property owners did not have to pay \$29 million in business taxes, yet benefited by reductions equivalent to \$5.7 million in their property taxes through the Unconditional and School Tax Assistance Grants, resulting in the \$34.7 million advantage.

## JUSTIFICATION

With a trend of relatively heavier municipal taxes on commercial ratepayers developing in Ontario, the justification for such treatment should be questioned in spite of certain desirable side effects. Unconditional and School Tax Assistance Grants, accompanied by differential mill rates, have reduced the burden on residential property owners for such services as health, welfare and education. These services are not a proper charge against property and are appropriately financed in part from revenues available to the Province. But homeowners are only one type of property taxpayer. Why should municipal taxes be made to bear more heavily on commercial properties than other types of property assessment? Unless it can be shown that municipal expenditures are any greater for commercial properties and ratepayers than other types, a disproportionate burden of taxation is inequitable. It must be also shown that business fails to contribute as much in municipal taxes as it consumes in municipal services before a heavier share can be justified.

It might be noted that in the matter of local taxation of business, practice in Great Britain is in sharp contrast to our own. Industrial properties are taxed on only 50% of their assessed value and commercial properties at 80%. Thus, a partial exemption is permitted, while in Ontario, comparable properties would pay taxes on 160% and 125% respectively of their assessed property valuations.

## WHAT ARE THE EFFECTS

On what basis has a disproportionate burden of municipal taxes been imposed on commercial ratepayers? One reason for the imposition of differential mill rates — a reason given considerable play when legislation was enacted — was that since business can deduct municipal taxes for Dominion income tax purposes, the effect of a greater share of taxes is negligible. Responding to this oversimplification, the Canadian Manufacturers' Association, in one of the few protests against the introduction of a differential feature in the property tax, pointed out that though the tax is an expense, it nevertheless reduces net income. The obvious consequence of this reduction, when domestic and foreign capital is scarce, or less readily available today in Canada, than in former times, is to act as a deterrent to capital investment in the Province and in the rest of the country.

A second, and perhaps less publicly acknowledged reason for the introduction of differential mill rates, appears to have involved the ability of commercial taxpayers to recover the cost of municipal taxes through the prices of their goods. As municipal business and property taxes often can be shifted forward to consumers, a heavier proportionate burden of taxes levied against commercial ratepayers would simply be passed on, and absorbed by consumers. Since considerable tax shifting is possible under buoyant economic conditions, particularly with regard to domestic sales, the assumption is valid enough. But there is little equity for consumers in such an arrangement if the regressive effect of a shifted business or property tax is considered.

The ability of industries to pass on increases in municipal taxes in their exports is much more restricted, particularly in view of Canada's current foreign competitive position. This factor is of particular importance for Ontario since two thirds of all Canadian secondary manufacturing is located in the Province and about 60% of all fully manufactured goods exported by Canada originate from plants located in Ontario. It is therefore contradictory that a pattern of heavier municipal business taxation should be introduced to the Province when, at the same time, vigorous effects are being made to increase overseas markets and sharpen the competitiveness of Ontario industries.

In addition to endangering investment prospects in the Province and the sales of Ontario exporters, differential rates and a graduated business tax may adversely affect the extremely important *tax climate* in the Province. A recent American survey which examined factors considered by business to be most important in investment and plant location, concluded that suspicion of discriminatory taxation, or inequitable charges, or uncertainty with regard to the direction of future tax policy were more important considerations than any concessions or temporary tax advantages that might be offered to business. Consequently, a policy of subjecting commercial ratepayers to a heavier share of municipal taxes than other property taxpayers may compromise to some degree the *tax climate* in the province, and in the long run, discourage development and expansion.

In face of such potentially dangerous effects, why has a greater share of municipal taxes been shifted to commercial ratepayers? Opposition to the business tax has been dispersed by graduated business assessments and muted by the longevity of the tax. Though several belated protests against differential mill rates recently have been registered, there is nothing in the past to suggest that organized opposition will prevent further advantage from being taken of this inequitable, but politically expedient source of revenue.

The growth of local responsibilities has placed a severe strain on traditional sources of municipal revenue. However, a policy of singling out business for a heavier proportionate share of municipal taxes is difficult to justify, both in terms of tax equity and economic advantage. If business must bear a greater share of municipal expenditures, a tax based on something other than property is preferable. It is to be hoped that the entire question of the distribution of the local tax burden between residential and commercial ratepayers will be one of the first subjects to be tackled by the Study Committee recently appointed by the Province to appraise the existing provincial-municipal tax structure.

