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A REVIEW OF MUNICIPAL TAX EXEMPTIONS

The value of properties in Metropolitan Toronto which do not share in the burden of municipal expenditures continues to increase. In 1960, \$593 million worth of property in Metro was exempt from municipal taxation. This was 16% of the total assessment in the area.

At a time when mill rates continue to advance, municipal authorities should be quite clear as to the magnitude of assistance, or subsidy, represented by exemptions from municipal taxation, which is enjoyed by various classes of property in Metro.

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BUREAU OF MUNICIPAL RESEARCH

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A REVIEW OF MUNICIPAL TAX EXEMPTIONS

Property and business taxes produce over 90% of municipal tax revenue. Yet in Metropolitan Toronto in 1960, 16% of the total assessment in the area (\$593 million of \$3,635 million) was exempt from these forms of taxation.

Table 1 shows a breakdown of tax exempt property in Metro and the City of Toronto. The discussion which follows deals individually with each of the classifications of exemptions mentioned in the Table.

TABLE I					
ASSESSED VALUE OF TAX EXEMPT PROPERTY					
METRO TORONTO AND THE CITY OF TORONTO					
(IN \$000'S)					
	1960		1956		1953
	Metro	Toronto	Metro	Toronto	Toronto
a) Government of Canada	48,651	20,542	44,198	19,154	15,797
b) Province of Ontario	113,171	84,513	103,055	66,901	47,832
c) Municipal Government	292,880	186,777	190,028	138,308	116,134
d) Other ² (Religious and Charitable)	81,694	48,808	60,059	37,467	33,128
e) Partial Graded Exemption	56,948	55,762	72,281	71,094	73,770
TOTAL	593,485	397,243	469,621¹	332,898	268,748

NOTE: Figures have been taken from three different sources therefore the "total" is not always equal to the sum of a), b), c), d), and e).

1. Total of a), b), c), d), and e), figure given in 1956 Annual Report of Municipal Statistics was incomplete.
2. Other includes: Industrial and Business Enterprises, Private Schools, College and Universities, Private Property used for Charitable, Welfare or Religious purposes and Not Specified.

SOURCES: Total (except Metro 1956): Annual Report of Municipal Statistics, '1953 and 1960 Government of Canada; Province of Ontario; Municipal Government; OTHER: Clerk's Return, City of Toronto, 1953, 1956 and 1960 and Clerk's Return, Metropolitan Toronto, 1956 and 1960. Partial Graded Exemption: Municipal Handbook, City of Toronto, 1953, 1956 and 1960.

MUNICIPAL GOVERNMENT

This category includes the largest portion of tax exempt property in Metro and the City of Toronto. Large as this figure is, it does not cover all municipally owned property since roads and expressways are not included. It exceeds the combined holdings of the Federal Government, the Provincial Government and "Other".

The loss of tax potential on property owned by the municipality itself must be regarded as part of its operating costs. The same cannot be said of property owned by one municipality that is located within the boundaries of another. Property owned by the Metropolitan Corporation, such as offices and parks located in the area municipalities is no exception.

Exemptions on property owned by the Metro Corporation result in an inequitable distribution of the cost of maintaining such property between the thirteen area municipalities. General expenses incurred by the Metro Corporation are met by the constituent municipalities through the metro levy. These expenses are shared according to the proportion that the assessment of each municipality bears to the total assessment of the Metropolitan Area. But the cost of servicing exempt Metro property is born entirely by the taxpayers of the municipality in which the property is located. Thus, unless the distribution of tax exempt property happens to correspond to the distribution of the levy, which is very unlikely, one or more municipalities must bear more than its share of this particular overhead expense of Metro. Unfortunately, figures are not available for the assessed value of Metro property in each of the area municipalities. Until such time as they are, it is impossible to determine how inequitable the present system actually is.

GOVERNMENT OF CANADA AND PROVINCE OF ONTARIO

In 1960 the assessed value of property in Metro Toronto owned by the Federal and Provincial Governments and their agencies amounted to \$161,823,000. \$105,055,000 of this assessment was located in the City of Toronto. It is interesting to note that between the years 1956 and 1960, the value of Provincially owned property in the City increased by 26%; better than twice the percentage rate of increase (10%) over the area as a whole. The absolute increase was \$17,612,000 in the City and \$25,107,000 over the entire Metro area.

Some tax exempt property *does* produce revenue for the municipality. Both senior levels of government make payments-in-lieu of taxes on some of their property. The following Table shows the distribution of the property classified according to its eligibility for payments-in-lieu.

TABLE 2 FEDERAL AND PROVINCIAL TAX EXEMPT PROPERTY ASSESSED VALUE 1960 (IN \$000's)				
	Federal		Provincial	
	Metro	City	Metro	City
Eligible for payments	\$ 46,614	\$ 20,521	\$ 44,106	\$ 29,124
Not eligible for payments	2,036	21	69,066	55,389
TOTAL	\$ 48,650	\$ 20,542	\$113,172	\$ 84,513

ELIGIBLE FOR PAYMENTS-IN-LIEU OF TAXES

Clearly, the Government of Canada is more liberal than the Province in its classification of eligible property.

Payments-in-lieu of taxes do not, however, equal the tax revenue that would be collected if the municipality were allowed to levy taxes on this property in the same way that it does on private property. There are two major reasons for this: first, the Federal Government does not make payments-in-lieu of business taxes; and second, the Provincial Government makes payments-in-lieu of business taxes on only part of its eligible property (39% of eligible property in Toronto) and does not make payments-in-lieu of that portion of the property tax which is levied for educational purposes. The figures quoted below for the City of Toronto illustrate the discrepancy between payments-in-lieu of taxes and the revenue potential of government owned property.

The City, in 1960, received \$2,839,000 in payments-in-lieu of taxes -- \$1,105,000 from the Government of Canada in lieu of property taxes and \$1,734,000 from the Province of Ontario in lieu of both business and property taxes. If the City had levied taxes in the normal way on the same property, \$3,068,000 * would have been raised in property taxes alone, without anticipating any business tax receipts. Thus, the payments-in-lieu of both business and property taxes do not equal the tax receipts that would be received if the property tax alone were levied.

BUSINESS TAXES

No attempt has been made in the above illustration to estimate the loss of potential revenue from business taxation due to the exemption of government owned property. The range of rates under this form of taxation would require so many arbitrary decisions to be made that the resulting estimate would be almost valueless. It would be reasonable, however, to assume that the loss of revenue is substantial since no payments-in-lieu of business taxes are made on federal property, and payments of this kind are made on only a fraction of eligible provincial property.

The Province's refusal to make payments-in-lieu of business taxes on a large part of its eligible property is inconsistent with its other policies. By making payments-in-lieu of property taxes on certain of its properties, the Province has recognized the necessity to pay for services these properties receive from the municipality. On the other hand, it refuses to make full payment. Business taxes are intended to cover additional costs to the municipality caused by commercial and industrial uses (larger sewers, fire protection etc.). If the Province considers the additional taxes paid by business to be justified, it should make payments-in-lieu of business taxes on its own eligible property; if it does not, then it cannot accept business taxes as a legitimate source of municipal revenue and should not allow municipalities to employ this tax.

PROPERTY INELIGIBLE FOR PAYMENTS-IN-LIEU OF TAXES

Municipal tax payers were subsidizing other levels of government long before the Province reversed the procedure with a programme of local government grants. The tax exemptions enjoyed by federal and provincial governments must be considered a form of subsidy because the cost of providing services to exempt land and buildings falls on the local taxpayer.

The following is a breakdown of the type of property exempt from taxation and on which no payments-in-lieu of taxes are received.

	Federal		Provincial	
	Metro	Toronto	Metro	Toronto
Not specified	2,036,437	14,216	5,013,264	949,209
Vacant lands		6,405	818,812	818,812
Hospitals, Jails, Welfare Institutions			8,782,720	3,634,070
Schools, Universities and Colleges			46,091,342	42,001,616
Ontario Hydro			8,360,127	7,985,438

* Business mill rate used in making estimate.

The figure representing the assessed value of provincial schools is conspicuously large. It includes such institutions as normal schools, technical institutions and the University of Toronto. The last accounts for roughly three quarters of this exemption in Metro. Although the University made a payment to the City of \$37,000 in lieu of taxes on property used for commercial purposes, the bulk of its assessment brings in no tax revenue.

The schools covered by this this exemption are an important part of the educational system of the province. Therefore, their costs like their benefits should be distributed over the entire population of the province. But the property tax exemptions they enjoy in the City, force taxpayers in Metro and particularly the City of Toronto, to contribute more toward their support than the taxpayers in other parts of Ontario. The same is true in respect of any provincial office or agency that services an area beyond the boundaries of the municipality in which it is located.

The other arresting item in the above Table is the exemption enjoyed by Ontario Hydro. The figure shown for Metro represents 33% of the total assessed value of Hydro property in the Metro area, and the figure for Toronto, 53% of the total in the City. Payments-in-lieu of property taxes and, in some instances, business taxes are made on the balance. Exemptions granted to Hydro, like most other tax exemptions are, in practice, an unrecognized subsidy paid to the organization by the local taxpayers. In this case the ultimate beneficiaries of the subsidy are Hydro customers.

In defense of provincial exemptions, the point is sometimes raised that municipalities, as a group, recover through grants anything they lose through tax exemptions. Grants, however, are not intended for this purpose, nor can they be considered a satisfactory substitute for payments-in-lieu of taxes. Their distribution bears no relation to the amount of tax exempt property in a municipality. But more important, local governments consider payments-in-lieu of taxes on eligible property to be revenue the municipality has earned by providing services, while grants are based on other considerations.

PARTIAL GRADED EXEMPTIONS

In 1961, this form of exemption, designed originally to help the veterans of World War I, cost the taxpayers of the City of Toronto \$1,864,000. Toronto and New Toronto are the only municipalities in Ontario in which this exemption is employed.

By-law 8611 of the City of Toronto, under which the exemption is granted, provides that no taxation for general purposes shall be levied against a stated percentage of dwellings assessed at \$4,000 or less. For example, 10% of a house assessed at \$4,000 is exempt from taxation for general purpose, thus, while the full mill rate of 61.91 mills (1962) would be applied against \$3,600, only 26.15 mills, that portion of the mill rate attributable to education, would be applied against the remaining \$400 of assessment.

In 1955, the provincial legislation permitting municipalities to grant this exemption was repealed. It was recognized that while the exemption had been intended to reflect some measure of ability to pay, the property tax was not an appropriate tax for this purpose. Nevertheless, the municipalities granting the exemption at the time were allowed to retain it if they wished. Four years later, a committee of the Toronto City Council recommended that the exemption be withdrawn over a five year period. Council was advised by the City Solicitor that, although it could repeal the exemption outright, it would require permission of the Province to do so over a period of time. A request to this effect was addressed to the Province by City Council but it was later withdrawn on instructions of the Board of Control. It appears that no further action has been taken on the matter.

It is hard to reconcile Council's annual quest for additional revenue and new sources of taxation from Queen's Park with their failure to exploit an available, unused tax source worth

roughly \$2 million a year. The potential revenue given up under this exemption is equal to half the amount that would have been received if the Province had granted the City's recent request for \$5 per capita subsidy. It is even harder to understand how the exemption has survived in the face of Council's earlier approval in principle of its repeal.

RELIGIOUS AND CHARITABLE

Religious and charitable institutions in 1960 owned property throughout Metro assessed at \$55,490,000. \$35,982,000 of this amount was located in the City of Toronto. These two groups make up the bulk of the "Other" category but represent only 12% of exempt property in Metro totally unproductive of revenue and 16% of that in the City. Although the assessed value of property in this category is less than that of the graded exemption, the potential loss of tax revenue is greater. Religious and charitable institutions bring in no revenue while the property qualifying for the graded exemption brings in the educational part of the levy.

There are four main objections to property tax exemptions for religious and charitable * institutions:

a.) Most citizens do not equate tax exemptions with tax subsidies and thus are seldom aware that they, as taxpayers, are contributing to the support of these institutions. If the municipality were to make direct grants, or were required to give tax rebates instead of exemptions, the average citizen would be more conscious of the extent to which these organizations are subsidized.

b.) Property tax exemptions tend to admit greater inequalities in the distribution of the cost of subsidies than grants. The cost of property tax exemptions falls on the taxpayers of the municipality in which the organization owns or rents property. In some cases, the benefits provided by the religious and charitable institutions are regional, provincial or even national in scope. Under such circumstances, the subsidy of these properties by local taxpayers through property tax exemptions is unjust. A direct provincial grant to religious and charitable organizations whose nature is judged to be of wider than local interest would be a more equitable means of achieving the same purpose. It might be noted that in requiring municipal tax exemptions, the Province has recognized the need of these organizations for governmental assistance.

c.) Property tax exemptions of these institutions encourage uneconomical use of expensive urban land and thus cost the municipality more than at first appears. For example, \$2,091,000 is a more conservative estimate** of what might have been levied in taxes against properties of a religious or charitable nature by the City of Toronto in 1960. Beyond this, it is reasonable to speculate that if privately owned, a percentage of the exempt property would have been used for business or apartment buildings thus bringing in more taxes on improvements, and in business taxation. But at the same time, it must also be recognized that economic factors are not and should not be the only consideration in the determination of public policy. They must be weighed against many other intangible but equally as important needs of the community.

d.) Although religious and charitable organizations pay no taxes, their property increases as much in value as a result of improvements financed from general tax revenues (roads, traffic control, etc.) as does that of their taxpaying neighbours. When and if their property is sold, the selling price is increased as a result of improvements to which they have not contributed. This objection could be met by adapting for use, in the case of religious and charitable institutions, the existing arrangement for the taxation of golf courses.

* On March 29, 1963, the Select Committee on the Municipal Act and Related Acts, appointed by the Provincial Legislature, recommended that future exemptions on property used for charitable or community purposes no longer be mandatory but be granted at the discretion of municipal councils.

**Using residential mill rate.

A municipality may grant a golf course a fixed assessment. Each year, however, the municipality must assess the course as if there were no fixed assessment, and record the difference between the taxes paid and those which would have been paid had a fixed assessment not been granted. If the land is subsequently put to a use other than a golf course, the recorded balance of taxes must be paid, or the land sold to the municipality for the value of the fixed assessment. This legislation is designed to preserve open space in a municipality while guarding against the possibility of individuals (either by chance or by design) profiting from this concession at the expense of the community.

If a similar arrangement were applied to churches and charitable institutions, it would assure that an institution of this nature, judged to be an asset to the community, would not be forced to leave an area because of its inability to pay taxes. At the same time, it would protect the community's investment in the property.

CONCLUSION

From the foregoing discussion, five major points should be noted:

1.) Governments at all three levels are the largest beneficiaries of municipal tax exemptions. In comparison, the financial significance of other types of exempt property is limited.

2.) One non governmental exemption peculiar to Toronto and New Toronto, is conspicuous. The partial or graded exemption stands out not because of the value of the lost tax potential involved, although it is significant, but because of its mere existence. It has survived in these two municipalities despite a change of heart on the part of the Province and, in the case of Toronto, the expressed desire of City Council to abolish it. At a time when local governments across Ontario are searching for new sources of revenue, Toronto and New Toronto continue to grant this costly and unsuitable concession to a particular group of property owners.

3.) The largest single owner of tax exempt property, public or private, is the municipality itself. Little can be done to avoid this type of exempt property or reduce its financial importance. When a municipal council is considering the purchase of property, however, it should bear in mind the tax potential that will be forfeited, as well as the purchase price. Some effort should be made to maintain a reasonable balance between municipally owned property and taxable assessment.

4.) Metropolitan government introduces the problem of distributing among the members of the federation, the financial burden of tax exemptions granted to the metropolitan level of government. The situation as it now exists in Metropolitan Toronto permits an inequitable division of the cost of servicing this type of property. A system to assure the fair distribution of this Metro overhead is needed.

5.) Most vulnerable to criticism in the field of Federal and Provincial payments-in-lieu of taxes is the narrow attitude these governments have taken to payments-in-lieu of business taxes. Any concessions in this field promise substantial rewards to municipalities.

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