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BUREAU OF MUNICIPAL RESEARCH

A S S E S S M E N T

Introduction

In responding to the invitation of your Committee, through Alderman Ball and City Clerk Littlejohn, I wish to express the gratification of the members of the Bureau of Municipal Research at being permitted to co-operate with your honorable body in working out an assessment system for the City of Toronto which shall be well in advance of any system in use in any large city on the continent. At the same time I wish to disclaim any special knowledge of the subject, especially of a practical nature. What I have to say, therefore, is simply to be considered as the contribution of an organization of taxpayers who wish to be of help in solving a problem which is susceptible of progressive solution, but only by the hearty co-operation of all citizens. What we want in Toronto, I take it, is not only a passable system but the best possible system under existing circumstances.

Recently the Bureau completed a non-technical review of the field of assessment in the British Empire and the United States. The report thereon is, of course, not exhaustive and is intended only as a working introduction to the subject for any citizen who wishes to take a first hand interest in assessment reform. In the name of the Bureau, I present to the Committee a typewritten copy of the report in the hope that it may be of some slight value in your deliberation.

Remarks have no personal application

Before going further I wish to state that anything I may have to say must not be taken as having any personal relation to any official of the City of Toronto. I have never yet met an assessment official so approachable, so courteous, so anxious to be of service and do the right thing by citizens, as Mr. Forman.

His annual reports are models of clarity and contain an immense amount of valuable information. The spirit of the Commissioner and his department is well illustrated by the following extract from the Civic Survey Report: "If the citizen appealing from the decision of the assessor can convince the Commissioner of the Department that the assessment is unfair, the department backs the appeal of the citizen before the Court of Revision. This practice saves the time of the citizen, and gives evidence of a fair attitude on the part of the department."

Assessment essentially a public and co-operative affair

Outside of Germany, the state does not consist of the government and the governed "between whom bargains are driven, but is an organization of individuals for the common good with the government" as its executive committee. A tax is not a price but is "a contribution from the citizen to the support of the state" "according to the ability of each, for the maintenance of a fund to be expended in the general interest." If land and buildings were like ordinary commodities, community co-operation might not be necessary in determining values. For commodities whose prices are determined by competition, all that would be necessary would be to consult the market lists. But no piece of real property is exactly like any other piece of real property. Demand and supply and competition are of only partial operation in this field. Only if every piece of property were sold every year could prices be taken as a complete basis of value and not even then, if real estate speculation were rife. "It is evident that the only list of values that could be absolutely satisfactory to a community would be a list representing the unanimous opinion of the community, which, of course, would be an impossibility. The assessor must therefore, undertake to obtain a community expression of some common knowledge." Any system of assessment that does not take full advantage of such community co-operation, and through full publicity make such co-operation possible, insofar fails of 100 per cent efficiency

Assessment of land

Various systems have been devised for the assessment of land with a minimum of arbitrary procedure. Such are the Somers System, the Hoffman-Neill Rule, and the Newark Rule. These systems all adopt a unit of one foot frontage and 100 foot depth, varying chiefly in the percentages of value allowed to the first fifty feet of depth and the calculation of values of corner lots. The mathematical details do not constitute the valuable part of these systems. It is altogether probable that our own assessment department already uses any mathematical parts of these systems which are of real value. The Somers System is a commercial venture resting for its success on various patented formulae. Their representatives who stated that they had nothing for Toronto were probably largely correct as far as it referred to the details of computation - the only part of their system where they had anything for sale. In my opinion, the mathematics of this system can be largely disregarded as any computation so complicated as to be possible of patenting would be so complicated as to be of little practical value. The Somers contribution to assessment, the vital part of the system, which cannot be patented and is as free to everyone as the air of heaven, lies in its method of securing unit values through citizen co-operation and securing community criticism through the publication of readily understandable unit maps and other forms of publicity. It can hardly be claimed that these ideas are original with the Somers or any other commercial system.

It is, of course, impossible to secure unanimity of opinion among any considerable body of men as to the total value of any particular property, but experience has shown that it is perfectly feasible to secure practical unanimity as to what block in the City is most valuable and how various districts of the City vary in comparative value. It has also been found possible to agree on the value of a unit foot frontage, 100 feet deep, on this most valuable block, and with this as a starting point and by the aid of district public meetings to plot such values on every block in a city. Personally I believe that such a procedure would be

possible in Toronto if the initial meeting were a meeting of elected representatives of various citizen organizations in the city, or a representative group invited by the Assessment Department to a consultation. These city-wide meetings need be held perhaps only once in five years. After the various unit values were determined, the publication of a skeleton unit map based thereon would give every citizen an opportunity to compare his assessment with the nearest unit value. In fact I believe that we can hope for no further appreciable assessment reform without organized co-operation and publicity with the full sympathy of the city government and the Assessment Department.

Equalization of Land Assessments

The necessity of equalization in assessment was early recognized in this Province. In 1793 the first Assessment Act of Upper Canada divided all householders into 6 groups according to the value of their property, with a lump sum tax for each individual within the groups. From that day to this progress has been steady but much remains to be done.

The Bureau of Municipal Research has dipped into the sales of property at four intervals during the last two years. While, as before stated, sales (particularly on a speculative market) in individual districts and at particular times are not an accurate measure of real value, yet the percentage of assessment values on sales values sheds great light on the problem of equalization. The first period - on sales made before the war started - showed the percentage of assessed value on sale prices to have been $61 \frac{2}{3}$. There were 165 sales involved, all cases where doubtful or nominal prices were given being ruled out. The second period shows the percentage of assessment of unimproved land on sale price to be 39.2. In the case of improved property the percentage was 67.9. Sixty-four sales were involved. In the third group, of 95 sales, the percentage in the case of unimproved property was 51.8 and of improved property 65.26. In the fourth groups the corresponding percentages were 45 and 73.

Inasmuch as inequalities of assessment without any intent to do so may penalize industries as a whole or of certain kinds as well as the holding of certain types of residential property, and may even result in driving businesses and residents out of the city much more than excessive taxation, the importance of this subject must be regarded ~~regarded~~ as of the first importance. The advent of the recent direct tax by the government adds to the necessity of equalization, equalization as between communities. War taxes, witness the British income tax, have a way of persisting in peace times. In a municipality not 50 miles from Toronto the percentage of assessment on sale price is not over 50. A recent report of a government commission gives the following table:

Assessment in Ontario

Real property:
Summarized, the tables show the following:

County	Percent of Assessed Value on Sale Price	
	<u>Lowest</u>	<u>Highest</u>
Elgin	29.2	95.2
Frontenac	23.0	69.0
Halton	45.0	92.0
Middlesex	27.2	96.0
Waterloc	30.2	96.0
Wentworth	6.2	94.2

As a measure of self-protection we should have internal and external equalization of assessment.

Why not an assessment equalization division of the proposed Provincial municipal department?

A careful study of the facts on a broad basis should be made along the line suggested above to see whether on the whole small properties were being penalized and unimproved property subsidized under present conditions. The small studies mentioned above would seem to indicate that such may be the case.

In this connection the disparity between assessed values of land expropriated by the city and prices actually paid by the city is worth study. The assessed value of six recently expropriated properties was only 49½ per cent of the price paid. The allowance

rightly made for forceable taking could not account for the difference. If men have been willing to pay taxes on a low assessment for years is it equitable then that the rest of the taxpayers should contribute to their support by paying prices greatly in excess of the assessed value? The time will surely come when the adoption of improved methods will make the acceptance of a low assessment at the expense of one's neighbor as dangerous and as unsocial as the acceptance of stolen goods of neighbors'. At present a man who desires to give the facts would be apt to suffer unjustly if he did so and can hardly be blamed justly for not doing so. Why should not the city be empowered to take over any property it needed at an advance of 20 per cent on the assessed value, or failing that, why should not the city be given half of the difference between the assessed value and the price paid by the city? Such an announcement, giving a year's grace, could hardly be regarded as an injustice.

The effect of publicity and co-operation in making the assessment upon equalization ~~XXXXXXXXXXXX~~ of values is evident.

Assessment at Full Value

While it may be undesirable or impossible to assess at full sale value in all cases no valid objection could possibly be urged against assessment at full values as determined by the community working co-operatively. It has been said that assessment at 100 per cent would put a premium on extravagance by the Council. This might be true for one year. But if property had always been assessed at 100 per cent how would it be possible to juggle the tax-rate through juggling the assessment? 100 per cent assessment would be the best safeguard possible against such attempts to deceive, as well as a more or less effective deterrent against real estate gambling.

Among other results of assessment at full value may be mentioned the following:

1. it would enable an owner to get a better basis for judging his own assessment.

2. It would place all districts on an equality;
3. It would at first increase then lighten the amount of adjustment. At present a man assessed ~~at~~ at 80 per cent when his neighbors are assessed at 60 per cent feels in most instances that he would have no case in that he would honestly have to say that he was under-assessed;
4. It would make easier the use of unit values and unit assessment maps;
5. It would enable publicity to have its full effect;

Single Tax and Heavier Assessment of Land

The Single Tax, of course, exists no where in Canada. The assessment of land only by a municipality is not a single tax. Too many definite conclusions have been drawn from western experimentation with the land tax. It is usually overlooked that the popularity of the land tax in many western communities is due to absentee landlordism and that some towns have failed to adopt it because most of the land speculatively held was in the hands of citizens. It remains to be seen whether present methods will hold their ground in the West now that the boom is over. The largely agricultural and sparsely settled west can hardly be a sure guide for us until western methods have emerged successfully from both boom and depression. I think the land tax may be dismissed as impracticable for Toronto at present. The assessment of improvements at a lower rate, however, is a different matter. I believe that an application to the Legislature for home rule in this direction would not only ~~be~~ be desirable but popular. Mr. Forman's ~~own~~ suggestion that a certain percentage of assessed values - where price exceeds assessment - be taken at the time of sales might well be included in any legislation asked for.

The Business Tax

Ontario's business tax is probably the most equitable in Canada. On account of the difficulty of justly administering an income tax, a business tax seems to be absolutely necessary. A straight percentage on rentals is used in some provinces but the

fact that rent occupies a varying relation to income in different lines of business renders this inequitable.

Space, however, bears as little relation to earnings and is therefore as poor a guide even when refined as far as possible by groupings of various types of business.

It seems to me that a means must be found to approximate the tax more nearly to ability to pay, that is not income. A business tax is surely only an indirect income tax. Any method adopted must be as little as possible inquisitorial. Would it not be possible to establish every five years, for each type of business, the ratio between rent and net earnings, and from this a business tax index? The assessor could easily get the rent in each case. This multiplied by the particular business index would give the business assessment. Every business man would have a list of indexes and could readily check up the assessor. As the realty tax and the business tax now rest on the same assessment, there is community of interest between owner and lessee to get a low assessment. The index method would break up this community of interest.

Income Tax

It is a commonplace of taxation that an income tax is in practice only less inequitable and less difficult to collect than the personal property tax, the incubus of which we have luckily shaken off in Ontario. The tax is necessarily an inquisitorial one, at least in the present stage of social development. We all have heard of cases of men who never pay income taxes while we being more honest or more accessible bear the full brunt.

Wisconsin, however, is showing what can be done on this side of the water, while Great Britain has found for years the income tax one of her most fruitful sources of revenue. All taxes must be paid out of income. Any tax which takes more is confiscatory. It would seem that theoretically it ought to be the best tax. The experience of our Assessment Department in increasing income assessment in one year by \$3,000,000 indicates that greater progress may be possible. Any study to be undertaken of actual assessment

conditions in Toronto should include income assessment. Now that our patriotism has been so deeply stirred it ought to be possible to get concrete information which formerly would hardly be volunteered.

Exempted Property

This is coming to be a difficult problem in cities like Montreal where church property is valuable and in cities like Cambridge Mass., where educational property is valuable. The following table shows interesting facts:

Canada - Assessment Statistics

Exemptions of Property:

City	Year	Amount of Assessment of All Property	Exempt Property	
			Amount	Per Cent
Toronto	1915	\$570,193,437	\$74,704,427	13.1
Winnipeg	1914	280,791,340	44,153,270	15.7
Hamilton	1915	83,518,465	14,921,697	17.8
Quebec	1912-13	68,239,184	12,971,060	19.0
Montreal	1913	801,861,658	180,750,146	22.5
Halifax	1912-13	37,761,300	11,698,900	30.9
St. John	1915	36,187,200	5,559,500x	15.3

x Exemptions of crown and city property not included.

It is becoming more and more apparent that some way of limiting exemptions to property actually used for the purposes of the owning institutions must be sought through legislation.

The only excuse for exemptions is the promotion of non-money-making activities advantageous to the state. Where anything further is involved it should not be tolerated. It has been found desirable elsewhere to levy a tax on sales of real estate made by exempted corporations or foundations.

May I summarize possible next steps as follows:

1. Limited home rule in taxation allowing for assessing of improvements at a lower rate than land, and the taxation of unearned increment when sales are made, etc., etc.
2. The adoption of more co-operative methods in assessing.
3. Greater publicity through unit measurement maps.
4. The basing of business tax on a system of business indices and rental values.

Low taxation is not necessarily an index of freedom or high civilization. The only non-taxpaying community I ever lived in had forty children who couldn't read and write. An equitable system of assessment is, however, a measure of freedom, enlightenment and public efficiency. Canada has not the same difficulties to face in assessment reform as countries where non-city politics have eaten into the heart of city government and almost destroyed the possibility of efficiency.