REPORT

SPECIAL TAX CONFERENCE

Report of the Ontario Committee on Taxation

Canadian Tax Foundation
L'Association Canadienne D'Études Fiscales

Bureau of Municipal Research
Le Bureau des Recherches Municipales

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of the

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and

BUREAU OF MUNICIPAL RESEARCH

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Canadian Tax Foundation

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100 University Avenue
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Foreword

Tax research in Canada has tended to concentrate on federal levies, with only occasional forays into the misty realms of provincial and local revenue problems. Whatever justification for this state of affairs there may have been in the past, there can be little today, when provincial and municipal governments account for nearly two-thirds of all government expenditures and four-fifths of public capital investment.

In recent years, the studies and reports prepared by various provincial committees and commissions have helped to bridge the knowledge gap. Certainly the *Report of the Ontario Committee on Taxation* illuminates the financial problems which now confront the provincial and local governments in Ontario, and which will intensify unless relief is found. Since the Committee's proposals for the solution of these problems may form the anvil of policy, it is essential that they be subjected to analysis and evaluation by thoughtful and informed commentators, such as the host of speakers who, at our recent conference on the *Report,* delivered the papers published in this volume.

We wish to extend our thanks to the following: the press for the excellent coverage given to the proceedings; The Consumers' Gas Company for many courtesies; Xerox of Canada Limited for the use of reproduction facilities during the conference; and to the management and staff of the Royal York Hotel for willing assistance with all conference arrangements.

The tedious but demanding task of preparing the papers for publication was ably discharged by Miss Mary Gurney of the Canadian Tax Foundation.

DOUGLAS J. SHERBANIUK
Director
Canadian Tax Foundation

DOMINIC DELGUIDICE
Executive Director
Bureau of Municipal Research

March, 1968

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Co-chairmen: H. Marcel Caron
F. Warren Hurst

Guest Speaker: Lancelot J. Smith

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Speaker: **H. Marcel Caron, C.A.**
Chairman, Canadian Tax Foundation

It is with great pleasure that, on behalf of the Bureau of Municipal Research—*Le Bureau des Recherches Municipales* — and the Canadian Tax Foundation —*L'Association Canadienne d'Etudes Fiscales*—I welcome you all to this joint conference. I also extend a special welcome to those who have come from outside Canada to be with us.

This conference has been convened by the Foundation and the Bureau for the purpose of examining and appraising the proposals for tax reform made by the Ontario Committee on Taxation.

The Committee, under the chairmanship of Lancelot J. Smith, F.C.A.—a former Chairman of the Foundation, I might add — was appointed as of November 21, 1962, and released its three-volume *Report* on August 30, 1967 after a comprehensive and intensive study of Ontario's tax system. The *Report* contains 350 recommendations, which were reproduced by the Foundation in a *Tax Memo,* a copy of which is contained in each conference envelope; it will serve as a ready reference in the course of our deliberations.

The *Report* is widely recognized as a milestone in the realm of provincial and municipal public finance. Indeed, the large attendance here this morning bears testimony to the keen interest it has stimulated. The adoption by the government of Ontario of two of the proposals immediately after the release of the *Report* must be something of a record for implementation of a tax committee's recommendations. As you well know, not all such reports have fared as well.

The *Report of the Ontario Committee on Taxation* will contribute substantially to the improvement of provincial and municipal taxation. It constitutes a major piece of research and reflects considerable credit on the five-man Committee responsible for its preparation. The public of Ontario, like the citizens of other provinces including *La Belle Province,* demand more services from their province and municipalities, and consequently the cost of administration is rising rapidly. Greater social and educational services are required for the betterment of every Canadian—and these needs are imposing an undue burden on the public finances of every authority. Indeed, it is reassuring when responsible citizens undertake to serve for long and difficult periods and to offer guidance and expert advice.

Canada had its Carter *Report* and many provinces have studied its suggested tax structure. Now the Smith *Report* is available to Ontario. The Ontario Committee has offered sensible and thoughtful comments on federal-provincial financial relations, although it certainly strives for greater provincial autonomy, and in this respect contains similar views to the Bélanger *Report* of Quebec. In order to achieve its economic goals on the other hand, the Carter *Report* proposed certain changes to the taxation structure, not only of the federal government but also of provincial governments, to strengthen the Canadian federation, and, in fact, to affect the financial independence of provinces. These interests are certainly not conflicting, but long and tedious negotiations will be necessary to set the new boundaries of taxation for all governments.

The Ontario government will be well guided by the competent and exhaustive study undertaken by the Ontario Committee on Taxation, a study which will have great effect on future tax laws—not only in Ontario, I am certain, but also in other parts of our country and elsewhere.

As for the pattern of this conference, there will be two plenary sessions, and eleven panel sessions. The first of the plenary meetings will be held this morning, when we shall be privileged to hear the philosophy and major recommendations of the Committee discussed by three of the Commissioners—Eric Hardy, Dr. R. Craig McIvor and R. Bredin Stapells, Q.C. This opening session will be chaired by F. Warren Hurst, F.C.A., who served as Executive Director of the Committee. The Commissioners' remarks will serve as a useful backdrop against which to examine their specific recommendations. At the second plenary session tomorrow afternoon, attention will be focused on the Committee's imaginative and stimulating proposals on regional government. The topic is of lively interest and, to debate it, we have with us, I am glad to say, four very well-informed commentators: C. E. Bateman, Murray V. Jones, Professor Donald C. Rowat and W. A. Taylor. Dr. Stefen Dupré, of the University of Toronto Department of Political Economy, and Editorial Director of the Ontario Committee on Taxation, will chair this meeting.

The eleven panel sessions—six this afternoon and five tomorrow morning—will cover a wide range of provincial and municipal tax questions. Since these panels are held concurrently, you may experience a sense of frustration in having to choose one among several which you would like to attend. I am glad to say that all papers presented at the sessions will be published in the tax conference *Report* as soon as possible after the conference, so that you will be able to read those which you were unable to hear. I should remind you that, since only the formal papers will be published, you may wish to take notes of points of particular interest that arise in the course of the discussions. At all meetings discussion and questions from the floor will be most welcome.

On behalf of the Foundation, I should like to express our gratitude to the nearly sixty speakers drawn from the professions, business, the universities and government, whose enthusiastic participation bodes well for the success of this conference. This galaxy of experts has expended considerable time and effort—almost certainly during the Christmas holiday period—in examining and appraising the *Report* and preparing their papers, all for our edification. We extend to them our warm appreciation.

At our luncheon today, we shall be welcoming as our guest of honour Professor R. M. Burns, Director of the Institute for Intergovernmental Relations at Queen's University. At tomorrow's luncheon, our guest of honour will be the Honourable Charles S. MacNaughton, Treasurer of the Province of Ontario. We are looking forward to hearing these distinguished speakers.

Finally, for the information of those among you who are not familiar with the activities of the Canadian Tax Foundation, I should like to say a word or two of explanation of who we are and what we do.

The Foundation is a non-profit tax research organization established in 1945 by the joint action of the Canadian Bar Association and the Canadian Institute of Chartered Accountants. Its policies and affairs are controlled by a Board of Governors elected annually, and drawn equally from the two sponsoring professions across Canada. The Foundation draws its financial support from its members and receives no grants from governments. Although the offices of the Foundation are in Toronto, it functions as a national organization. Comprehensive studies are carried out on a nation-wide basis by the permanent staff and by outside experts in the major fields of federal, provincial and municipal taxation. Membership in the Foundation is open to any individual, company, organization or association. A more detailed description of the Foundation's activities is contained in a brochure which is available at the registration desk.

Already many articles have been written to comment upon the Commission's recommendations, and newspapers have contained commentaries on them. A Royal Commission's *Report* always provides a healthy and stimulating debate on theoretical and practical approaches to tax legislation. I should like to outline the policy of the Foundation in these matters.

The Board of Governors has summarized the role of the Foundation as follows:

(a) to provide a proper forum for the discussion of all manner of problems arising under tax law;

(b) to study, or sponsor and organize the study of tax problems;

(c) to make available to its members and to bring to the attention of the taxing authorities concerned, with such emphasis as from time to time might seem appropriate, the results of such discussion and study; but

(d) not affirmatively to advocate particular modifications of tax laws except in so far as these do not seem, from such discussions and study, to provide technically sound means of carrying out governmental policy decisions.

In closing, I should like to say how much we at the Foundation have enjoyed working with the congenial staff of the Bureau of Municipal Research in organizing this major conference.

It is now my pleasure to call on Mr. Warren Hurst, F.C.A., President of the Bureau of Municipal Research and co-chairman of this Conference.

Speaker: **F. Warren Hurst, F.C.A.**
President, Bureau of Municipal Research

If any of you are looking for favourable omens on this conference I might tell you that last night, in this very room, the "Judy" awards of the garment industry were handed out. When I came in early this morning, I found some sheet music here entitled "On the Sunny Side of the Street"—a most favourable omen for a conference on taxation.

Perhaps some of you will have noticed the slight difference in approach of our Bureau from that of the Tax Foundation as outlined by its Chairman, Marcel Caron. True, there are a great many similarities in that the members of both come from professional, business, and academic circles, and in both there is an emphasis

on pure research. But the difference lies in the fact that the Bureau does stick its neck out from time to time in publishing bulletins which take a position. For example, some of you may have noticed recent editorials in the papers on a Bulletin published only this week which related to the municipal tax section of the *Report of the Ontario Committee on Taxation.*

The Bureau, incidentally, has served in this constructive role for over 50 years since its founding in 1914 after a study by the Bureau of Municipal Research of New York on the Toronto area. That study, incidentally, noted some problems with dead horses floating in the bay, if I remember correctly.

As Marcel Caron has mentioned, in addition to my responsibilities at the Bureau and at Consumers' Gas, it was my lot to be loaned to the Ontario government for a four-year period as Executive Director of The Ontario Committee on Taxation. For this reason, I am in the delightful position of being able to introduce to you this morning my former bosses, the Chairman and other Commissioners.

The most important choice in any Royal Commission concerns the post of Chairman. The Ontario government showed extreme good wisdom in its choice of Lancelot J. Smith as Chairman for the Committee which was to conduct the first Royal Commission review of the local government revenue system in Ontario in over 60 years, and the first ever Royal Commission review of Ontario government finances. Fortunately, our Chairman had a running start at his new duties and he was well steeped in the underlying principles of taxation before starting. This background in taxation proved most helpful as we started to dig into the more than 44 different taxes in the provincial and municipal revenue systems.

Lancelot Smith has one unique qualification in municipal affairs—the lot for his house straddles the border between the municipalities of Toronto and North York. He is therefore a taxpayer in each and for years has been able to compare at first-hand tax systems and operations for both municipalities. One other fact may be of some interest to you. Despite any preconceptions that you may have to the contrary, Lance Smith is a very active church man and a close personal friend of the Anglican Bishop of Toronto. I believe that he is also very friendly with the Rector of his parish, although his Rector has been writing a number of articles recently against the municipal taxation of church property.

Ladies and gentlemen, with very great pleasure, I introduce to you the Chairman of The Ontario Committee on Taxation, Lancelot J. Smith.

Speaker: **Lancelot J. Smith, F.C.A.**
Chairman, The Ontario Committee on Taxation

I should like to begin my brief remarks by saying how pleased I am that the Canadian Tax Foundation and the Bureau of Municipal Research are holding this conference to examine the *Report of The Ontario Committee on Taxation.* There has been little serious analysis of the *Report* publicly, as yet, so the study to be made here should enormously assist those who must make judgments about the acceptability (or unacceptability) of each of its recommendations. Moreover, I take some personal pleasure in the thought that the ensuing publicity should make it clear that there is more in the *Report* than a proposal to tax churches.

I hasten to say at this point that in my opinion (admittedly subjective) the news media have, for the most part, been quite fair in their comment on the *Report* and generally favourable to the principal recommendations. However, I have not failed to note that there are dissenters.

For example, a financial paper says that "compared with the novel, exploratory and controversial work of the Carter commission, the Smith committee appears unimaginative and uninspiring". It pains me to add that that is the view of my own client, *The Financial Times* of Canada![1]

The *Brantford Expositor*[2] thinks that "except for its excellent blue print for regional government and its bleak analysis of where we are heading financially, this four-year study is timid and inadequate".

Then, under the heading "Smith Report Would Abolish County Government in Canada" the *Simcoe Reformer*[3] deplores the Committee's recommendations for regional government, and concludes with the following determined statement: "Premier John Robarts will be well-advised to give his report the same treatment as accorded so many Royal Commission reports, namely, PIGEONHOLE IT! . . ."

I think it is fitting that I should deal here, briefly, with some of the principles and standards that guided us in our work—and make additional observations that I believe have some pertinence to your study.

Some of the critical comments on the *Report* in the news media evidently arose from a lack of appreciation of the terms of reference given to us. For example, the *Sault Daily Star*[4] made this comment: "The Smith Committee saw the unfair autocracy of the school boards, even felt the need for abolition of the boards, but then blandly dismissed any recommendation for reform with a judgment that the situation was such that it precluded anything like change or abolition of the present school board system."

In view of this comment, it should be said that the Committee's terms of reference directed the Commissioners "to inquire into and report upon the taxation and revenue system of the Province of Ontario and its municipalities and school boards in relation to their expenditures, the tax and revenue sources available to them, their debts and other financial obligations, with a view to determining whether, *within the constitutional limitations existing and having regard to present and potential financial requirements,* such tax and revenue system is as simple, clear, equitable, efficient, adequate and as conducive to the sound growth of the Province as can be devised."

Thus, our inquiry was specifically limited to making determinations "within the constitutional limitations existing". One of the constitutional limitations we found is that separate schools enjoy an inviolable constitutional right to their separate status under section 93 of the *British North America Act,* 1867, which entrenches the provisions of *The Separate Schools Act* of 1863.[5] Whether or not this right carries over from separate schools to separate school boards poses a delicate constitutional issue which we did not feel we should raise through a specific recommendation. Of course, if there must be *separate* school boards, it would be extremely difficult to abolish *public* school boards. Thus, while we made our preference plain,[6] we heeded our terms of reference, and stopped short of recommending the abolition of elementary school boards. However, with no such barriers existing at the secondary school level, we recommended that in devising a scheme of regional government for Ontario the Province take the necessary steps to integrate secondary education as a responsibility of regional council.[7]

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1 Issue of September 4, 1967.
2 Issue of September 2, 1967.
3 Issue of September 6, 1967.
4 Issue of September 7, 1967.
5 *Report of The Ontario Committee on Taxation,* Vol. 1, Ch. 2, para. 114 and Vol. 2, Ch. 20, para. 6 and 7.
6 *Ibid.,* Vol. 2, Ch. 23, para. 159.
7 *Ibid.,* Vol. 2, Ch. 23, para. 165.

Because we were directed to determine the tax and revenue system that Ontario should have *"having regard to present and potential financial requirements"*, it was necessary for us to make a projection of provincial and municipal expenditures and relate this to projections of revenues from both the present system and the system that we propose. Our expenditure projections, being based on existing programs only, do not make any allowance for increases in expenditures that would follow from the adoption of new programs. Yet, without increases in rates of taxation, the projected annual deficit would reach $1,123 million by the province's fiscal year ending on March 31st, 1975.[8]

We indicate in our *Report* the level and mix of tax increases that would be required[9] to meet this staggering expenditure-revenue gap, assuming that provincial debt and municipal debt were each to remain constant at 9% of provincial domestic product. It is no exaggeration to say that the residents of Ontario face a bleak prospect when the already threatened increased revenue demands of the federal government are also taken into consideration.

While the federal Royal Commission on Taxation and the various provincial taxation commissions have struggled valiantly during the past four or five years to advise governments on how to meet their revenue requirements, it must be obvious that any taxation commission recommendations, whatever their intrinsic worth, can solve only part of the problem. There remains an urgent need for governments to learn how to control the ominous and disturbing increases in their expenditures and to have the wisdom and the courage to do so.

In this connection, I would like to pay tribute to the enormous contribution of the Glassco Commission, and commend the efforts already made, and still being made, to implement its recommendations. It is also encouraging to learn of the emphasis now being given, in Ottawa and Ontario, to program budgeting. This technique, which involves not only an attempt to measure the economic value of programs but also to estimate their long-term effect on expenditures, will be of inestimable help to government in making policy decisions.

As we point out in our *Report*,[10] there is an imperative need for a major revision of the federal personal income tax rate structure if the provinces are to be able to levy additional income taxes of their own of the magnitude needed. Under the present structure, without including any increases in federal income tax rates, the increases we see for Ontario by its 1975 fiscal year would bring the combined top marginal rates of 84% on foreign investment income and 80% on other income to 94% and 90% respectively.

The blunt and inescapable truth is that, unless the income tax system upon which both the federal government and the provinces now rely so heavily is drastically overhauled, the system cannot fulfill its part in equipping them to meet the huge increased revenue demands that loom ahead. It should be stressed that the levels of income tax that will soon be necessary will be tolerable only if current, conspicuous inequities are wiped out and the base broadened.

In concluding these remarks, I should like to point out that the *Report of The Ontario Committee on Taxation* was produced by the five commissioners and our staff in a spirit of deep interest, commitment and harmonious partnership. The contributions made by my fellow commissioners, each with his own specialty, were positively magnificent. I am delighted that the three who are with me today should have been given this opportunity to review the *Report*.

[8] *Ibid.*, Vol. 1, Table 8:5, page 274.
[9] *Ibid.*, Vol. 1, Table 8:6, page 275.
[10] *Ibid.*, Vol. 1, Ch. 8, para. 49.

Philosophy and Major Proposals

Chairman: F. Warren Hurst
Speakers: R. Craig McIvor
Eric Hardy
R. Bredin Stapells

Chairman: **F. Warren Hurst, F.C.A.**
President, Bureau of Municipal Research

When this program was first being considered, we planned to introduce all five Commissioners to you. Unfortunately one of the Commissioners, Carl Pollock, could not be with us; he is an extremely active businessman, President of Electrohome Limited, and he had to be in Montreal today. The Chairman has already spoken to you, and now we have the other three Commissioners to talk to us about the three volumes of the *Report*. We thought that you might appreciate this because it takes approximately forty hours to read the whole *Report* from cover to cover. I assume that you have all seen the *Report* but perhaps some of you have not read it. Craig McIvor has agreed to outline some of the highlights of the first volume, the approach, background and conclusions.

Speaker: **R. Craig McIvor**
Commissioner

The Basic Philosophy of the Ontario Committee on Taxation

Terms of Reference

The task of the Ontario Committee on Taxation was essentially "to inquire into and report upon the taxation and revenue system of the Province of Ontario and its municipalities and school boards . . . with a view to determining whether, within the constitutional limitations existing and having regard to present and potential financial requirements, such tax and revenue system is as simple, clear, equitable, efficient, adequate and as conducive to the sound growth of the Province as can be devised". And since it was just barely conceivable that something might have been missed in that directive, we were also instructed to inquire into such other matters as the Commissioners deemed advisable, and after due study and consideration, to make appropriate recommendations to the government of Ontario. In view of the fact that our Committee required some four years of study before producing its *Report*, I thought it wise to cite these terms of reference, by way of extenuating circumstances.

Our assignment obviously involved a study not only of Ontario's own revenue system and of that of the municipalities but also of intergovernmental fiscal transfers, at both the federal-provincial and provincial-municipal levels. The whole task was given urgency by the fact that government expenditures in Canada, as elsewhere, have risen very sharply since World War II, both in absolute terms and relative to gross national product. In Canada, this latter ratio now approximates one-third. To the Ontario Committee on Taxation, a particularly important aspect of this rising trend has been the fact that within aggregate government expenditures in Canada, provincial-municipal outlays have risen much more sharply than those of the federal government, a phenomenon even more pronounced if attention is directed primarily to government expenditure on current output, as distinct from transfer payments, a distinction of some relevance in assessing the potential effectiveness of appropriate provincial expenditure policies designed to help stabilize the economy.

Fairly early in our assignment, we concluded that we should try to work out our underlying philosophy, not only of the role of government in society but more particularly that relating to the provincial and municipal fiscal systems. This seemed to us to be a prerequisite to arriving eventually at what we hoped would be a reasonable approximation of a logically consistent set of tax recommendations. We subscribed to the view that taxation represents not just a means of financing government expenditures but that, as used by particular jurisdictions (in which we included the province of Ontario), it also constitutes one important instrument which can be used by government to influence the performance of the economy. I mention this point in explaining that it was in the light both of the financial *and* of the underlying economic aspects of taxation that our Committee was led to develop its general principles of taxation, or, if you prefer, what it regarded as the basic characteristics of a good tax system.

Tax Principles

As statements of principle, I doubt that these characteristics are very novel or that they will generate much excitement, but I think that I should perhaps indicate briefly our own top priorities among these several attributes.

Our Committee regarded equity as the most important single characteristic of a good tax system, a value judgment which not everyone will share. Still less will it be possible to agree on the best criteria of equity (as recent discussions in this country have abundantly illustrated). As increases in aggregate government expenditure in Canada continue to outstrip the growth of gross national product, and as levels of taxation continue to rise, it seemed to us that equity becomes a matter of crucial concern.

The basic concept of tax equity is of course the equal treatment of equals. Its corollary, the unequal treatment of unequals, led us to offer some judgments about the respective roles of the "benefits-received" principle and the "ability to pay" principle in a sound tax system. Under the former, the costs of providing public services are theoretically allocated to users according to marginal benefit received, very much as the private market mechanism would do. In practice, governments must allocate the total costs of such services according to some arbitrary criterion; e.g. real property frontage, vehicle-miles travelled on roads, etc. Our conclusion here was that taxation based on benefits-received must necessarily finance a relatively small part of government expenditure for, in the first place, it is possible to use this method only where the beneficiaries can be identified relatively clearly, and we suggested beyond this limitation, that it should be used only where the redistribution of income and wealth is not a policy objective and where the inefficient use of public services is not a consequence of its being used.

With the great bulk of public expenditure therefore financed according to some interpretation of ability to pay, the problem becomes that of deciding the best criteria. We accepted the view that income is the best single criterion but that consumption and wealth represent valid supplementary measures of tax-paying capacity and so it follows that any well-balanced tax system should embody income, wealth and consumption taxes. This does not get us very far in the matter of improving equity, for the question is just what represents the best tax mix (about which more will be heard later in one of the Conference tax panels). It is a hard question which involves first some notoriously intractable problems in determining the incidence of various taxes and, second, what pattern of incidence best reflects current notions of equity.

The Commissioners have accepted the arguments that to conform to ability to pay, the tax system should be progressive, but this is once again a value judgment from which significant dissent is easily found. We readily concede that there is no objective method of determining the most appropriate degree of progression, noting that "the ultimate sanction for any given pattern of tax progression is the prevailing consensus of ethical judgment as to what constitutes a socially desirable distribution of the nation's income and wealth". We did emphasize two aspects of progression which we thought to be of basic importance: (1) that the concept of ability to pay should be related not to any one tax in isolation but to the tax system as a whole, and (2) that, more broadly still, the notion of fiscal progression must embrace not only the distribution of tax burdens but of expenditure benefits. In other words, it is the net fiscal incidence of a system that is the relevant concept in judging equity. It is obvious to all that the distribution of income is greatly affected by the expenditure side of government operations, especially through transfer payments which, in this country, continue to rise very strikingly. I would here like to quote Professor R. A. Musgrave, an internationally recognized authority in public finance, who has recently observed that "the interrelationship between the tax (cost) and expenditure (benefit) side of the budget is the essence of fiscal economics, and . . . a theory of taxation isolated from that of expenditures, has little economic meaning". It is perhaps worth emphasis that all fiscal burdens and benefits accrue to living persons and only to living persons, but that in a great many instances, the appropriate allocation of these burdens and benefits presents some of the most difficult problems in the theory of public finance.

One other tax principle to which our Committee attached great importance is that of neutrality, a concept which is related to the attainment of efficiency in the allocation of the society's productive resources. If we may interpret tax neutrality rather loosely, it involves the choice of a tax system which least distorts prices in the market-place. We explain that "if one assumes that the pattern of relative prices determined by competitive market forces tends to encourage the most efficient allocation of the nation's resources, then to the extent that a tax system minimizes its distortion of relative prices, it minimizes its interference with productive efficiency". It follows that the more general the tax, the less its distorting effects, and so, for example, the extension of the Ontario retail sales tax to cover a wide range of services finds strong justification on grounds of neutrality.

We do not argue that the government "should" pursue tax neutrality in all circumstances, but simply that this criterion is relevant when economic efficiency is the basic objective of government policy. There are undoubtedly many circumstances in which governments properly decide that broad political, social, strategic or other non-economic considerations outweigh the narrower concept of mere efficiency in the use of our resources. We simply argue that these decisions are likely to be more rational if the costs of any departures from neutrality, in response

to pressures for fiscal concessions, can be measured in relation to the form of social gain that are said to be achieved. Where departures from neutrality do occur, the Committee in principle favours the use of straightforward subsidies rather than tax concessions. While subsidies can be made visible, their costs calculated and their justification made subject to periodic review, there is a great risk that, by contrast, tax concessions are likely to be obscure, their costs indeterminate and their duration to extend far beyond the circumstances which provided their original justification.

In our *Report*, we recognize that conflict frequently occurs among the various tax principles we have advocated and that compromises are therefore necessary. How much of one desirable characteristic should be sacrificed in order to make progress toward another? Moreover, social policy and consensus may in some instances dictate tax policies that violate virtually all of our basic tax principles and, in particular, such basic criteria as equity and neutrality. By way of illustration, we do not pretend to defend the present levels of taxation of alcoholic beverages on these grounds, but rather on the existence of a social consensus—many people just happen to think that this is a luxury commodity of a type that should be taxed heavily. This "luxury" approach to taxation is at best precarious, because the definitional problem of distinguishing between a luxury and a necessity can become very frustrating—so much so that perhaps the best definition yet concocted for a luxury is simply "something that you think your neighbour should be able to do without". Other examples where social policy overrides tax principles are found in geographic tax discrimination (by province or by municipality); then there is the Chairman's favourite example, the exemptions of churches and charitable organizations from the real property tax. We note that if social policy or consensus tramples principle too far, the result is revenue-raising by caprice.

Federal-Provincial Co-operation

Turning to federal-provincial fiscal arrangements, a summary statement of the Ontario Committee's position would note that a satisfactory set of such relationships must embody four components. The first of these is autonomy, which is to say that within its own jurisdictional sphere, a provincial government must be free to determine its own expenditure priorities and its own forms and levels of taxation.

The second characteristic of such arrangements is that they must contribute to economic mobility. In particular, there must be a recognition that wide differences in tax burdens and expenditure benefits, as among provinces, can impede the most efficient geographical and occupational allocation of human and material resources, and restrict the free movement of goods and services throughout the nation. This is in essence the economist's argument relating to efficiency.

The third requirement is that such arrangements must embody equalization, it being both necessary and appropriate to ensure that every province has the financial capacity to provide public services at a level that is regarded as minimally satisfactory, by generally accepted Canadian standards. On this point, we argue in our Committee that as a general proposition, it is provincial revenues that should be equalized, rather than expenditures.

The final requirement of adequate federal-provincial fiscal arrangements is a high degree of co-operation between the two levels of government, an objective which is readily conceded on all sides. Apart from the obvious desirability of fiscal co-operation among the provinces themselves, an essential ingredient of federalism

and certainly an urgent necessity in view of the recent relatively rapid growth of combined provincial-municipal expenditures in relation to federal government expenditures, is the more effective co-ordination of federal-provincial activities, in matters not only of over-all expenditure priorities, but of the division of tax fields and the exercise of federal-provincial measures for control of the economy. In particular, we emphasize the benefits which we believe would accrue, both to Ontario and to Canada as a whole, if the province of Ontario were to support the lead which the federal government might be expected to provide, in promoting stabilization policy through co-ordinated fiscal measures.

Local Government

At the level of provincial-municipal fiscal relations, we attach particular importance to: (1) the preservation of local autonomy, an objective which many of our recommendations are designed to strengthen; (2) the recognition by the province of its continuing responsibility for shaping a sound and efficient system of municipal government; (3) the providing of an appropriate degree of municipal tax equalization, combined with the replacement of the present chaotic provincial grant system with a drastically simplified structure, providing substantially greater dollar transfers to the municipalities; (4) the continuous provision to the municipalities, by the provincial government, of technical and administrative assistance in relation to measures designed to foster stronger and more viable municipal institutions—such examples are assistance in regional planning, in improved assessment techniques, etc.

I shall not trespass further upon the territory which my colleagues Mr. Hardy and Mr. Stapells will cover, except to say that in facing the urgent financial problems of the Ontario municipalities, we in the Ontario Committee came to the conclusion that no amount of fiscal reform could, by itself, ensure the basic strengthening of municipal government and the evolution of a progressively stronger municipal framework. Here a crucial component is structural reform, which we describe as "one of the indispensable requirements for the efficient discharge of municipal services and hence for lessening the problems of municipal finance".

Projected Fiscal Needs

Underlying all of our recommendations was our projection of both the revenues and the expenditures of the province of Ontario between 1966 and 1975. We made similar projections on behalf of the municipalities and school boards. It is important to understand that these projections were made on the basis of expenditure programs to which Ontario and its municipalities were committed at the time and of new expenditure programs which had been clearly announced at that date. There was very little provision embodied in our estimates for the addition of new government spending responsibilities during the ten-year period of the projection. Our calculations were likewise made on the assumption that the revenue system of the province of Ontario, and of the municipalities and school boards, would remain essentially unchanged from their form as of 1966. The inevitable consequence that flowed from our projections was the development of a tremendous revenue gap on a year-by-year basis, which in the case of the province of Ontario would be reflected in an annual cash deficit in excess of $1 billion by the 1974-75 fiscal year. In the case of the municipalities, the collective deficit was considerably smaller but nevertheless it represented a serious problem. The aggregate figures for the municipalities are, of course, somewhat less useful because of differences between the financial positions of the individual communities. Our task,

as we saw it, was to recommend measures to close these substantial revenue gaps at each of the levels of government in such a way that an increased weight of taxation could be achieved within a framework of greater equity in the tax system.

Transfers of Funds Between Levels of Governments

We then turned to a consideration of the possible methods of eliminating these financial gaps projected for the Ontario government and for its municipalities. One possible solution to this problem lies in a transfer of funds from a senior level of government. Here we recommended that the province of Ontario, as one means of coping with its severe financial problem, should urge the government of Canada to grant additional clear tax abatements to the province. The complete failure, to date, to establish any federal-provincial expenditure priorities makes this approach particularly unpromising. Yet it is because of the inability of Canadian governments collectively to effect any such framework of priorities, and to arrive at a rational allocation of tax sources as between the federal and provincial governments, that it is very difficult to argue convincingly that the existing division or sharing of tax sources in this country somehow represents a fair starting point from which each level of government should now be prepared to look after its own increasing expenditure commitments.

In recommending that Ontario seek an increased federal clear abatement of tax room for the provinces, we suggested that the range of taxes employed might be substantially broadened and that the continuing use of the provincial income tax be supplemented by an increased reliance upon the corporation income tax and the use of sales taxes for abatement purposes. (We recognize the existence of some constitutional questions that would need to be settled if the combined federal-provincial sales tax were to be administered by the provinces as a retail turnover tax.)

We also recommended that Ontario seek a simplified structure of grants from the federal government, to provide greater provincial autonomy and flexibility in Ontario's expenditure program. In looking at the prospective financial gap confronting the Ontario municipalities and school boards, we did recommend substantially increased transfers of provincial funds to that level of government, accompanied by a drastic simplification in the structure of these grants, as already noted.

Growth of Debt

When we turn from considering transfers of funds from senior levels of government, a second possible method of coping with a prospective revenue gap is to permit an appropriate increase in the level of provincial debt and of municipal debt. In this connection, we thought it not unreasonable that the province of Ontario should contemplate a continuing expansion of its own debt, at a rate that would maintain its present ratio of approximately 9% of provincial domestic product. In effect, Ontario's net debt should be allowed to grow at least as rapidly as its real production, for it is reasonable to suppose that, as the value of annual production rises within Ontario, the economic capacity of the province to carry its debt should also rise. The effect of this recommendation would be to allow Ontario's net debt to increase, on the average, at approximately 6% per year, the projected rate of growth in the provincial domestic product. We stressed, however, that this recommended rate of increase in debt was indeed an average rate and that, in any particular year, significant variations might occur around this rate, debt policy being viewed as an instrument capable of helping to stabilize the level of economic activity within the provincial economy.

By coincidence, the present ratio of the debt of the Ontario municipalities and school boards to the provincial domestic product also approximates 9%; our recommendation concerning the rate of growth of this debt was essentially the same as that made for the province, i.e., that such debt should be permitted to remain at approximately 9% of an increasing provincial domestic product. Debt increases, at both the provincial and municipal levels, were viewed by the Committee not as something inevitable, but rather as a positive contribution toward the economic development of the province and its municipalities. If such debt increases were not to be permitted, the residents of Ontario would necessarily face even more substantially increased levels of taxation, a subject to which we now turn our attention.

Taxation

Having considered the possible contributions to the prospective revenue gaps that might be made by transfers of funds from senior levels of government and by allowable increases in the levels of debt, the Committee then turned its attention to the only remaining method whereby the financial commitments of these levels of government could be met, namely, through increases in taxation. To repeat, the basic problem was to decide how the various components of the existing tax system should be utilized and how the system should be modified in order to provide greater revenues and, at the same time, to allocate the heavier burdens of taxation with a greater degree of equity.

The Ontario Committee on Taxation undertook a very substantial research project designed to provide for Ontario residents, classified by income levels, an estimate of the distribution of the net fiscal benefits arising, in particular, from the present fiscal programs of the Ontario government, on the one hand, and of the Ontario municipalities, on the other. We believe that despite the inherent limitations of such an exercise, the results of the study were valuable in providing the Committee with a basis for recommending policies designed to improve the characteristics of our present provincial-municipal revenue system. Despite its *ad hoc* origins throughout the years, the province of Ontario's fiscal system appeared surprisingly good, judged by the progressivity of the system. Our municipal system was shown to be much less satisfactory, because of the central role of the real property tax. This tax is the major municipal revenue component and it is notably regressive.

Recommendations

My fellow Commissioners who will follow me will no doubt highlight the revenue changes which we have proposed at the municipal and at the provincial levels of government in Ontario. I would simply say that in our recommendations we have tried to make them broadly consistent with the general principles to which we think a sound tax system should conform. We have accordingly recommended increases, at the provincial level, in income, wealth and consumption taxes, the general effect of which would be to place a somewhat greater emphasis on commodity taxes, as contrasted with income taxes, in the overall mix. With appropriately phased increases in particular taxes to take care of annual cash deficits that would otherwise occur, we have estimated that between its 1966-67 and 1974-75 fiscal years, the province of Ontario will need to effect cumulative tax increases of 12 points in the personal income tax, 2 points in the recommended broader sales tax, 3¢ in the motor vehicles tax, 3 points in the corporate tax, and lesser, but significant, increases over a wide range of other levies. It should be emphasized, however, that many of our recommendations have in point of fact been designed, beyond improving equity, to increasing flexibility, certainty, simplicity, convenience or other non-revenue aspects of the tax system. Examples

of such recommendations are to be found in the areas of natural resource taxation, succession duties, gift tax, improved appeal procedures, etc.

It is perhaps unnecessary to indicate that in formulating the particular tax recommendations which appear in our *Report,* our decisions were in many instances influenced by the prevailing uncertainty as to prospective changes in the federal fiscal scene. To cite but one example, we attached considerable weight, at least in the short run, to provincial conformity with the structure of the federal personal and corporate income tax and to the desirability of effecting the collection of both taxes by a single (federal) level of government. Our recommendations in these important areas were therefore restricted primarily to the effecting of certain technical amendments in these statutes. Had we been confronted with either the fact or the firm prospect of the federal integration of these two taxes or with some variant of a much more comprehensive income tax base, our own position would certainly have been altered in those directions. In point of fact, we had little choice but to assume the continued existence of the present basic federal tax structure.

I think that in conclusion, I would be remiss if I did not emphasize the main message which we sought to convey to the citizens of Ontario through our *Report.* It is simply that the projected revenue requirements of the government of Ontario and of its municipalities, on the basis of programs existing or specifically formulated at the time of our projection of expenditures up to 1975, are such that, in the absence of any further fiscal accommodation from the federal government, a very sharp rise in the levels of provincial taxation in Ontario is inescapable. Indeed, it is certain that we have substantially under-estimated the actual financial requirements of the Ontario government to the degree that its expenditures rise through the inevitable assumption of new spending commitments which were not within our responsibility to forecast. I suggest that, as responsible citizens, we very much need to address ourselves to a question more fundamental than any of those which this Committee was called upon to study. Stated most directly, "how may the rising spiral of public expenditures be contained?"

Speaker: **Eric Hardy**

Commissioner

First let me say that I feel a little bit like an actor who has been invited to a party by Nathan Cohen. I spent last evening trying to get myself up-to-date on the two published criticisms of our work by the Bureau of Municipal Research and the Canadian Tax Foundation and I understand the purpose of this Conference is to push the knife in further and give it a twist. If all the critics were as kind to our *Report* as these two organizations have been, we wouldn't have much to complain about and we are well aware of the legitimate purposes of criticism—to achieve a better product in the form of proposed courses of action by government. We are as interested in that as you are. However, we can chuckle a little when we see that some of the criticisms haven't hit our weak spots and we can squirm a little when we know that some of them have.

General Policy

Our concern was to examine the tax and revenue sources at the local level of government and, in this respect, we had a great choice of action. We had to consider present local sources of revenue to see if they could be improved to the point where we could make good use of them or whether they had to be scrapped.

We had to decide whether there were new local sources which we ought to recommend because they would be better than the present sources even after the present ones had been improved. We could try to get more money through the pipe-line from Queen's Park but we could only recommend an increased flow if it would be better than relying on present or prospective local sources. Another option would have been to advocate the provincial take-over of local functions; of course this would have been the easy way out. Finally, we could, and did, consider the enlargement of units of local government which, in fact, would be another way of improving the existing sources of revenue at the local level. That is the way we approached our problem and that is the way I am going to try to approach it in summarizing what was contained in Volume II—which is the biggest of all.

Property Taxes

Looking at the present sources, we became aware very quickly that there were only two local taxes in Ontario: the old poll tax or head tax, which we have recommended be given the chop and which will shrink revenue by something under $100,000, and realty taxes, with which we had to be much more concerned because their present yield is in the neighbourhood of $1 billion a year. The realty taxes cannot be easily abandoned and therefore they called for the greatest degree of consideration and study. My analysis of this tax—which may not be completely shared by other members, and I think we said something of this in our *Report*—is that the base of the tax is the value of the property that a person owns but not his equity in that property. It is my contention that the desired impact, although not necessarily achieved, is a tax upon property-occupancy by residential occupants, who are expected to bear the final incidence of the tax, and business occupants, where the hope is that it will be a cost of business to be recovered from sales to customers. This is the kind of tax we were looking at. We had to state very clearly that, while we realized it is not an ability to pay form of tax, it is the main revenue source of local government; so we set about to see what improvements could be made to it generally, and to its particular application to different classes of property holders.

First of all we tried to tighten up the definition of the base. One of our recommendations has already had some discussion in the press and I would like to make a comment here. We suggested—and some tax theorists will say that we are old-fashioned—that real property as set down in the roll should still be reported in two parts: a value of the land and a value of the structures. We did suggest a different method of indicating how the two values could be combined but we thought that the separate valuations should remain. You may wonder why we made this recommendation when we declared in our *Report* that the really important value is the combination and that, in a sense, the separation is artificial. It strikes me that our principal object here was to encourage the valuer of the property—the assessor—to continue to use all possible approaches in arriving at values. Traditionally land value maps, which give a notion of land without structures, have been an important element in valuing the worth of property, particularly within urban municipalities, and we saw the necessity of maintaining this procedure; but we thought the emphasis should be taken off the separate values of the two parts of the property.

Assessment

Assessment is a key element in our notion that the property tax can be made to serve the people better. We do believe that we can get away from the well-established practice of assessing far below actual value which puts the taxpayer at a great disadvantage when he attempts to determine whether or not the burden

placed upon him is fair. He cannot readily ensure that the value placed on his real estate is equitable in relation to the value placed upon neighbouring properties.

We think this has to be changed and that we have to assess at present value. We have been rash enough, you might say, to advocate that assessment ought to be reviewed annually, not every two or three years, or every five years. Some people may think this is just too tough an objective to strive for. My response to this, and I think this comes out in the *Report,* is that first of all not enough importance has been given to the assessing process to attract a strong body of talent into this occupational area. If you want to get a notion of this lack, compare the effort that is being made by the Ontario Institute for Studies in Education with the effort that is being expended by the Assessment Branch of the Department of Municipal Affairs.

Assessment can and should be secured by an appeals process, on which Bredin Stapells may want to say more, but I will merely point out that in Ontario the appeal process in assessments has been in a kind of no-man's-land since 1950. We felt it necessary to spend some time on appeal procedure and to consider two things. First, how to improve the first informal opportunity for a review of assessment at the local level by revamped courts of revision, if you will (we don't think they should be called courts) and, second, how to carry the appeal process through the courts which have the security of federal jurisdiction and the combined potential to deal with matter of law and fact. Having proposed this, we think that it is not necessary to advocate what the Byrne Commission advocated for New Brunswick, that is, a change in the onus with respect to establishing the assessment.

Exemptions

Another area in which we made a number of recommendations, about which you have already heard, has to do with exemptions from the property tax base. We looked at the independent schools, as I think they prefer to be called, the universities, and the public hospitals and we advocated a change from tax exemption to tax responsibility—which in most instances would presumably be filled up by grants from the provincial level of government. Here is a new source of money, re-establishing an area of local tax capacity. Similarly, we looked at local charities and suggested they should be made taxable, but this doesn't really re-establish local tax capacity because we anticipate that local government would replace tax exemption by renewable annual grants. This would merely tighten up the amount of public funds expended in support of worthy causes and subject it to more frequent review, so that money is directed to the best causes.

Now the matter of taxing churches is something on which, if I speak at all, I should speak at length. All I propose to say at this time is that, as a matter of principle, we felt that logically churches should be taxed but we felt that because of history, public opinion and common sense, we should not proceed with the sudden full taxation of churches. And so we advocated a staged, gradual assumption by churches of some element of tax responsibility which could be spread over seven years.

Next we looked at the exemption from taxation of government property which is sometimes replaced by payments in lieu of taxes to the full equivalent, but not always. We took the position that it would be merely a book-keeping entry to make government property taxable and that as long as the government property had any relationship to local government services and it took active participation in the community, there should be full payment in lieu of taxes.

Collection Procedures

As well as wanting to see the base for taxation improved, we thought there ought to be some work done on collection procedures and we made some recommendations which, I think, surprised people. For instance we proposed that the fiscal year of municipalities be changed from the calendar year to the fiscal year coinciding with that of the province—in Ontario this would mean moving away from the position of most municipalities throughout Canada. We made this proposal because we were looking for a means of re-establishing full budgetary responsibility with elected representatives. It was our opinion that when the budget process takes place after the fiscal year is already in motion, we have a degree of transfer of responsibility from the elected representative, where it ought to rest, to the municipal civil servant. We proposed that the fiscal year be changed so that we could have pre-fiscal-year but post-election budgeting. We thought this suggestion made a lot of sense and we felt that statistics are made for man and not man for statistics.

Special Proposals

We were concerned with improving the property tax in all its various elements. On the residential side of the tax, where the final incidence is on the residential occupant, we were convinced that the basic shelter exemption would cut back regressivity and at the same time maintain an autonomous tax source for the local government. The province would underwrite the basic shelter exemption from its own revenue sources, just as with payments in lieu of local taxes on provincial properties.

We tackled the business tax. We were against the split mill rate because we thought this differential between residential and business properties would gradually widen and cause an increasing burden on business. We wanted the taxation of business to be under control. So we advocated that the split mill rate be done away with and proposed that the additional tax on business be levied under a statutory formula which we hoped would not be subject to manipulation or change at will. In effect we proposed the substitution of a flat rate business tax for the present graded rate structure. We could see no justification for the particular rates for various businesses.

There was one particular business which we singled out for special treatment—the farm. We suggested that the farm and the residence on the farm lot be separated for assessment and tax purposes. For a working farm, we took the view that there should be realty taxation but no supplementary business tax because of problems of the farm economy, and a number of other reasons.

For mining municipalities we felt it necessary to continue the mining payments plan instead of subjecting mining properties to taxation in the ordinary way but we tried to improve the formula for payment. We set down some ideas through which we might bring these municipalities to a state of normal taxation some day.

We were similarly concerned about "special assessment properties" such as railway and communication properties. Here the Committee acknowledged its inability to make a firm decision without more extensive studies being made than we were able to carry out. We suggested that a transportation company pay a realty tax, that its roadway or right-of-way be exempted, but that its position as far as the supplementary or business tax be settled after it was known how the company would fare under normal assessment.

Non-Tax Revenue

Then we came to the consideration of non-tax revenues and here we ran into statistical difficulties. We couldn't tell how much money was brought in by utilities,

from licences and permits or from user charges. So we tried to enunciate some principles whose application will depend upon better statistics becoming available.

General Recommendations

This review of Volume 2 can easily go on too long and I am going to by-pass some things. I am going to skip altogether our concern with special capital levies and developer charges. With respect to our ideas on the control of borrowing I am going to say merely that we didn't intend the five-year capital budget element in that formula to be a major control feature, but just a qualification to ensure that our main formula, which is a percentage of expenditures, would not become ridiculous in the case of a municipality which had major capital expenditures to undertake.

There was a major effort made towards simplifying the grants structure. We proposed that grants for roads, while remaining at approximately the same dollar value, be based on the type and purpose of the road rather than on the status; we suggested that health grants be increased to 50% of costs, but the province has already offered to increase them to 75%.

Two of our grants were designed to mesh in with and give encouragement to our regional government proposals—a community enrichment grant and an improved unconditional per capita grant. We presented an illustration of how the regional government could give a broader base for raising tax revenue and for spending public funds. We were convinced that the larger unit boundaries have to depart in a good many instances from the boundaries of the present counties. We felt that we somehow had to arrive at a common set of boundaries that would serve a multiplicity of functional purposes. We proposed 29 new regions whose boundaries differ considerably from those just recently developed by the province for health grant purposes. The regional reform—the creation of large regions—was designed to tie in with county reform. We were convinced that present local municipalities need to continue to enlarge their boundaries and that this process ought to be facilitated by new legislation to support a concept of urban service areas, with tax differentials between the urban and rural portions of large local municipalities. We felt that only after a system of regional government had been established could the reform be completed of grants and payments from the province to local governments—after the reform of assessment and the use of the real property tax had been completed. We don't think of our *Report* as a package deal but one can see how much better it would be if all major elements were adopted together.

Speaker: **R. Bredin Stapells, Q.C.**
Commissioner

The Provincial Revenue System

It is not often in this Committee that I get the chance to have the last word and, believe me, I am going to use the opportunity. For instance, to follow Dr. McIvor, our genial croaker, not at the moment outfitted with a beard, is a remarkable thing; and to be able to get the last word on Eric Hardy, our most persistent municipal politician who, I believe, has never run for election and whose shirt, tie and pocket handkerchief colours blend, continues to be a source of wonderment, to me in any case.

When we began in 1962 to look at the provincial revenues, we brought out a little information pamphlet in which there were some remarkable statistics. For example, it showed that the gasoline tax produced $165 million. Now I thought to myself, as a citizen who has never seen a million dollars, this is a lot of loot!

However, by 1967, the Provincial Treasurer had managed to extract $266 million. You can see, therefore, how fast things have been moving. All of which brings me to the point that we discovered very rapidly in the game that every man, woman and child living in Ontario was making a contribution to the provincial and municipal coffers of some $300 a head. I think you will agree this is a fair amount, particularly when you realize what averages mean.

I have been asked to deal with the highlights of the third volume which is restricted to provincial revenues. This is like going to a 500-page murder mystery and opening up the last page; you find out immediately who carved up the cadaver but you don't know why! I don't propose to give you too many "why's" but I will give some of our answers to the problems the province faces.

General Indifference to Taxes

I have been disturbed, personally, about this $300 which I mentioned a minute ago. I have been disturbed about the fact that Ontario citizens as a whole and various pressure groups in particular seem to be remarkably uninterested in the province's revenue system. One would think that my own profession, for instance, would be particularly interested in the equity, fairness and propriety of the revenue system of the province of Ontario. Our profession spends much effort telling the people in Ottawa what they should do and how they should do it but the trek up to Queen's Park, except for private, particular interests for which a fee is paid, has not been notable. I wonder why this is so. I suppose that one of the reasons is that the federal area is the glamour area because the federal personal income and corporation taxes dominate the Ontario scene. I would suppose, too, that when you consider the various consumption taxes, in which field Ontario is very expert, these come in such little bites that no one individual taxpayer is sufficiently aggrieved to storm Queen's Park. Then you have the trading profits from liquor, and again you don't even see what the taxes are. Still another reason for the lack of interest may very well be the fact that the provincial government in the past has worked on the principle that the less it broadcasts what it is up to, the more reasonable a time it may have with the citizens. If you will study the Public Accounts, I think you may discover what I am talking about. And, finally, this province, which boasts of being the Province of Opportunity, seems to have a peculiar insensitivity to giving the citizen the opportunity to be heard when he feels himself aggrieved about the taxes that he has paid.

Appeal Procedure

This brings me to the first major highlight of the *Report* from my point of view. Of some sixteen revenue statutes of the province of Ontario, seven have no appeal procedure whatsoever! The remaining taxes have some appeal procedure; one of the cuter appeals is to the Treasurer and if he thinks he should return your tax then you win—some appeal procedure! Another statute has a very sophisticated appeal procedure. In it you are permitted to go to the Ontario court, which is noted for its justice. But before you can go to court, the Treasurer must assess you and there is nothing in the statute which requires him to do that. Should he decide to assess you (he is a very busy man and hasn't the time to do everything), then you must find $400 for security for costs because, of course, any taxpayer who has paid too much in taxes obviously hasn't got another $400!!

I emphasize this appeal procedure problem because this is an area which has received remarkably little attention. This conference will specifically deal with personal and corporation taxes in detail. It will deal with sales taxes, succession duties and natural resources. It thus seemed only proper to me that I should emphasize for you the lesser-known, the little highways and byways of our *Report* which you may have overlooked.

Licences and Permits

In mentioning highways, let us start with motor vehicle taxes. Each time you run up to your pump, you pay a tax; recently they have even been posting it again so that you know how much the tax is! We decided that this was a "benefits received" area. The problem is what does one mean by benefits received? We thought that the user should pay for our road costs. That raises the question, "Just what are the costs as far as motor vehicles are concerned?" If you look in our chapter on motor vehicle revenues, you will find that we have entered squarely into the controversy as to how you calculate cost. We believe that it is not just the cost of the road but also the social costs occasioned by motor vehicles. These would include the cost of police patrol, for instance. Here we have a police force that is supposed to be tending to criminals but instead it is looking after motor vehicles! Thus I think the motorist clearly ought to pay for the service of our friendly O.P.P. man hiding behind billboards and the like. We believe that the most appropriate measure of "road user" is mileage and gasoline consumption and we applied this measure, not only to the private automobile, but also to commercial trucks.

This brings me to another very interesting little area of the province of Ontario—trucks; they are all licensed, you know, and we had much trouble with licences. The question was "What are licences for?". Are licence fees for raising revenue and, if so, why? We came to the conclusion that they shouldn't be for raising revenue as such. Licence fees should be to cover the cost that the regulatory system requires. On balance, the licence fee should more or less cover the cost of the regulatory system but shouldn't add to the coffers of the province. This brought us particularly to the P.C.V. licences because we found some very interesting discriminations among various types of commercial vehicles as well as all commercial as opposed to private vehicles. I might also say in passing, as far as licences generally are concerned, that this is one occasion when we weren't too discreet in what we reported. We applied the same philosophy to liquor licences, namely, that these licence fees should coincide with the cost of seeing whether the glasses were the proper size and clean.

Next, alcoholic beverages. This is a delicate area both politically and socially. However, the subject is just loaded with interesting little facts. To those of you who cannot stand reading a dull tax report but who are interested in the social mores of our times, I recommend that you read the alcoholic beverages chapter. There you will discover the mark-up on your rye or scotch. Even more interesting is the mark-up on domestic wines.

We were under considerable pressure to recommend that Ontario go into the lottery game. Citizens and their elected representatives always like to raise taxes in a painless way and, of course, lotteries have a tremendous appeal because you are not imposing a tax on anybody in particular. It is a voluntary contribution. The citizen buys a ticket and the government has some more money. We came to the conclusion that in our capacity as a Royal Commission such political considerations or, indeed, human frailties, should not govern our decisions. Consequently, we decided that a lottery tax was a most unfair way of raising money and bluntly said so.

You will probably be somewhat astounded to hear that we recommend the abolition of some taxes. These were fleeing recommendations, I may say, but I will elaborate somewhat. We recommended the abolition specifically of the hospitals tax, which is a tax on places of amusement and so forth, the security transfer tax and the land transfer tax. However, should a smile appear as you think about this,

relax, because we decided that these matters ought to be taxed under the retail sales tax. So we pick the loss right up again, but in a fairer and more logical way.

Natural Resources

Now a word on natural resources. I think it is a fairly widely-held belief that the citizens of the province are entitled to some return on the bounty that the good Lord left in the ground and elsewhere in our province. The problem lies in how to achieve it. On the one hand, the province has given away its title to mineral rights and therefore we must have, constitutionally at least, a properly conceived tax if we are going to have some recovery from the mines. On the other hand, the timber limits of the province remain very conveniently in the name of Ontario. We could therefore treat timber as a resource of the province and charge a royalty for the use of it. Because of this difference, we did spend more time on mines. In looking at the mining situation, we came to the conclusion that the existing taxation of mines was wrong and recommended that the existing scheme be scrapped.

Very briefly, our new mines tax is in two parts. There is a Mines Services Tax which is a flat rate set to equal an appropriate contribution of the mines to the municipalities in which they function or to which they are adjacent; then there is the Mines Profits Tax calculated as an economic rent, or, if I may use the common word, "royalty". This "royalty" in our initial recommendation would be set at 12%, which sounds rather steep for those of you who know what the existing taxes are on the smaller mines. But our profits are determined in a good accounting fashion—that's one advantage of having a chairman who knows something about these things. The profit is determined, not only on the normal accounting basis, but also there are deductions for the Services Tax I have just mentioned, payments from E.G.M.A. (that is the Emergency Gold Mining Assistance legislation), exploration costs which the mines have been claiming is a part of their business but has not always been recognized to the extent that they would like, and, finally, and this is probably the novel part of it all, a reasonable investment allowance on the capital employed. This means that the Profits Tax would be as close as we could come, in a practical administrative way, to what I think the economists call economic rent.

When you look at a tax system for the first time in sixty years, it is amazing the encrustations that can be built into it. My plea for an appeal procedure is directed to this point in particular because if people are not going to Queen's Park to raise the devil about various taxes, there is very little reason for an administration to change. It must constantly be under pressure. This is illustrated in mines taxation by the fact that when we dug into it we reviewed all the reports that had been written on Ontario mining. Thus we came across the old Nickel *Report,* a Royal Commission *Report,* one of those that is pigeon-holed sometimes you know. That *Report* had recommended the abolition of a special processing allowance for the nickel industry because the time had long since passed when it made any real sense. The government of that day was impressed and it did in fact do away with the special processing allowance. But strangely enough—that was back in 1916—by 1921 the special allowance was right back in. It is there today and it is costing you and me, the citizens of Ontario, a little bit of money.

Succession Duties

When we came to succession duties, we found a very complicated statute. It also had a historic problem—it had been around too long! The only solution we could see was to abolish the existing structure and start with a clean slate. And so we have almost one hundred pages of very tightly written legalese trying to explain how this should be done; theoretically, this is all in the name of simplification.

As a lawyer, even I could figure out someone's succession duty under our new system without waiting for the Department to calculate it for me.

We also suggested that because the province already has a 75% vested interest in this tax the federal authorities should get out of the field to avoid the existing duplication of administration. When you stop to think that every asset in a taxable estate has to be valued, not only by Ontario, but also by a federal valuator, I don't think it takes too long to appreciate the waste of administrative and taxpayer time. At the very least, if the federal people insist on staying in, as they may well do, we recommended that they accept Ontario assessment on the same basis as Ontario accepts their assessment in the corporation and, more particularly, the personal income tax fields.

I just want to say one more word about succession duties because some of you may be wondering why we didn't suggest doing away with them, as in Alberta. As our Chairman and Dr. McIvor have already said, we felt that our tax system must have a proper tax mix, and to have a proper tax mix, we have to draw revenues from different tax bases. Indeed, the more tax bases we draw revenue from, the more likely, up to a point at least, we are to have a fair system. In this way, any unfairness in any one base may be cancelled out in another. Since a wealth tax in some form seemed appropriate, it was decided, after considerable research, that a succession duty should be retained, you might say, as Ontario's end of the road tax. On this particular point, we conflict with Mr. Carter's *Report* because our succession duty is not viable without a great deal of rethinking on the Carter proposals for an annual wealth tax (capital gains and gifts included in the income base).

Gift Tax

We also recommended a new Ontario gift tax. The reason for this was that we felt that the existing federal gift tax did not adequately protect our succession duty base. There are many administrative problems to be solved here before it can be implemented and even greater problems if Carter is adopted.

Sales Tax

In the sales tax, we reviewed exemptions which have caused so much administrative difficulty to taxpayers and government alike. This was a most difficult operation. Nonetheless we did suggest some drastic reductions in the number of exemptions which, of course, by reverse logic, mean more revenue. It is seldom true that simplification produces more money! We also recommended broadening the base to include selected services. We endeavoured to avoid what is sometimes loosely referred to as "double taxation" in the sense that you tax goods and services purchased by a producer or a manufacturer and then tax his product as well.

Federal-Provincial Co-operation

When considering the corporation and the personal income taxes, we felt that as these taxes loom very large in the revenue system of Canada it would be wrong for Ontario in the interests of its own citizens to be other than uniform. Having said that, however, one can't really throw away Ontario's sovereignty. So we urged, very strongly, that a proper relationship between the federal and Ontario authorities be established. When you consider that in Ontario both the corporation income tax, but far more significantly, the personal income tax, are going up and will continue to go up significantly, Ontario citizens as such have a great stake in achieving an equitable tax system. Both the existing taxes have many weaknesses, and I for

one trust that Ontario and the federal people will move together in unity for the benefit of us all toward a more equitable system—toward a more simple system, with which all of us can live.

Now I won't say anything about the provincial revenue gap because Dr. McIvor already has done so. I trust that in this very brief time I have done the job that I was supposed to do. However, I thought I should leave you with a thought on money because that is really what we have been talking about. I came across an interesting little ditty on money which goes like this:

Workers earn it,
Spendthrifts burn it,
Bankers lend it,
Women spend it,
Forgers fake it,
Taxes take it,
Dying leave it,
Heirs receive it,
Thrifty save it,
Misers crave it,
Robbers seize it,
Rich increase it,
Gamblers lose it . . .
I could use it!

Luncheon

Guest of Honour: R. M. Burns

Presiding: H. Marcel Caron

Presiding: **H. Marcel Caron, C.A.**
Chairman, Canadian Tax Foundation

I should like to take the opportunity at this stage to introduce our distinguished head table guests. Starting at the right-hand end of the table we have: Douglas J. Sherbaniuk, Director, Canadian Tax Foundation; T. J. McKibbin, President, Ontario Municipal Association; Robert M. Clark, Department of Economics, University of British Columbia; Robert F. Nixon, Leader of the Liberal Party in Ontario; C. Roger Archibald, Q.C., Member of the Board of Governors, Canadian Tax Foundation; R. B. Dale-Harris, F.C.A., Vice-Chairman, Canadian Tax Foundation; R. Craig McIvor, Commissioner, Ontario Committee on Taxation; Lancelot J. Smith, F.C.A., Chairman, Ontario Committee on Taxation, F. Warren Hurst, F.C.A., President, Bureau of Municipal Research; Our Guest of Honour, Professor Ronald M. Burns, who will be introduced to you shortly.

Starting at the left-hand end of the table we have: Dominic DelGuidice, Executive Director, Bureau of Municipal Research; G. J. Ogilvie, Past President, Association of Assessing Officers of Ontario; Kenyon E. Poole, Department of Economics, Northwestern University; Donald C. MacDonald, Leader of the New Democratic Party of Ontario; H. N. R. Jackman, Member of the Council of the Bureau of Municipal Research; John H. C. Clarry, Q.C., Member of the Board of Governors of the Canadian Tax Foundation; Michael Spohn, Member of the Council of the Bureau of Municipal Research; William Dennison, Mayor of Toronto (we will be hearing from Mr. Dennison in a few minutes); Douglas J. McClellan, F.C.A., Comptroller of Revenue, Province of Ontario; R. Bredin Stapells, Q.C., Commissioner, Ontario Committee on Taxation; Eric Hardy, Commissioner, Ontario Committee on Taxation.

I now have the pleasure of introducing to you Mr. William Dennison, Mayor of the city of Toronto, who is going to bring us greetings from the city.

Mr. Dennison: It is a pleasure for me to welcome you to the city of Toronto. It was my pleasure the other day to speak on a Buffalo station to tell the people of Buffalo about Toronto. The local station also wanted me to speak on the subject of what was wrong with Buffalo, which I declined to do, and I am not in a position today to tell you very much about taxation, except that we are all against it. I see my colleagues on the Board of Education here—unfortunately at the civic level we have to raise taxes for ourselves, for Metro and for the Board of Education. We know something about raising them and we all know a lot about spending them. Certainly the problem society faces in deciding what is equitable taxation is very important and very difficult to solve.

Those of us who live in cities find our daily existence conditioned by the environment of the urban community. We have become heirs of all the ages by our ability to bring the good things of life from the far corners of the earth to our doorstep, on to the shelves of our kitchen and to our dinner tables. This makes living in the city very secure and interesting. At the same time our industrial development has extended the good things of life to the rural areas as well. The quality of life in rural areas has been improving very rapidly and the ability of fewer and fewer persons on the farms of this country to provide food for the rest of us is also increasing. In another 15 years only 5% of the working force will be required on the farm to provide food for the whole population, including those who are living in the cities or living in retirement.

The city is always an exciting place to live. The city is where the action is, it attracts the young, the brave and the excitement-seekers. It is the place where civilizations begin and sometimes the city is the place where civilizations end. While the city may be a beautiful and exciting place to live today, it may be a nightmare tomorrow if some of the problems of congestion, pollution, over-crowding and taxation are not solved.

If man permits his population to increase to the point where we all starve, then humanity must pay the price. Well-planned immigration becomes very necessary because the big city requires more and more skilled people in order to maintain itself. This is the type of problem we are tackling daily in the big city today. Despite all the statements to the contrary and the blue-ruin talk earlier this year, in the city of Toronto we have exceeded all previous years this past year in the value of building permits issued—$225,444,000—$8½ million more than the previous year. In October of last year in the city of Toronto alone, $85 million in building permits were issued, greater than the value that month in any American city.

Of Canada's immigrants, 27% want to come to the Toronto area. The overflow from the Toronto area is creating problems in other areas within a radius of 30 to 45 miles. We must continue to build more housing and attract more industry and business to our area. We must continue to provide recreational and social amenities which all citizens can enjoy. We must provide transportation facilities—public transportation and rapid transit and other public services that a modern municipality demands and requires. The city must provide them, and if the senior levels of government exploit the potential and progressive ideas of the community and make it impossible for us to raise taxes to provide these services, then we shall all suffer.

It is my hope that we shall be able to obtain at the municipal level a more stable form of taxation. During depression times taxation based on property is wonderful; it is stable, it maintains itself when the economy is slipping. When the economy is on the upgrade, taxation based on the property tax is not sufficient. The other forms of taxation then become much more stable and increase as demand increases.

I would like to say, Mr. Chairman, that it is a pleasure to have you hold this conference in the city of Toronto. I am sure I speak for my Metro colleagues here as well when I say I hope your deliberations are successful. I hope you find the services in this city for your meeting adequate, and if there is any way we can assist you we shall be very happy to be called upon. Thank you.

M. Caron: Thank you, your Honour, for your well-informed message.

It is now my pleasure to introduce to you our guest of honour and speaker, Professor Ronald M. Burns.

Guest of Honour: **R. M. Burns**
Institute of Intergovernmental Relations, Queen's University

Effective Power and Canadian Federalism

Anyone today who can understand even a newspaper headline must be aware that we have a great many unresolved public problems as we start our second hundred years. There is a goodly variety to choose from when we come to decide those with which we should deal first. Perhaps this should be the first area of our priorities rather than the determination of what new policies we can devise to further compound our difficulties.

It may even sometimes seem that on a per capita basis we have more to concern us than we are rightfully entitled to, but we should take heart that not many other countries of the world, developed or underdeveloped, would be unwilling to exchange even our present situation for their own.

These problems (and if I use this word a little indiscriminately, I ask your indulgence, for it is problems I am talking about) take a number of forms. We have, along with the usual financial and economic difficulties of the day, those of regional disparities in wealth and economic interests, those of geographic separation, cultural and linguistic barriers, the pull of a giant neighbour and traditional allegiances, to mention but a few. This catalogue is incomplete but it will serve to show that our government, and I hope we ourselves as citizens and electors, will have enough to occupy our political attention for some little time to come.

As new problems keep arising we shall be hard-pressed to deal with them in the increasingly difficult and complex world of today. I think that the measure of our success will not be in the final solutions we reach—for I doubt that in this age there are many final solutions—but in the energy and intelligence and goodwill we bring to meeting these questions as they continue to come before us. Like the Fathers of Confederation—who were the provincial politicians of their day—we should accept them not as barriers to ultimate success, but as obstacles to be overcome in the search for our true national identity.

I would not argue that the matters which so occupy us today are purely products of the federal form. They are experienced by unitary states as well, although with somewhat different emphases. Nevertheless, there are a number of answers which might come to us more readily were we not hindered in effective action by the division of powers and responsibilities.

In the midst of our varying concerns, perhaps the two problems which press most immediately and strongly for our attention, at least in the context of our federalism, are those of the cultural and linguistic differences between French- and English-speaking Canadians, and the problems of political power as they are present, particularly in the struggle for authority in the determination of the fiscal and economic policies of Canada.

This first question has already had a good deal of time and attention devoted to it and may be on the road to ultimate solution. The matter to which I shall devote these next few minutes is unfortunately not in the same category and solutions seem even less clearly before us than was the case several years ago.

Political Power

While this has had much more diverse and much quieter attention than the public debate that has sounded around the question of bilingualism and biculturalism, it may in the long run be of greater importance to the ultimate future of

this country as a viable national entity. My readings of views expressed by public and private sources in the province of Quebec lead me to the conclusion that in many minds of influence there, biculturalism and bilingualism in the rest of Canada, while important, really take a somewhat secondary place to the desire for economic and political power that is inherent in the demands for greater control of policies now the constitutional prerogative of the central government. That we have already reached a serious situation in our relationships is quite evident. The mutual indecision and misunderstandings on many questions, such as housing, are enough to show this to be so. As Dr. Jacques Parizeau, former economic adviser to the government of Quebec and still a consultant, reportedly said recently in a speech at Banff: "We have now reached a point where we want to translate into constitutional change shifts toward the decentralization of economic and social policy that I suggest have, in any case, gone much too far. If we were to consolidate the present situation in constitutional terms, it is doubtful whether any rational planning within Canada would ever become possible. A country should not be allowed to balkanize decision-making to the extent that exists now and even more so to the extent more and more often suggested by so many constitution builders."

But it is quite clear that Dr. Parizeau's views are not those of many people politically active in Quebec today. If I were merely concerned with the contrary opinions expressed by groups such as the R.I.N., the Estates General or some of the so-called young activists at the University of Montreal, there would be little need to put forward the case I am outlining to you today. The level of intellectual intolerance in such circles is too high for me to compete with. But when I find the elements of the same approach more restrained, more open to argument, but still essentially the same in ultimate effect, in the writings and speeches of a distinguished Canadian and an avowed federalist like Dr. Marcel Faribault, I suggest the case needs closer examination. Perhaps what is even more important is that this same general attitude has been evident, in greater or lesser degree, in the policies of the governments of Quebec of both Jean Lesage and Daniel Johnson.

I do not propose today to take you back over the course of the development of Canadian fiscal and economic authority. Sufficient it is to say that since the high point of centralized control reached in World War II and the immediate post-war period, we have seen a steadily weakening process set in as provincial and municipal needs have grown at a pace exceeding those of the central government—and the provincial political ambitions have grown with them.

Provincial Political Ambitions

It is not my purpose to make a case for one side or another of this question. It could very well be that the concept of greater provincial control over fiscal and economic policy and other areas of present federal authority has something to recommend it and that the demands or policies of Quebec—and of other provinces as well—are reasonable and may contribute to the greater public good. What I want to do is to put to you this question. While these more extreme provincial positions may have justification in the final analysis, are they consistent with the continuance of an effective national government in Canada?

As the most extreme position in this matter is taken in the province of Quebec, I propose to examine more closely the basis of these demands. To some important degree they seem to be related quite closely to the demands for recognition of a French-speaking political community in Canada—the state of Quebec. This is the concept of *deux nations,* which has caused so much argument and confusion in recent months. I don't think many people in Canada today are prepared to deny the French-speaking Canadian a better response to his cultural identity than he has

always had in the past. In most parts of Canada this is rapidly becoming a subject for non-debate. But when this is carried into fields of economic, fiscal and constitutional authority on the excuse that such power is necessary to preserve this identity, we must stop to think about it and to examine it in the context of the future of this nation.

Special Status

I would like to be a good deal more precise than I am able to be today on the actual and specific extent of provincial authority that would follow if these concepts of federalism apparently held in Quebec (and occasionally elsewhere) were to be accepted. It seems to me that they fall somewhere between the extremes of the highly centralized approach where all effective economic and fiscal power is concentrated in the national government (a situation we were not far from in the early years of Confederation and during the war and immediate post-war years) and the extreme of complete separatism. This itself is not too distinct from some definitions of the associate state or customs union which we hear discussed from time to time. What we seem to end up with is generally known as special or particular status for Quebec—although whether it could be applied within one province without soon spreading to others is a question yet to be answered.

But there are a number of variations on the theme and little general agreement on just what is meant by particular status. We must do a sort of information retrieval job to get any idea of what is involved in specific terms. In the process we perhaps do injustice to individual views but do, I think, succeed in illustrating the concept.

It is fortunate that the official views of the present government of Quebec still remain in this relatively fluid state. Nevertheless they have been expressed somewhat broadly in a brief to the Tax Structure Committee in September 1966, and as they have been quoted in the "Preliminary Statement" tabled at the recent Confederation of Tomorrow Conference, presumably they still have validity. Incidentally, I recommend a reading of that statement to you, for while I believe that the Confederation of Tomorrow Conference had some valuable and encouraging results it was really not much more than a well-staged, well-chaired seminar. What follows is what will count. The basic attitudes of Quebec come out more clearly in this tabled statement than in newspaper accounts of the proceedings.

The quoted passage to which I have referred was as follows:

> As the mainstay of a nation, it [Quebec] wants free rein to make its own decision affecting the growth of its citizens as human beings (i.e., education, social security and health in all respects), their economic development, (i.e., the forging of any economic and financial tool deemed necessary), their cultural fulfilment (which takes in not only arts and literature, but the French language as well), and the presence abroad of the Quebec community (i.e., relations with certain countries and international organizations).

There is a great deal more which leads to the clearly stated postion that the Quebec government is—or certainly was in September 1966— committed to the fundamental task of obtaining legal and political recognition of a French-Canadian nation. This is not at all inconsistent with Dr. Faribault's views. He seems to regard Canada not as a federation but as a confederacy in which all the people are citizens of a province which has a sort of contract or union agreement with other provinces for the performance of certain limited functions by a central authority under direction and control.

As I said earlier, and I repeat it now, I pass no judgments on the rights or wrongs of these positions. I try only to put them in some sort of perspective.

The Implications

What does all this involve? A transfer of resources and responsibilities of the extent considered necessary to meet Quebec's goals must have serious meaning for the federal authority. Acceptance of this approach could result only in a substantial transfer of taxing rights in the personal and corporation income tax field, and with it the effective fiscal power. Further, it would mean the transfer to provincial authority of several federal programs, which while of social value and purpose, are important in the area of economic regulation and income distribution.

This would mean further financial transfers. Already under the limited arrangements of "contracting out", Quebec controls about half the personal income tax, about 20% of the corporation income tax and 75% of succession duties. Some of the limits for effective fiscal control through taxation must have already been approached, if they have not been exceeded.

Even if we assume that the transfer of fiscal resources were to be limited to but one province, serious problems could arise. Under such circumstances it is not an unlikely possibility, given the regional disparities in the Canadian economy and the wide varieties of economic opinion in most situations, that we would be faced with important differences in fiscal policies in the one province from those which would prevail in other parts of Canada. If there were a complete isolation of influences this might not be important, but even René Lévesque and others of like belief do not conceive of situations where important cross-flows would not occur. These would as likely be contradictory as complementary.

In the same way, any fiscal policies exercised through the expenditure side would be the subject of separate influences, although here the situation might not be too different from that which we now accept.

A further challenge to effective federal authority is contained in the implications of the claim that a province must be consulted on matters of exclusive federal policy which have effects on provincial activities. What this consultation should consist of and how far it should be carried is not yet clear. The idea is reasonable enough in itself and to some extent has already been effective in some areas of mutual interest. But the plan as now advanced seems to go beyond this and to involve a provincial part in such matters as tariff policy, monetary policy and the like. Such rights of consultation could, under circumstances of stress, quickly be converted into demands for the sharing of executive power, contradicting the whole concept of the national responsibility of the central government in such matters. Escalation of demand is not unknown in the field of intergovernmental relations. I have seen no compensating eagerness on the part of the provinces to share their responsibility for education with Canada.

It also seems clear from the statement quoted and from actual events that the Quebec government lays claim to the right to assume an international personality by dealing with foreign countries in certain fields as if it were a nation state. The extent to which such a position is supportable in international law is not a matter of our present concern, but the implications for Canada's own international status are serious enough to warrant our close attention.

If I have concentrated my attention on the province of Quebec it has been because it is in that province that the demands of provincial power have been most clearly and extremely stated. But if we examine the conduct of other provinces as well we find that while they generally acknowledge the desirability of strong central government, often in their actions they deny this acknowledgement.

Role of the Central Government

It is the "Nelson touch", the blind eye to the telescope, the unwillingness to see or accept the contingent responsibilities of our actions that is in the centre of the problem. Even the Ontario Committee on Taxation has not avoided this. After stating a number of reasonably conceived principles on federal-provincial fiscal policy, it has seemingly found itself unable to accept the logic of them and could only suggest that "Ontario negotiate with the federal government for substantial tax room over and above any abatements that might be granted in lieu of existing shared-cost programs". The effect on the ultimate character and strength of the central government does not appear to have been seriously examined.

The influence exerted by the central government on the economy has not always been an unqualified success. But given this, it seems an inescapable fact that it is all we have and the prospects for its improvement through fragmentation seem singularly remote. In the circumstances I have outlined, in which authority would be divided and weakened, the prospects for the continuation of a national government as an effective instrument for any length of time would appear particularly unlikely. No government which lacks effective authority in fields of fiscal and economic control, in foreign relations, in trade or in the ability to support and consolidate the interests of its various political sub-divisions has any hope or even any excuse for a continued existence.

If we accept the fact that a strong effective central authority is a necessary and desirable instrument of our government, it seems to me that there are only two alternatives to work with—although there may be variations of degree in each case. There is greater centralization *or* increased consultation and co-operation. The first, under present day conditions, is clearly untenable. What are the prospects for the second?

Our chances of success in this would be much better if we first set out to narrow the areas where co-operation is necessary, in so far as this is practicable. In the ideal federation, the division of powers and responsibilities is as clearly defined and as mutually exclusive as can be arranged. And while we have learned that there are limits to our powers in this respect, it is nevertheless desirable that we should attempt to clarify points of difference and eliminate inconsistencies and unworkable situations so that the grey areas requiring mutual and subjective activity will be limited as far as possible.

There will be a number of adjustments that will have to be changed, and attitudes to be altered on all sides; but the chances are that when we come right down to it there will not be too many fundamental changes from our present situation. Some clearer definitions of revenue resources and expenditure responsibilities, some transfers of authority either way will no doubt be called for. And it will be essential that having decided on these objectives we adhere to them as closely as changing circumstances will permit. Perhaps we may have to experiment with some greater use of concurrent fields of interest, as have other federations, and delegation will no doubt be warranted in certain cases. But by and large I doubt that the end result will be too different a constitution, though perhaps a somewhat more flexible one, from that we have now.

Unlike Dr. Faribault, I do not regard the *B.N.A. Act* as something of a subversive document. It seems to me that in many respects it has served us surprisingly well. But then we have somewhat different ideas on the nature of the federal state and apparently rely on quite different authorities for the support of our views.

However, I suspect that regardless of these facts there are very few of us who would believe today that a single power to make decisions in many important public matters can continue. Our interrelationships have become too complicated and so many activities, federal and provincial have influence on the course of public policies, especially in fiscal and economic fields. This has been recognized by the governments of this country in the reference to the Tax Structure Committee for a study of "Future Intergovernmental Liaison on Fiscal and Economic Matters".

This being so, efforts must be directed toward improving the machinery of liaison, not necessarily toward the end of joint decision-making but to the end of a better understanding of the actions necessary to make logical and effective decisions in the context of our national and provincial needs.

Such consultation and co-operation will require a different approach to intergovernmental relations from that which we have practised so far in our history, particularly as the extent of the intervention of the state in our lives shows little indication of moderating in the foreseeable future. It could mean more structured and institutionalized machinery and a considerably greater sophistication in the use of the tools available to us. It will also involve obligations and responsibilities which governments politically have been reluctant to accept. Co-operative federalism relies much more heavily on the rule of men than does the more formal division of authority. And if we are to attain the objective of strong, stable and harmonious national growth we must be prepared to examine with greater care and consideration the costs and benefits of the public policies we adopt, whether federal or provincial. For every advantage gained, some sacrifice is likely to be demanded. But contrary to physical laws, in political terms the whole can be greater than the sum of the parts. There can be thus advantage for us all.

In Conclusion

In the rather brief time available — for only very exceptional luncheon addresses should run over half an hour—I have tried to put before you a very complex and touchy question. In the process I have had to neglect some important factors which really merit attention. Equalization is but one of them. The question of how the federal government is to continue its responsibilities to the less wealthy provinces (and Quebec is a principal beneficiary of equalization) in the absence of fiscal power has not yet been explained. The problems of the provinces themselves as economic units under a decentralization of our federal state has not been satisfactorily resolved. The question of parliamentary or legislative responsibility involved in the delegation of powers to a joint intergovernmental conference or committee has concerned many in the past and will concern more in the future. There are but a few of the areas I have left untouched.

It is not my intention to offer you any of my own answers; and if my predilections and prejudices have shown through, I can only apologize. I have only asked if you really want a viable national government and if you believe it can be retained under the conditions of the radically diminished national authority which are inherent in some of the concepts we have looked at today. The sooner we can quieten the clash of symbols by some objective analysis and thought, along with some plain ordinary good sense and goodwill, the sooner you will have your answer.

Property Tax - - Base and Exemptions

Chairman: Robert M. Clark

Speakers: J. E. Prudham
Frank A. Clayton
A. Forest Thompson
Lorne Milne

Chairman: **Robert M. Clark**
Department of Economics, University of British Columbia

Speaker: **J. E. Prudham**
Treasurer, Borough of Scarborough

The *Report of The Ontario Committee on Taxation* is a formidable work. It makes fascinating reading and is well written. The material is well documented and deeply researched and the complexity of the undertaking comes through loud and clear. The Committee warrants the sincere appreciation of the public, the provincial government and municipal authorities.

Widely divergent opinions existed prior to the appearance of the *Report* and I anticipate we will hear some of these opinions vividly expressed in the discussions today. I feel honoured to be participating in this panel discussion but I am well aware that many of you are far better equipped to take my place on the platform.

Since the *Report* was published, information for the year 1966 has become available; in particular, *Municipal Statistics,* produced by the Department of Municipal Affairs, forms the basis for some of the material I will be using for updating statistical data of The Ontario Committee on Taxation. This information will establish a background for considering the various recommendations that will come under discussion.

I will deal first with the significance of revenue losses on existing exemptions. Taxation revenue in 1966 for all municipalities was just under $981 million. Had full taxation on exempt property been available at an average mill rate for all municipalities, a yield in excess of $201 million would have been realized. Some recovery of this sum was achieved by virtue of payments in lieu of federal and provincial taxes, amounting to slightly over $32.5 million, or 16.2% of the yield possible if all exempt assessment had been taxable at full rates.

The *Ontario Committee on Taxation Report* estimates that a further $38 million could have been realized from federal and provincial sources in 1966 had there been full taxation. Of course, charging at full tax rates on the exempt assess-

ment of municipal governments and local School Boards, representing about 50% of the total exemptions, would largely have produced book entries, without substantive benefit to the taxpayers.

The other exemptions, slightly in excess of 20% of the total, and represented by assessments on private schools, higher educational facilities, hospitals, religious organizations, cemeteries, public libraries and numerous other bodies, valued in excess of $40 million, will be dealt with later this afternoon.

The exempt assessment in Ontario, according to the statistical report for 1966, appears under four headings:

Federal government	16.27%
Provincial government	11.08%
Municipal government	21.25%
Education, religious and charitable	51.46%

Previously, the local educational board exemptions were included in the Municipal government heading.

Current Pattern of Tax Burden Transfer

In 1967 the province passed what is known as *The Municipal School Tax Credit Assistance Act,* and, in order for the legislation to become effective, the local municipalities are required to pass a by-law. As far as municipalities are concerned, the legislation results in the transfer of a tax levy from one group of owners to the province.

During the past ten years, the residential taxpayer has had a mill rate levy lower than that imposed on commercial, industrial and business properties. The differential in mill rate for the school levy has been 10%. The effect of the legislation directing the apportionment of the school levies in this manner gives greater benefit to those municipalities which enjoy a higher portion of commercial and industrial assessment, as against residential and farm assessment. The reduction in the general rate for residential and farm properties varies among different municipalities as the reduction is equal to the graded unconditional per capita grant. The grants are graded according to a combination of a municipality's status and its population. The most recent grant was a uniform $1.50 per capita increase to each municipality. This effected a change in the basis of the grades established earlier.

Each residential taxpayer benefits by a reduction in his mill rate equal to the mill rate determined by dividing the grant by the residential assessment. The difference between the residential and commercial average mill rates is wider in the smaller municipalities.

In the case of federal grants in lieu of taxes, the school portion of the levy is normally at the average rate of the public and separate school mill rate and both payments in lieu of municipal and school levies are retained by the municipality to effect a reduction in the general rate.

If Hydro Electric Power Commission property is tenant-occupied, the payments in lieu of school taxes made on behalf of the tenant are credited to the school board in accordance with the declaration of the tenant as to school support. Although Hydro payments in lieu of taxes on the properties that it occupies include the equivalent of school and municipal levies, these payments are retained exclusively to the benefit of the municipal rate.

Fixed Assessments

In 1955, under section 39 of *The Assessment Act,* legislation was introduced permitting a local municipality to enter into an agreement with the owner of a golf course for a fixed assessment. The owner, by agreement, was required to pay municipal and school taxes based on the fixed assessment.

When for any reason, the agreement relating to all or part of the property was terminated, the owner had the choice of selling the land to the municipality for the amount of the fixed assessment, or of paying the full amount of taxes payable had there been no fixed assessment, along with interest calculated at 4% per annum. The principle does not extend to buildings or structures on the property or the land on which they are situated. The idea is to hold green belt lands in urban areas. Recent amendments indicate the government's intention of retaining this legislation. It is most important that assessments be regularly reviewed and kept in agreement with other current assessment valuations so that the record which the Municipal Treasurer is required to maintain properly reflects the tax loss. This is important in the event that the owner decides to ask for termination of the agreement. At the present time the interest on the tax loss is directed to be calculated at 4% per annum. It would be more realistic if the rate were allowed to fluctuate in keeping with the municipal rate as ascertained by the current rate for debentures.

Industrial Properties

The granting of fixed assessments on industrial properties as a form of partial exemption commenced about one hundred years ago. Until recently, municipalities were allowed to grant renewable fixed assessments for a term of ten years. This benefit did not extend to school levies or local improvement charges.

In 1961 the statutory authority with regard to fixed assessments was revoked. Existing fixed assessments were to remain in effect until their term had run out. After the repeal of the General Fixed Assessment legislation, in 1963 and 1964, the province permitted fixed assessments for specific industries, by private Acts, and several communities sought and obtained legislation although in each instance the assent of the electors was required. The terms of the fixed assessment varied both in time and conditions.

If inducement to industry to establish in particular areas is warranted, the responsibility should be that of the federal and provincial governments, individually or in partnership. Industries now enjoying a fixed assessment will be in an advantageous position if the policy of assessing at current values is put into effect. It would therefore appear necessary, in municipalities where fixed assessments exist, to follow one of three courses:

1. delay assessment until the expiry of the agreements;
2. negotiate revisions in the fixed assessments; or
3. reassess all other properties at the same percentage of current value that the fixed assessment bears to the current value.

In my view, an attempt should be made to effect revisions of the fixed assessment agreements.

The Ontario Committee on Taxation recommends that no further fixed assessments or fixed taxation agreements be authorized, either by public or by private legislation, and steps be taken to reconcile existing fixed assessments or taxes with the need for reassessment throughout Ontario at market value.

I believe this is a sound recommendation.

Exemptions

Under section 4 of *The Assessment Act,* provision is made for exemptions from local government taxes for public educational institutions, highways and public property. Under public statutes, exemptions are granted by *The Municipality of Metropolitan Toronto Act.*

Local government real estate is not exempt constitutionally from municipal or school taxation. The exempt status of local government is obtained through *The Assessment Act.* The exemption does not extend to municipal utilities, or to tenant-occupied municipal property.

A separate right of exemption is granted to publicly owned or controlled elementary and high schools, when occupied and used for school purposes. Public squares, highways, lanes and other public communications are granted a separate exemption.

While it appears advisable to hold self-taxation to a minimum, there are a number of instances in which exempt status produces an unfair burden on some local jurisdictions. Examples of these are: county buildings, park lands, and administration offices located outside their municipal boundaries. Perhaps some more significant examples are: health units, children's aid societies, and suburban road commissions, whose boundaries do not necessarily coincide with geographic municipal boundaries.

Non-Governmental Property

Tax exemptions on non-governmental property extend back into the early history of municipal functions, and represent the decisions of legislators and municipal councillors from the inception of municipal government to the present time. Under section 4 of *The Assessment Act,* some of the classifications exempt are: places of worship, church yards, cemeteries, religious and educational seminaries, public hospitals, property of boy scouts and girl guides, charitable institutions, agricultural societies, scientific and literary institutions and battle sites.

Under the provincial *Land Tax Act,* there are also exemptions for farming and mining lands, and licensees under the *Crown Timber Act.*

At the option of the local authorities, exemption can be made for religious institutions used for recreational purposes, the lands and buildings of The Navy League of Canada, and the exhibition buildings of companies. In the latter group, any exemption applies to municipal levies, and not to school levies.

Recommendations*

Institutions of Higher Learning (9, p. 156)

All present exemptions from property taxation to institutions of higher learning be terminated following provincial review of the merits of each institution for continuing financial assistance; and provincial grant support to institutions of higher learning in lieu of the tax exemptions be confined to those institutions recognized for the purpose by either the Department of University Affairs or the Department of Education.

I favour support for this recommendation.

Taxes on Property (7, p. 154)

(a) Local government property occupied for purposes of a business enterprise be taxable on the same basis as private business property; and

* All recommendations referred to in this section are contained in Chapter 12, Volume II of the *Report.*

(b) Full taxes, excluding levies for county, metropolitan or other second-tier requisitions, be payable to local municipalities and to school boards on all other properties of

(i) an upper-tier municipality,

(ii) a local authority whose territorial jurisdiction overlaps local municipal boundaries,

(iii) a local municipality situated outside its boundaries, or

(iv) a local board situated outside the municipality where it exercises jurisdiction.

In my view, this recommendation warrants support.

Taxes on Property — Exemptions (8, p. 155)

The same partial or full exemption from payments in lieu of taxes as those recommended for provincial properties be extended to local government properties.

This recommendation is similar to the one put forward for senior levels of government. *It should be supported.*

Private schools (10, p. 157)

All present exemptions from property taxation to private schools be terminated following provincial review of the merits of each school for continuing financial assistance; and provincial grant support to private schools in lieu of tax exemptions be confined to schools providing approved education at the elementary or secondary levels.

I favour support for this recommendation.

Public hospitals (11, p. 158)

Public hospitals be made subject to full realty taxes and, where applicable, local business taxes; and

(a) public hospitals be authorized to include pertinent realty and business taxes as part of their costs under the Hospital Care Insurance Plan;

(b) The province undertake to pay in full the realty and business taxes chargeable to the Hospital Care Insurance Plan and negotiate with the federal government to share the cost; and

(c) the province give consideration to granting further support to each public hospital in respect of local taxes that would not be chargeable to the Hospital Care Insurance Plan, and from which it is now exempt, before the exemption is terminated.

This recommendation warrants approval.

Assessment of universities, private schools and hospitals (12, p. 159)

The Assessment Branch of the Department of Municipal Affairs be authorized to assess institutions of higher learning, private schools and public hospitals on which the province makes grants in lieu of realty or business taxes, and such assessments be subject to appeal.

I would support this recommendation.

Places of worship and other religious property (13, p. 161)

Places of worship and land used in connection therewith, and religious seminaries not classed as institutions of higher learning or as private schools, be reassessed at actual value and taxed on a taxable assessment of 5% of actual value in the first year and 10% in the second year, with increases of 5 percentage points each succeeding year until a level of 35%, or such other maximum percentage as a review of the tax position of places of worship made after five years may indicate to be appropriate, has been reached.

It is my view that this recommendation should not be supported. I would favour property in this classification being assessed and taxed on the same basis as residential property with permissive legislation for local councils to make a grant for any such portion of the tax levy as in their considered opinion is warranted.

Cemeteries (14, p. 163)

Present cemetery lands remain exempt while they comply with the terms of their existing exemption except when classified as adaptable to an alternative use, in which event they become taxable on a change of use or at the end of three years, whichever is earlier; and newly designated cemetery lands be taxable.

This recommendation, as far as it goes, warrants support, but I believe business establishments, superintendents' and gardeners' residences should be subject to assessment and become taxable.

Charitable, community service with other non-profit organizations (15, p. 165)

All present exemptions from property taxation to charitable organizations, social and community groups and similar bodies be terminated following review by the appropriate governmental authorities of the merits of each organization for continuing financial assistance; and

(a) legislation be enacted to permit each municipality to make annual grants to charitable organizations, institutions, associations and others engaged in works that, in the opinion of the council, are for the general advantage of the inhabitants of the area; and

(b) the taxes on a formerly exempt property be limited, after deduction of any governmental grants-in-lieu, to one-third of the property and business taxes or $100, whichever is the greater, in the first year and to double that amount in the second year.

In my view, this recommendation should be supported. The payment of grants to organizations tends to call for annual review by Councils, and clearly establishes the financial assistance as a cost to the community. The assistance can be made in a flexible amount, and the grant assistance can be adjusted to changing conditions and changing public attitudes.

Land for forestry purposes (16, p. 167)

The exemption contained in *The Assessment Act* of up to twenty acres of a farm used for forestry purposes, and the authority given in *The Trees Act* for a Township Council to exempt from taxation lands under reforestation by agreement, both be revoked.

In my view, this recommendation should be supported. The average tax saving on this type of exemption is not significant. The exemption under *The Trees Act* is to promote forested areas.

Exemptions of mining properties and provincial payments to mining municipalities (21—27)

The present formula for the computation of provincial payments to mining municipalities under The Assessment Act be replaced by a formula under which

(a) the payment is computed by applying the municipality's mill rate for the immediately preceding year to a "municipal mines assessment";

(b) the "municipal mines assessment" of the municipality is computed as that proportion of its "fiscal impairment" that the number of its mining

employees resident in the municipality bears to the number of all employed persons resident in the municipality; and

(c) the "fiscal impairment" of a municipality is computed as the amount needed to make the ratio of its commercial and industrial assessment to total assessment equal to that same ratio for similarly situated non-mining municipalities. (21, p. 182.)

Upon adoption of the proposed formula for computing provincial payments to mining municipalities, the present limitation in the payment to a municipality, to 50% of the total amount that would have been levied in the preceding year if no mining payment for that year had been received, be abolished. (22, p. 183.)

The present provision permitting the Minister of Municipal Affairs to increase the payment to a mining municipality where it would otherwise be less than the amount of the tax on mining profits that it would have collected under The Assessment Act if it were not designated a mining municipality, be repealed. (23, p. 183.)

If the payment to a mining municipality within five years from the implementation of the proposed formula would otherwise be less than the amount paid in the last year for which the present formula was applicable,

(a) the amount payable for the first year on the new formula be equal to the payment for the last year under the old formula as adjusted for any subsequent decrease in mill rate, and

(b) the amount payable for the second, third, fourth or fifth year on the new formula be reduced by not more than the applicable one of the following percentages of the difference between the amount otherwise payable for the year and the amount paid in the last year under the old formula as adjusted for any subsequent decrease in mill rate:

(i) for the second year, 20%,

(ii) for the third year, 40%,

(iii) for the fourth year, 60%, and

(iv) for the fifth year, 80%. (24, pp. 185, 186.)

The present provision, under which the payment to a mining municipality may be increased to the amount paid in the preceding year, be changed to provide that:

(a) a payment for a year that otherwise would be less than the payment for the preceding year be not less than the proportion of the preceding year's payment that the average number of resident mining employees for the three years ending with the year of payment bears to the average number of resident mining employees for the three years ending with the year preceding the year of payment;

(b) for the purpose of the above, where the payment for the preceding year had been increased in accordance with the transitional provision previously recommended, the payment for that year be deemed to be the payment that would have been made if it had not been so increased; and where the mill rate used in computing the payment for the year is less than that used in computing the payment for the preceding year, the payment for the preceding year be deemed to be the amount that it would have been if the current mill rate had been applicable; and

(c) where under the transitional provision previously recommended, the payment to the municipality would be greater than that under the above provision, the greater amount be paid to the municipality. (25, pp. 186, 187.)

The provincial authorities assess the value of all mining structures exempt from property and business taxes imposed by municipalities and school boards. (26, p. 189.)

The present provision in *The Assessment Act* exempting "buildings, plant and machinery in, on or under mineral land, and used mainly for obtaining minerals from the ground, or storing the same, and concentrators and sampling plant" be amended so as to indicate clearly the properties that are exempt and those that are taxable. (27, p. 190.)

I do not feel qualified to give an opinion with respect to these recommendations, as I have little knowledge of the problems of mining municipalities. I would be interested in hearing the discussions from representatives of the areas vitally concerned.

Property Tax as the Basis of Local Revenue

According to the Department of Municipal Affairs Statistical Data for 1966, taxation produced approximately $981 million in revenue, or 72.24% of total revenue, which was in the order of $1,358 million. The *Report of the Ontario Committee on Taxation* (Vol. 1, Table 8:1) indicates that had its recommendations been in effect in 1966, there would have been reduced municipal expenditures because of the provincial assumption of the administration of justice in the order of $15 million, increased revenue from new unconditional grants to municipalities of $32 million, and other changes in grants to municipalities (net) of $15 million, making a total of $62 million, as well as a reduction in revenue, by virtue of sales tax payable by local governments of $15 million. This would have brought the revised revenue from taxation to $934 million.

Further, if we deduct the increase in provincial payments in lieu of tax on previously exempt property, in the amount of $38 million, and basic shelter exemption grant, estimated at $111 million, the levy on local property taxpayers would be reduced to $785 million. (See Table 1.)

This would have meant a levy on the local taxpayers of 57.8% of the total 1966 current revenue—a reduction in the burden of taxation on the municipal taxpayers in the order of 20%.

Table 1

LOCAL TAXATION (HAD THE RECOMMENDATIONS OF THE COMMITTEE BEEN IN EFFECT IN THE YEAR 1966)

(millions of dollars)

Actual tax levies		$981
Add:		
Sales tax payable by local governments		15
Revised revenue requirement		934
Deduct:		
Expenditure from provincial assumption of the administration of justice	15	
Increase in provincia payments in lieu of tax on previously cipalities	32	
All other changes in grants to municipalities (net)	15	62
Revised revenue requirement		934
Deduct:		
Increase in provincial payments in lieu of tax on previously exempt property	$ 38	
Basic shelter exemption grant	111	149
Revised levy on local property taxpayers		$785

Source: Treasurer's Office, The Borough of Scarborough.

Basic Shelter Exemption

The Ontario Committee on Taxation recommendation on the implementation of a basic tax exemption reads:

> From the taxable assessment of residential property, there be allowed a basic shelter exemption in respect of each self-contained dwelling unit of:
>
> (a) $2,000 multiplied by the provincial equalization factor for the municipality, or
>
> (b) 50 per cent of the residential taxable assessment applicable to the self-contained dwelling unit,
>
> whichever is the lesser. (Ch. 11, para. 119.)

The provincial equalization factor will vary throughout the province. In the Metropolitan Toronto area the current equalization factor is 32%.

Implementation of this recommendation will result in the province paying a grant to the municipality equivalent to the municipal and school taxes on $640 of taxable assessment on all residential properties in Metropolitan Toronto, whether owned or rented, subject to a maximum payment of 50% of the taxes on any individual property. The maximum limitation will apply on any property in this area assessed below $1,280.

Mill rates will be calculated as if no basic tax exemption were to be available. The basic tax exemption will appear as a deduction from total taxes, and after reconciliation of these exemptions, the municipality will apply for grants from the province equivalent to the total.

The percentage of saving, as calculated in relationship to the individual tax levy, decreases with the higher-valued taxable assessments.

Total Residential Taxable Assessment	Basic Shelter Exemption as Percentage of Total Residential Tax Bill
$ 1,280 and less	50.0%
2,500	25.6
4,000	16.0
5,000	12.8
6,500	9.8
7,000	9.1
10,000	6.4
20,000	3.2

Mill rates in the Metropolitan Toronto area for 1967 varied from 70.62 mills to 88.60 mills for public school supporters, and from 71.71 mills to 88.145 mills for separate school supporters.

The tax saving under the basic shelter exemption for all residential assessments of $1,280 or more in this area would have varied from $45.20 to $56.70 for public school supporters, and from $45.89 to $56.41 for separate school supporters.

Under the proposed legislation, each area municipality would be responsible for the administration of the basic tax exemption to individual taxpayers, and for collecting the grant from the province. This may be varied, if the following recommendation is adopted:

> The province pay to each tax-levying local authority a Basic Shelter Exemption Grant calculated annually by applying the authority's mill rate to the aggregate of the basic shelter exemptions applicable to residential and farm properties within its boundaries. (Ch. 21, para. 96.)

It would appear from this proposal, that regional governments and school boards could also be involved in the administration of the basic shelter exemption and become empowered to levy taxes directly.

Property taxes are said to be regressive. The basic tax exemption achieves a degree of reduction in this area. The exemption will also increase as mill rates rise.

The $2,000 figure of equalized assessment will need regular review if property values continue to spiral upwards at their recent pace.

The Ontario Taxation Committee appears to have opted for ease in administration in recommending that the exemption on rented property go to the owner. It is unlikely that the tenant will obtain an abatement in rental under present conditions. It may be practical, although at some additional administrative cost, to direct the basic tax exemption to tenants on the basis of a percentage of their rental being deemed to be taxes.

The proposal that cottage owners receive the basic tax exemption and, where they are owners of other property, thus become entitled to two exemptions, has come under criticism. In my view, the reduced amount of municipal services generally required by cottagers, warrants support of the stand of the Ontario Committee on Taxation.

Table 2

SELECTED APPROXIMATE TAX AND REVENUE DATA FOR ONTARIO MUNICIPALITIES
1965 and 1966
(thousands of dollars)

	1965		1966	
Total taxable assessment (unequalized)	$ 12,359,283[a]		$ 12,834,091[a]	
Total taxation revenue	878,613		980,806	
Average required tax rate	71 mills		76.4 mills	
Potential yield at average mill rate	177,584		201,067	
Total exempt assessment (unequalized)	2,501,182[a] [b]		2,631,772[a] [b]	
Total exempt assessment (unequalized) federal properties	412,241		422,964	
Total payments in lieu of taxes	21,950		23,592	
Average tax rate equivalent	53¼ mills		55.77 mills	
Total exempt assessment (unequalized) provincial properties	283,023[b]		286,287[b]	
Total payments in lieu of taxes, fiscal year ended March 31	7,658		8,996	
Paid under *The Municipal Tax Assistance Act*	2,260	2,911		
Paid under *The Power Commission Act*	5,399	6,085		
Average tax rate equivalent	27 mills		31.4 mills	

[a] Municipal utility assessment in the neighbourhood of $100 million is included, in both total taxable and total exempt assessment. The exempt assessment would be more correctly stated if the $100 million were deducted. The estimate of municipal utility assessment does not include substructures or superstructures not forming integral parts of buildings that under *The Assessment Act* are not assessable.

[b] Total exempt assessment for provincial properties does not include certain properties of Hydro for which grants-in-lieu are not paid, such as power dams, and transmission lines, and includes only a low statutory value for generating and transformer station buildings.

Source: Borough of Scarborough, based on Department of Municipal Affairs, *Annual Report of Municipal Statistics*, 1965 and 1966, and the Ontario, *Public Accounts*, 1966 and 1967. This table corresponds to Table 12:1, Volume II, p. 129, of the *Report of the Ontario Committee on Taxation*.

Table 3

ALL MUNICIPALITIES IN PROVINCE OF ONTARIO
GENERAL FUND

(year ended December 31, 1966)

REVENUE

	1966 Amount	%
Taxation	$ 980,806,158	72.24
Government of Canada—in lieu municipal taxes	23,592,995	1.74
Province of Ontario—Subsidies	177,520,762	13.07
Licences and permits	9,770,664	.72
Interest charged or earned, plus penalties on taxes	13,043,057	.96
Earnings from municipal utilities and enterprises turned over to municipalities	2,113,188	.16
Receipts from one municipality to another for services rendered	13,998,390	1.03
Sundry revenue	58,309,374	4.30
Debenture debt charges recovered from revenue-producing utilities, enterprises and other municipalities	58,800,513	4.33
Prior year's surplus used to reduce current levy	19,658,152	1.45
	$1,357,613,253	100.00

Source: Department of Municipal Affairs, Ontario.

Table 4

EXEMPTIONS FROM PROPERTY TAX IN ONTARIO

ALL MUNICIPALITIES, BY TYPE OF EXEMPTION

AS PERCENTAGE OF TOTAL EXEMPTIONS FOR SELECTED YEARS

(%)

Year	Federal	Provincial	Municipal	Educational, Religious and Charitable	Total Exemption
1954	23.18	17.10	39.03	20.69	100.00
1959	19.13	19.80	39.61	21.46	100.00
1964	17.54	9.88	47.64	24.94	100.00
1965	16.68	11.45	50.67	21.20	100.00
1966	16.27	11.02	21.25	51.46	100.00

Note: This table corresponds to Table 12:3, Vol. II, p. 132 of the *Report of the Ontario Committee on Taxation.*

Source: Department of Municipal Affairs, *Annual Reports of Municipal Statistics.*

Table 5

EXEMPTIONS FROM PROPERTY TAX

ALL MUNICIPALITIES, AS PERCENTAGE OF TOTAL ASSESSMENT, 1947-66

Year	Total Assessment (thousands of dollars)	Exemptions as percentage of total Assessment (%)
1947	3,986,130	16.05
1948	4,007,330	14.29
1949	4,559,771	12.70
1950	5,013,130	16.23
1951	5,283,889	16.54
1952	5,687,089	16.06
1953	5,996,059	15.88
1954	7,226,703	15.60
1955	7,724,202	14.97
1956	8,419,606	14.53
1957	9,245,963	14.32
1958	9,483,795	15.08
1959	10,246,710	15.41
1960	11,106,367	15.25
1961	11,594,324	14.95
1962	12,693,877	15.31
1963	13,386,247	15.48
1964	14,173,194	16.27
1965	14,860,465	16.83
1966	15,465,863	17.02

Note: This table corresponds to Table 12:2, Vol. II, p. 132 of the *Report of the Ontario Committee on Taxation.*

Source: Department of Municipal Affairs, *Annual Reports of Municipal Statistics.*

Table 6

Exemptions from Property Tax in Ontario as Percentage of Total Assessment by Municipal Classification for Selected Years

Municipal Classification	Percentage of Exemptions to Total Assessment				
	1947	1954	1964	1965	1966
	%	%	%	%	%
Metropolitan Toronto area	13.35	14.50	15.99	16.65	17.10
Remaining Cities	21.97	19.13	18.86	19.62	19.73
Towns,[a] villages and improvement districts, 5,000 and over, in counties	16.80	15.09	14.30	14.80	14.62
Towns, villages and improvement districts, 5,000 and over, in districts	22.19	17.18	17.72	17.87	21.45
Towns, villages and improvement districts, under 5,000, in counties	14.78	15.21	16.08	16.26	16.06
Towns, villages and improvement districts, under 5,000, in districts	18.85	18.09	18.51	18.14	18.10
Townships 5,000 and over, in counties	23.15	15.73	14.07	13.72	13.05
Townships 5,000 and over, in districts	[b]	[b]	19.93	20.92	21.29
Townships under 5,000, in counties	5.32	7.74	7.94	7.92	8.04
Townships under 5,000, in districts	13.35	14.60	11.94	12.28	12.43
All Local Municipalities	16.05	15.60	16.27	16.83	17.02

Note: This table corresponds to Table 12:4, Vol. II, p. 132 of the *Report of the Ontario Committee on Taxation.*

Source: Department of Municipal Affairs, *Annual Reports of Municipal Statistics.*

[a] Including separated towns.

[b] Accurate information is not available for this category in these years.

Table 7

Exemptions from Property Tax in Ontario, 1966 Weight of Educational, Religious and Charitable Exemptions in Local Municipalities over 10,000 Population

Municipality	Population (thousands)	Total Taxable Assessment ($ thousands)	Educational, Religious and Charitable Exemptions	
			Amount ($ thousands)	Percentage of Tax Assessment %
Toronto	646	1,966,237	285,445	14.52
North York	390	931,071	90,866	9.76
Ottawa	288	641,229	86,239	13.45
Hamilton	283	609,070	64,344	10.56
Scarborough	266	521,302	61,589	11.81
Etobicoke	215	616,237	38,397	6.23
London	187	396,856	47,998	12.09
Windsor	187	409,979	38,519	9.40
York	127	234,161	22,691	9.69
St. Catharines	95	138,243	13,707	9.92
Toronto Twp. (now Mississauga)	93	139,907	9,163	6.55

Municipality	Population (thousands)	Total Taxable Assessment ($ thousands)	Educational, Religious and Charitable Exemptions	
			Amount ($ thousands)	Percentage of Tax Assessment %
Kitchener	91	189,590	20,239	10.68
Sudbury	82	111,427	16,701	14.99
Oshawa	77	280,949	18,290	6.51
Sault Ste. Marie	74	236,432	24,834	10.50
East York	73	133,379	12,977	9.73
Burlington	65	123,496	10,041	8.13
Brantford	58	129,518	9,471	7.31
Niagara Falls	54	120,740	8,795	7.28
Peterborough	54	94,541	8,455	8.94
Kingston	54	83,216	26,672	32.05
Sarnia	53	176,458	13,079	7.41
Oakville	53	134,159	10,932	8.15
Guelph	49	55,046	5,115	9.29
Fort William	48	71,514	7,209	10.08
Port Arthur	46	86,281	13,356	15.48
Nepean Township	46	45,980	5,904	12.84
Cornwall	44	65,422	6,053	9.25
Welland	39	73,491	8,664	11.79
Brampton	35	59,769	4,179	6.99
Belleville	33	106,335	10,369	9.75
Galt	33	50,865	2,749	5.40
Chatham	31	54,719	7,964	14.55
Waterloo	30	67,365	12,738	18.91
Timmins	29	28,700	4,647	16.19
Pickering Twp.	28	32,423	2,966	9.15
Eastview	25	30,156	3,019	10.01
Barrie	24	31,818	4,130	12.98
Woodstock	24	37,773	4,553	12.05
Forest Hill	23	74,240	5,897	7.94
St. Thomas	23	37,808	4,420	11.69
North Bay	23	35,951	4,813	13.39
Stratford	23	28,493	5,300	18.60
Gloucester Twp.	21	20,935	1,931	9.22
Leaside	21	87,648	3,099	3.53
Richmond Hill	19	35,719	1,539	4.31
Brockville	19	23,502	3,678	15.65
Mimico	19	34,594	2,036	5.89
Vaughan Twp.	18	30,752	2,523	8.20
Owen Sound	18	64,471	10,038	15.57
Saltfleet Twp.	18	23,205	2,410	10.39
Port Colborne	18	33,656	2,753	8.18
Markham Township	17	23,693	1,938	8.18
Chinguacousy Twp.	16	24,165	65	.27
Dundas	15	21,391	1,557	7.28
Orillia	15	26,504	2,818	10.63
Whitby	15	23,825	2,283	9.58

Municipality	Population (thousands)	Total Taxable Assessment ($ thousands)	Educational, Religious and Charitable Exemptions: Amount ($ thousands)	Educational, Religious and Charitable Exemptions: Percentage of Tax Assessment %
Ancaster Twp.	15	19,248	1,975	10.26
Trenton	14	16,426	1,301	7.92
King Twp.	13	17,896	1,297	7.08
Widdifield Twp.	13	13,095	744	5.68
Preston	13	16,201	1,644	10.15
Kingston Twp.	13	19,556	1,695	8.67
Kapuskasing	12	15,747	1,418	9.00
Long Branch	12	22,179	1,343	6.06
Gwillimbury Twp.	12	12,746	795	6.24
Lindsay	12	15,546	1,582	10.18
Georgetown	12	16,060	994	6.19
New Toronto	12	43,427	2,984	6.87
Kenora	11	14,903	1,356	9.10
Wallaceburg	11	14,522	1,550	10.67
Weston	11	28,849	3,691	14.28
Darlington Twp.	10	7,923	395	4.99
Cobourg	10	15,569	1,961	12.60
Aurora	10	16,070	1,175	7.31

Rates of Exemption to Taxable Assessment	Number of Municipalities
Less than 1%	1
1% or more, but less than 5%	3
5% or more, but less than 6%	3
6% or more, but less than 7%	8
7% or more, but less than 8%	8
8% or more, but less than 9%	7
9% or more, but less than 10%	13
10% or more, but less than 11%	11
11% or more, but less than 12%	3
12% or more, but less than 13%	5
13% or more, but less than 14%	2
14% or more, but less than 15%	4
15% or more	9
	77

The median for all 77 municipalities was 9.66%.

Note: This table corresponds to Table 12:6, Vol. II, p. 134 of the *Report of the Ontario Committee on Taxation.*

Source: Department of Municipal Affairs, *Annual Report of Municipal Statistics, 1966.*

Speaker: **Frank A. Clayton**

Regional Economist, Central Mortgage and Housing Corporation, Winnipeg

An Assessment of Proposals Affecting Property Tax Burdens[1]

Several of the changes in the existing local-provincial fiscal system recommended by the Ontario Committee on Taxation dramatically modify the functions and importance of the property tax. Among these are proposals that the province should increase its share of school board operating costs from the present average level of 45% to 60% and consequently reduce the role of the property tax from 55% to 40%; that a basic shelter exemption grant by the province be introduced to pay the tax on the first $2,000 of the taxable assessment of residential property; that the present split mill rate which now produces lower education and general mill rates for residential properties than for commercial and industrial property be repealed; that all real property be assessed at actual value; and that taxable assessment be defined at 70% of actual value for residential properties and 100% for the combined property and business taxes on business properties.

The purpose of this paper is to evaluate these and other recommendations of the Committee which, if implemented, will change the present level and distribution of the burdens of the property and business tax levies of municipalities. We shall first briefly describe the background factors which influenced the conclusions reached by the Committee on the future of the property tax in Ontario. We shall then evaluate the Committee's proposals in light of the Committee's philosophy of government finance; the Committee's philosophy is open to two interpretations and both are discussed. Finally, we compare the proposed basic shelter exemption grant with alternative proposals having the same objectives, namely a reduction in both the weight and regressivity of residential property tax burdens.

Background

As outlined in the Introduction of Volume II, the briefs presented to the Committee confirm Jens P. Jensen's comment of twenty-seven years ago that "if any tax could have been eliminated by adverse criticism, the general property tax should have been eliminated long ago" (Vol. II, p. 12) holds true for the real property tax in Ontario today. But just as adverse criticism did not eliminate the general property tax in the United States, neither will it suppress the real property tax in Ontario. The Committee has concluded that the property tax is going to be with us and the best that can be hoped for are major reforms in the existing tax structure to reduce its imperfections.[2]

Although criticisms of the present property tax cover a multitude of real and imagined sins, ranging from administration of the tax to assessment practices, this paper is concerned with the fundamental issue that the distribution and level of

[1] The province has already implemented some of the recommendations of the Ontario Committee on Taxation including two of those to which this paper is directed, *i.e.*, the basic shelter exemption grant and the transfer of the administration of justice to the province. We still feel that it is useful to evaluate these proposals, particularly the basic shelter exemption, even though faced with a *fait accompli* along with the other recommendations affecting property tax burdens. Hence in effect we ignore the fact that these recommendations have been acted upon.

[2] The Committee's position is clearly illustrated by the following:
In a sense our recommendations also confirm the view that the property tax is still invulnerable to criticism. For while we propose major reforms in the form of the property tax and a reduction in the weight placed upon it, we too are unable to propose that it be abolished.
We take this position because we have been unable to discover or devise a workable alternative to the real property tax as the major revenue source of local governments that would not drastically reduce, or even destroy, either local autonomy or local fiscal responsibility. (Vol. II, p. 1.)

property tax burdens are not correlated with either the equity principle of ability to pay or the equity principle of benefits received.

The property tax, particularly the portion levied on residential properties, is a regressive tax almost regardless of the income base to which the pattern of taxes is related.[3] Property tax payments of 1,059 home-owning families residing in cities having a population of 15,000 persons and over across Canada in 1959 (the 1959 D.B.S. *Survey of Family Expenditures*) as a percentage of money income declined from 11.2% in the "Under $2,000" income class to 2.4% in the "$10,000 and over" class (see Appendix to this paper Table 1). Tax payments of 596 home-owning families (Royal Commission on Banking and Finance's 1962 Consumer Survey) residing in cities having a population of 100,000 persons or more in 1962 declined even more markedly—from 20.2% of money income for families in the "Under $2,000" income class to 1.7% for families with money incomes of "$25,000 and over". For 410 families (the 1959 D.B.S. *Survey of Family Expenditures*) who lived in the province of Ontario in 1959, residential property taxes as a percentage of money income declined from a high of 11.6% in the "Under $2,000" income class to a low of 2.4% in the "$10,000 and over" class.

It therefore follows that although the regressivity of the property tax may be either reduced or increased when the tax on both residential and business properties is considered and a more theoretically acceptable income base is employed, the fact remains the tax is regressive.[4] For instance, the Committee's incidence study, which includes the entire property tax and uses an alternative income base, shows a much less noticeable pattern of regressivity with property and business taxes as a per cent of adjusted broad income declining from 7.3% in the "Under $2,000" income class to 3.8% in the "$10,000 and over" class. The lower regressivity is of course a result of the income base to which the distribution of property taxes is related—the distribution of adjusted broad income is more equal than money income.

In assessing the degree to which the property tax approximates a benefit tax, the Committee found that, although municipal expenditure benefits decline from 10.5% of adjusted broad income in the lowest income class to 4.4% in the highest, the net incidence of the municipal fiscal system displays regression over the four lowest income classes and is progressive for the remaining income classes (Vol. I, p. 163). Since a benefit tax would result in the net of expenditure benefits less tax payments approximating zero for each income group or, within the framework of the Committee's empirical study, the net incidence of the local fiscal system would be essentially proportional for each income class, the conclusion follows that the

[3] Although the Committee makes recommendations affecting the burden of taxation on farm, transportation and communications, and mining properties, these are not dealt with here. Our focus is on residential and business properties only.

[4] Much has been written on the income bases which should be employed in incidence studies. Money income is often criticized by economists for not being a comprehensive concept of income (*e.g.*, imputed rental income of home-owners and other agents of economic gain are excluded) and for its inconsistent treatment of the government sector (*e.g.*, transfer payments are included, as is the amount used to pay taxes, but other government expenditure benefits are excluded); yet this is the definition of income which has gained acceptance by the population.

Many income concepts have been used in past redistributive studies. Among them are two which were first employed in Canada in Professor Gillespie's study for the Royal Commission on Taxation: *The Incidence of Taxes and Public Expenditures on the Canadian Economy*. Both the concepts of broad income and adjusted broad income are comprehensive income bases, but the former excludes the entire public sector while adjusted broad income includes the entire public sector. Professor Gillespie finds these two income concepts equally acceptable and, except for a few qualifications, both support the same conclusions. Hence, although the degree of regressivity of the property tax widely varies with these two income bases (one more than the money income base and one less), the fact remains the tax is regressive (see Appendix Table 2).

The Ontario Committee on Taxation opts for the adjusted broad income base. Therefore, it must be kept in mind that the property tax appears much less regressive in the Committee's incidence study than is the case for most other studies.

property tax in Ontario does not approximate a benefit tax.[5] This conclusion is debatable. On examining the net incidence of the urban residential property tax in Canada, we found a fairly close correlation to exist between tax burdens and expenditure benefits. This result holds for five alternative income bases and for six different allocations of expenditure benefits for each base.[6] Our conclusion is that for urban residential property, at least, the property tax approximates a benefit tax.[7] Professor Netzer in his definitive study on the property tax reaches a still different conclusion and concludes that the property tax has a progressive effect on income distribution.[8]

Clearly, additional empirical investigation is required before one can conclude the property tax is not a reasonably fair approximation of a benefit tax. On the other hand, it still remains that the tax (excluding expenditure benefits) is a regressive one.

However, the property tax will be with us for a long time because it is essentially irreplaceable and exceedingly productive. In 1966 the real property tax produced $1.9 billion in revenue in Canada, including an estimated $960 million in Ontario, whereas in 1939 the corresponding amounts were $242 and $113 million. Between 1939 and 1966 revenue increased seven-fold in Canada and almost eight-fold in Ontario. In 1966, by comparison, federal and provincial personal income taxes collected $3.9 billion, corporation income taxes, $1.1 billion and provincial retail sales taxes $1.0 billion. Clearly property taxes form an indispensable part of the existing tax structure in the country. The property tax in addition is admirably suited to the use of local government and if the principles of local autonomy and fiscal responsibility are to be accorded places of high honour, the property tax is a necessary prerequisite to this end.

Hence, although the property tax in Ontario suffers from several deficiencies (including tax regressivity and an *apparent* lack of a close relationship between tax burdens and expenditure benefits), the productivity and amount of revenue produced as well as the suitability of the tax for local administration are the main considerations which influenced the Committee's conclusion that the property tax is a vital part of the fiscal scene. What the Committee tries to do is to remove the most obvious of the imperfections of the tax.

The Committee's Philosophy of Government Finance

Prior to evaluating the Committee's proposals for revising the level and distribution of existing tax burdens, one must first determine the Committee's view on how local government fiscal systems should function. To do this selected aspects of the Committee's philosophies of taxation, intergovernmental fiscal relations and local government, must be examined. This can be done within a framework incorpo-

[5] The Committee's incidence study shows net benefits in all income classes for the local fiscal system. This feature arises because expenditures financed by unconditional grants and budgetary deficits are allocated but there are no offsetting municipal tax burdens. The Committee, however, implicitly assumes that the relative distribution of property-tax-financed expenditure benefits is the same as that found for the local fiscal system (*e.g.*, see Vol. II, p. 82). Hence, for the property tax to approximate a benefit tax in the Committee's study, net benefits would have to be about the same proportion of income in each income group rather than zero. This of course is not the case.

[6] Frank A. Clayton, *Distribution of Urban Residential Property Tax Burdens and Expenditure Benefits in Canada* (Unpublished Ph.D. thesis, Queen's University, 1966), p. 179.

[7] Although a relationship exists between taxes paid benefits received when families are combined into selected income groups, large disparities can and do occur within any income class.

[8] Dick Netzer, *Economics of the Property Tax* (Washington: The Brookings Institution, 1966), p. 62. Netzer found expenditure benefits to be one-and-a-half to two times tax burdens in the lowest income class and tax burdens to be anywhere from two to seven times expenditure benefits in the highest income class.

(Appendix Table 3 summarizes the net incidence findings of the Ontario Committee on Taxation, Clayton and Netzer.)

rating their conclusions on the relative roles played by the benefit and the ability to pay approaches to taxation.

The Committee develops its ideas relating to taxation in Volume I, Chapter 1 and, although the discussion refers to government *per se* without reference to any particular level, Chapter 2 of the *Report* asserts "the philosophy of taxation we have set forth in the preceding chapter is applicable to the conduct of government at any level within our political system" (Vol. I, p. 23).

The Committee first considers the principles of a sound tax system stating that a good tax system should be judged according to ten principles, "but there is one characteristic in particular that in our view rises above all the rest, both because a majority of the remaining characteristics flow from it and because it goes to the core of constitutional democracy. This characteristic is equity. . . The basic rule of equity in taxation is the principle of equal treatment of equals" (Vol. I, p. 8). As the Committee's recommendations concerning the appropriate level and weight of real property tax burdens flow from equity considerations, this is where attention must be concentrated.

Accepting the fundamental premise that equals should be treated equally, it follows that unequals should be treated unequally. However, to apply this principle to a tax system is indeed difficult because of the existence of two schools of thought concerning the way this should be accomplished. The first, the benefit principle, interprets equity as requiring that the burden of taxation be allocated among taxpayers according to the benefits each derives from the consumption of goods and services provided by government. The second, the ability to pay principle, suggests equity requires that taxpayers contribute according to their ability or capacity to pay taxes.

The Committee compromises and sees a role for both equity principles in the tax system. At first the Committee seems to subscribe to Adam Smith's proposition that wherever possible the costs of government expenditure should be borne by those who benefit, and only when this is impractical or inappropriate should the ability to pay principle be applied. Application of the ability to pay principle at the provincial-local level requires that their combined fiscal systems be moderately progressive (that is, the effective benefit rate less the effective tax rate declines as income rises).[9]

[9] There is a discrepancy in the *Report* regarding the issue whether only the fiscal system should be moderately progressive or both the fiscal and tax systems. The *Report* asserts (Vol. I, p. 15):

> The ultimate sanction for any given pattern of tax progression is the prevailing consensus of ethical judgment as to what constitutes a socially desirable distribution of the nation's income and wealth. Without undertaking to probe the depths of this consensus, we think it appropriate at this juncture to suggest two guidelines that we believe are important considerations on making social judgments on progressivity. The first is that the concept of ability to pay, rather than dictating the progressivity of any given tax, embodies instead the more general notion that the tax system should be moderately progressive *as a whole*. The second is that government expenditures, which themselves affect the relative position of individuals, should be considered along with taxes in determining what constitutes over-all equity.

Yet in its empirical investigation of the patterns of tax burdens, the *Report* states (Vol. I, p. 158):

> When all three levels of governments are combined, including the taxes paid by Ontario residents to other provincial and municipal governments, the rate pattern that emerges is progressive for all but the lowest income ranges. The substantial reduction of the overall effective rate between the lowest and second lowest income classes (from 28.3% to 21.8%) is not necessarily evidence of an inappropriate tax structure. Viewed in isolation, both the level and pattern of these rates appear to be unsatisfactory, but when taken in conjunction with the expenditure benefits conferred upon the members of these income classes, the net effect of government fiscal activities appears in quite a different light. It is therefore necessary to defer judgment until the pattern of benefit rates has been examined and combined with the tax rate pattern.

We have interpreted the latter quotation as being indicative of the Committee's philosophy regarding income redistribution.

However, at a later point in its discussion of equity and when considering the desirable allocation of costs by a particular level of government to its taxpayers, the Committee appears to change the role of the two equity principles. This is particularly true when the Committee looks at the local fiscal system. Rather than aiding in the distribution of the costs of government expenditures to taxpayers, the *Report* states in its closing discussion on equity in taxation, that the benefit principle is restricted to aiding in the determination of the optimal total of taxation. The ability to pay principle is the key element in the proper allocation of costs to taxpayers.[10]

It will be demonstrated in future paragraphs that the Committee's recommendations relating to the burden of the property tax follow from this latter philosophy of the relative roles of the two equity principles. Further, we will argue that the property tax satisfies the conditions of a benefit tax outlined by the Committee and, therefore, its recommendations should have included proposals designed to improve the relationship between property tax burdens and municipal expenditure benefits.

On assessing the Committee's philosophy of intergovernmental relations and, hence, its philosophy of the role of local government, we find the Committee once again subscribes to the Adam Smith proposition but this time implements it. The Committee accepts, as least implicitly, the concept that one of the prime criteria for the division of expenditure responsibilities in a federal state like Canada's is the type and geographical extent of the benefits forthcoming. Fundamental to this is the difference between specific and indivisible governmental expenditures (the former category includes expenditure items whose beneficiaries are readily identifiable) and those of national and "other" concern. At one end of the spectrum there are the functions whose benefits are clearly indivisible and unambiguously federal, such as defence, which should be the responsibility of the federal government (Vol. I, p. 28). At the other end lie those services whose benefits are primarily specific and of local concern, such as police and fire protection, which should be provided by local authorities (Vol. I, p. 45).

Once the division of expenditure responsibilities is determined, then it is of paramount importance that each level of government has autonomy in its expenditure fields and also that each level has fiscal responsibility. The level of government which spends the money should also be responsible for raising the revenue. Although the Committee strongly supports the principles of autonomy and fiscal

[10] Support for our contention that the Committee appears to subscribe to two distinct philosophies with regard to the relative weight to be placed on the benefit and ability to pay principles, is shown in the following extracts from the *Report*:

> We are convinced that taxation according to the benefit principle has an important role in our fiscal system. Specifically, we are of the opinion that taxes based on benefit are desirable first, when the benefits and beneficiaries of government expenditure programs can be identified relatively clearly; *second*, when a modified distribution of wealth and income is not a policy objective; and *third*, when the imposition of benefit-related charges on the users or beneficiaries of a service will not result in an inefficient use of that service (Vol. I, p. 11).

> Ability to pay is appropriate for financing that great portion of the government expenditure where it is either impossible or inappropriate to allocate cost among taxpayers in accordance with benefits received (Vol. I, p. 11).

Hence, the Committee's philosophy of taxation seemingly requires that a specified level of government first apply the benefit principle, and for services whose costs cannot be allocated in this way the ability to pay principle should be used. Yet when the Committee comes to summing up its discussion of equity in taxation, it suggests somewhat different roles for the benefit and ability to pay principles:

> Our second point is that no tax system can be considered equitable unless it rests in part both on ability to pay and on benefits received. Benefits received is a key element in determining the optimum total of taxation, and therefore the appropriate distribution of resources between public and private uses. Ability to pay, on the other hand, in taking into account the equitable distribution of income, is an indispensable guide to the proper allocation of the burden of financing government (Vol. I, p. 16).

responsibility (the benefit principle), especially in its discussion of local government in Chapter 9 of Volume II, it also strongly believes that autonomy cannot be achieved if a level of government does not have adequate resources to finance its responsibilities. Hence, the federal and provincial governments should guarantee that both the provinces and municipalities have sufficient resources to provide a minimum level of services (ability to pay philosophy).

The benefit and ability to pay principles then play the following roles in the Committee's philosophy of government finance:

Interpretation 1 (as applied to the local fiscal system by the Committee):

Benefit principle:

(a) aiding in allocating expenditure responsibilities among the federal government, provinces and local government.

Ability to pay principle:

(a) aiding other levels of government to provide minimum levels of government services by means of grants (i.e., grants from the federal government to the provinces and from the provinces to local governments),

(b) allocating the cost of government services to taxpayers.

Interpretation 2 (that which the Committee should have applied to the local fiscal system):

Benefit principle:

(a) aiding in allocating expenditure responsibilities among the federal government, provinces and local government,

(b) wherever practical to determine the taxpayers who will bear the costs of providing government services.

Ability to pay principle:

(a) aiding other levels of government to provide minimum levels of government services by means of grants (*i.e.*, grants from the federal government to the provinces and from the provinces to local governments),

(b) allocating the costs of government services where the benefit principle is either impossible or inappropriate to apply.

An Evaluation of Recommendations Affecting the Distribution and Weight of Property Tax Burdens

Although several of the Committee's recommendations will affect current property tax burdens, our attention has been circumscribed to the major proposals:

1. The province raise the average level of education grants over a three-year period to 60% of school board expenditure.
2. A basic shelter exemption be allowed from the taxable assessment of residential property of each self-contained dwelling unit in the lesser of

   $2,000 multiplied by the provincial equalization factor for the municipality, or

   50% of the residential taxable assessment applicable to the self-contained dwelling unit.

3. That mill rates for commercial and industrial taxpayers be uniform with those for residential and farm taxpayers.
4. All real property, whether taxable or not, be assessed at 100% of actual current value each year.
5. Residential properties be taxed on a taxable assessment of 70% of assessed value, business properties be subject to property tax on a taxable assessment of 50% of the assessed value, and that occupants of business properties be subject to a business occupancy tax on a taxable assessment of 50% of the assessed value of the occupied property at the same mill rate as the property tax.
6. The province assume complete responsibility for the administration of justice.

In the first recommendation, the Committee approves of the existing split in the responsibility for education "whereby the province bears the cost of essentially guaranteeing that adequate standards of education will prevail everywhere in Ontario. To the school board, meanwhile, is left the critical responsibility of determining what additional quality of education, if any, shall be sought over and above provincial standards" (Vol. I, p. 54). The Committee also advocates the use of the property tax to finance the local share of school expenditures on the grounds that schools confer indirect benefits on the owners of property.[11]

The proposed increase in provincial grants to finance 60% of school board expenditures from the present average level of 45%, then, is partially a result of an estimate of the benefits to property owners, but is also based to a degree on considerations of local autonomy, cost control and the equity of the overall total provincial-local fiscal system. The 60% is not magical but rather is a reflection of the Committee's view of the approximate proportion of the total cost of education to be borne by the province (Vol. II, p. 408). The effect of this recommendation will be to reduce the load of the property tax by an estimated $136 million in 1966.

The second and one of the most far-reaching recommendations of the Committee is the proposed basic shelter exemption for all self-contained dwelling units from the property tax on the first $2,000 taxable assessment or the first 50% of taxable assessment, depending on which is lower. The exemption applies to both owner-occupied and rental dwellings, and has already been accepted by the provincial government.

The basic shelter exemption reasoning is twofold: to make the property tax less regressive and to lower the level of burden of the residential component of the tax. The Committee found that the municipal tax system was regressive (particularly between the two lowest income classes where taxes as a percentage of adjusted broad income fall from 8.0% in the "Under $2,000" income class to 4.5% in the "$2,000-$2,999" class), and that the regressivity is largely explained by the residential component of the real property tax (Vol. I, p. 158). Further, when expenditure benefits are taken into account the net fiscal incidence of the municipal fiscal system displays regression over the four lowest income groups (up to $5,000 income per year). The Commission also finds that the property tax is the most regressive major tax in the combined local-provincial fiscal system—whose pattern of tax incidence is U-shaped.

[11] Schools do confer benefits on the owners of property, albeit in indirect fashion . . . The fact that the construction of sewers may well enhance the value of property more directly than schools makes possible a legitimate argument to the effect that sewers should be financed entirely through property taxation while schools should rely only partly on this tax. But it most certainly does not invalidate the use of the property tax for educational purposes (*Report*, Vol. I, p. 55).

According to the Committees' calculations the shelter exemption would reduce the regressivity of the property tax, and similarly, reduce the regressivity of the combined provincial-local tax system, since the exemption cost would be mainly borne by the retail sales tax and personal income tax which are proportional and progressive taxes, respectively. At the same time the Committee states the exemption will lower the level of property tax burdens, and, though not mentioned by the Committee, it will result in a closer relationship between the pattern of municipal expenditure benefits and tax burdens in the lower income classes.

The Committee estimates the basic shelter exemption grant, if in force, would have reduced property tax levies by $95 million in 1966. The shelter exemption will replace the current split mill rate which currently results in the school tax mill rate being 10% lower for residential properties than for commercial properties with a similar differential for the general tax mill rate; hence, the third Committee recommendation that the mill rate on all types of property be uniform.

The proposal to assess all real property at 100% of actual current value will affect the distribution of the total tax levy among types of property. The *Report* found many discrepancies in the assessment ratios for different types of properties within municipalities and many municipalities were either greatly over- or under-assessing industries compared with properties of other types (Vol. II, p. 206). Similarly, it has been common practice to assess apartments at higher levels than other residential properties in the same municipality. The Committee concludes that it appears some municipalities, including Metropolitan Toronto and Hamilton, have deliberately discriminated against industrial and commercial properties and apartment buildings in favour of the remaining residential properties. To the extent that these practices prevail, assessment of all real property at actual value will probably increase the burden of the tax on owner-occupied residential properties.

The fifth proposal, that business properties be subjected to a property tax on a taxable assessment of 50% of the assessed value and occupants of business properties a 50% business tax on the same base while residential properties are subject to property tax on only 70% of assessed value, means that a form of split mill rate will in fact remain. With a uniform mill rate the tax levy on business properties, except working farms, will be 42% higher than on residential properties, which is about the same as at present if the split mill rate is excluded.

The effect of the province assuming responsibility for administration of justice on property taxes will be quite small—reducing the estimated $960 million property tax levies in 1966 (in the absence of the Committee's recommendations) by $15 million.

A Critique of the Committee's Recommendations

Interpretation 1

If our analysis of the Committee's philosophy of finance, as applied to the local fiscal system, is correct, then the basic shelter grant for all self-contained dwelling units is not required for equity reasons. Since the Committee's empirical work shows the municipal tax system in 1961 was essentially proportional for income classes above $2,000, rather than providing all families with tax relief it would be more efficient and desirable to provide relief only to the lower income groups. Hence regressivity can be reduced or even eliminated by tailoring subsidy measures to family incomes, similar to what is done for the payment of OMSIP premiums by the province.

The *Report* does not provide evidence that the level of residential property taxes is out of line when related to equity considerations and, in fact, one gains the opposite impression. In projecting the revenue of Ontario municipalities to 1975 in the absence of the Committee's recommendations, the Committee assumes that the average rate of the tax (which was 65 mills per dollar of assessment in 1963 and for some time prior to 1963 has been increasing by an average of 1½% per year) will continue to increase at the rate of 1½% per annum. In reply to criticisms that the projected increase is unduly great, the Committee states the following:

> It may be thought that the projected increase in the real property tax rate is unduly great and that the upward trend of the past few years cannot continue as rapidly in the coming decade. An examination of the historical record shows, however, that the yield of this tax in relation to P.D.P. was unusually low just after the war and that even after the increases of the past fifteen years, its yield was still a smaller proportion of P.D.P. than it was in the late 1920's. In 1926, for example, the yield was 5.4% of P.D.P., in 1929 5.0% and in 1939 it was again 5.4%. In 1963, the comparable figure was 4.8%, and by 1974, according to our projection, it will have risen to only 5.8%, which is no higher than it was in 1937. Most taxes today take a higher proportion of income than they did in the inter-war period. In view of this fact, and the fact that municipalities are now expected to provide a much higher standard of services, especially in the costly areas of education, roads, and social welfare, the projected yield of the municipal property tax appears to be consistent with historical experience (Vol. 1, p. 178).

Therefore, the reasons for the all-inclusive basic shelter exemption are not clear and, in fact, according to the Committee's empirical studies, it is not required since the combined local-provincial fiscal system is already moderately progressive (Chart 5:3, Vol. I, p. 164).

Second, the Committee's basis for the favourable treatment of residential properties compared with other types of property where a uniform mill rate will be applied to 100% of the assessed value of business properties and only 70% of residential properties is not clear.

Summarizing the Committee's apparent philosophy of government finance at the local level and its relation to proposals modifying the distribution and level of property tax burdens, the recommendations to assess all property at actual value, to apply a uniform tax rate to all property, and to increase the province's share of education costs are all well-supported and sound. On the other hand, the proposed basic shelter exemption grant and the discriminating split-taxable assessment proposals are without adequate support and their desirability is questionable.

Interpretation 2

The Committee, in theory, is an exponent of the philosophy that taxation based on benefits received is desirable when three conditions are met. First, the beneficiaries of government programs must be identified relatively clearly; second, income redistribution is not a policy objective; and finally, the imposition of benefit-related charges will not result in the inefficient use of services. Yet it only evaluates motor vehicle revenues and hospital and medical care premiums in these terms and the reason for this disparity between theory and practice is not readily understood. Although there may be practical considerations why the Committee looks basically at the total provincial expenditure benefits received by families according to their incomes (*e.g.*, many tax sources), these considerations do not hold at the municipal level; here the Committee cherishes the principle of local fiscal responsibility whereby local government should finance public goods and services by taxing those who benefit from them. Further, the existence of only one major local tax seems *prima facie* ideally suited for application of the benefit principle.

Had the Committee tested the real property tax according to these conditions for benefit taxation, it would have had an affirmative answer to the question: can the beneficiaries of local government expenditure programs be identified relatively clearly? In fact the question is implicitly answered this way by the Committee. Why else did it attempt to estimate, and accept, the distribution of municipal expenditure benefits estimated in Chapter 5 of Volume I. The Committee includes these expenditure benefits and municipal tax burdens in both an assessment of the net incidence of the municipal fiscal system and of the combined local-provincial fiscal system. If the Committee did not feel the beneficiaries of expenditure benefits could be reasonably identified, why did it go through this exercise?

Further, as discussed earlier, the benefit principle is one of the considerations upon which the Committee bases the division of expenditure responsibilities among levels of government. For example, the Committee's view that the maintenance and lighting of local streets and the construction and maintenance of access roads should be provided by local or regional governments, respectively, whereas highways are the responsibility of the province, is based on considerations of what groups within the province's population primarily benefit from each type of road. If the Committee can determine the groups which primarily benefit from many governmental services, why then can we not go one step further and allocate the costs of many municipal services to taxpayers according to the level of benefits received?

A breakdown of benefits flowing to persons and those benefits accruing to businesses is required to determine the beneficiaries of municipal expenditure benefits. To deal with this adequately would entail comprehensive study. However, the *Report* itself suggests that upon the elimination of the split mill rate, if property taxes on business properties were between 55% and 60% of the taxes levied on residential properties, this would be sufficient to cover the services such properties receive from municipalities (Vol. II, p. 98).

Further, although the Committee voices support for increased education grants by the province in terms of what is required if the province is to ensure adequate minimum standards of education, it might be argued that what the province is really contributing to are the indivisible benefits from education expenditure. Hence, direct benefits are being financed locally, and it is easy to see that a family with ten school-aged children derives a higher level of benefits from these expenditures than say a family unit composed of a retired couple. Similarly with local road expenditures—a family with two cars derives more benefit from these expenditures than a family that is without such transportation.

It must be concluded that the beneficiaries of local services in many instances can be relatively easily identified. In these circumstances it appears more equitable to allocate costs according to some arbitrary criterion such as is presently done in many municipalities with the costs of local improvements, which are often levied according to real property frontage. In this manner perhaps 25% of local education costs could be charged to property owners and 75% to families, depending on the number of children attending school. Such an allocation would reduce much of the regressivity the Committee found over the four lowest income groups, because it is caused mainly by families with lower-middle incomes having relatively more children in school than lower-income families and receiving more benefits, while occupying lower-value dwellings than the average lower-income family.

It is safe to assume that the Committee does not regard income redistribution as an objective of municipalities. The notion that local governments should be concerned primarily with the provision of public goods and services within its sphere of responsibility is implicit throughout the Committee's *Report*. Nowhere is

it suggested that the economic objectives of government outlined in Vol. I, p. 6 apply to municipalities. The closest that the Committee comes to recommending municipal involvement with the stabilization and redistribution objectives is a passive role for municipalities in connection with counter-cyclical fiscal measures—these policies, however, would be initiated by the province (Vol. I, pp. 76 and 77).

The Committee makes no statements that the imposition of benefit-related charges at the municipal level will result in an inefficient use of municipal services, and it would certainly be difficult to see why this would be the case, provided that benefit-related charges are compulsory.

In summary, the property tax certainly seems to satisfy the conditions established by the Committee to judge whether benefit taxation is desirable. The task then is to evaluate the Committee's recommendations affecting property tax burdens within the benefit framework.

The school grants recommendation is equally applicable under either interpretation of the Committe's philosophy. Also, the basic shelter exemption grant could be justified within the benefit framework but only if (a) the province estimates approximately 10% of the services financed by the property tax result in a flow of indivisible benefits or spillover benefits (i.e., taxpayers in municipality B benefit from expenditures undertaken by municipality A and *vice versa*) and these accrue proportionately more to lower-income families, and (b) unconditional grants from the province to its municipalities are not equalization grants. This is very unlikely however.

It should be pointed out that preferred treatment of certain groups of taxpayers is called for by the benefit approach. For example, as the package of municipal expenditure benefits received by the aged (assuming they are not on welfare) is lower than the package received by the middle-income family who has five school-aged children, their overall tax burdens should reflect these differences. This is in direct contrast to the Committee's statement that such preferred treatment is unwarranted if their proposal of a basic shelter exemption is accepted. Under the benefit principle preferred treatment is justified but not the shelter grant.

Lastly, the proposal to tax business properties on 100% of actual value of taxable assessment while residential properties are to be taxed at 70% is not justified under the benefit principle. The Committee itself has estimated that businesses receive benefits from municipal services of about 55% to 60% of the level accruing to residential properties and their occupants. Therefore, rather than applying a higher effective tax rate on business properties, the reverse should occur.

This examination of the Committee's major proposals affecting property tax burdens was restricted to the framework provided in the Committee's *Report*. However, one very important influence not considered by the Committee is that for income tax purposes owners of business and rental residential properties can now deduct municipal property taxes paid. The effect in the final analysis is that the provincial and federal governments pay a share of the property taxes on these properties. For corporations earning less than $35,000, the senior governments pay 23% of municipal property taxes, close to 52% for larger corporations, and anywhere from 15% up to 80% for individuals. Thus the Committee's proposals, particularly the two that provide preferential treatment to residential properties, should be re-examined since under the present tax structures rental and business properties are already being accorded preferred treatment and any proposals designed to lower the regressivity and weight of the property tax should reflect this.

For example, if it is agreed that both the basic shelter exemption and the preferential treatment of residential assessment are required under the ability to pay principle, as the Committee recommends, then the wisdom of including rental residential properties is questionable. On the other hand, consideration of the effects of the tax deduction on the effective property tax burdens on business properties provides justification for the higher taxation of business properties. As far as the benefit principle is concerned, the real objective should be to equate municipal expenditure benefits with actual tax burdens after the income tax offset. Thus the taxation of business and rental residential properties at a higher rate than benefit considerations suggest can be justified under the benefits received principle. The appropriate rate, however, would have to be determined by an empirical study of the income classes benefiting from the income tax offset.

Comparison of the Basic Shelter Exemption Grant with Other Proposals to Reduce Residential Property Tax Burdens

From the foregoing it is apparent some reservations can be expressed on the Committee's objectives to decrease the regressivity and the weight of residential property taxes in the province, and the method by which this goal might be attained, namely the basic shelter exemption. However, since this has been a provincial budgetary policy objective for several years, it is useful to compare the shelter exemption with proposals in effect elsewhere to assess how the basic shelter exemption grant performs in comparison. The five alternative proposals which we examine are the split mill rate, tax reductions for selected categories of taxpayers, home-owner grants, and allowing property taxes to be deductible from taxable personal income.

Basic Shelter Exemption Grant

The proposed shelter exemption is a flat exemption that reduces the taxable assessment of every self-contained dwelling unit, whether owner-occupied or rented. Advantages of the exemption are numerous according to the Committee and include the following: it reduces both the regressivity and weight of the residential property tax; it recognizes the differences in tax burdens among taxing jurisdictions; the exemption is applied to all residential properties whether owner- or tenant-occupied; benefits will increase under the present system of assessment, as mill rates rise, even though the amount of the exemption remains constant; taxpayers will know the degree of under-assessment within their community as the smaller the exemption, the greater the under-assessment; and finally, administration is easier than for the comparable home-owner grants.

There is no question that given the specified objectives the basic shelter grant is superior to other possible measures. However, one questions the desirability of including rental properties under the exemption. As stated earlier landlords deduct property taxes in calculating taxable personal or corporate income, and therefore the average decrease of 10% in property taxes which the exemption will provide is presumably already surpassed on rental properties. Therefore the exemption continues the favourable treatment of rental over owner-occupied properties. Surely a Committee that attaches importance to the equal treatment of equals, cannot recognize this unequal treatment of owner-occupants.

Split Mill Rate

The mechanics of the split mill rate in operation in Ontario in 1967 are described in Vol. II, Ch. 11 of the *Report*. The effect of these differential rates is that the school mill rate for residential and farm properties in each municipality is

set by statute at 10% less than the rate for commercial properties. In addition the province provides an unconditional per capita grant based on rates calculated on a combination of the municipality's status and its population and which must be used to reduce the general mill rate on residential properties. The resultant reduction exceeds 10% in most municipalities. The only advantage of the split mill rate, according to the Committee, is that it reduces the weight of taxation on both rental and owner-occupied residential properties. Among its limitations are that it does not reduce regressivity and more relief goes proportionately to the wealthier municipalities.

Tax Reductions for Selected Categories of Taxpayers

In 1967 limited relief was provided in Ontario by preferred treatment of elderly home-owners. Hamilton is authorized to reduce property taxes by $100 for old age pensioners and all municipalities can defer annual property taxes of owner-occupants 65 years of age or over up to a maximum of $150. Measures like these, however, are inefficient as a means of reducing the regressivity and weight of residential property taxes.

With this consideration in mind the Committee therefore rejects any form of tax reductions for selected categories of taxpayers. However, the reasons for this stand are much broader than suggested by the argument that it is an inefficient way to achieve the desired objectives. Such proposals as tax reductions for the aged are inequitable for two reasons, according to the Committee: they do not extend help to other families just as deserving as the aged, and families become eligible for relief who do not need it (Vol. II, p. 84).

The Committee also rejects the proposal to reduce the regressivity of the tax by providing relief only to low-income families on the grounds that "employment of a means test becomes burdensome on the administration and annoying to the taxpayer" (Vol. II, p. 84). The Committee may choose to be against means tests as a way to reduce the regressivity of the property tax but at the same time it fully supports the use of such tests for the Ontario Medical Services Insurance Plan. It in fact recommends expansion of the province's program of subsidized premiums to include the Hospital Care Insurance Plan, a seemingly direct contradiction.

Nevertheless the overriding factor for preferred property tax treatment of selected categories of taxpayers is the benefit principle. Families whose municipal expenditure benefits are less than others are entitled to bear a smaller portion of the costs and the case for preferred treatment of the aged in these terms is very strong indeed.

Home-owner Grants

The home-owner grants in the three western provinces have essentially the same impact on the weight and regressivity of the residential property tax as the proposed shelter exemption. Probably the only major advantage which the exemption has over these grants is that relief to taxpayers will reflect differences in tax burdens in force in different municipalities, whereas the home-owner grant is uniform for all taxpayers in the province. This in itself is sufficient to make the basic shelter exemption a somewhat superior policy instrument.

Property Taxes Deductible from Taxable Income

It has frequently been suggested that residential property taxes paid by owner-occupants should be made deductible from income for purposes of income tax. In fact it might be argued (though the Committee does not) that this is required to

treat home-owners the same as owners of rental properties. The Commission rightly rejects the proposal since it would discriminate against, rather than help, lower-income families. This is because the graduated rate structure of the personal income tax favours the well-to-do and low-income families may not be able to take advantage of the change since they may have little, if any, taxable income. Placing a ceiling on the amount of the property tax which could be deducted would improve this measure but it is still decidedly inferior to the shelter exemption.

An empirical analysis: basic exemption versus the income tax deduction

The superiority of the basic shelter exemption grant over the income tax deduction is illustrated in my Appendix Table 4. For home-owning families living in cities in Canada having a population of 15,000 persons or more in 1959 the income tax deduction would reduce property tax payments by 14.9% in the lowest income class but by 35.7% for families in the "$10,000 and over" income class. This is exactly the reverse of the impact of either the home-owner grant or the basic shelter exemption where taxes in the lowest income class are reduced by 32.1% and in the highest class by only 15.4%. The same pattern holds for the families surveyed who lived in Ontario. The conclusion then is that the property tax deduction would primarily help the wealthy, whereas either the basic shelter exemption or the home-owner grant would tend to help the lower-income families.

Conclusions

This paper suggests the following conclusions.

1. The Committee has developed a philosophy of government finance which when applied to local government suggests that the principle of benefits received should be used instead of the ability to pay principle as the primary guide to the distribution of the costs of municipal expenditures. But the Committee instead treats the property tax primarily as an ability to pay tax, and its recommendations to reform the tax are derived with this basic factor in mind.

2. As an ability to pay tax the Committee's proposal to reduce the regressivity of the property tax is eminently sound and desirable, but the recommendations for lowering the weight of the residential property tax and for a surtax on business properties are not wholly consistent with this principle.

3. Had the Committee approached the property tax as a benefit tax, reforms would have been based on establishing a closer relationship between the costs and the beneficiaries of municipal expenditure benefits. It is not possible to justify three of the Committee's major recommendations affecting property tax burdens on benefit grounds—the basic shelter exemption, the higher taxes on business properties, and the Committee's recommendation against special treatment for selected categories of taxpayers.

4. Given the Committee's objective of reducing both the regressivity and the weight of residential property taxes, the proposed basic shelter exemption grant is superior to the practical alternatives. The home-owner grant, which is the next best measure, would achieve the same general objective but not as efficiently as the shelter exemption. For the record there is no justification for the proposal (which the Committee also rejects) to allow the deduction of property taxes for income tax purposes, since its effect on decreasing regressivity would be minimal.

The above conclusion, and the Committee's recommendations, ignore the fact that owners of rental residential properties and business properties can already deduct property taxes for income tax purposes. Although the impact of this factor

on the Committee's recommendations would be a major study in itself, two general comments can be made. First, there is no reason on equity grounds to broaden the basic shelter exemption grant to include rental residential properties, since they are already probably receiving more relief from property taxes than owner-occupied property will obtain under the basic shelter exemption grant. And second, from a benefit point of view, there would seem to be justification for taxing rental properties and business properties at a higher rate than owner-occupied residential property, since part of these taxes are shifted to the senior levels of government.

In conclusion, the evidence, both in the Committee's *Report* and in this paper, strongly suggests that the benefit rather than the ability to pay principle should be accorded primary emphasis in the local fiscal system. Only in this way, will the local fiscal system approximate an equitable taxation arrangement.

Appendix Table 1

Incidence of the Urban Residential Property Tax in Canada

(Taxes as per cent of money income)

1959 D.B.S. Survey of Family Expenditures[1]		
	Canada	Ontario
Under $2,000	11.2	11.6
$ 2,000 - 2,999	7.0	8.2
3,000 - 3,999	4.6	5.4
4,000 - 4,999	4.0	4.5
5,000 - 5,999	3.8	4.1
6,000 - 6,999	3.2	3.4
7,000 - 7,999	3.0	2.7
8,000 - 8,999	2.6	2.7
9,000 - 9,999	2.7	3.1
10,000 and over	2.4	2.4

1962 Consumer Survey[2]	
	Canada
Under $ 2,000	20.2
$ 2,000 - 2,999	10.4
3,000 - 3,999	8.2
4,000 - 4,999	6.5
5,000 - 6,999	5.4
7,000 - 9,999	4.3
10,000 - 14,999	3.8
15,000 - 24,999	2.6
25,000 and over	1.7

[1] Calculated from replies by 1,059 home-owning families residing in cities of 30,000 persons and over.

[2] Calculated from replies by 596 home-owning families to the survey conducted by the Royal Commission on Banking and Finance. These families are residents of cities having populations of 100,000 persons and over.

Appendix Table 2

Incidence of the Property Tax in Canada

1961*

	Taxes as % of Broad Income	Taxes as % of Adjusted Broad Income
Under $2,000	16.3	8.0
$ 2,000 - 2,999	6.8	4.9
3,000 - 3,999	5.4	4.5
4,000 - 4,999	4.8	4.3
5,000 - 6,999	4.3	4.0
7,000 - 9,999	4.0	4.0
10,000 and over	3.8	4.1
Total	4.8	4.4

* W. Irwin Gillespie, "The Incidence of Taxes and Public Expenditures in the Canadian Economy." *Studies of the Royal Commission on Taxation, Number 2* (Ottawa: Queen's Printer, 1964), pp. 65 and 204.

Appendix Table 3

Net Incidence (Expenditure Benefits Less Tax Burdens) of the Municipal Fiscal System*

Ontario

(Net benefits as % of adjusted broad income)

Under $2,000	2.5
$ 2,000 - 2,999	3.5
3,000 - 3,999	4.0
4,000 - 4,999	4.6
5,000 - 6,999	3.5
7,000 - 9,999	2.4
10,000 and over	0.3

Canada[1]

(Net benefits as % of money income)

	Case B, Allocation I	Case A, Allocation II
Under $2,000	1.9	—4.3
$ 2,000 - 2,999	—1.2	—2.2
3,000 - 3,999	0.8	—0.1
4,000 - 4,999	0.5	0.0
5,000 - 6,999	—0.1	—0.1
7,000 - 9,999	—0.1	0.5
10,000 and over	—0.6	0.7

United States

(Net benefits as % of money income)

	Case 1A	Case IIC
Under $ 2,000	2.5	6.4
$ 2,000 - 2,999	1.2	2.8
3,000 - 3,999	1.1	1.7
4,000 - 4,999	1.9	1.9
5,000 - 6,999	0.7	0.1
7,000 - 9,999	—0.4	—1.2
10,000 - 14,999	—2.0	—2.6
15,000 and over	—3.4	—3.4

* *The Ontario Committee on Taxation Report*, Vol. I, p. 163; Clayton, *op. cit.*, p. 155; and Netzer, *op. cit.*, p. 62.

[1] These two distributions produce a range within which it is postulated that the true distribution of net benefits falls.

Appendix Table 4

COMPARATIVE ANALYSIS: IMPACT OF HOME-OWNER GRANT AND INCOME TAX DEDUCTION ON THE DISTRIBUTION OF PROPERTY TAX BURDENS*

		Under $2,000	$2,000-2,999	$3,000-3,999	$4,000-4,999	$5,000-5,999	$6,000-6,999	$7,000-7,999	$8,000 8,999	$9,000-9,999	$10,000 and over
Urban Home-Owners in Canada											
Mean original property tax	($)	149.90	172.50	159.72	178.07	209.15	208.18	217.93	219.85	249.73	313.20
Mean property tax saving per income tax	($)	22.27	27.73	28.41	34.98	43.07	46.01	52.23	56.43	63.45	111.69
Decrease in tax payment	(%)	14.9	16.1	17.8	19.6	20.6	22.1	24.0	25.7	25.4	35.7
Mean property tax saving per home-owner grant	($)	48.13	48.13	48.13	48.13	48.13	48.13	48.13	48.13	48.13	48.13
Decrease in tax payment	(%)	32.1	27.9	30.1	27.0	23.0	23.1	22.1	21.9	19.3	15.4
Urban Home-Owners in Ontario											
Mean original property tax	($)	154.29	199.54	188.61	201.24	222.91	220.64	201.73	224.24	283.82	336.62
Mean property tax saving per income tax	($)	22.31	31.32	33.49	40.65	46.90	49.79	49.28	59.04	73.63	122.20
Decrease in tax payment	(%)	14.5	15.7	17.8	20.2	21.0	22.6	24.4	26.3	25.9	36.3
Mean property tax saving per home-owner grant	($)	47.69	47.69	47.69	47.69	47.69	47.69	47.69	47.69	47.69	47.69
Decrease in tax payment	(%)	30.9	23.9	25.3	23.7	21.4	21.6	23.6	21.3	16.8	14.2

* Preliminary data from a study under way by F. Clayton, Central Mortgage and Housing Corporation, and D. C. Featherstone, Dominion Bureau of Statistics. The calculations are based on information obtained in the 1959 D.B.S. *Survey of Family Expenditures.*

Speaker: **A. Forest Thompson**

Assessment Commissioner, County of Wentworth, Hamilton

"Actual Value" Considerations

The Ontario Committee on Taxation has recommended that all real property be assessed at 100% of actual current value. In this I whole-heartedly concur for one very simple and rather basic reason. Equalization of assessment will be achieved, and maintained only when the assessment is made at actual value. This is so, because the assessor does not create the value nor does he establish the value, but rather he records the value set by the market. Since all properties are not sold within confined limits of time, the assessor must analyze the sales that do take place and apply his findings to all properties within his jurisdiction. Translation of rental income into value and the use of costing manuals as guides are other tools used to estimate the actual current value of property. Successful use of these tools depends upon the ability of the assessor and the accuracy of his information. When working with current information he has every opportunity to check and test the accuracy of his findings, but when working with 28-year-old information there is no one who can really say with any assurance whether it is right or wrong. Thus it is that we must have assessment at current value if we want equitable assessment.

Importance of Equitable Assessment

At this conference I surely do not need to dwell upon the importance of equitable assessment, except perhaps to remind you briefly that the assessment is the basis of apportioning tax. If the assessment is equitable then so is the apportionment of taxes. If it is not equitable, some will pay more taxes than they should and others less. The degree of inequity in assessment will determine the amount of over- or under-payment of taxes.

Removal of Certain Instructions

The Committee has further recommended removal from the legislation of all instructions as to what is to be considered when determining actual value. Some of the things now stipulated are: present use, location, sales value, rental value, cost of replacement, and any other circumstances which affect the value. Similarly the Committee asks that the right to adopt assessment manuals by reference also be removed from the statutes. Both of these recommendations are consistent with the intent to have assessment made at 100% of actual current value and are necessary to attain the objective.

Perhaps it should be pointed out, without in any way detracting from what has been said about the importance of assessing at actual value, that it will undoubtedly be more costly to make and maintain this level of assessment. Qualified and well-trained personnel are essential, and enough of them to keep a continuous scrutiny of the markets so that the valuations are kept current. The fact that assessments have not been revised as values changed is the very reason for present inequalities. Initially to implement and subsequently maintain this level of proficiency requires keeping accurate records of sales, rents, costs and such other things as planning and zoning data together with a good system of mapping. It is for these reasons and the related cost that the Ontario Committee on Taxation has encouraged development of larger assessment units. Recognizing the probable increased costs of reassessment, the Committee has recommended (13:8, p. 245) that the provincial government contribute to the cost thereof, on the premise that reassessment is also of value to them.

Reassessment by the Department of Municipal Affairs

Three other recommendations of the Committee are aimed at attaining good assessment. The first would give to the Department the right to appeal local assessments either individually or collectively. Where as a consequence of one or more appeals a reassessment is deemed desirable, the Lieutenant Governor in Council would have the authority to order a reassessment if the second of these recommendations was made legislation. The other recommendation would give to the Department of Municipal Affairs the right to go into a municipality and do a reassessment at the municipality's expense. This would only be done if the municipality refused to do a reassessment and bring its level of assessment up to current values.

The Committee has very obviously made a determined effort to improve the tax base. Its suggestions are many but all have the single objective of ensuring uniform and equitable assessment. The suggestions, I believe, are good and should be encouraged regardless of what might be said subsequently concerning the weight of taxation to be borne by the various classes of property.

Farm Assessment

The one exception to the principle of assessment at 100% of current value which should be considered is the farm. This is largely due to the fact that this type of property often acquires a value that is in no way related to its use. Unfortunately, from a tax standpoint, the increase in value begins many years in advance of the ultimate development that will take place on the land, so the problem does not quickly resolve itself although, ultimately, when the lands are put to another use the problem is resolved.

Farm lands are assessed under existing legislation at their value for farming purposes. The Committee recommends that they be assessed at actual value and subsequently taxed on an assessment of 50% of value. This will have the effect of raising taxes substantially on farms in those areas where actual values have soared, and it will reduce the taxes on farms in areas of the province where farm values are not affected by other influences. It seems hardly justifiable to tax some farm properties at 50% of the actual farm value and put them in the same competitive market with other farms whose taxable assessment is many times higher than the actual farm value.

There are other problems too, most of which relate to what constitutes a farm; and although the Committee suggested that the terms "farm" and "working farm" be defined, unfortunately they did not supply definitions.

Size of the holding, type, and degree of farming are some of the questionable areas. The Committee seemed to consider only farms which raise or produce food, and made no comment on such other types of farming as sod farming, tree farming, the raising of fur-bearing animals, horse farms, tobacco farms and the farms of nurserymen and florists.

What then is the most fair, realistic and efficient procedure that could be used to establish a taxable assessment of working farms?

Consider two points. First, taxes should be able to be paid from the farm revenues, and second, the other municipal taxpayers should not be required to pay the farmers' taxes.

The actual value of a farm for farming purposes is dependent largely on its ability to produce and on the cost of such production including taxes. The taxes, therefore, that might reasonably be expected to be paid on the farm without forcing its sale would be taxes predicated on the actual value of the farm land for farming purposes. For this privilege and ultimate equity with other taxpayers in the municipality a municipal capital gains tax or some form of land development tax should be initiated and made applicable to farm lands during any period when the lands are assessed at less than their actual market value.

Separate Valuation of Land and Buildings

The Committee recommends that land and buildings be separately recorded on the assessment roll (11:4, p. 77), a recommendation which simply supports the existing legislation.

While I do not believe that this question warrants lengthy debate, it is interesting to note that there are several sound arguments in support of a single entry on the assessment roll of a total valuation. The first point is that actual sales seldom, if ever, indicate the amount of the total price applicable to the land and to the buildings, so that the division thereof by the assessor is purely artificial. Since the tax rate is generally applicable to the total value, the division by the assessor has been a rather useless exercise. The second point in support of a single valuation of both land and buildings arises from the possibility of error in the apportionment, particularly where the area or shape of the parcel of land and the use to which it has been put materially affects the total worth of the property. Any error in the apportionment could result in a successful appeal against the over-assessed portion, leaving the total assessment lower than warranted.

In support of the Committee's recommendation there are several somewhat stronger arguments. Paragraph 1 of section 394 of *The Municipal Act* provides that under particular circumstances certain fire area rates may be charged against the assessment of buildings only. Although the use of this provision may be rather limited, as long as it exists there must be the corresponding provision for separate assessment of land and buildings.

While the sales approach is undoubtedly the simplest and most direct method of ascertaining value, there are many instances where the cost and income approaches to value are the only way of measuring the present worth. The successful use of these two latter techniques is somewhat dependent upon accurate estimates of the worth of the land. The accuracy of the assessor's estimate of land value can be best ensured and maintained when separately recorded on the roll where it is subject to testing by the courts.

Clause (a) of the Committee's recommendation appears to be a restatement of existing legislation in slightly different language. The present wording, which quite simply states that "the value of the buildings shall be the amount by which the value of the land is thereby increased", should be retained because of its simplicity.

Clause (b) of the Committee's recommendation is not clear, but it appears to suggest that if the structures on land are worthless and in fact depreciate the worth of the land by at least the cost of their removal, they then should not be assessed at all. The full assessment would be the actual value of the land which presumably takes into account the cost of removing the existing structures. If this interpretation is correct, the recommendation really serves only to support the Committee's earlier recommendation (11:2, p. 72) which asks for the removal from the statutes of all reference to circumstances affecting value, and more particularly the reference to present use.

In summary then, the recommendation of the Ontario Committee on Taxation that the assessed value of each parcel of real property be divided into land and structures is sound. The wording of clauses (a) and (b) might be simplified and made clearer but the intent, if properly interpreted, is reasonable.

Relative Weights of Taxation by Property Classification

To examine this subject properly one must look beyond recommendation 16 of Chapter 11, wherein the taxable percentages of value are found, to see what it is the Committee is suggesting should be taxed at these percentages. The recommendation seems to comprise many proposals which serve only to confuse the issue, including: abolishing some grants while increasing others; deleting certain tax exemptions and initating provisions for some new exemptions; using certain terms that require defining yet leaving the definition to the legislature; and, finally, leaving the basis of determining the business occupancy tax for certain properties to be decided after the assessment of the properties has been completed. These recommendations make it almost a physical impossibility to calculate with any degree of accuracy the final weights of taxation that would result for the various property classifications if all the recommendations of the Committee were brought into legislation.

The most that I can hope to accomplish here is to provoke you into examining in depth all of the Committee's recommendations in so far as they relate to the final weight of taxation which each of the various classes of property will be required to bear.

Recommendation 11:16, p. 119

Part (a)

All real property be assessed at 100% of actual value.

Part (b)

Residential properties including all farm houses, recreational properties, wasteland and all farms or parts thereof that do not qualify as working farms, be taxed on an assessment of 70% of actual value.

Parts (c), (d) and (e)

Business properties be taxed on an assessment of 50% of actual value. The occupants thereof pay a business occupancy tax on an assessment of 50% of the actual value.

Working farms be taxed on an assessment of 50% of the actual value.

Taxable mining properties be taxed on an assessment of 50% of the actual value. The occupants thereof pay a business occupancy tax on an assessment of 50% of the actual value.

Transportation and communication businesses be completely exempt from all taxation of their roadway and rights-of-way over land.

Transportation and communication businesses be subject to a property tax and the occupants thereof be subject to a business occupancy tax on a basis to be determined when the assessment of the property has been completed.

Missing Information

Since the definition of "farm" and "working farm" has been left for some other authority to define, (11:15, p. 119) we are at a complete loss to know whether it will include or exclude speculative lands, the hobby farm, the farmer's cheese factory situated on the farm, the contract-feeding of fowl and beasts, the florist or nursery man and so forth. The definition of "business property" has also been omitted from the Committee's *Report* except in so far as it recommends (11:12, p. 100) that such a definition must be enacted.

The type of recreational property that is intended to be taxed at 70% of actual value must also be clarified since it could mean either private recreational property, such as summer cottages and camps, or it could be intended to mean commercial recreational properties such as theatres, golf courses and so forth.

The ultimate meaning that may be assigned to these terms, together with the rate of taxation which may be found to be appropriate for transportation and communication properties, could have a tremendous impact on the weight of taxation to be borne by the various classes of property.

Other Recommendations Affecting the Weight of Taxation
Definition of real property (11:1, p. 70)

Although the definition is not altogether clear, it suggests that only such machinery and equipment as are part of the building or structure and are used or required primarily for the purposes of the building or structure or to make it more habitable, are to be assessed. Machinery and fixtures such as are found in laundromats, bowling alleys, pipe-line stations, curling rinks and service stations are but a few of the things now assessed and taxed which would become exempt.

A further and even more significant implication results from the fact that until now the court decisions as to what constitutes a machine have been largely confined to machinery used for farming or manufacturing, since only these machines have been exempt. Removal of the farm and manufacturing requirement will open many new areas for claims to exemption. To mention but a few possibilities, consider: pipe-lines; control and surge tanks; radio and television towers, antennas, cables and grounds; telephone, telegraph, electric and water systems; cable T.V. systems and so forth.

The proposed definition of real property liable to taxation would result in substantial losses of existing assessment and taxation on machinery and further losses on the many things that could conceivably be declared to be machinery. Such tax reductions would largely, if not totally, be from taxation of business properties. Recovery of these losses will therefore fall most heavily upon the non-business properties.

Abolition of split mill rate (11:10, p. 86)

Removal of this tax concession to non-business properties will quite simply increase the percentage of the total taxes to be raised from residential and farm properties. It should be noted that any increase in grants will not change this position.

Transportation and communication properties (13:2, p. 225)

It is recommended by the Committee that transportation and communication businesses be assessed on the same basis as other properties. While this recommendation may be good, one must realize that it is saying there is to be no further

assessment and taxation of gross receipts of telephone and telegraph companies. Consider too, the recommended definition of real property that excludes all machinery except that used primarily for the purposes of a building, and I question whether there is any real property left to be taxed. There will of course be the small exchange buildings in the rural areas, and correspondingly larger buildings in the towns and cities. The loss of assessment and taxation, however, will be substantial.

Agreements for reduction of taxes (12:5, p. 147)

The Committee has recommended that municipalities be permitted to grant tax reductions to inhabitants who provide some or all of their own services. This rather broad and far-reaching recommendation hardly seems justifiable in view of the same Committee's recommendation (11:13, p. 113)to abolish the existing provisions for tax relief to farmers who do not receive the same benefit as others in the community from certain services that are supplied.

The effect of these provisions would be to exempt large industries, which provide their own local services, from contributing to the cost of similar services provided by the municipality, and force the farmer to pay a portion of such costs although he neither needs nor uses the service.

Implementation of this recommendation would produce a conflict between two principles: the payment of taxes for services supplied, and the payment of taxes for services received. Any departure from the present principle will shift the responsibility of taxation away from large industry with resultant increases in taxation on those more dependent upon the community to supply their needs.

Relative weights of taxation (11:16, p. 119)

If we accept the Committee's submission that the present business assessment adds 45% to the yield from realty taxes levied on business, it would follow that the combined 50% business realty assessment and 50% business occupancy assessment or assessment at 100% of value in relation to the suggested 70% of value for residential properties would result in approximately the same weight of taxation between business properties and residential properties that now exist. Provided of course, that the particular municipality had this average 45% yield from business properties. Any municipality with a greater percentage of businesses carrying rates in excess of 45% will find upon using the 100% and 70% figures that there is a shifting of the tax from businesses to residential properties. Conversely, if the yield in a municipality from business tax is less than 45%, the business properties will receive an increase in their share of the taxes while the share of residential properties will be reduced.

Splitting the assessment of business properties into 50% realty and 50% business has, as admitted by the Committee, a number of disadvantages, particularly with regard to landlord and tenant rental agreements. One defect, which in my opinion makes this arrangement completely unacceptable, is that vacant business properties would be taxed at 50% of value while vacant houses or unused farm lands and buildings would be taxed at 70% of value. There is surely no justification for such inequitable taxation.

The Committee's recommendation that working farms be taxed on an assessment of 50% of the actual value will increase the taxes of a great many farms in Ontario to such an extent that they will fall into the hands of those who can afford to hold the lands until development is permitted. Revenue from the farms simply will not pay the taxes. Other farms, so located that their actual value is the worth of the property as a farm, will, if equitably assessed now under existing legislation, be subject to tax reductions.

Complete exemption from municipal taxes on the roadways and rights-of-way of such businesses as railways, pipe-line companies, telephone companies and all other transportation and communication enterprises will shift the weight of taxation from business properties to the farm and residential classifications.

Summary and Conclusion

The impact of the Committee's recommendations may be summarized as follows:

(a) Loss of taxes from business properties by reducing the amount of machinery now assessed.

(b) Increased taxes on non-business properties through abolition of the split mill rate.

(c) Loss of taxes from gross receipts of telephone and telegraph companies.

(d) Loss of taxes from business properties by agreement with municipality.

(e) Reduction of taxes from vacant business properties.

(f) Increased taxes on some farms and reduced taxes on other farms.

(g) Loss of taxes from transportation and communication businesses on roadways and rights-of-way.

There is little doubt, in my opinion, that the foregoing indicates quite clearly that if all of the Committee's recommendations mentioned in this submission were to be implemented they would result in a reduction of the percentage of taxes to be paid by business properties and, correspondingly, in an increase in the proportion to be paid by residential and farm properties. It is perhaps worthy of repeating here that the unconditional grant, regardless of the amount, will not alter or change the increased percentage of the total taxes that will be imposed upon residential and farm taxpayers.

There is one final point which I believe should be considered—it concerns the present ratio of business and residential properties to actual value. Without comment as to the equity of the present situation, I believe it is correct to say that in most Ontario municipalities business properties generally are assessed at a higher percentage of value than residential properties. Reassessment at actual value will change this relationship and in so doing will impose a further percentage of the total tax demand on non-business properties.

In view of the foregoing observations I make the following suggestions.

(a) All real property should be taxed at the same percentage of the actual assessed value. This percentage should be something less than 70%.

(b) The assessed value of working farms should be their actual value for farming purposes.

(c) A municipal capital gains tax or some form of land development tax be made applicable to all working farms assessed at less than their actual market value.

(d) Occupants of business properties other than working farms be subject to a business occupancy tax on an assessment which is the difference between the assessment for the property tax and the actual market value.

Basic Shelter Exemption (11:11, p. 95)

After reading the section of the Committee's *Report* that precedes its recommendation of the basic shelter exemption, I was amazed to find that the Committee did support a form of tax relief for a specific group or class of taxpayers. Subsequent examination of the mechanics of administration and equity of distribution have given rise to even greater concern over this form of tax relief.

Admittedly, after considering the weight of taxation to be imposed on farm and residential property through so many of the Committee's other recommendations, it seems most desirable, if not mandatory, to seek some method of granting relief to this class of property.

The principal attributes of this exemption appear to be that it can be easily adjusted from time to time to keep the tax relief current. Increases in tax rates will automatically be reflected in the grant. It removes some of the regressive aspects of the property tax, and it is a more direct form of tax relief.

Obviously what is being attempted by the Committee is to provide a tax scheme that will reduce the taxes on the more modest accommodations with diminishing amounts of relief for the more pretentious homes. The Committee's *Report* indicates it was seeking a way "of reducing the weight of the tax on those whose taxable capacity may be presumed to be comparatively small". Even though it is reasonable to assume that low income families will look to the more modest accommodations for shelter, it does not necessarily follow that they are any less able to meet their tax demands than others living in average or even more pretentious homes. Quite frankly, after listening to complaints of high taxation for the past 14 years, I am quite convinced that it is the people living in the standard good homes on average incomes who are having the greatest difficulty paying their taxes. The exemption these people will receive under the proposed basic shelter scheme will be dollar for dollar the same as granted to the luxury estate. The Committee, of course, carefully points out that the effective rate in mills will be less in the case of the average home than of the luxury estate.

A rather interesting point about the proposed basic shelter grant is the claim that it will reduce the regressive aspect of the property tax. Regressive taxation is defined in the dictionary as a form of tax upon income where the rate decreases as the amount of income increases. Relating this to real property and taxes thereon, I fail to see where there is any reduction in the tax rate on the more highly assessed properties under existing legislation.

One very obvious weakness in the proposal has already been experienced and the system is not yet in operation. Tenants quite properly claim that if there is to be a hand-out for a basic shelter, they too are entitled to it. The Committee, presumably recognizing the fantastic cost that would be involved in keeping track of tenants and payments thereto, has said that we must rely upon the forces of competition to lead the landlords to pass on the tax savings to tenants. Such an assumption is plainly ridiculous.

The Committee has indicated that a grant of this nature, open and plainly discernible by all, is preferable to the unconditional per capita grants or other grants that are less obvious to the general public. Although this point has some merit, let us examine briefly some of the disadvantages. Immediately the grant was announced, a clamour arose for a direct payment to tenants. For years the government of the province of Ontario has been paying a portion of our municipal and school taxes by way of general grants, and I know of no instances of tenants claiming they receive fewer benefits from provincial grants than do property owners.

I believe too, that this same type of public outcry could and would eventually force this type of direct exemption into becoming a political tool.

The possible cost of administering this type of scheme is not known to us yet. The method of payment will naturally have much to do with ultimate costs. The decisions as to whether it should apply to summer or recreational accommodation, a second residence, homes used partially for business purposes, vacant dwelling units, houses that have been closed and unused for periods of time, houses that have been placarded as unfit for habitation and so forth, will all have an effect on the ultimate cost of administration. Quite naturally, there will have to be inspectors to make periodic checks on the exemptions. Tax bills will have to be redesigned, data processing programs changed for both assessment and taxation purposes. These are some of the things that will involve cost, some of which will be a one-time cost, others will be continuing.

Without spending one penny of the taxpayers' money on developing and maintaining a new form of tax exemption of questionable merit, the education grants could be increased to, say for example, 80%. If this were not acceptable, there is still the unconditional per capita grant which directs its benefit towards non-business properties.

Speaker: **Lorne Milne**

Supervisor, Municipal Taxation, Union Carbide Canada Limited, Toronto

Perhaps of all the recommendations in the *Report,* those dealing with taxation policy are the most interesting and if implemented by the government will have a more direct and immediate effect upon Ontario property taxpayers than many of the other recommendations.

Some of these would be (a) the definition of the terms "real property" and "actual value", (b) the repeal of the business tax in its present form and its proposed substitution, (c) the introduction of a basic shelter exemption, (d) the proposal that different classes of properties have differential taxable assessment bases and (e) the demise of the split mill rate.

When reading the *Report,* I found that I was considering the recommendations from three angles: first, as a home-owner and wondering if the direct tax load would be eased; second, as a person who is responsible for the administration of a large corporation's municipal tax obligations; and, third, as an observer of the whole scene trying to weigh the pros and cons with an unbiased view. I'm afraid the third angle did not distract me very often.

I found that my personal and professional points of view were in conflict in trying to justify or reject many of the recommendations. Everyone has his own theories and solutions to the tax dilemma and being asked to comment on new tax theories at a discussion such as this gives one a golden opportunity to publicly display his biased opinions and apparent ignorance of complicated tax matters. The only irrefutable conclusion that I have come to in the field of taxation is that no two people have as yet agreed 100% on a completely acceptable approach to property taxation.

In general terms, the *Report* recommends that the property tax base be broadened, that the weight of taxation be redistributed and that equity in assessment and taxation is of prime importance.

In particular, and in the spirit of the theme of this panel, my comments concern the recommendations made on the subjects mentioned in the preamble.

The Definition of Taxable Property (11:1, p. 70)

The Committee recommends that

> The Assessment Act be amended to define real property liable to assessment as being land and any building or other structure on, over or under the land, and that for this purpose a building or structure include only such machinery and equipment as is a part thereof and is used or required primarily for the purposes of the building or srtucture or to make it more habitable.

The preamble to this recommendation makes quite clear what the Committee was thinking and what the term "real property" should mean; however, the recommendation itself does not carry this intention through. It is regrettable that the Committee did not offer more concise legislative direction in its definition. A great deal of assessment administration uncertainty may result unless the definition as to what will constitute "real property" is made explicitly clear and concise. It will be very difficult indeed to determine an omnibus definition of taxable property. In actuality it may be more expedient and administratively easier to have a separate definition of what real property is to be excluded from assessment and/or taxation. Some of the factors that the Committee feels would add value to land are perhaps open to question, since what may be considered by the owner as adding value may not be reflected in the potential market. For example, plantings may enhance the appearance of a property, adding to the owner's enjoyment of possession but to a new owner they may be a hindrance and he would remove them. How would this be interpreted into actual value if, indeed, a value existed?

From the business community point of view, the Committee is to be commended on its recommendation that machinery and equipment should continue to remain non-assessable. This would be accomplished by non-inclusion in the definition of real property, rather than by exemption by reference as at present. The present exemption is not equitable for all classes of property. Again, however, the recommendation concerning real property is not sufficiently clear as to the status of the foundations supporting machinery and equipment. In the past, differences of opinion have arisen where there is an inter-mixing of foundations for machinery and equipment and foundations for buildings.

Because of the great variety and complexity of structures, differences of opinion between the assessor and the taxpayer may result unless the intentions of the Committee are clearly and concisely defined. Perhaps I am taking the intent of the recommendations out of context but I wonder what is meant by a habitable structure. My familiarity with industrial complexes perhaps clouds my interpretation.

Should this recommendation be endorsed for government action, it is to be hoped that the business community would be consulted for its opinion in the drafting of a technically correct definition of taxable structures and the exclusion of machinery and equipment and the foundations on which they rest.

Recommendation 11:2 (p. 72) would remove all legislative instruction as to the circumstances affecting value when determining actual value for assessment purposes. While the argument can be generally agreed upon, it is perhaps open to question if this would be a correct move at the present time. Are there a sufficient number of fully qualified assessors at present who would not require some direction so as to give due consideration to all the factors that create value. Until such time as there are sufficient numbers of qualified assessors who can interpret value without direction and while all assessments are being brought up to actual value, it might be well to defer action on this recommendation during the interim.

Recommendation 11:3 (p. 73) would provide that real property be assessed at actual value without reference to the value at which similar real property is assessed. The apparent thinking behind this is that if all property is assessed at actual value, then uniformity, or equity, will result. In theory this would be substantially correct. In practice, however, the theory may not be a complete success.

Some types or classes of property are not reflected in the market with sufficient frequency for the assessor to form a valid opinion of their current market value. Therefore he must base his opinion of the value of those properties upon the actual value of properties on which he has sufficient data. Certainly, then, if the assessor from necessity must make comparisons between properties to make his assessment, the taxpayer should have the right to compare his assessment to the assessments made on other properties, whether similar or dissimilar, in order to assure himself that his assessment is equitable. The present Act at least permits the comparison of assessments between similar properties. Without this right, the assessor would not have to justify whether or not an assessment was comparable to one made on a similar property and the taxpayer would be precluded from making comparisons.

The term "actual value" would require definition as to what it is intended to mean. Unless this is done, existing jurisprudence on its interpretation may prevail and work to the detriment of trying to assess at 100% of the Committee's intended meaning of actual value. The *Report* could be confusing at times to those not fully conversant with assessment terminology as it refers to actual value, market value, and current value. Essentially, they all mean the same thing but some consistency would have been more desirable.

Exemptions

The Committee is to be commended in recommending that much of the property that is now exempt be made assessable and taxable. It is fair that these properties should be considered as taxable and carry their shares of the tax burden. No longer would they receive preferred status. Some property can justifiably lay claim to exemption to a degree from property taxes. This justification is perpetuated by the suggestion under a fresh approach that although it would be taxed, the taxable assessment would be somewhat lower than other classes of property or would be reimbursed by the government. The weight of taxation proposed for some currently exempt property should be gauged by the municipal services they receive. I agree that government properties are businesses and grants in lieu of taxes should be based on their revised status. I hope that the governments are as easily convinced as I was. It would be regrettable if charitable institutions were ever to be placed in the position of not knowing from year to year whether or not they were in political favour as grant recipients.

The Committee recommends, and rightly so, that there be no further fixed assessments or taxation agreements and such arrangements that exist at present be reconciled. This type of arrangement cannot be justified in a system where there is to be equity amongst all classes of taxable property as it works to the detriment of all affected taxpayers.

As discussed previously, machinery and equipment would be exempted from assessment by the definition of assessable property. This would not be a concession to business as business will be subject to the business occupancy tax.

I cannot concur with the recommendation that free employee parking lots be made subject to the business occupancy tax unless exempted by by-law for 5-year

periods. Employers go to considerable initial expense to get their employees' cars off the street, thereby relieving the municipality of traffic congestion and the expense of providing alternate parking areas. Levying a business occupancy tax upon such lots would add impetus to the employer's tendency to do away with this employee amenity because of rising costs, and might encourage them to throw the parking problem back to the municipality. To relieve congestion, the municipality could be forced into the expense of providing parking facilities for a fee. Business should be encouraged to provide adequate parking, not given an incentive to add to the problem.

The Basic Shelter Exemption

The Committee recommends that each self-contained dwelling unit be given a basic shelter exemption, the concept of which has already been accepted in principle by the government. Such an exemption would tend to reduce the regressive nature of the property tax. The granting of this exemption will make it easier for the government to act upon recommendation 11:10 (p. 86), the abolition of the so-called "split mill" rate, an onerous and discriminatory piece of legislation that removed the business community from equitable taxation.

It is to be hoped that the government, if it should grant the basic shelter exemption, will endow the enacting legislation with safeguards and a degree of permanence so that it will not be allowed to degenerate into political gerrymandering whereby pressures would be exerted to manipulate unwarranted increases in the amount of the exemption, either by public or private Act. If this were allowed to happen, the end result would be no more acceptable to business than the present split mill rate. Recently, the local newspapers reported that the City of Toronto is active at Queen's Park to see if the government would allow the city to perpetuate its existing partially graded assessments applied against houses assessed at less than $4,000 per year in addition to the basic shelter exemption. Presumably the $4,000 limit would have to be raised to reflect actual value. The government should resist this request for special dispensation. All qualifying property throughout the province should be treated on an equal basis.

I can foresee that there may be some difficulties in defining what is a self-contained dwelling unit. Whatever the definition may be, there are bound to be administrative difficulties over borderline cases. Building inspectors may be surprised at how many one-room apartments have suddenly appeared in their municipalities.

I can foresee further difficulties in administration. Suppose that an old 20-unit apartment house is situated in an area of low economic value and is assessed at actual value for $100,000. Further suppose that all units are of uniform size and for school support purposes each is assessed at $5,000. Applying the 70% factor for tax purposes reduces the taxable assessment to $70,000, or $3,500 per unit. Will the basic shelter exemption be deducted in total ($40,000) from the taxable assessment of $70,000, or individually from the unit taxable assessment of $3,500? If deducted in total, the taxable assessment would be $30,000; if deducted individually from the unit taxable value then, because of the limitation placed on the exemption of $2,000 or 50% of the residential taxable assessment applicable to the self-contained dwelling unit, the taxable assessment would be $1,750 per unit, or a total taxable assessment of $35,000. I interpret the recommendation to mean that the latter case would apply. This could work to the detriment of the Committee's intention which is that the greatest benefit should accrue to low-cost accommodation.

Application of the basic shelter exemption in 1968 would, I feel, leave the home-owner's property tax at about the same level of taxation as was levied in 1967. In my opinion, it would serve to offset the increase in taxes expected in 1968.

The Committee, on real property assessment matters, repeats its principle that assessments under a revamped approach are to be made at actual value. Recommendation 11:16 (p. 119) gives the Committee's opinion of the levels of taxable value that should prevail for the main categories of property. The proposal, if adopted, should do away with some of the inequities of the present system. It is to the taxpayer's benefit to have property assessed at 100% of actual value as it enables him to judge the equity of the assessment made by comparison with his impression of the market value of his property. The assessment roll should show actual values as well as taxable values.

The proposed taxable value schedule maintains a relatively higher rate of taxation on business-occupied property through the business occupancy tax. With certain exceptions, business property would be subject to realty tax on a taxable value of 50% of the actual value. The occupier will pay a business occupancy tax based on 50% of the actual value. Therefore an owner-occupier will pay taxes based upon 100% of actual value. In comparison with the present system, a manufacturer now pays taxes based upon 160% of assessment while residential property pays upon 100% of assessment, disregarding the effect of the split mill rate. Under the proposed system, the manufacturer's taxes would be based upon 143% of assessment and the resident's upon 100%, disregarding the effect of the basic shelter exemption.

A uniform rate of business tax would be a welcome change from the present hodge-podge of percentages.

The Committee, and some who have commented upon the *Report,* have assumed that if the variable taxable assessment concept is adopted, the weight of realty tax levied against business property will be reduced. Whether this assumption would hold up in practice or not is perhaps open to question; if it turns out to be true, would it necessarily be wrong? For years, business property has been assessed higher than other classes of property—the Appendix to Chapter 13 bears this out—and consequently has paid higher realty taxes per dollar of investment.

The Committee suggests that if lower business realty taxes result, then tenant-occupiers of such property should benefit by reduced rentals, perhaps by legislative direction if necessary. Should not apartment dwellers receive the benefit of similar direction if property taxes are reduced by the basic shelter exemption?

The business community cannot accept the recommendation that the owner of business property be made responsible for the collection of his tenants' business occupancy tax. There is no apparent justification for this. The Committee states that it reached the conclusion that it did because the municipalities experience great difficulty in collecting delinquent business taxes. Perhaps the municipalities' difficulties lie in part through the lack of an aggressive collection policy. The business tax, at present a personal tax, leaves the municipalities with nothing to lien against in the case of delinquencies and they want to have the assurance of being able to force collection.

The effect of the recommendation would be to tax the owners of tenant-occupied business property at 100% of actual value rather than at 50%, thereby discrediting the Committee's proposals for a variable tax base. Non-payment of the business occupancy tax would create a lien upon the land. The tax would no longer be a personal tax and in effect would have a great deal of the real property

aspect to it. The definition of real property would have to take this into consideration.

The recommendation would have the effect of relieving the tenant of having to bother to check the accuracy of his business occupancy tax notice and in fact would encourage him to do so. The onus would be upon the owner. The owner would be required to change his leases, collect the tax as, say, additional rent, do the municipality's work for it and, should a tenant go bankrupt or skip during the year, the owner would be responsible for a situation beyond his control. The municipalities would reap all the benefits and none of the responsibilities. Situations could develop where landlords would be very reluctant to lease property to anyone who has less than a blue chip rating to avoid any unpleasantries that may develop by way of the business occupancy tax.

The Committee may have endorsed this recommendation without full consideration of all the situations that could develop, and because of the "cry wolf" attitude of the municipalities. The taxing bodies should retain their role as collectors.

I feel that my experience does not qualify me to comment upon the taxation proposals concerning mining, transportation and communications properties. However, I would suggest that there are easements and rights-of-way which should be considered in the same context as those of transportation and communications enterprises, although they are not part of these systems.

General

The Committee does not pretend that its recommendations will cause property taxes to be reduced. Rather, a spreading of the tax load is advocated so that equity of taxation between the various categories of property will prevail. I feel that it is inevitable that property taxes will continue to increase, notwithstanding the implementation of the recommendations, but perhaps not with such violent increases as have been evident over the past few years. In the Ontario municipalities with which I am familiar, property taxes increased, on average, 11.3% in 1967 over 1966. In my forecasts, I am assuming that the increase in 1968 over 1967 will be of the same magnitude.

It would appear that some of the recommendations are based more on theory than on practical evidence. What may be good theory could prove impractical when applied. The reassessment to actual value throughout the province is an admirable objective and one that should be encouraged but to carry it out will be somewhat difficult. There just is not a sufficient number of qualified assessors at the present time and there will not be for a number of years to come. The course of instruction offered by the Institute of Municipal Assessors is attracting a greater number of candidates each year. However, it is one thing to complete the course and another thing to become an assessor. Assessing is largely a matter of opinion based upon a knowledge of the facts and experience.

If the recommendations affecting the property tax base and establishing assessment equity are to be endorsed by the government, many of them should not be allowed to take legal effect in any municipality until that municipality has reassessed at actual value. For example, business would bear a heavier share of the tax load if the 50% business occupancy tax was to be applied upon the existing underassessed values. This would result from the existing higher assessments usually accorded to business property.

One aspect of taxation that the Committee did not study was the "private Act". Many municipalities benefit from such an Act which has an effect upon taxation. If the spirit of equity promoted by the Committee is to be observed by the government, then petitions for private Acts which grant special tax considerations should be disallowed. In its wisdom, perhaps the government would go one step further and reconcile some of the regressive private tax legislation currently in existence.

The Committee is to be congratulated for its exhaustive and thorough study of the Ontario property assessment and tax structure and for providing the government with the basis upon which to institute sound and equitable reforms.

Financing Local Improvements for Development

Chairman: Michael Spohn

Speakers: J. B. Milner
Alan J. Scott
Eli Comay
J. H. Lowther

Chairman: **Michael Spohn**
Head, Company Development Department, T. Eaton Company Ltd., Toronto

Speaker: **J. B. Milner**
Faculty of Law, University of Toronto

A General View of the Recommendations

The easiest way to get the Taxation Committee's view is to look at its recommendations in the light of current practices. It is these recommendations that this panel will discuss. They are contained in Chapter 15 of the *Report,* entitled "Special Capital Levies and Developer Charges", and in part of Chapter 22, entitled "Municipal Debt", paragraphs 115-126, subtitled "What Constitutes Sound Screening of Proposed Borrowing?" and paragraphs 127-132, subtitled "What Provincial Authority Should Control Borrowing?".

The Recommendations are:

15.1 The legislative authority for financing capital works through special levies [should] be consolidated in a single statute, and the procedures [should] be simplified and made as uniform as possible.

15.2 Both the municipal council and the taxpayers concerned [should] be given the right of initiative for all kinds of capital levy projects.

15.3 Whenever a council initiates a special capital levy project, a sufficient opportunity [should] be provided for the affected taxpayers to petition against the work and the council [should] be required to reconsider the project if a petition meeting statutory requirements has been lodged against it.

15.4 Of all classes of property, only transportation and communications properties, such as pipe lines, railway lines, and telephone and telegraph lines, [should] be exempt from a special capital levy, but such exemption [should] not apply to those particular properties that will be benefited by the project for which the levy is to be made.

15.5 Provincial legislation [should] classify the municipal capital works eligible for financing by special capital levies and [should] specify the form of levy for each category that will achieve the most equitable apportionment of the cost.

15.6 Provincial legislation [should] require each municipality proposing to use special capital levies to pass a special assessment by-law which defines both the intended use to be made of the levies and the proportion of the total cost of each category of works that is to be financed by them.

15.7 Provincial legislation [should] set precise limits within which the terms of subdivision limits within which the terms of subdivision agreements may be drawn, and require the filing of such agreements with each proposed plan of subdivision so that the Province may satisfy itself that the terms of each agreement are within the law.

15.8 Cash imposts on developers for unspecified purposes, or for purposes other than the recovery of the cost of allowable municipal service installations or extensions, [should] be prohibited.

15.9 The imposition by a municipality of conditions for land development relating to the per-capita assessed value of subdivision property and proportions of residential, commercial and industrial assessment, other than those provided in its planning, zoning and similar land-use by-laws, [should] be prohibited.

22.7 The provision for referendum on money by-laws [should] be abolished and instead: (a) the provincial authority responsible for approving borrowings [should] be required to give electors or persons qualified to vote on money by-laws an opportunity to speak at a hearing prior to making a decision on an application; and (b) municipal councils [should] be required to give owners and other persons qualified to vote on money by-laws notice of, and an opportunity to speak at, any council meeting at which it is proposed to discuss expenditures that will be financed through borrowing beyond the year.

22.8 (a) Every municipality [should] be required each year to submit for provincial approval a capital budget for a period of at least five years; (b) upon approval of such capital budget or any amendment thereto, a municipality [should] be permitted to effect without further approval the borrowing required for the proposals scheduled therein for commencement in the first year; and (c) upon effecting any borrowing so permitted, the municipality [should] be required to notify the Province forthwith.

22.9 The responsibility for giving all approvals of municipal borrowings required by statute [should] be transferred from the Ontario Municipal Board to the Department of Municipal Affairs.

Generally speaking, capital improvements are paid for in one of three ways: (1) the cost may be met by borrowing and the loan retired by levying each year a charge on all taxable real property in the municipality; (2) a special capital levy may be made against only those properties that are thought to receive some special benefit from the work, including otherwise exempt properties, and this limited levy may be for the whole or a part of the total cost; and (3) in the case of new subdivisions, the cost may be met by requiring the whole, or part, to be met by the subdivider or developer, who in turn is expected to pass it on to those who buy houses in his subdivision. We are mostly concerned, to-day, with the second and third ways. Both of these represent an attempt to relate the cost imposed on the taxpayers to the benefits received by them.

The capital improvements we are talking about—those paid for by special capital levies—include sewers (the most important in terms of value—in 1962, 59% of the whole) paving of streets, and sidewalks (in 1962, 11%), and waterworks (in 1962, 11%). There are also many others, of much less value, and the value declined from 23% in 1957 to 19% in 1962. Special levies are not a large part of the tax bill, probably only 2% or 3%, but they are burdensome on those who pay them.

This chapter does not deal with school financing, which is, of course, one of the most important and expensive of local government (school board) undertakings. It is pointless to talk about new subdivisions without talking about schools and, indeed, hydro-electric installations, including street lights. Only our archaic system of fragmented local government makes it necessary to separate these expenses in our analysis.

The Committee was concerned with the unduly complex ways in which local capital improvements financed by special levy may be commenced. It describes a "bewildering variety of procedures" whereby the local council may start the improvement, but local land owners who feel the need for the improvement are not entirely dependent upon council initiative. They may petition the council. This is a polite form of organized political pressure and puts no obligation on the council to act, but it serves to draw the council's attention to the need, and the willingness of some, at least, of the taxpayers to meet their shares of the cost. When the council initiates the work these same taxpayers are given an opportunity to object and if the opposition is sufficient, the council must not proceed for at least two years. Sometimes a petition objecting to the work may be avoided by an appeal to the Municipal Board for approval. The Committee noted a strong trend in the direction of council-initiated works and away from taxpayer petition. Procedures and requirements differ from Act to Act and seven Acts are discussed. Hence the Committee's recommendations that procedures be simplified, made as uniform as possible and consolidated in a single statute.

The Committee felt that despite the strong trend to council-initiated works, the interests of land owners demand that they be able to petition for and against works, although the Committee was not explicit in recommending what consequences should attach to a petition for an improvement. Both councils and taxpayers would be given the "right" of initiative.

On the other hand, the Committee is more explicit about a petition against an improvement. The council merely has to "reconsider" the project—perhaps reapprove it only if a two-thirds vote can be mustered.

The Committee was concerned about the basis of apportioning the cost between the general taxpayers and those thought to be specially benefited. From its inquiry it concluded that on the average, about 45% of the cost goes to the general taxpayers and 55% to the specially benefited taxpayers, who must of course pay their share, as well, of the general tax load. The averages result from a wide variety of different allocations in particular cases and the Committee regards this great breadth of choice as not appropriately left to inexperienced local councils. It proposes instead a provincial classification system that would be enacted in a statute. The object of the statute would be to achieve the most equitable apportionment of the cost, depending on the type of work and the purpose it was to serve, and allocate the cost accordingly. Within the framework of this statutory guide, local municipalities would be permitted to decide when to use special capital levies and when to use the general property tax.

Since the end of World War II private developers have financed more and more of the local improvements that might have proceeded by way of special levies. This has been done by a variety of devices, chiefly, however, by the "subdivision agreement" now authorized by *The Planning Act*. The Committee recounts the history and extent of this new development in municipal financing, but as to future policy has little to suggest. It regards the transfer of municipal service costs to the developer as "little different" in its effect from special capital levies. It raises two important questions (which it does not answer adequately): is the practice "firmly

grounded in each instance in the benefits-received method of cost recovery?" and, "is the ensuing addition to land prices an equitable form of cost recovery?" The Committee favours, as a solution, the transfer of control over the agreement from the local council and the subdivider to the province, where the control would be exercised by legislation that sets "precise limits" within which subdivision agreements are worked out and requires filing with the province so that the province [Minister?] may satisfy itself that the terms are within the law.

Specifically, the Committee would limit the present practice in two ways. First, cash imposts for unspecified purposes or for other than the recovery of the cost of "allowable municipal service installations or extensions" would be prohibited. And second, the practice of some municipalities of requiring a residential developer to bring in some commercial or industrial assessment would be prohibited. No detailed analysis of the evils of this practice is provided.

Finally, the panel today is interested in the Committee's concern that borrowing by municipalities continues to be screened by a provincial agency in addition to passing the test of the market place. While this screening is now done by the Municipal Board, the Committee would transfer this function to the Department of Municipal Affairs.

In the United States widespread use is made of the public as a screening agency—by the referendum—that is, by asking the taxpayers to vote on the proposed borrowing. This test, which is occasionally used in Ontario, the Committee would abolish on the ground that such complex and specific issues are not likely to be understood and wisely decided by individual voters, and the accumulation of a majority of individual votes would be unlikely to provide a rational decision. But the voice of the people is not to be excluded entirely. The Department of Municipal Affairs would be required to hold hearings at which those qualified to vote on money by-laws would have an opportunity to speak. At an earlier stage the council would be required to have given the same people an opportunity to speak at the council meeting.

The Committee also noted with approval the increasing requirement of the Municipal Board that municipalities produce a five-year budget. The Committee recommended, in transferring the approval authority to the Department of Municipal Affairs, that the Department should be provided each year with a five-year budget (or longer) by each municipality, and general approval would permit the municipality to proceed with borrowing for proposals for the first year without further approval. All actual borrowing would have to be reported to the Department forthwith, in order to keep the Department fully informed of the municipality's actual capital position, so that it could review the budget intelligently.

Transfer of Jurisdiction

At the beginning of any analysis of the Committee's *Report* one is tempted to observe that it will go down in history as a great, a magnificent, Nineteenth Century document, and to hope that future historians may not notice that it was written in the last third of the Twentieth Century. But such an observation would be unfair, because the objections to the *Report* seem to me to be on the political side, not the tax side, and the political questions were of peripheral interest to the Committee. Far from recognizing the global-village concept so popular in some circles, which might have justified an enlargement of the basic municipal unit, the Committee would keep the present Nineteenth-Century boundaries and add a host of new regional governments as well. These governments, regional and local, are to

enjoy "local autonomy", but it is important to remember that the Committee's "principle of local autonomy" has little to do with primitive ideas of "home rule" or "self-determination". The principle is that "the dual role of municipal institutions in fostering democratic values and administrative decentralization must be respected and encouraged" (Ch. 2, para. 74, p. 43). The Committee happily goes on to say that, properly understood, the principle "is not a refuge for municipalities too small or weakly organized to permit the responsible discharge of important functions". To which I say, amen. But I might have been more satisfied if the Committee had recommended fewer and much larger local governments with *no* special-purpose bodies except the inevitable separate school boards at public school level.

Having got that off my chest, I may now applaud the Committee for its proposal to transfer the bonding approval function of the Ontario Municipal Board to the Department of Municipal Affairs. The Committee rightly is concerned that the Board's "position as a quasi-judicial body influences its course of action" (Ch. 22, para. 117, p. 484). As the process of screening is described in the *Report*, it is clearly not a matter capable of disposition by adjudication. The problems are complex and involve the weighing of many different and varying elements. If the job is approached by the Board as an adjudicative one, it is not likely to come up with the best solution. Yet the formal approach of the Board with all the trappings of adjudication makes the onlooker uncomfortable when the Board actually behaves administratively.

The Committee does not specify who in the Department of Municipal Affairs will actually undertake the screening function. Presumably it is to be an institutional decision, and probably to appear in the name of the Minister. Hearings would, presumably, be conducted by an official of the Department on his behalf. In these circumstances one might have expected that the Minister's decision would be final, but the Committee refers to the existing right of appeal (from the Board) to the Lieutenant-Governor in Council, that is, to the Cabinet. The Committee suggests that "there would be no significant change in the right of appeal on these matters" (Ch. 22, para. 31, p. 490). With respect, I think the Committee has overlooked a most important political principle. If the Minister decides for the Department (nominally) it would be most embarrassing all around to have his decision reviewed by his Cabinet colleagues. Just as the present "appeal" from the Minister to the Board is politically "impossible", so also, and more so, is an appeal from the Minister to the Cabinet. Or have we given up the principle of cabinet solidarity? I hope not; it was based on pretty good common sense. A simpler and safer system might be found in a Departmental decision the first time by, say, the Deputy Minister, with an appeal to the Cabinet on the recommendation of the Minister. Thus the Cabinet view would be taken, but the Minister would "hear" the case.

The Department of Municipal Affairs' Control over Subdivision Agreements

The Committee reviewed at considerable length the status of subdivision agreements, which are now commonly negotiated between the developer and the local council, usually as a condition of the Minister's approval of the plan of subdivision. The agreement need not be seen by the Minister and while he asks to be assured that its provisions have been complied with as far as possible before he gives final approval, he does not pass upon its contents.

The subdivision agreement is, then, rather like an ordinary contract. Indeed, the courts have, mistakenly in my view, so treated it. They have subjected it to all

the ordinary rules of law and equity, with the result that its provisions may be ignored by a subsequent purchaser of lots, and in effect the condition of approval may be complied with by entering into the agreement, not by carrying it out. In my view, the purpose of the subdivision agreement is to provide the opportunity for flexible control in particular cases, in recognition of the fact that most subdivisions are peculiar to the circumstances of the local economy and topography. To attempt to solve these problems without negotiation may result in an undesirable uinformity and rigidity, especially in residential development.

While uniformity of development is undesirable, a case may be made for the equal treatment, so far as it is possible, of developers and their customers in Ontario, regardless of the municipality in which they happen to be working. Equal treatment should not mean, for example, that cash imposts should be equal in every plan in every municipality. Rather it should mean that the same principle of contribution is applied in each case. That principle seems to be, by pretty common agreement, in the Committee's *Report* and elsewhere, that the cost-benefit method of calculation should be applied. So far as possible, the purchasers of lots or houses in the subdivisions should be asked to pay only for such expenses as have brought to them (or their children in school) an identifiable benefit. I am not a cost accountant, but I should have thought that the task of finding the equitable allocation of costs was not beyond their abilities, especially if they were assisted by an experienced lawyer.

One should avoid, I think, the error of the perfectionist's position that because we cannot solve all problems by cost-benefit analysis we should not try to solve any. The technique of such analysis can be a valuable aid. It cannot, however, solve the most basic question: which parts of the total cost should be distributed by cost-benefit analysis and which should be paid for generally? No one would suggest, for example, that schools should be financed only by the parents of school-age children. To try to rationalize such a decision by anything so precise as cost-benefit analysis pretends to be would be ludicrous.

When the Committee recommended that the province set "precise limits" in a statute, I think they avoided, for themselves, an extremely difficult piece of drafting. Somebody will have to attempt it, if this recommendation is accepted, but I don't envy the draftsman. The comparison, in Ch. 15, para. 90, p. 318, between building codes and municipal service installations strikes me as naïve. But the Committee also recommends that the agreements be filed "so that the Province may satisfy itself that the terms of each agreement are within the law" (Ch. 15, para. 90, p. 318). If the law is merely that the principle of cost-benefit accounting be applied, the real control will be in the Minister's power to satisfy himself that an adequate analysis has been made. The "precise limits" should, perhaps, be merely guidelines to which the Minister should have regard.

My present rather tentative view is that the subdivision agreement should be subject to Ministerial approval, should be limited as to the matters of cost that can be imposed on the developer and his purchasers, and should have a legal status more like a negotiated regulation than a common-law contract, and the sanction should certainly not be limited to the withholding of approval by the Minister. Once the plan is approved, any developer of land in the subdivision should be bound by the arrangement and should be denied building permits until he complies.

I will conclude this comment on subdivision agreements with one final justification for them that seems not to have attracted the Committee's attention. It is widely understood that one important effect of a subdivision agreement is to transfer

the risk of no development to the subdivider, who stands to make large financial gains and therefore should, I think, assume that risk. Let me explain. When, in the late twenties, Ontario municipalities put in streets, water pipes and sidewalks at their own expense, they sometimes did too much. Instead of watching the development market carefully, they spent municipal credit too freely and no houses were built on the streets. No new taxpayers appeared to bear the cost of retiring the debt. Municipalities faced bankruptcy. Obviously no provincial government could let a municipality in fact go bankrupt, but the insolvent state did lead to the establishment of the Department of Municipal Affairs—to gnaw away at the mythical "local autonomy".

The difference between the municipality and the developer deciding whether to spend money on roads and water, etc., is clear enough—the council may be defeated at the polls, but it will not be hit hard in its own pocket book. The developer will. Hence his greater caution . Of course he can go bankrupt—some have, thus spreading the cost on to many innocent widows and orphans. But most developers have been pretty cautious.

The other side of this coin is also interesting. Suppose local government were given the credit strength by the province to develop all local works in accordance with its official plan, as approved by the Minister. The local government would then be doing a real planning job, and not just acting as water boy for the wealthy developers. Streets and sewers would go where the planners planned, not where the developers could get cheap land. To make this work, the local government would have to buy land itself, as well, and lease it to developers. Would this not be a more just solution to our inflation and "unjust enrichment" in land values increment? Is this not what HOME [Home Ownership Made Easy] and the OWRC [Ontario Water Resources Commission] may yet do?

The Question of Initiative

What I have just been saying is really a comment on the proposals of the Committee about the initiative in special improvements financed by special capital levies. The Committee acknowledged the very considerable increase in council initiative without perhaps realizing that subdivision agreements are rather similar to taxpayer initiative and should be regarded as offsetting the trend. If community planning, to which I presume the Ontario government has committed itself, is to work, our local councils must be strong enough to take the initiative, not only in comparatively unimportant special cases, but generally in all public works development including major subdivisions. A case can be made for the council taking the initiative away from the large-scale private developers especially. The principles of cost accounting of benefits received would continue to apply, but the initiative should become the council's.

I do not mean to suggest that initiative should not remain in the residents who want to prod an apathetic council, and I have no objection to residents opposing an overly aggressive council. These are formalized democratic processes. One way or another, the message from the voters should get through. The Committee ambigiously gives the "right" of initiative to both the council and the taxpayer. Presumably the word "right" doesn't mean the same thing for the taxpayers as it means for the council. If the council initiates a program, although the taxpayers may object, the Committee proposes that the council may still go ahead, after reconsideration. That is as it should be—but isn't now. But if the taxpayers "initiate" a program the most they can do is recommend it to the council. I do not read the Committee's *Report* as saying that the council is not free, at some political risk perhaps, to refuse for its own reasons to go ahead with the program.

Needless to say, I heartily agree with the Committee's proposals for simplifying the procedures, making them as uniform as possible, and consolidating them all in *The Municipal Act,* or perhaps *The Local Improvement Act*. The present "scatteration" of municipal law is, I am sure, universally deplored, and is only tolerated because of the enormous amount of work by highly skilled specialists in short supply who are required for its reform. Let us hope that as we enter the Twenty-first Century we shall have large, democratically organized units of local government under a system of laws that is no more than one tenth as unnecessarily complicated as is our present system—if "system" is the word!

Speaker: **Alan J. Scott**
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Services Being Provided by Land Developers

The function of the land developer is that of acquiring land, arranging its zoning and subdivision, servicing it with sewers, water and roads, and bringing it to the point where the builder or contractor can proceed with the construction of a house, apartment, office, or commercial or industrial building. At the end of the line comes the home owner, apartment tenant or consumer, upon whom the total effect of all provincial and municipal requirements eventually fall.

The considerable increase in the cost of housing over the past decade has been caused by increasing demands of municipalities, followed by increasing specifications on their demands, followed by the further demands that proposed developments in tax terms will pay for themselves. To achieve this end the developer in many instances is being asked before construction begins to guarantee: (a) that the assortment of developed properties will be wholly self-supporting; and/or (b) that he will make up the difference to the municipal corporation.

The result of this system is to make adequate taxable capacity the prime goal of local authorities in land development. Other considerations of land-use planning are likely to be set aside. Planning is confined to single municipalities and becomes "planning by assessment".

Measures designed to ensure adequate tax revenues on a continuing basis are of course distinct from, and additional to, action to meet the initial capital requirements of new developments through subdivision agreements.

These various actions by municipalities have become so onerous that serviced land reaching the building permit stage is so scarce that the demand has pushed market prices to the inordinately high figures we have today.

Increasing Demands on Developers by Municipalities

In the early 1950's municipalities, which had formerly financed sewers, watermains and roads in subdivisions by debentures under the *Local Improvements Act,* commenced placing demands upon subdividers to finance these services. At first the requirements were limited to gravel roads with ditches, watermains, sanitary sewers and partial storm sewers at a cost of $1,000 for a 50 ft. lot in the Metropolitan Toronto area. In the period following the formation of Metropolitan Toronto, trunk services were extended at a rapid rate (the component munici-

palities vying for installation by the Metro Government of such services for their particular benefit) and serviced land at $4,000 to $5,000 per 50 ft. lot was plentiful. (Raw land was also in this price range per acre.)

Metro soon discovered that it could levy from developers without difficulty $125 per lot to help with its trunk services and plants, and Scarborough and North York proceeded to do likewise (1957). At the same time the municipalities, under pressure from ratepayer groups and municipal engineering departments, increased requirements to include, at the developer's cost, wider asphalt roads with curbs and sidewalks, full storm sewers with house connections, street lighting, certain off-site sewers and watermains to bring the cost of servicing the 50 ft. lot up to $2,300 and the sale price from $5,000 to $6,000 per 50 ft. lot. Raw land prices meanwhile moved up to the $6,000 to $9,000 per acre range.

Exurban Development Accelerates

In the early 1960's the development of residential subdivisions was moving out of Metropolitan Toronto, Hamilton and the large cities into the exurban municipalities which soon began to have debenture and mill rate problems. Industry was not keeping up. They were becoming dormitory towns with the responsibility for social and education costs in the residential developments, but without the advantages of the tax dollar throw-off from the industry to which the wage earners continued to commute in the big city. As a result in these exurban areas, in the attempt to avoid excessive debt and high mill rates, there evolved by-laws to ensure high assessment homes, and 40% of the total development assessment in the form of industry (which calls for only 30¢ to service each dollar of tax collected). This took place in Brampton, Georgetown, Whitby, Chinguacousy, and at the same time was accompanied by massive increases in single-family dwelling levies—to $600 in Oakville, $550 in Toronto Township, $700 in Markham Village and $500 in Pickering Township, where development was permitted at all! Toronto Township controlled its development by opening the door to a few developments every so often and then closing down for months or years to allow industry to catch up.

Oakville, in spite of its considerable industrial assessment with the Ford plant, has run residential development at a mere trickle for years. Pickering, as a result of the low-price Bay Ridges development and lack of industry, has gradually had to close its doors to residential development, the mill rate having hit 117, with taxes on a $5,000 assessed home running at $625 in 1967. Lot prices in these outlying areas held at $4,500 to $6,000 up to late 1964, raw land prices remaining at $3,000 to $5,500 per acre.

The Metropolitan municipalities now felt the pendulum swing back as the exurban areas put on the brakes. Not to be outdone (and to protect their taxpayers) they demanded underground wiring at an additional $300 per lot, increased many engineering specifications, in some cases demanded electrically heated houses, and demanded more large lots in each subdivision with larger houses to be built thereon. Meanwhile they processed fewer subdivision applications and took longer about it. Consequently, the demand for lots greatly exceeded the supply permitted by the authorities and prices rose in accordance with the market. Concurrently the areas in which development was being permitted by the municipalities shrank and the smaller amounts of developable raw land was bidded up to the present highs, with lots on the Metro outskirts at $10,000 plus, with servicing costs at $5,000 per lot under the inflated requirements, and with a 40% to 50% increase in labour and material costs since 1963.

So the suburban municipalities' levies went up again in 1967 to $1,050 in Burlington, $960 in Toronto Township and $1,450 (equivalent) in Chinguacousy.

This is only for single family homes. What about multiples? In some Metro municipalities town houses and maisonnettes are no longer permitted—no new zoning is being considered for them. Why? The deficit to the municipality on these is great because of the number of school children they house. Levies on town houses and maisonnettes run from $100 per unit in Toronto to $1,250 in exurbia. High-rise units fare better at a $100 to $460 levy per unit. And I haven't referred to levies for parks, and more land for parks, etc. etc. etc.

Effects of Education Costs

A recent study carried out in Burlington (which takes in annually over 40% of the Metropolitan Hamilton area housing) in 1966 showed annual deficits on the municipal balance sheet for all new residential developments except high-rise apartments.

In single family subdivisions the average deficit was $234, made up of tax revenues of $498 and expenditures of $485 for educational and $233 for general purposes.

In high-rise apartment developments the average surplus was $61, made up of tax revenues of $287 and expenditures of $80 for education and $146 for general purposes.

How did this and similar predominantly dormitory municipalities compensate for this deficit picture?

(a) By promoting more industry (the rule of thumb is that the taxes from 1000 sq. ft. of industrial space are required to compensate for the deficit in taxes from the average new home).

(b) By increasing levies on each residential unit built, which levies can be amortized to offset the annual deficit.

(c) By slowing down residential developments.

From the foregoing it may be concluded that while subdivision requirements have raised housing costs very greatly, the main reason for the housing shortage is that municipalities, because of the existing tax system, have been resisting school-pupil-producing housing due to the exorbitant education costs involved. These run at 50% to 60% of the municipality's annual budget (in the case mentioned above being 61% of $415 per elementary pupil and 56% of $760 per secondary pupil, the balance of these percentages being covered by provincial grant).

Tax Committee Recommendations

In the Tax Committee *Report,* Chapter 15 — "Capital Financing by Developers"—there are three recommendations which are of great interest to the development industry. They are that:

> Provincial legislation set precise limits within which the terms of subdivision agreements may be drawn, and require the filing of such agreements with each proposed plan of subdivision so that the Province may satisfy itself that the terms of each agreement are within the law. (Recommendation 15:7).
>
> Cash imposts on developers for unspecified purposes, or for purposes other than the recovery of the cost of allowable municipal service installation or extensions, be prohibited (Recommendation 15:8).

> The imposition by a municipality of conditions for land development relating to the per-capita assessed value of subdivision property and proportions of residential, commercial and industrial assessment, other than those provided in its planning, zoning and similar land-use by-laws, be prohibited (Recommendation 15:9).

If the normal conditions of the market place in metropolitan areas are once again to flourish with a sufficient housing supply to meet the needs of the public at modest prices, these recommendations together with that for Regional Government must be made operative at an early date. This, however, does not appear possible unless special provincial education grants are made to the predominantly dormitory or commuter exurban areas to offset the deficits indicated above. The latest government proposal for new county boards does not in itself seem to go far enough. I wonder what the rural taxpayer in the north of Ontario County can look forward to in the 1969 educational tax bill other than the transfer of Pickering Township's load. And what of the rural townships lumped together with the other dormitory towns; will they not now demand equal standards of education and thus create added burdens?

If my remarks have seemed gloomy, let me close by saying that great encouragement should be taken from the Committee's *Report,* with the note that proposals for legislative changes appear to be in hand.

Speaker: **Eli Comay**
Eli Comay Planning Consultants Ltd., Toronto

Developer Charges

Let me begin by discussing not the Taxation Committee's *Report* but a different report entirely—the report prepared by the Bureau of Municipal Research on the Taxation Committee's *Report.* This was issued only a few days ago. When it arrived I seized it eagerly, hoping first to learn something comprehensive and intelligent about the Taxation Committee *Report* as a whole, and hoping also to learn something intelligent about Chapter 15, which is my assignment today. I think I learned something about the *Report* as a whole. But reading the Bureau on the question of Chapter 15 I'm not at all sure that they and I have read the same document.

The Bureau's position on Chapter 15 is succinct and almost deserves direct quotation:

> (1) The Committee's recommendations fall short of its documentation—for example, the relative mildness of its recommendations regarding the problem of developer charges;
>
> (2) The Committee's recommendations are inadequate to contain the problem.

The Bureau's statement puzzles me. Mainly because I have read Chapter 15 and have not received any real sense of confidence that I know what the "problem" is; and also because I couldn't detect any kind of "documentation" leading to any kind of reasonable conclusion, let alone reasonable recommendation.

Let me summarize the Committee's "documentation", according to my own imperfect understanding.

1. Revenue derived from local improvement levies has grown since 1957, but no more than total municipal tax revenues. In fact, while the *Report* says that the proportion of local improvement revenues to total tax revenues has been relatively stable, the Committee's figures indicate that it has declined, in varying proportions, in all classes of municipalities.

2. The proportion of capital works paid for by special levies rose from 21% to 30% between 1957 and 1962. This is undoubtedly true; the figures say so, but if one wants to draw a meaningful conclusion one would really want to see more documentation than one five-year trend which is already five or six years out of date.

3. Provision of physical services by developers came into more general use between 1953 and 1963; this trend has spread to smaller municipalities as well as large urban and suburban communities; it has paralleled the increase in subdivision activity in these smaller municipalities.

4. The responsibility placed on the developer has broadened appreciably in this period, and frequently includes a requirement for cash payments as well as providing or paying for specific physical services. Developers are also required increasingly to participate in the provision of outside trunk services.

This is the Committee's documentation. It may be summarized simply. The developer pays a lot of money.

Evaluation of Subdivision Agreements

The Committee has also drawn some conclusions; and at least one of them is stated explicitly. It is that the standard subdivision agreement, modelled by provincial guidance on the one in use in North York, imposes "comparatively severe conditions"; its provisions would evidently "be regarded as quite demanding" (Ch. 15, para. 76, p. 314).

I have tried very hard to elicit another conclusion, but without much success; or better yet, an answer to the questions: Is the developer paying too much? Is the imposition of costs on developers unfair? Is it inequitable? There is a sort of air of inference to this effect in the *Report,* and it would be difficult not to draw the implication that the Committee's answer to these questions is "yes"; but I have tried hard and I have just not managed to find either the explicit conclusion or its supporting documentation. This is perhaps the "problem" the Bureau feels it has found, but I am not really confident about it.

The Committee's conclusions become more specific, however, as follows: The prevailing use of subdivision agreements has certain drawbacks. The first is that while such agreements admittedly eliminate burdensome municipal outlays and annual debt charges, they have led municipalities, "in some instances", to approve subdivision developments which under different circumstances would have been recognized as financial liabilities (Ch. 15, para. 82, p. 315). The "instances" aren't named, but I'm quite willing to believe it; I'd feel a little better however if they had told us how frequently this happens, and something about the attendant circumstances, and also, for example, how we could have come anywhere near securing an adequate housing supply in the Toronto area without the municipalities suffering such "embarrassments" (to use the Committee's rather quaint term).

The second drawback, and I suppose here we're getting to the nub of the "problem", is that municipalities have "sometimes demanded more extensive or elaborate services than were actually warranted and certainly more than the

municipality would have paid for itself. As a result the cost of new homes has been unnecessarily increased . . . in transferring responsibility for service installations or financing to developers, municipalities have sometimes been more demanding than they would have been on their own account" (Ch. 15, para. 84, p. 316). This is the one we're waiting for, the question of standards. I will return to it at length—in fact it constitutes the real burden of my talk—but first let's dispose of the other two "disadvantages" of subdivision agreements.

One is that they set time limits on performance which are not related to the rate of occupancy of new houses. (Fair enough—a legitimate complaint.) Second is that by requiring developers to pay for or contribute to main streets and access roads the municipality loses the provincial road subsidy, unless the Minister decrees otherwise. No one can dispute the Committee's contention that this should not be a matter for the Minister's discretion; it is certainly difficult to grasp the philosophy that the drivers using a "subdivider's" street are somehow less worthy of provincial assistance than the drivers who pay through the nose by way of taxes. (But one wouldn't have minded a little "documentation" on what has actually taken place since the 1964 amendment to the *Highway Improvement Act*.)

Standards

To return to the question of standards. Let me state first that on this particular subject the Committee's *Report* contains absolutely no documentation. That municipalities are too demanding, and that standards are too high, are expressed purely as a matter of the Committee's opinion. We have been hearing this opinion for a long time and presumably will hear it for a long time to come. The Committee is eminently qualified to offer its opinion, but it would have been nice if the Committee had taken the trouble to spell out the facts behind its opinion (just as it would be nice if the Bureau would grant us the reasoning behind its opinion that the problem of excess standards has been adequately documented).

There is really little to say about standards except the obvious fact that they are relative, that they are getting higher all the time, and that people are getting what they want, or at least what their elected officials think they want. The notion that if we only tried hard enough we could content ourselves with drainage ditches, blacktop and no sidewalks is naïve. It is equivalent, perhaps, to the notion that we can do with 40-pupil classrooms and no libraries, gyms or auditoriums; with up-stream package plants and primary sewage treatment; with tandem streetcars on Yonge and Bloor; with on-street commercial parking, with orphanages instead of foster homes and with the dole; with cheap bunker oil and soft coal to produce our light and heat; with asphalt playgrounds; with restricted public access to the lake and the river valleys; and with overhead wiring.

Our standards are relative and they are high, and we might as well just say that the cost of living is going up (among other things) because the standard of living is going up. The subdivider's agreement may be a vicious tool to extort municipal goodies from the mortgagee's pocket instead of the taxpayer's, but it is far from being the only culprit. Excess parking requirements for apartments, for example, (which are sanctified not in the subdivider's agreement but in the zoning by-law), probably add up to $10 monthly to average apartment rents. (And this has been documented, in Murray Jones' redevelopment study.) It is not always the Council which requires 66-foot roads but the province; look at what the Municipal Board did to the City of Toronto a few months ago when the city had the naïve notion that it could provide adequate access for a cul-de-sac of 9 or 10 houses with a 50-foot roadway.

If we're worried about standards for municipal services and facilities let's direct a little concern to some of our inadequate standards as well—the 5% public land dedication, for example, about which the Committee seems to draw some kind of conclusion which I couldn't quite put my finger on. Here is a standard *par excellence,* originally designed, on the most scientific principles, to provide something like 2½ acres of public parkland per 1,000, and which works like a charm as long as we're building them 4 to the acre, but which is like some kind of macabre joke with our current suburban development densities. If this is the "problem" that's bothering the Bureau, I'm with them.

The Committee wrestles valiantly with the problem of establishing criteria for the imposition of developers' charges: Is the practice firmly grounded in each instance in a benefits-received method of cost recovery? Is the ensuing addition to land prices an equitable form of cost recovery? These questions are quickly disposed of; they are beyond the Committee's scope. What is offered, therefore, is something sort of second-best: the province should exercise more detailed surveillance of subdivision agreements. Legislation should be enacted to control their content, prescribe guide-lines, and "establish standards". On the latter the Committee has a guide-line of its own to offer (Ch. 15, para. 89, p. 317): ". . . some method should be devised that will ensure that the services demanded are neither more elaborate nor more extensive than is warranted in relation to the value of the land and the potential value of the housing or other development upon the land." Some method be devised! By whom? To what criteria? I trust Professor Milner was serious about the omnipotence of the lawyers; I'd certainly hate to give the job to the planners.

Standardization of Developer Charges

The Committee is certainly right however in one all-important respect, and if this is as far as they could get so be it. It is unfortunate that they chose to enlarge it with inconsequential documentation and wishful thinking. This is that if we are going to charge the developer—and how can we avoid it—let's at least be consistent in how we do it. Certainly there cannot be anything more involved, chaotic and irrational than the crazy quilt we have woven around the subject.

I would like to deal briefly with two specific aspects: sewage and roads.

Sewage

The Metropolitan sewage charge to which Alan Scott made reference and which was established back in 1957 is complicated: $2.50 a foot frontage for residential lots and on commercial land that is not designated for shopping centres; $250 an acre on industrial land and on land that is designated for shopping centres; $50 a unit and $545 an acre on land that is designated in subdivisions for multiple family occupancy. There are serious problems attached to these sewage imposts. First, they relate only to subdivisions. If land is developed by other means than by subdivision not a penny is paid. One of the suburban municipalities, Etobicoke, has made it a general practice to bring land into industrial development in the southern end of the Township by means or severances, metes and bounds, etc., rather than by subdivision. Not a penny of the Metropoltian sewer levy has been paid for these developments.

Secondly, multiple-family blocks: $50 dollars a unit, $545 an acre on the original designation. But how many apartment blocks in Metropolitan Toronto have been rezoned, since they were first established by subdivision plans, from 35-40 units per acre to 60-70 units per acre? Where in the Metro sewage impost on these additional units?

There are other inconsistencies. For example the Metropolitan sewage impost is waived for public housing projects. Fine, fair enough, the object is to keep rents down, but it is certainly a most indirect way of providing a Metropolitan subsidy for this purpose. Or the most obvious inconsistency of all: sewage charges are not applied across the board throughout Metro. Scarborough and North York have adopted the same charge as Metro, so that the sewage impost is effectively doubled; but Etobicoke does not levy a local charge. In that municipality the sewage impost is therefore half as great as in the other two.

These kinds of exceptions make it clear that even this highly rational way of providing for a consistent means of securing income to help pay for a basic municipal service, the Metropolitan sewer system, is applied inconsistently throughout the metropolitan area. An equally important question is the actual basis for the charge. As far as I can establish, the determination of the rate involved a calculation which was related neither to the prospective cost of planned metropolitan services nor to any real notion of the benefit derived. It started with an original figure and then it was calculated to make everything consistent with that original figure. But what was that original figure and how did they get it? This has unfortunately been lost in antiquity. In practice, the Metropolitan sewer charge, which is probably as clear-cut an example of a regional service charge as you are going to find in North America, didn't really pay for all that much of the Metropolitan sewer program. At last count, it had accounted for something less than a fifth of the total cost of the Metropolitan sewer system.

These are subdivision charges directed to subdividers by means of subdivision agreements. We now have as well sewer charges directed to redevelopment initiated through rezoning, originally established by the City of Toronto at 20 cents per square foot to help pay part of the cost of a very extensive city-wide sewer rehabilitation program. This too is relatively clear-cut and began, initially at least, with some sort of scaled-down relationship to the anticipated costs of the program. It has subsequently been adopted by most of the other Metropolitan municipalities. How does 20 cents per square foot relate to the costs of *their* programs? Or to the actual costs of providing increased capacity for the specific rezoning proposals involved? And how long will it be before the manipulations begin, the density concessions, etc., which will inevitably evolve into the same kind of grazy quilt as the original developer's charge applied to subdivisions?

Roads

The story on roads is not much simpler. As you all know we started with 66-foot roads a long time ago. Then the notion became accepted that when a road becomes a heavily travelled route it should be 86 feet wide and it became customary to secure a 10-foot dedication on each side of all 66-foot roads that were required for arterial road purposes in the course of subdivision. This didn't prove enough—we got bigger than we thought we were going to be and got more traffic than we had anticipated. 86 feet really isn't much for a six-lane suburban arterial road and it turned out that we really needed 120 feet. By this time most of the suburban arterial roads had either been widened to 86 feet or at least a dedication had been secured, so the custom then developed of adding another 17 feet on each side and thus we had 120 feet, and that was fine. Then we got to expressways and we ran into a real problem. What does a developer dedicate when an expressway runs through or adjacent to his property? A theory was established: he dedicates the equivalent of an arterial road—120 feet. If he is lucky and the expressway occupies a concession road that runs adjacent to his property or is already on his property he will only have to dedicate another 17 or 34 feet to get it from 86 to 120 feet. If he is not lucky, there is a good chance that they will take a good shot at getting the full 120 feet from him. Fine, fair enough, you do what you can and you get the best you can. But then there come the questions of interchanges. How much do you dedicate for interchanges?

As you know, it became very much of an *ad hoc* kind of process. Examine many of the established Metropolitan roadways, like the Don Valley Parkway, for example, or the Don Mills Road extension, and observe the inconsistencies. Sections of the Don Valley Parkway that were acquired free, and sections that Metro paid, and paid through the nose, for. Sections of Don Mills Road that were acquired free, and sections of this brand new road, running right through a man's subdivision, which Metro paid every last penny for. It was all a matter of timing. One man sat down below; Metro needed the road; it couldn't wait for him to subdivide, so it paid. Another man sat up above; Metro could wait for him; it outwaited him, and he dedicated. (At least I think it outwaited him; this particular game has been going on for about the last three or four years but I think it has finally come to pass that the man has given up and is subdividing and Metro is going to get the road.)

The fact is, as the Committee points out, developers have paid because it was more convenient to pay—they could get quicker action. It became an economic proposition in terms of balancing the advantages of getting quick development as against holding out, and also of course of establishing a good feeling with a particular municipality which a man expected to be working with for years and years. The developers found that it paid them to pay and so they went along, and the subdivision agreements were negotiated. With the roads I think the pot finally ran empty about the time that development reached Finch Avenue. Resistance was increasing; the developers were getting unhappy. From Finch to Steeles it has become a difficult problem. It is probably lucky from the general taxpayer's view that Metro was able to get as far as Finch, which is more than four-fifths of the way, getting the road dedications that were needed.

The point I am trying to make is really obvious. The machinery for securing road dedications hasn't been consistent and it hasn't really been principled. It hasn't really been directed toward a theory. It has been directed to a sort of pseudo theory, that if you somehow or other classify roads you can then classify the benefits. But how you apply that theory to the man who is sitting next to an expressway but has to go about three-quarters of a mile to get to the interchange to use the expressway has become a very difficult problem and it is the sort of problem that is pushed aside in the interest of developing a simple system of getting land for roads out of a developer.

Let me summarize what I really feel on the subject. We are dealing with money as we are dealing with principle. I have very little confidence that this particular aspect of raising money and spending money is really amenable to any sort of rational cost-benefit analysis. I think it is really the same question as is involved in almost every municipal financial problem; it is a question of securing the funds in the most convenient manner and a question of allocating them by some mysterious formula which combines needs and pressures and covers up a lot of mistakes in a very carefully balanced equation. It is of course cheaper, as the Committee says, for a municipality to borrow than for a homeowner to pay on a mortgage. The trouble is that many times the municipality cannot borrow no matter how cheap it is. (Many times the homeowner can't get the mortgage either.) The fact is that we have been extemporizing, we have been improvizing, and whatever has been most convenient has been the way it has been done. And I have no substantial confidence that any kind of action directed toward the question of developers' agreements along the lines that the Committee has been speaking of will really serve to rationalize that problem.

Solution

There is really only one rational approach: Professor Milner has said it; even Alan Scott said it and I think we all know it. The question of land, the question of services, the question of houses is a single problem. It should be treated as a single problem with a single program. There obviously is no rational way for this to be handled other than for the public agencies to do it. It is not a matter for developers to make decisions as to how, when and where one set or another set of services is to be provided. It is a matter not only of a rational land use plan but above all of a rational development program in which, within our own imperfect way of estimating trends and making projections and trying to calculate consequences, we strike the best possible balance as to where the community and the region should be going. It is only on that basis that we can properly secure the financial resources we need for the purposes of development and then properly allocate them. The question of developers' charges is important, but it is really only a very small part of this much more fundamental question.

Speaker: **J. H. Lowther**
Treasurer, City of Ottawa

There are both advantages and disadvantages in being the last speaker on a panel such as this. The advantages are probably mine in that all of the important things that may be said are probably already said and that relieves me of any great onus of responsibility for what I might say. The disadvantages, however, are yours, in that I might be repeating what you have already heard. I had made up my mind, until the last speaker made reference to his professional identification, that I wouldn't attempt to becloud your minds preparatory to my remarks by telling you a story, but since he was a "land economist" it reminded me of a reference I saw the other day—that if you laid all the economists in the country end to end they wouldn't reach a conclusion. I am not sure whether that applies to my learned friend as well as to other economic economists.

My remarks at the outset will relate to some of the things Mr. Scott has said. Fortunately, or unfortunately, he displayed the courtesy of sending me a copy of his paper before I came to Toronto so I had the advantage of learning beforehand what he was going to say.

Costs of Housing

Mr. Scott seems to suggest that the main reason for the increase in the cost of housing over the past decade can be attributed to excessive demands of municipalities. This is where we part company. There is some consolation, however, to note that his observations are related primarily to the situation as it applies in Metro Toronto and adjacent areas. While I am not too familiar with what has happened here, if Mr. Scott is correct, I don't think the same can be said about the Ottawa area.

In viewing the impact of the present-day philosophy relating to the provision of services in new subdivision developments, such so-called "high figures" as referred to by Mr. Scott, are more in fact the economic costs of providing fully serviced lots as compared with the past when the true costs were hidden because of partial financing out of general tax revenues or special capital levies.

I am inclined to suggest that the largest factor in these so-called high cost figures for fully serviced land may lie in the cost of the raw land itself. Municipalities certainly cannot be held primarily responsible for the scarcity of urban land for new development or, I may add, for the vagaries of the open real estate market which pays little respect to actual costs.

Two further general observations to which, in fact, reference has been made by previous speakers, are also pertinent.

Municipalities had virtually little or no alternative to the development of subdivision policies requiring developers or subdividers to meet, in whole or in part, the cost of various facilities to service their developments. If anything, it is my feeling that probably some of us at least would regret that action in this direction wasn't taken many years earlier. New developments were taking place at such a rapid rate that the demands upon municipalities to finance their service charges had very serious affects on their debt borrowing capacity — their financing capabilities.

It would also seem to be quite justifiable to require these new developments to be more or less self-sustaining as opposed to the alternative of transferring a major portion of their service costs to the older built-up areas of our cities.

As to the standards of design which it has been alleged are excessive, it seems to be implied through these remarks that municipalities should not attempt to establish standards of design, but let the developers design their own roads, streets, sewers, sidewalks and so forth according to their own ideas.

All we have tried to do is require developers to provide services of a standard equal to that in the older areas of the city or, if those are considered substandard in relation to present-day needs and requirements, to an acceptable standard of design under present-day conditions.

We have very good illustrations, I am sure, in many municipalities of the undesirability of permitting subdividers or developers to install inadequate services at the outset to get their subdivision plans under way, with the result that in a relatively few years the municipality is prematurely exposed to heavy maintenance expenditures, such as for roads, or required to reconstruct or enlarge other facilities to meet the demand.

Finally, with respect to this particular matter, I am inclined to feel that it is less burdensome on the home-owner to have what more closely approximates the full economic cost of his serviced property, consolidated in his mortgage payments and spread over a longer term at comparatively low mortgage interest rates, albeit they may be somewhat higher than the cost of municipal credit, than would probably be the case if the cost of municipal services were to be financed as in the past and charged against the property owner either as a special capital levy or through his general tax rate. This would be especially so unless municipalities were permitted to arrange their capital financing over longer periods of time than is permitted under present legislation and related arrangements.

Recommendations of the Committee

Now to mention one or two points referred to in the Committee's *Report*. I think we can all agree that it would certainly be very desirable if the various pieces of existing legislation authorizing or permitting special capital levies were consolidated. There are, of course, arguments on the other side of the fence. If you are dealing with, say, a telephone company, it would be convenient to have

everything relating to the operation, construction or development of the telephone company all in one piece of legislation. However, I am inclined to feel that the advantages of consolidating this particular type of legislation, preferably in *The Municipal Act,* would be helpful to all concerned.

I can also agree that it would be desirable to have the initiative plan available to both sides, so to speak. However, it seems to me that the Committee might have been a little more specific in putting forth suggestions for standardizing the procedures relating to works involving the imposition of special capital levies, to eliminate the variations that now exist, such as between the prerequisites for processing works under sections 8 and 12 of the *Local Improvement Act* as compared with a capital levy under section 380 of *The Municipal Act,* or the relative provisions of the *Ontario Water Resources Commission Act.*

I also feel that section 380 of *The Municipal Act* is one to which the Committee could have devoted a great deal more attention. In my opinion, it is a most vague, involved and unsatisfactory piece of legislation as it now stands. It requires, if you want to establish a "sewer rate" to finance a part or all of the capital cost of a sewer, the approval of the Municipal Board before you even enact your construction by-laws, and once having taken that course of action it would appear that you are set for life.

Conversely, if you don't take this specific course of action and get the prior approval of the Municipal Board, it precludes you at some later stage from using the provision of that section to meet part or all of the capital cost of your sewers by the imposition of a sewer rate.

I doubt if we are very different from other municipalities, but, anyway, we started ten or more years ago to build collector sewers in anticipation of eventually having a completely integrated system of major collector, interceptor and outfall sewers and sewage treatment plant; and since these earlier constructions did not provide an immediate benefit to individual properties or those in the area through which the sewers were installed, they were financed out of the general funds of the municipality. Now, when we had our pollution control system completed, so to speak, it was felt desirable to finance part of the capital cost of the whole sewerage system, by a "sewer rate". We did, in fact, start out to do this, but the validity of our by-law was questioned by court action and subsequently ruled invalid because we had failed to get the prior approval of O.M.B. to all of the related construction by-laws. After collecting the rate for 2½ years, we had to give all this money back to the people who had paid it, if we could find them, and from that point onward provide for the whole of the capital cost out of the general funds of the municipality.

I fail to see the objections to the exercise of a decision by a municipal council to transfer the burden of cost from the general tax rate to a user charge if it sees fit to do so. Unfortunately, the Department of Municipal Affairs doesn't agree with this point of view.

Also, there is one aspect of Mr. Milner's philosophy and of the Committee's recommendations, that I am afraid I can't quite accept. It is the proposal to transfer the authority now vested in the O.M.B. for approval of municipal capital undertakings to the Department of Municipal Affairs. I am not suggesting that the Department of Municipal Affairs could not do this, but I don't think a satisfactory case has been made to justify such a change. It has taken a long time to get the Municipal Board built up to the point where it is today in satisfying the needs of municipalities for reasonably quick and rapid consideration of their capital programs, even after their budgets and budget quotas have been set. Just

because the O.M.B., as Mr. Milner has suggested, is a quasi-judicial body or functions in that rather sacred aura, such, in my opinion, is not in itself justification to suggest there should be a change in the administration of this responsibility.

Without casting any adverse implications on the Department of Municipal Affairs, I feel that as an administrative department of the government, it would be exposed to far greater pressures and direct representations from outside interests than is the case with the Ontario Municipal Board, even though as Mr. Milner states, there is an appeal from a decision of the Municipal Board to the Lieutenant-Governor in Council. It is my view that the Municipal Board has established an excellent reputation over the years in this regard. At least, this is our experience, and while I couldn't object to the Department taking over the functions, I think, as I said before, that there should be better reasons than those which would appear to have been mentioned up to this point of time.

Effect of Withdrawal of Developer Charges

I mentioned a moment ago that I would provide an illustration of what the effect would be if we stopped charging developers for service installations and reverted to the former practice. Using a theoretical figure of $2,000 per lot for roads and storm sewers, and based on our total local improvement program for 1967, about 60% of the cost of these services would be absorbed by the city, one-third of which, or about 20%, of the total cost would be eligible for provincial subsidy. Thus, the division of these total costs would be: homeowner—by special capital levies $800; general taxes $800; and provincial subsidy $400. This is merely illustrative of what the situation would be if we hadn't started shifting these costs from the municipal tax rate or levy to the subdivider.

I don't think anybody here today can say that his taxes haven't increased over the past ten years—I know mine have. Just imagine what they would have been if this additional burden had had either to be provided by the taxpayers at large or added to the tax bills of the property owners by way of special capital levies. And what would our municipal debt be today?

I am inclined to feel that there would have been a terriffic hue and cry by the property owners over the increases in taxation that they would have been exposed to, and either these would have to be ignored or else the owners would be denied the services to which they would feel entitled based on the standards elsewhere in the community.

This was our experience, in fact, after our last annexation in 1950 when the city boundaries were extended to include large portions of Nepean and Gloucester Townships. Immediately that was achieved, we were virtually forced into the position of providing services to those areas on the same basis as existed in the old city of Ottawa, such as sanitary and storm sewers, water mains, improved roads, drainage, etc.

To give you some idea of the relationship of our own situation to some of the references made in the Committee *Report:* in 1957, only about $717,000 were imposed as special capital levies against the benefiting property owners and that represented about 3.9% of our total tax revenue. For last year (1967), these had increased, however, to $2,331,000 representing about 4.8% of total tax revenue. Conversely, our total capital expenditures for such local improvement services has decreased from about $5,600,000 in 1957 to $3,250,000 in 1967.

Subdivision Policy in Ottawa

Our present subdivision policy is really a combination of both of the factors, or all of the factors, I guess, which have been referred to by previous speakers. We require the subdivider to pay 100% of the cost of the various basic services required in the subdivision according to our standards of design, except for the provision of schools. In addition, we have a relatively modest—at least compared with what I understand is the take here in Metro Toronto—cash payment required for both residential and commercial land developments by way of special subdivision charges.

But looking at it in terms of revenue, it is not too significant. For instance, in the last six years we have collected only a little over $700,000 from our special subdivision charges. There is probably a good reason this figure is so relatively small. We discovered a few years ago that there seemed to be a trend towards leaving the undeveloped parts of the city undeveloped and moving into the older part of the city to build what are actually "subdivisions in the sky". This was exposing the city to very substantial expenditures for the additional sewerage and water capacity necessary to serve these new developments.

It was for these very reasons and with a desire to attempt to equalize the charges against developers that the city of Ottawa pioneered in obtaining special legislation to authorize us to impose what we call our redevelopment charges. I think in Toronto they are referred to as special sewer levies.

We choose not to identify these charges in relation to any service. In fact, you do not even have to be connected to a sewer or water service to be liable for payment of the charges.

In the last four years—it took us three years to clear the air by court action, eventually to the Supreme Court of Canada, to confirm finally the city's by-law passed pursuant to our special legislation, but since the inception of the charges in 1964—we have collected about $4,000,000 in redevelopment charges on new buildings in the older part of the city.

To avoid duplication, the provisions of our Redevelopment By-law are that the developer is not liable for redevelopment charges if the building is built on land in respect of which special subdivision charges have been paid. Thus a developer who, pursuant to a subdivision agreement, installs the required services and pays the special subdivision charges, may in future build any kind of building he wishes within the framework of our zoning and land use by-laws without paying the redevelopment charges.

School Finance and Grants to School Boards

Chairman: Brian Wallace

Speakers: W. J. McCordic
Meyer Brownstone
E. Brock Rideout
John E. Trimble

Chairman: **Brian Wallace**
Manager, Land and Lease Department, Consumers' Gas Co., Toronto

Speaker: **W. J. McCordic**
Director and Secretary-Treasurer, Metropolitan Toronto School Board

We were advised not to assume that our audience would be completely conversant with all the recommendations and general observations of the Smith Committee. Accordingly I asked for the privilege of speaking first in order to cover quickly the highlights, as they relate to education, of a very far-ranging and comprehensive report. I shall do some editorializing as I proceed, but I think the other panel members will have more to say along that line than I. However, in dealing with some of the recommendations, I shall report to you the official position taken by the Metropolitan Toronto School Board in a memorandum which has been with the Premier and with the Minister of Education.

The *Report* in its recommendations relating to education covers four general areas.

Recommendations re Assessment and Taxing Procedures

The first of these areas relates to the simplification and rationalization of assessment and taxing procedures.

This involves reassessment of all property at actual value with adjustment across the province in relation to a provincial equalization. Further the reassessment for tax purposes is to be more up to date, viz., March 31st of the year in which the assessment bill is received.

The second simplification proposed is that there be a common mill rate for residential and commercial properties. This is at variance with the present practice where mill rates differ between residential and commercial properties. The present differential, which gives some preference to residential ratepayers, is carried over

into the recommendations of the Committee in the following way; that, while all property will be reassessed at current actual value, the taxes will be paid on residential property on the basis of 70% of the assessment, and on commercial properties on the basis of 100%, divided equally between the owner and the actual user. If owner and user happen to be the same, naturally that *company* will pay 100%.

A further simplification is that the "in lieu of" grants that the province pays to municipal and school authorities shall be based upon the actual mill rate rather than upon some other formula. The Committee *Report* goes on to suggest that this same principle might be applied to federal "in lieu of" grants as well.

It is further suggested that the fiscal year coincide with the fiscal year of the provincial and of the federal governments which ends on March 31st. My comment would be that just as the calendar year, from the point of view of school boards, is not too satisfactory since it does not coincide with the school year from September to June, for similar reasons our present arrangements are to be preferred to the provincial and federal date of March 31st. I agree, therefore, with the contention of the Bureau of Municipal Research that the advantage of making dates coincide with the provincial and federal governments' year are not significant enough to warrant the change.

A common date, March 31st, is recommended for the adoption of estimates. This now varies across the province as between municipalities and school boards. As a person responsible for getting out a budget, I can only say a common date is good because, unless you have such a deadline, you never get the job done.

A further very significant change proposed is to the effect that school boards levy their own taxes. I am intrigued by the Bureau's term, which I think was invented to cover this proposal. It says that this arrangement will "give greater visability of school spending". But I agree with the Bureau's contention that collection should remain a municipal function. My impression is that this proposal is not too clear in the *Report*. From my experience with school boards, with whom I have worked for many years, I would contend that they have not tried to hide behind the skirts of the municipal councils, and that they welcome this opportunity to become responsible for their own budgets.

Capital Financing for Education

The second general area in which the recommendations of the *Report* relate to education is capital financing.

(a) In relation to separate schools it is proposed that municipalities become the agencies for funding the capital works of the separate school authorities as well as the public school. Subject to an observation I would like to make later, my own personal impression, and this is not the Metropolitan School Board's impression, is that this would be a decided improvement.

(b) It is further suggested that budgets be submitted on the basis of five years and the actual operating capital budget for one year; and that the budget be in bulk amount, thereby eliminating the need for review of individual projects by the Ontario Municipal Board or whatever body is responsible for this review. The procedure is now operative in Metropolitan Toronto and, after one year's experience, I can testify that this is a decided improvement. However, the long-term capital budgets for education which are also proposed are extremely difficult to formulate with any degree of accuracy. School boards have no control over the pace of development, and with our own capital budget we find that no matter how

meticulously we prepare it at the beginning of the year changes have to be made throughout the year. A five-year budget, so far as we are concerned, can be little more than a tentative guideline.

(c) It is recommended that the Department of Municipal Affairs assume responsibility for the final approval and authorization for capital financing. I should like to suggest an alternate plan later, but if the municipalities continue to be responsible for school debt, my personal preference would be that it be left with the independent authority.

(d) The next important recommendation is that the province pay its share of capital spending in cash. What Mr. Kennedy (Chairman, Ontario Municipal Board) calls "provincial subventions" to debt retirement have not proved too satisfactory because the rates vary from year to year and the municipality is held accountable for the entire debt including the provincial share. Smith proposes that this be no longer the case. He proposes however—and this is a sort of horse trade, it seems to me—that if the province is to pay its share of the cost of school building in cash, the Ontario Education Capital Aid Corporation, which has been a tremendous boon to school boards throughout the province, be abolished. The Metropolitan Toronto School Board, as the Bureau's periodical reports, has officially advised the government that it would regard this as a poor trade.

My personal recommendation would be that the province through the Department of Education should now take over greater control of capital spending and should provide funds through the Capital Aid Corporation or some similar corporation that derives its funds from the same source. The province it seems to me should pay its share in cash, and should set standards which would admit a substantial flexibility of design. If this should come to pass, it would be my view that the Department of Education would be an even better authority to approve the school's capital expenditures. The net effect of this would be that the school boards, having been relieved in relation to their current budgets of any hint of control by local councils, would under the direct supervision of the Department of Education become equally free in relation to capital financing.

Level of Increase in Provincial Support to Education

The third of the four general areas I should like to comment on is the level of increase in provincial support to education. The *Report* recommends that basic grants be paid throughout the year rather than on the three occasions on which they are currently paid—a sort of cash-flow arrangement, I would presume—and further recommends that these basic grants be increased in three yearly increases of 5% from the present average across the province of about 45% to 60% of the gross expenditure of local authorities for education. The Metro Board, aware of its own very substantial needs in this area, have indicated that, whereas on average the province receives 45%, Metro Toronto over the past few years has received approximately 25%. It would, therefore, hope that the 15% increase would not be similarly pro-rated, but that the board would enjoy in full the advantages of the 15% increase.

Another quite significant change in an area marked by a long history of controversy is the corporation assessment where ownership cannot be established to the point of deciding whether it shall be placed to the credit of the public or of the separate schools. The proposal is that assessment on such corporations be divided between the school authorities on the basis of the relative pupil enrolment.

To our Board this provision, which will affect us adversely, illustrates the bind the Board is in as it contemplates the effect of some of these changes on the Board's budget. How much will the real or effective increase be if all recommendations are implemented, some having the effect of increasing revenues and others of decreasing revenues. The *Report* recommends a basic increase of 15%, but will this include as well compensation to the public school for what it loses in the very important shift of tax revenues to separate schools?

The Committee recommends a basic shelter exemption on the first two thousand dollars of assessment and that the province undertake to pay to the municipalities and to the school authorities an amount equal to the tax on that exemption. It is expected that this recommendation will be implemented in 1968. This looks fine until one realizes that it is based upon the new assessment, and in Metro Toronto, $2,000 in the new assessment is approximately equivalent to $666 in the old assessment. This still represents a very substantial gain for taxpayers, but not as much as the two thousand dollars would suggest.

The *Report* further recommends the abolition of 7 of the 11 stimulation grants and the incorporation of these into the foundation tax plan.

Regional Government

The fourth general area covers recommendations relating to regional government. The inference one might draw from these recommendations is that education might be similarly organized. As most of you know, the Smith Committee rejected a county plan for a variety of reasons. It suggested instead a smaller number of local authorities, 29 in all: 7 metro in character, 3 urbanizing or suburban in character, 12 county regions, and 7 northern regions (2 metro and 5 district). That the province has mixed feelings on this recommendation as it relates to education is clear. The *Report* was barely out before we were advised in an address in Galt by Premier Robarts that the plans for education are to be developed around the county. In fact we were informed on this same occasion that legislation has been drafted to give effect to this new plan for January 1st, 1969.

The Smith Committee also recommends the assumption by municipal authorities of some financial responsibility for education. Except Alberta, where this seems to be working out quite successfully, and New Brunswick, where the province is going to run the whole show, none of the other provinces has shown any tendency to transfer the responsibility for education to municipal councils or other authorities. The Smith *Report* recommends that secondary education come within the scope of the regional councils. While I support the larger units, either county or region, division of the administrative arrangements for elementary and secondary education in the name of administrative efficiency is a terrific price to pay. All our recent efforts have been directed towards the development of a continuous program from kindergarten to Grade 13. To divide our school system into two parts and transfer to a municipal authority responsibility for secondary education would, in my view, be a major tragedy.

I have touched only on the highlights. I hope, Mr. Chairman, that this may provide a base toward which the other members of the panel may direct their criticism, comments and observations.

Speaker: **Meyer Brownstone**
Department of Political Economy, University of Toronto

I must say that I find myself today in a rather novel role. Since most of my working life has been spent on the staff of a variety of Committees and Royal Commissions, and under such circumstances I was both somewhat attached to the reports we prepared and also somewhat voiceless in their defence because I was neither a member of these commissions, a politician, nor in the normal sense a member of the public. Today I have been given a voice and I have been encouraged to exercise critical evaluation, but if I do appear somewhat uncritical I hope you will understand that I haven't quite escaped from my past. On the other hand, if to those people who are responsible for the *Report* I do appear overly critical, it is at least with a very keen appreciation, a very deep appreciation of what it takes to produce a report such as the *Report of the Ontario Committee on Taxation*. Good reports, as this one undeniably is, require not only an absolute devotion to what may be called objectivity in technical matters, but a sensitive appreciation of both political and social forces. It requires not only a historical perspective, but careful speculation about the future. It requires not only proposals which are logical and well-founded but actually capable of implementation. As an extension of a political process or government process, a Committee like this one must try to lead by educating, sensitizing, exposing and sometimes even negotiating. I think the Ontario Committee on Taxation has performed all of these tasks very well indeed and so I approach my task today with a profound respect for its work and its *Report*.

Mr. Chairman, I have assumed that my initial role today is to review and evaluate three or four major issues in the field of education and finance. I am going to be very brief indeed, leaving more time to my colleagues, all of whom are technically much more expert in this field, and also to all of you for your own discussion.

Educational System Envisaged by the Committee

I want to begin with a brief word about the kind of educational system envisaged by the Smith Committee. And this in my view is certainly one basic point of departure in any analysis of taxation or finance: that is, taxation for what? And is it the most effective system to utilize our scarce tax funds? Based on its appraisal of present and future educational requirements of our developing society, the Committee argues generally for upward adjustments in the size and administration of school governments and for integration, in part at least, with the municipal side of local government. As was indicated by Mr. McCordic, school units at every level would tend to become larger and in the case of secondary schools would become an integral part of the proposed regional governments. The obvious question which I raise at this point is why these principles of adjustment are applied only to the secondary school system.

The Committee, if I have read its *Report* accurately, says it is because of the existence of a separate school system. I find both the Committee's conclusions and its justifications unacceptable. Now to be quite fair, the Committee in principle supports complete integration of municipal and educational local government. That is, it stated very explicitly that it preferred the elimination of the traditional school board. But I couldn't find any overwhelming justification for excluding the elementary level from the integration process simply because, as it was argued, a separate school system exists and will undoubtedly exist in the future. If elementary schools are integrated with either municipal or regional governments, I would

submit that this surely has little effect on the separate school system as such. It is quite true that there will be reservations, for example, about separate school supporters sitting on regional or municipal councils and exercising authority regarding public schools. However, I think their participation can be managed in this context both with formal means and also informal means. It may also be quite true that by the same token this kind of situation may handicap separate school supporters in their local political role. But I think this is a price which will have to be paid. A restriction on what I would consider to be a full and proper development of local government is, on the other hand, a price which should not be paid in this kind of situation. I don't want to belabour this point but I feel very strongly that primary and secondary education should not be provided in separate governmental frameworks disconnected from a general system of local government, or we will lose out both in local government and in education.

Further to this particular question, the Committee which is proposing the continuation of an independent elementary school system, also proposed that requisitioning be abandoned. I think we should all applaud this clear support of political responsibility. But surely this is a relatively small increment to both responsibility and effective local government, compared with the situation in which education and municipal functions are merged, permitting within the same community a focusing of responsibility for all local government functions by both the citizens on the one hand and their elected local governments on the other. I would submit that at a time when we are all becoming keenly aware of the need to select social priorities and to tackle our most serious problems comprehensively, we should exercise both our leadership and our ingenuity to arrange government structures and relationships in a more relevant manner than that proposed by the Smith Committee with respect to this particular problem of elementary education.

Recommendations re Local Property Taxation

Let me move on now to several topics which are somewhat closer to the questions of finance and taxation. As you all know, the Committee undertook a thorough examination and evaluation of the local property tax and I am virtually in full agreement with both its evaluation and its proposals regarding future application of property taxation in local government and in the tax system generally. The proposed assessment system, the exemption proposal and the regionalization of finance are all progressive and badly needed measures. And broadly speaking, even if these various improvements proposed by it are instituted the Committee would continue, as I would, to regard property tax as a tax which should be applied only within limits. This all follows of course if you accept the Committee's philosophy regarding the ability-to-pay principle. The relationship proposed between the property tax and educational finance is one of continued but restricted use of the tax, not simply because it is a less desirable tax, but also because reliance on local sources of revenue results in disparity in either the opportunities or the burdens of carrying out an educational program.

I don't want to get into the number, number, let's pick a number game, when discussing the degree to which locally derived revenues should be suppressed, or the degree to which equalization should be pursued. The Committee proposed an overall 60% provincial, 40% local split in the financing of education. And it defends this on grounds of local economy criteria, tax incidence criteria, educational levels and other very familiar standards. I think we can all agree that any conclusion of this sort must be somewhat arbitrary. When I use the Committee's own criteria in picking my particular number, I arrive at a substantially higher number for the provincial government. I do so, perhaps a bit more properly for the provincial tax base compared with a purely local tax base, because I insist more on progressiveness in taxation and more on income redistribution than the Committee does. I do so also because I do not feel—as the Committee appears to—that diversity among local school boards, which was its test of autonomy, requires a 40% level of locally derived revenue to express itself. In fact, I might add parenthetically, that I would not have selected diversity as my main criterion of local autonomy, but rather the degree and character of the provincial control system, which I would argue has little to do with greater or less provincial financial support and need have little to do with it in the future.

Well as a corollary to my comment about a 40% level to permit local diversity, I think that equality of educational opportunity needs an overall base larger than 60%, or roughly 67%, proposed by the Committee. After all we are talking about the key requirement for modern society as a whole and the key requirement for combating economic and social disparity. The Committee itself hints strongly at the national interest in education and this kind of recognition would propel me without too much hesitation quite a bit beyond the 60% point.

In short Mr. Chairman, apart from my first comment on the structural change, I would support the Smith Committee in its proposals on property tax and its interest in local autonomy, but I would have gone further in extending the overall level of provincial financial participation. This doesn't mean for a moment that we would not have achieved a great deal if the Committee's proposals were adopted as they were presented.

Speaker: **E. Brock Rideout**

Associate Professor of Education, Ontario Institute for Studies in Education

First I want to say, as one who has been closely associated with the technical details of grants to school boards in Ontario for the past ten years, that I congratulate the Committee on its scholarly and fair analysis of the various grant plans in Ontario and in particular on its treatment of the Ontario Foundation Tax Plan in operation since 1964. The plan has been almost universally condemned as highly complex and complicated by those in education who have to work with it. For all those who have had a part in its development and emendation, therefore, it is heartening to see it described in the *Report* as "fiscal sophistication in a framework of simplicity".

Present Schools Grants System

Panel members were asked not to assume the audience to have intimate knowledge of the details of the *Report* and therefore to make our papers expository as well as analytical. I am afraid that I would need ten times the time allotted to me to explain in any detail the Ontario school grants system. I shall attempt only to give the bare outlines of the principles involved and comment on the Committee's recommendations for changes and improvements.

First of all, I want to point out what a foundation program is *not*. It is not a plan to provide the same number of dollars per pupil to each school jurisdiction through a combination of provincial grants and a uniform mill rate on equalized assessment. It does guarantee that all boards, if they levy the uniform common mill rate, will be able to provide *at least* the foundation levels of expenditure. Boards having more than one and a half times the average equalized assessment per classroom unit will be able to provide higher levels of expenditure at the same uniform rate. In other words, the plan tries to ensure that all boards can, at a

reasonable rate of local taxation, provide a standard program, while at the same time permitting willing and able boards to function as the growing edge of that educational adaptation to the changing needs of society so necessary if our total provincial system is to improve and meet the expectations our society has for it.

The Committee rightly points out that per-pupil costs vary between urban and rural areas, between northern and southern Ontario, and between sparsely and densely populated areas, and questions the adequacy of uniform foundation levels of support regardless of local need. There is much merit in this argument, but it should be pointed out that, through the combination of a weighting system for pupils and the basic tax relief grants paid to all boards, the foundation levels per actual pupil already vary by almost $200. For instance, the public school panel of the Toronto Board of Education, with an assessment per pupil of roughly $80,000 and by levying the present uniform mill rate of 3.5 mills, is able to raise $280 per pupil—$40 per pupil more than the level of the foundation program in 1967—and yet it receives a basic tax relief grant of $95 per pupil, giving it an effective foundation level of $375 per pupil. The fact that the Toronto board still finds itself hard-pressed results from the fact that its current per-pupil cost of operating in 1966 was about $530, reflecting the much broader level of services it has decided to provide, using the discretionary powers granted it by the Legislature. On the other hand, there are many boards whose operating cost per pupil is as low as $175. Such boards could provide a program at the $260 per pupil level if they levied at the uniform (though not mandatory) level of 3.5 mills, but using the same discretionary powers, they have opted for a lower level of program and hence a lower effective rate than 3.5 mills. (Sometimes, of course, it is simply a matter of a small board not being able to spend $260 per pupil—$7,800 per classroom of 30—simply because they cannot persuade teachers of high qualifications and with experience to accept conformity and lack of professional stimulation.)

There are two ways of weighting pupils at present used by the Ontario Foundation Tax Plan:

(1) For boards enrolling fewer than 2,000 elementary pupils there is a weighting for reduced pupil-teacher ratios. Generally the ratio used for calculating grants for elementary schools is 30:1, but for these boards, so long as the ratio does not fall below 25:1, each classroom in operation is counted as 30 pupils. Boards employing only one teacher are treated as having 30 pupils even if there are only 8 or 10 enrolled.

(2) To encourage the creation of centralized rural elementary schools in larger units of administration, both public and separate, an additional 15 pupils are allowed in the calculation for each former school section or zone in the unit in which no school is operated.

I would agree with the Committee that further weighting of pupils for grant purposes could be applied in large urban areas—or in any areas for that matter—to compensate for the increased cost of educating socially, economically, or linguistically disadvantaged children if a politically feasible method could be devised for measuring this need.

Extraordinary Expenditures

What I have been attempting to comment on so far is only one part of the total foundation program — that relating to the costs of instruction, administration, maintenance and operation of plant and all other current operating expenses which must be met by *all* operating school boards. The remaining expenditures, part current and part capital, have been grouped under the heading of "extraordinary expenditures". These are: debt charges (including both interest and repayment of principal; capital expenditures from the revenue fund; expenditures on transportation of pupils and services in lieu thereof; and 20% of the tuition fees payable to another board. It will be noted that these are extraordinary in the sense that some boards will have very low or no per-pupil expenditures in this classification while others will have very high expenditures per pupil. All of these items of expenditure except the 20% of fees, are subject to Departmental approval. Once approved they are referred to as "recognized extraordinary expenditure". An ordinary dollar-per-pupil foundation level would be useless in this area—most boards would receive either too much or too little to meet their actual needs. Therefore the foundation program for extraordinary expenditure is the board's recognized extraordinary expenditure. Here, instead of applying a common mill rate, with the province picking up the balance, a percentage of the recognized extraordinary expenditure is paid in grant—the percentage varying inversely from 35% to 95% with ability to pay as measured by assessment per classroom unit. The 35% is a basic tax relief grant payable to all boards.

The Committee recommends that instead of paying a grant on the annual debt charges, grants on new buildings and buses should be paid in a lump sum in the year in which the expenditure is incurred with the remaining cost being debentured. This was also a recommendation of the Hope Royal Commission on Education which reported in 1950. I endorse this recommendation in general. Its major benefit would be to convert a large part of what has previously been considered municipal debt to provincial debt, although there might also be a small overall saving if the province could borrow more cheaply than the municipalities.

However, this recommendation could result in a smaller total percentage of building costs being met by the province. A part of the present formula, known as the *growth-need grant* pays a board from .1 to 20 percentage points more on *all* its recognized extraordinary expenditure (R.E.E.) depending upon the amount of R.E.E. per classroom quite apart from its wealth. That is, of two boards with the same taxable wealth per pupil, one can receive a grant of 50% of its total R.E.E. if its R.E.E. is less than $1,000 per classroom unit, while the other, with a R.E.E. of $6,000 per classroom unit can receive 70% of its total R.E.E. in grant. The growth-need grant (really a misnomer) is not designed primarily to help boards with rapidly growing enrolments—except rather small boards—but rather to help boards whose unit burden of R.E.E. is excessive. These are usually boards, a relatively high proportion of whose pupils are transported to school and/or a relatively high proportion of whose classrooms have recently been built. A board with 20 schools that are paid for and that builds two new ones is hit by nowhere near the burden of a board that has one old school and builds one new one. Under the proposal, meeting the payments on the municipal debenture would be entirely the responsibility of the local taxpayers. This problem could conceivably be overcome by paying a higher percentage of building costs than the present plan uses. The net result of the present grants on R.E.E. is that the local mill rate to provide the local share of these expenditures rarely exceeds 1 mill on equalized assessment and is usually between one-half and three-quarters of a mill.

Stimulation Grants

I would now like to comment briefly on the Committee's recommendations that the so-called stimulation grants be either discontinued or incorporated in the basic grant formula. Stimulation, incentive, reward-for-effort or categorical grants, as they have been variously called, have three major flaws.

(1) From the standpoint of local autonomy in education, they tend to be instruments of central control of expenditure since they are usually tied to expenditure.

(2) They tend to be anti-equalizing in effect since poor boards rarely can afford to introduce the service, but their ratepayers, through provincial taxation, help finance the grants to wealthier boards which can afford them.

(3) They may distort local decision-making by attracting local expenditure, which might better be used in other ways, to the grant-aided service.

Flaw number (2) is only true, however, when the grant is a fixed dollar amount per pupil or per teacher or a fixed or flat percentage of the cost of the service. This type of stimulation grant has rapidly been disappearing from the Ontario scene. The chief offenders yet remaining are the 50% grant on milk and the grants paid on behalf of large units of administration. Since the milk grant has not been widely used it could be withdrawn on that ground. The Committee's comment that the grants for former school boards included in larger units of administration should be abandoned because boundary changes come about through legislation rather than persuasion is not quite correct. Since 1965 it has been true with respect to public and secondary school boards, but mandatory legislation has never been used to form larger units of administration for separate school boards. To discontinue this grant at the present time, then, would discriminate against these boards just at the time when it is desirable that the number of such boards be drastically reduced to bring their total number somewhat in line with the proposed 100 to 200 public school boards. When reorganization of both public and separate school boards has neared completion, I see no reason why this grant could not be withdrawn. Its only other justification, apart from its "carrot" effect for the formation of larger separate school boards (and it did have considerable effect in the formation of township school areas prior to 1965) is that it acts as a kind of sparsity correction for rural boards.

I quite agree that the library and text-book grants should be incorporated in the foundation program although this would have two results: (1) boards now receiving no current equalization grant (only the basic tax relief grant) would have their grants decreased by the full amount of the grant they now receive on behalf of these two items. In other words, the full cost of providing text books and library books in most of Metro Toronto and other large urban boards would have to be met from the local tax rate; and (2) the province would have no assurance that moneys included in the foundation program for these items were actually being spent for that purpose. The effect of the grants as they are at present, both with some equalization features, is to increase the foundation program level for a board by the grant per pupil for library and text books. It is granted that the wealthier boards would be the ones who would lose if this recommendation were implemented, but it can certainly be argued that these boards are already relatively more favoured by the existing regulations in many ways.

The special grant on municipal inspectors' salaries could be included in the foundation program by equating one inspector with two teachers or 60 pupils or some other device which would pay approximately the same amount of grant as at present. In this age of computers, it is no more difficult to calculate the grant separately than as part of the foundation program and the former method has the advantage of letting a board see the amount of grant it is receiving for this particular service.

I would agree that the grants on Trustees' Council fees, provision of free home economics and industrial arts instruction to non-resident pupils, and the small

school grant for secondary boards should be discontinued. These are generally regarded as "nuisance" grants and amount to very little in total. I would agree that the special grant on television receiving sets should be phased out, but certainly not before the majority of boards have equipped their schools with sets or it becomes obvious that this grant, like the milk grant, is not going to really stimulate.

Proportion of School Board Expenditures to be Covered by Provincial Grants

Finally I want to comment on the proportion of school board expenditures that should be covered by provincial grants. It is estimated that the grants received in 1967 will constitute between 48% and 50% of the Ontario school boards' revenue from provincial and local tax sources. The Committee recommends that the level be raised to 60%. I believe it could go as high as 65% or 70% after district reorganization is completed without seriously affecting local fiscal responsibility. The problem for a government, of course, is to determine beforehand what the total expenditures of school boards are going to be, particularly in an inflationary period such as we are now in. One thing, done in provinces more committed to strict central controls than has been Ontario's practice, has been to require all boards to submit their estimates to the central authority for approval. In this way a fairly accurate estimate can be obtained of what costs for the ensuing year are going to be, and grant formulas may be adjusted in such a way as to provide a stated overall percentage of the sum of the estimates. This certainly was never possible in the past with thousands of boards. It would be a possibility with the number reduced to two or three hundred, but would certainly greatly reduce the real decision-making powers of boards. For years the province has been trying to reach the magic 50%; however, grants are based on the previous year's pupils and the previous year's expenditures (except for debt charges) but they must be used to help finance the current year's program. Despite the pumping in of huge sums of additional grant money year after year it has always turned out that the percentage of the current year's expenditures met by that year's grant has only inched up by one or two percentage points. It appears to be true that increased grants result in increased expenditures, not in decreased mill rates.

As far as the foundation is concerned, the province is already paying well over 65% of the provincial total. The 1966 grants represented 68% of the total elementary program at $220 per pupil for current operations and 66% of elementary recognized extraordinary expenditure. For secondary boards the corresponding figures were 65% and 78% respectively. These figures, in comparison with the percentages of total cost met by grant, are an indication that the foundation levels are still too low. The new method of granting approval on building costs will soon substantially raise the effective foundation levels for extraordinary expenditure. It should not be too difficult to raise the overall percentage to 60% by raising the various foundation levels closer to the actual average cost per pupil in elementary, academic secondary and vocational schools. However, it will be difficult to reach this level without paying a larger percentage of the cost of education in the large centres of population where a major percentage of the pupils are located.

Speaker: **John E. Trimble**
Trustee, Hamilton Board of Education

Since I am the only person on this panel who serves on an elected public body, my first—and heavily underlined—comment must be that the views I express today are my own. Some of my colleagues on the Board of Education for the City of Hamilton and myself are studying the *Report* of the Ontario Committee on Taxation, but our views have not yet been presented to my Board. Thus, I take full responsibility for these thoughts and none of them should be considered as representing the views of my Board or of any of my colleagues.

One of the most interesting aspects of the Smith *Report* is the degree to which it has received governmental sanction before the usual and lengthy process of conference consideration. The massive and significant *Report* produced by the Carter Commission has been pretty well conferenced to death. It appears that the Ontario government is taking a much more positive view toward the implementation of the *Report* of the Smith Committee.

It will come as no surprise when I say that I look at the Smith *Report* from the important but fairly narrow view of a trustee on a major board of education—the tenth largest school board in Canada—which celebrated its centennial anniversary in 1966. My colleagues and I regard it as a progressive board — an educational innovator.

On reflection, I concluded that there was one thing I should not attempt to do in these remarks and that was to deal with those intricate problems and the related solutions which are inherent in the operating administration of my Board's affairs.

One of the characteristics of a trustee on a major board is his lack of in-depth knowledge of the technicalities of administration. Major boards enjoy the services of competent officials and they are the experts in the technicalities of administration. As a corollary proposal, I must assume that smaller boards have to spend time becoming experts in these complicated technical fields.

With that word of caution, I would like to explore some of the broader concepts in Smith from the point of view of an individual who happens to be 1/18th of the voting power of a large board of education.

Problems of Educational Finance

I think that the Smith *Report* contains an excellent analysis of, and in the main reasonable solutions for, problems of educational finance. The problems themselves are so intertwined as to preclude much in the way of individual consideration. For example, one cannot examine the broad question of school board-municipal government relations without looking at a variety of interrelated specifics in respect of finance and also in respect of structure.

In so far as the City of Hamilton is concerned, there has been no instance during my tenure on the board when the municipal government has refused to meet budgetary—either capital or current—requests from the Board of Education. From time to time there have been consultations and negotiations. But when the school board has finally arrived at its conclusion, the municipal council has not denied the request.

There is no more than the usual amount of light-hearted argument in Hamilton between the school board and the municipal council as to the education tax burden. And there is no more than the usual degree of public feeling that education cost is the chief source of municipal tax discomfort.

Informing the Public

Last year, in co-operation with the municipal council, an attempt was made in Hamilton to put the facts on the record and to ensure that the public had the information it needed to determine its attitude toward those responsible for levying municipal taxes.

I think that the 1967 Hamilton tax bill went further than that of any other municipality toward ascribing fiscal responsibility to the three local taxing jurisdictions.

On the front of the bill, in addition to showing the amount of education tax separate from the amount of municipal tax, the following notation appears: "Levied by the Corporation of the City of Hamilton for general municipal purposes and on behalf of the Board of Education and the Hamilton Separate School Board".

On the back of the bill, the following notation appears: "As required by Section 294 of the *Municipal Act,* taxes on real property levied by the Corporation of the City of Hamilton include taxes for school purposes according to estimates determined by the Board of Education and the Hamilton Separate School Board. The amounts requested by these elected boards, which are not subject to alteration by City Council, are set out separately in the above statements."

The back of the tax bill also contains abbreviated statements of the source and disposition of funds by the three local taxing authorities.

Separate Tax Bills

Except for the further step of separate bills, Hamilton has already gone to considerable lengths to ascribe fiscal responsibility to locally elected taxing bodies. Speaking for myself, I would be inclined to take the next step of having separate bills since I have always believed that the ratepayers in my Ward should have all the information they can possibly be given on which to judge my performance. I have never wanted to hide behind a cloud of confusion.

I suspect that the move to separate tax bills would be comparatively simple in the City of Hamilton which has efficient, large and computerized assessment, billing and collection departments at city hall. The increased cost in Hamilton should not be great. I have, however, two general reservations.

First, such a program would be costly and inefficient in those areas where the invoicing procedures are not mechanized.

Second, I would not contemplate the creation of an additional set of taxing and collection machinery and bureaucracy. The mechanical handling of the Smith Committee recommendation, which has been endorsed by the provincial government, should be left with the municipal corporation.

Governmental Structure and Jurisdiction

The questions of governmental structure and jurisdiction are, to me, the fundamental problems examined by the Smith Committee. The Committee itself recognized that structure is the cornerstone on which most of its recommendations rest. Here again the province has already indicated its decision to take a major step in the direction of larger units of administration. The move to county boards of education, which has my complete personal support in principle, raises a long list of technical and administrative problems, some of which will increase the difficulties inherent in introducing many of the Smith Committee's specific recommendations.

In my area, it would appear from the Prime Minister's November speech that the Board of Education for the City of Hamilton will remain as it is and that it will be surrounded by a new Wentworth County Board of Education. If there is merit in enlarging units of administration—and I think that there is—then the government's action is as good a start as any. After all, the start has to be made somewhere and it should be made soon.

It is my personal view that the arrangement which appears to be developing in my area will not remain for too long when one considers the inevitability of regional municipal government. It is my personal hope that this interim education arrangement will be sufficiently flexible to allow for a degree of co-ordination and interrelation between the Hamilton Board, the Wentworth Board and boards just outside of Wentworth County, until such time as regional government boundaries are decided.

Some degree of integration of education within Wentworth County would

(a) ease the difficulties of co-ordinating separate senior civil service and trustee groups on the implementation of regional government;

(b) better serve the continual flow of students back and forth between the urban city proper and its suburban neighbours, by the creation of optimum education standards and techniques within a homogeneous population area;

(c) enhance efficiency, availability and economy in very specialized and expensive fields of education such as junior vocational schools, classes for children with physical or emotional problems and low-enrolment options in all three secondary streams;

(d) enhance the value of summer school upgrading courses;

(e) enhance the efficiency and value of the teacher-training facilities of the Hamilton Education Centre—the second of its kind in the province—which could easily be expanded to meet the needs and wishes of a county board; and

(f) more fairly distribute the tax burden.

Certainly there will be difficulties, but the difficulties should not drown the grand design.

This is not the panel on which to debate the question of county boards of education, but it is my view that the imminence of these large boards cannot help but cause a fundamental change in relations between school boards and municipal governments. This situation suggests to me that the question of regional municipal government must assume an even higher degree of urgency than that given to it by the Smith Committee.

In connection with the development of regional government, provision in law should be given to a wider exchange of voting members between those committees of school boards and municipal councils and their related boards which deal with interrelated matters of administration and planning. Health, school sites, libraries, traffic, welfare, parks, recreation and capital expenditure planning are examples of the type of activity involved. These should be co-ordinated on full county bases, as quickly as possible.

All of this county education planning should be recognized as an interim and prudent step toward more functional regional government boundaries.

Separate School Financing

There is another fundamental structural recommendation in the Smith *Report* which I think should be dealt with; that is the question of the financing and structure of public and separate schools.

I say emphatically and firmly that I do not intend to debate the propriety of separate schools. The Smith Committee is right in stating that they are here, they are a fact, and they will continue. I must say with equal emphasis, that no question of revenue should be permitted to create first- and second-class tax-supported systems. While we adults debate and resolve the problems of structure and finance, we must not for one moment forget that there are children in both systems who are entitled to the highest quality of education.

The province has gone a long way towards equalizing the fiscal differences between the two traditional Ontario school systems. In Hamilton, the Separate School Board gets in excess of three-quarters of its funds from provincial grants and other non-local tax revenues. This large flow of outside funds must to a major degree offset the fact that it gets less than 4% of its funds from Hamilton non-resident taxpayers. The Smith Committee's proposal to exchange this provincial grant arrangement for a pooling of non-residential taxes, to be allocated between the two Boards on a per-pupil ratio, raises considerable doubt in my mind.

I must confess that I have been unable to gather statistical data, but it appears to me that the Smith Committee's proposal is to take away from the Board of Education a source of funds which it has utilized as a matter of right—sustained by the courts—since Confederation and to give it to another body as a replacement for the latter's significant provincial grant. If fully implemented, the fundamental change in school finance envisioned by Smith and his colleagues is from a basically tax-supported system, to a per-pupil grant system. This change in source of funds appears to have a particularly dangerous significance for the Hamilton Board of Education, while accomplishing nothing for the Hamilton Separate School Board.

In the process of restructuring the source of school board funds from a tax to a per-pupil grant base, the greatest care must be taken to ensure that the intended beneficial results are not denied to some through the loss of rights that they have enjoyed during this nation's entire history.

Shift of Tax Burden

I would like to make a further aside on the contemplated shifting of the source of funds from the municipal taxpayer to the provincial taxpayer. In total, Smith proposes that 75% of the cost of education would be borne by the latter. Great care should be taken by the province to ensure that local governments—both school boards and municipal councils—do not blithely step in and soak up the additional grant funds through increased local expenditure. I do not think I need to elaborate on that point. This raises an ancillary question. I do not think that the province should pay a fixed percentage of everything a school board decides to spend. Without some effective ceiling, school boards could wind up setting the provincial budget.

Liaison

Returning to the question of financing and structuring public and separate school systems, I take this opportunity of commending the government of Ontario for what is an implicit rejection of one of the Smith Committee's recommendations.

The Committee recommended that secondary school education be administered by municipal governments and that school boards be confined to elementary education. This was the Committee's answer to the problem of taxation without direct representation in respect of separate school supporters and boards of education. Personally, I am in agreement with the Committee's arguments, but it seems to me that it took the easy way out in recommending that secondary school education be divorced from elementary school education.

The Prime Minister's November speech, in which he indicated the government's intention to create county boards of education responsible for both panels is, to me, a clear and wise rejection of the Smith Committee's recommendation, which is contrary to the steadily evolving philosophy of integrating the structure of education from Kindergarten through Grade XIII.

While the Smith Committee's arguments have some validity, the Committee misplaces the emphasis. The problem of the taxation of separate school supporters without their direct representation for secondary school matters, and the problem of co-ordination between public school boards, separate school boards and municipal councils, can both be ameliorated by changes other than the retrogressive divorce of public, elementary and secondary education.

The Prime Minister's announcement that the proposed county boards of education will be responsible for education in the public, elementary and secondary schools is in the interests of quality education and is much wiser than the Smith Committee recommendation. The case for integration can be documented fully from the Hamilton system and ranges from Junior Vocational Schools which overlap both panels, subject supervisors responsible for both panels and teacher exchange between panels.

This leaves us, however, with no recommended answer to the problem of taxation without direct representation raised by the Smith Committee.

As an alternative to the present method of appointment and subject to the wishes of those concerned, separate school supporters could elect an appropriate number of trustees to the board of education for secondary school matters. Depending on the appropriate number and the geography involved, the elections could be at-large or by grouped area. In the interests of liaison, consideration could be given to having these elected trustees sit on the separate school board.

Liaison could be further improved and the interests of students better served, if there was provision for a liaison committee composed of officials and trustees from public and separate school boards, which committee would ensure exchange of views on changes in education in both the elementary and secondary panels.

In summary, I find myself in agreement with most of the details and practically all of the principles in the *Report* of the Ontario Committee on Taxation.

Personal and Corporation Income Taxes

Chairman: R. B. Dale-Harris

Speakers: H. Purdy Crawford
L. F. Heyding
J. S. Hausman

Chairman: **R. B. Dale-Harris, F.C.A.**
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Speaker: **H. Purdy Crawford**
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Present Arrangements

The Committee describes in detail the present arrangements with respect to personal income tax in Ontario. In general terms the arrangement is that Ontario imposes a personal income tax as a percentage of the federal personal income tax and on a tax base which is the same as the federal tax base. The present Ontario personal income tax is imposed at the rate of 28% of the federal tax. Ontario has adopted the federal allocation rules to ascertain the persons who are subject to the tax and to ascertain the income of such persons which is subject to tax. In general if a person is resident in Ontario as of the last day of the taxation year his entire year's income, except for business income, is subject to Ontario tax. With respect to business income the allocation rules are based upon the permanent establishment concept. By a tax collecting agreement between the province and the federal government the tax is collected by the federal government as agent for the Provincial Treasurer without charge. A corresponding abatement of 28% is granted from federal personal income tax. The federal allocation rules for determining the tax abatement are the same allocation rules as are used for determining Ontario tax.

The collection agreement requires Ontario to keep its tax base uniform with the federal tax base while leaving the federal government complete discretion to change its own tax base from time to time. The province of Ontario has agreed not to change its tax base but it does, subject to certain notice requirements, have authority to change the rate of tax, as a percentage of the federal tax, imposed by it. There is no corresponding obligation on the federal government to increase the federal abatement accordingly.

Philosophy of the Committee

It is interesting to consider the philosophy of the Committee with respect to federal-provincial taxation and the manner in which such philosophy applies to the present arrangements. The Committee in stating its philosophy of federalism and taxation states that it does not favour a constitutional amendment which would lead to a clear allocation of taxing authority between the federal and provincial governments. The Committee points out that an allocation that might be adequate today will not be adequate tomorrow. The Committee suggests, contrary to the Carter Commission, that each taxing jurisdiction should have access to a balanced revenue-raising means through the taxation of income, consumption and wealth. The Committee recognizes that this inevitably leads to joint occupancy of tax fields and to problems of uniformity which can be solved only by federal-provincial co-operation.

The Committee points out that a federal system of government is a constitutional mechanism for unity and diversity and that underlying fiscal arrangements should reflect certain basic principles, one of the most important of which is autonomy. Each province should have the power and responsibility to determine its own taxation and expenditure programs, and the government which raises the money should have the responsibility of spending the money. This leads to a greater flexibility in expenditure policies within a province.

In assessing the present personal income tax arrangements in the light of the aforementioned philosophy the Committee states that there are three alternatives available to Ontario: first to impose its own tax and take complete responsibility for the administration of the Act and the collection of the tax; second to continue the present system whereby Ontario imposes its own tax but the federal government is the collection agency; and third to let the federal government impose the tax and agree to abate a proportion thereof to the province. The Committee concludes that the last approach is not desirable since it is completely contrary to the Committee's views with respect to autonomy for the province in raising its own revenue. The Committee suggests that although the first alternative is most consistent with its principle of autonomy there is the great advantage in having a uniform tax base and one collection agency, with a resulting reduction in the cost of compliance and enforcement. The Committee therefore approves in principle the present federal and provincial tax arrangements relating to the personal income tax.

One of the reasons for the Committee's autonomy philosophy is that taxpayers should know to whom they are paying tax so that the level of government which is spending tax revenue will be answerable to public criticism with respect to the raising of the tax. In so far as a resident in Ontario is concerned there is little difference from a practical point of view, in so far as an awareness of the resident is concerned, between the present system whereby Ontario imposes the tax and the federal government collects it, and an arrangement whereby the federal government simply remits a proportion of the tax collected by it to the province. If tax returns indicated that a percentage of the tax was in fact being imposed for the province I think the result would be the same. I see no reason why all the safeguards suggested by the Committee could not be built into an arrangement with the federal government whereby the federal government both imposes and collects the tax. On the other hand by permitting the federal government both to impose and to collect the tax, Ontario would be giving up a great deal of flexibility in terms of the power to increase personal tax rates. On the whole therefore I agree with the conclusion of the Committee that the present arrangement is the best.

Criticism of Present Arrangements

The Committee has certain specific criticisms of the present arrangements. First, the province in agreeing to adhere to the federal tax base as amended from time to time has virtually no recourse against erosion of revenue by unilateral changes in federal tax law. The Committee recommends that the right of the federal government to change its tax base should be subject to prior consultation with the provinces, and in this area consultation should take place on an annual basis. Second, Ontario should press the federal government for consultation with the provinces in respect of all questions relating to the sufficiency and uniformity between the federal and provincial legislation and to the adequacy of the authority provided to enable federal collection of provincial tax and administration of provincial legislation to be made. Third, the Ontario government should have more flexibility in changing the tax levied by it than the present notice of intention provisions permit.

These recommendations have been criticized as placing budget secrecy in jeopardy and as therefore being impractical. With the ever-increasing involvement of government in man's activities and the resulting intermingling of federal-provincial activities it seems to me imperative that there be more and more consultation and co-operation between the two levels of government, and all changes in law or precedent required to accomplish this will have to be made. It is important however that such changes take into account the principle that the federal government retain sufficient authority to be able to take effective steps to regulate our economic well-being in the national interest.

It is interesting to note that within the last few days, at the federal-provincial Finance Ministers' Conference in Ottawa, the Treasurer of Ontario has apparently made recommendations to implement at least certain of the Committee's proposals. From the press reports it would appear that Ontario has expressed concern about being tied to the federal tax base at a time when the federal government is contemplating substantial changes in that base. The federal Finance Minister apparently met this concern by suggesting that a province has the right to terminate the collection agreement at any time upon reasonable notice if it does not like the changes in the federal tax base.

The Committee also recommends that Ontario should press the federal government for an appropriate share of the revenue realized from withholding tax on payments by residents to non-residents, and also for an appropriate share of the revenue from the tax paid by corporations under such sections as 105, 105A, 105B and 105C, which directly or indirectly permit corporations to make tax-free distributions to shareholders after the payment of certain special taxes by the corporation.

Economic Effects of Personal Income Tax

The Committee has included in its *Report* an interesting review of the economic effects of the personal income tax.

The Committee first considers the tax from the point of view of the affect thereof on "work incentives". It points out that the high progressive tax rates can make leisure more attractive but that there is a competing factor whereby such a tax can encourage people to work harder in order to restore or protect a specified standard of living. The Committee further points out that work itself supplies satisfaction and challenge. After a careful review of the various factors involved the Committee concludes that the available evidence does not present any clear indication that the progressive income tax has any significant effect on work incentives.

The Committee considers the economic effects of the tax on investments and concludes that the effect of the tax on incentives to invest is probably not substantial. It also concludes that there is no evidence that the tax is an influence of major significance in the allocation of labour.

There is a discussion of the extent to which the personal income tax may be shifted. After speculating on various possible means whereby the tax may be shifted, the Committee concludes that it is impossible to be precise as to the nature of the shifting which occurs, and therefore the Commissioners assume for purposes of their recommendations that the personal income tax is not shifted.

The Committee also deals with the possible economic effect of the tax with respect to the redistribution of wealth. It points out that the redistribution of wealth is not as great as suspected, primarily for two reasons: (a) that the tax is not as progressive as is often thought, because the effective rates on higher income are not as great as is normally thought, particularly when you take into account that certain types of economic increment such as capital gains are not taxed; and (b) that the progressive tax only redistributes above and below effective rates and is somewhat offset by income increases to take the tax into account.

The Committee concludes that the tax probably has a positive though modest influence in lessening the inequality of disposable income.

Evaluation of Personal Income Tax

It is interesting to compare the Committee's philosophy of taxation with its evaluation of the personal income tax. The Committee points out that the purpose of democratic government is to promote the "common good" or what is sometimes referred to as the "public interest" or "general welfare". Accordingly in cases of a selective tax concession to a particular sector of the economy the beneficiary has the onus of proving that this is in the public interest and that in general the government use of the tax system must always be judged in relation to the fundamental task of democratic government to further the public interest. As an aspect of democratic government, constitutionalism exists in part to safeguard the rights of individuals in the periphery areas where the government moves forward in promoting the public interest. One of the most important constitutional principles in safeguarding the rights of individuals is that of equal treatment and protection of all citizens before the law. In developing its analysis the Committee points out that the concept of equal treatment of all citizens before the law leads to its concept of equity in the taxing system, which it states to be the equal treatment of equals. It points out that this cannot be fully realized, that other objectives involve marginal sacrifices in equity, but that equity is the cornerstone by which taxes should be judged.

In assessing its equity concept of the equal treatment of equals the Committee considers a tax based on wealth, a tax based upon consumption, and a tax based on income. At this point it would appear that the Committee is using the word "income" in the sense of consumption plus savings. The Committee believes that a wealth tax and a consumption tax must be components of a balanced taxing system but that (and I hope I am interpreting the Committee fairly) based upon a social judgment which accepts the ability to pay principle, the personal income tax at progressive rates comes the closest to the Committee's concept of equity in the taxing system. The Committee points out that although equity in this context is fundamental, it may be subordinated to other principles but the burden of proof is on those who wish to do so.

The Committee having developed its concept of equity as the equal treatment of equals in Chapter 1 of the *Report,* it is rather surprising to find a lack of any detailed analysis as to what must be included in the income base in terms of achieving the equal treatment of equals, although the implication in Chapter 1 seems to be that the Simons concept of income, that is consumption plus savings, is a desirable social objective.

I would have anticipated that, having developed such a concept of equity, the Committee would have pointed out the need for a general income concept on which to build a rational personal income tax and as the ideal towards which to strive, although recognizing that it might be modified for administrative reasons or because of economic or other considerations that justified modification. It is interesting in this respect to compare the comments of the Committee with respect to the income tax base created by the *Income Tax Act* of Canada. The Committee states that it would favour the elimination of many of the income exemptions or exclusions in sections 5 and 10 of the federal Act and other related sections, and would also favour an amendment which would give persons earning salaries the right to deduct all costs of earning such salaries, and that the administrative problem is not so great as to interfere with the equitable treatment of the taxpayers involved. The Committee would also in general permit the deduction of all business expenditures unless unreasonable, of a personal nature or relating to goodwill or land. The Committee would introduce improved provisions with respect to the carrying back and forward of business losses and to averaging, would make changes with respect to husband and wife deductions and would tax the husband and wife as a unit on combined income on a special rate table.

The Committee favours the continuation of progressive tax rates but at reduced marginal rates; it suggests that it would not advocate or support a change to a proportional rate structure. On the other hand, with respect to the principle of ability to pay the Committee suggests that considerations of equity would call for personal income tax rates somewhat less progressive than at present, and to this they add their judgment that the top marginal rate of 80% represents virtual confiscation of income subject to that rate without adding significantly to the revenues of the country and certainly without adding to incentive or equity. Because the progressive rate structure imposes a tax penalty on the recipient of the fluctuating income, and because amounts brought into income in one year may result from efforts or accumulations of a number of years, the Committee thinks that a general provision that would permit averaging over time is necessary to mitigate the tax penalty inherent in a system that imposes progressive rates of tax on income realized in the arbitrary period of one year.

The Committee points out that many problems of equity and compliance have developed over the years from a system that taxes corporate income at corporate rates and corporate distributions to shareholders at personal income tax rates. The Committee indicates that it would welcome the closer integration of the personal and corporate income taxes by a means that would be equitable, that would produce a minimum of adverse economic effects and that would provide fewer possibilities of tax avoidance. The Committee points out that the Special Committee on Corporate Taxation appointed by the federal government in 1960 recommended in its report of March 21, 1961, a solution to this problem, but that this has not been implemented.

Capital Gains Tax

The Committee reviews the pros and cons of a capital gains tax without indicating to what extent it endorses any particular pro or con. The Committee points out three principal effects of not imposing a capital gains tax: first, the

uncertainty regarding the tax position of particular gains under the present law, which is, for some, one of the major objections to the present law; second, the question of equity involved in exempting certain forms of gains from tax; and third, the major economic advantages that result from the present law and the extent to which these would be eroded under a different system.

In examining the issue of equity the Committee suggests that the chief argument in favour of the tax is that there is no significant difference to an individual whether his increase in economic power comes from a narrowly construed income base or capital gains, that the economic effect is the same and that equity demands that both be taxed uniformly.

As against the propositions in support of a capital gains tax as a mass measure to achieve equity, the Committee refers to the arguments that the tax creates new inequities. It summarizes the alleged new equities as follows. (i) The gain on almost any kind of investment may represent no more than a price increase caused by inflation. (ii) Under all existing systems tax is levied only when gains are realized and not as they accrue. (iii) Often capital gains represent a profit which has not all been accrued in the year of realization but rather over several years, and progressive taxation levied on a sudden increase in the normal flow of income in the year of realization could inflict a severe and unfair tax penalty on the taxpayer. (iv) The inequity arising from taxing capital gains only when realized is further aggravated if property is permitted to pass to another person on death without a tax on the accrued lifetime capital gains. (v) Often a capital gain does not increase real economic power. (vi) Often full deduction of capital losses is denied under a system of capital gains taxation.

The Committee points out that to meet these and other objections the minimum condition for a capital gains tax would in the opinion of the Commission appear to be:

(1) some form of tax alleviation, either through a reduced rate or a method of smoothing or averaging, in such form as not to necessitate the separate identification of capital gains as such;

(2) a deemed realization of gains at death, in order to overcome in substantial part the inequities arising from deferral of tax on the accrued gains of a lifetime;

(3) full offset of capital losses against other income;

(4) moderation of the tax on those broadly owned types of asset in which forced realizations are likely to be common, the most general of all being the home of the taxpayer; and

(5) a form of reporting and a system of administration having the fewest possible complications.

The Committee observes that in examining the economic effects of a capital gains tax one cannot be nearly as positive as could be wished. The Committee refers to the following considerations: First, perhaps the most convincing argument that such tax will not have serious economic repercussions is the more than fifty years' experience in the United States with such a tax that has not prevented that country from developing an extremely dynamic economy. Second, such a tax could reduce mobility of capital. Third, such a tax would have an effect of reducing personal savings. Fourth, the tax on realized gains could have the effect of dampening enthusiasm for investment and risk-taking, particularly in comparison with the situation in which no tax was levied.

The Committee concludes in connection with the economic effects of the tax:

> In an economy like that of Ontario, mature in many respects but still heavily dependent on the capital formation, both from domestic and foreign sources, for the development of natural resources, the economic effects of the capital gains tax would have to be weighed very carefully against the advantage to be derived from such a tax.

The Committee therefore concludes that a capital gains tax should be approached with caution and in no event by Ontario acting alone; but all existing forms of this tax are fraught with many internal problems requiring arbitrary solutions and it is doubtful whether a piecemeal grafting of any form of capital gains tax under our present Canadian tax structure would make any significant contribution to equity. Even if the case in equity is made convincingly, it must be carefully assessed against the expected economic consequences. The Committee concludes "consequently, we must advise that the levying of the capital gains tax by Ontario should be considered only if it is accompanied by a sweeping revision of the entire tax structure of such nature that the addition of capital gains to the tax base would make a clear and indisputable contribution to the equity of the whole revenue system".

Personally I think the Committee's philosophy of the equal treatment of equals enunciated in Chapter 1 should have required the Committee to approach the issue of taxing capital gains in a different manner. Equity is the equal treatment of equals in terms of horizontal equity, and if you accept the concept of a progressive tax in terms of vertical equity as, I suggest, the Committee does, then it seems to follow that one has to start with the propositon that unless administrative or economic considerations clearly indicate otherwise, there should be such a tax.

Speaker: **L. F. Heyding, F.C.A.**
Peat, Marwick, Mitchell & Co., Toronto

The planners of this program have suggested that the speakers should not assume that the majority of the participants have knowledge of the fundamental proposals set forth in the *Report of the Ontario Committee on Taxation*. To accord with that suggestion, the first part of my remarks will be expository. There should be, I think, no great difficulty here because the *Report's* recommendations with respect to the corporation income tax are few and, in the circumstances, reasonably explicit.

Main Proposals

Federal-Provincial Uniformity

As to the more immediate future, the *Report* adopts the principle of uniformity as between the various taxing jurisdictions in all matters of taxation of corporate income. There are a few exceptions which I will refer to later. It observes that "provincial occupancy of this tax field is a *de facto* infringement upon the principles of simplicity and convenience . . . hence [the Committee is] all the more concerned that provincial exploitation of this tax be based on uniform legislation and a single collection agency" (Ch. 2, paras. 36 and 27.76).

Furthermore ". . . the level of taxation of corporate profits in Ontario should be kept closely in line with the level prevailing in the rest of Canada . . . [and] . . . Ontario . . . should play a major role in seeing that the overall level of tax on corporate income levied by both the provincial and federal authorities is kept in line with the levels in countries with which Canada has important trade relations" (27.76).

The Committee does not propose to rule out the interjection from time to time of specific tax incentives, but emphasizes the need for closer co-operation between the provincial and federal authorities in this general area. Inter-provincial competition in corporate income tax rates is eschewed (27.77).

Thus, it is recommended that

Ontario seek an agreement with the federal government for the collection of corporate income taxes under which

(a) a copy of each federal corporate tax return of a corporation incorporated in Ontario, having a permanent establishment in Ontario or carrying on business in Ontario, and all notices of assessment thereof, would be made available to the Treasurer of Ontario, either by the federal government or by the taxpayer's filing, and

(b) the federal authorities would undertake

(i) upon written request of the Treasurer of Ontario to conduct an audit of an Ontario taxpayer's return and advise the Treasurer of the results, and

(ii) to consult regularly with the Treasurer of Ontario on the desirability of any proposed changes in the structure of the tax or its yield to the Province. (Recommendation 27.1 at 27.97).

Business Deductions

While the Smith Committee did not call for any studies in the structure of the federal corporate income tax, its *Report* does express some significant opinions. It adds its weight to the recognition of the need for ensuring that "all reasonable expenditures incurred for the purpose of earning income from a business, except personal and living expenses, should be allowed either as an expense deduction or by way of an annual capital cost allowance . . . unless they were incurred for the acquisition of goodwill or of property such as land that is not consumed or does not depreciate in the income earning process" (Vol. III, p. 99)—and to an extension of the business loss carry-over period, i.e. to two years back with indefinite carry forward (27.100).

Separate Act

There is a further recommendation to which I should refer. This recommendation would apply if it develops that there is to be no collection agreement between Ontario and the federal government. That would probably necessitate the continuation of a distinct *Ontario Corporations Tax Act*. The recommendation that would then apply is as follows:

In the event that Ontario does not enter into a corporate tax collection agreement with the federal government, The Corporations Tax Act be amended to provide that

(a) every corporation shall pay a tax at the rate specified, computed on its taxable income earned in the year in Ontario as determined under the provisions of the Income Tax Act (Canada) and the Regulations thereunder, except as otherwise specifically provided in The Corporations Tax Act;

(b) all discretions exercised by the Minister of National Revenue under the Income Tax Act (Canada) shall be deemed to have been exercised by the Treasurer of Ontario unless the Treasurer exercises a discretion, when the determination made by the Treasurer shall prevail;

(c) all elections made by a taxpayer under the Income Tax Act (Canada) shall be deemed to have been made for purposes of The Corporations Tax Act unless otherwise specifically provided in that Act; and

(d) every corporation required to file a return under The Corporations Act (Ontario) shall file with the Treasurer each year a copy of its return filed under the Income Tax Act (Canada), and a copy of every election, pension plan or other document filed with the Department of National Revenue under any provision of the Income Tax Act (Canada). (Recommendation 27.2 at 27.111).

The *Report* warns that elimination of variations in the tax law does not necessarily mean that the determination of taxable income or its allocation would always be identical as between taxing jurisdictions where the separate jurisdictions are administering their own law.

My colleague, Mr. Hausman, has some interesting thoughts (to express this afternoon I believe) concerning administration of provincial and federal income tax laws.

Corporate Taxes

The *Report* makes recommendations concerning the miscellaneous special corporate taxes that are embodied in the same Act as the province's corporation income tax—and which are sometimes alternatives to the latter. Because these miscellaneous taxes are very frequently dealt with in the same breath as the provincial income tax, I will complete the summary by referring thereto:

The present capital and place-of-business taxes under The Corporations Tax Act be replaced by an annual corporate business tax of fixed amount payable, without any reduction for corporate income taxes, by every corporation now liable for the present taxes; and that the amount of the tax be fixed at the rate or rates needed initially to yield approximately the same revenue as derived from the present taxes. (Recommendation 27.3 at 27.125).

Upon entering into any agreement with the federal government for the federal collection of Ontario's corporate income taxes, the proposed annual corporate business tax be collected, together with the annual filing fee under The Corporations Information Act, by the Department of the Provincial Secretary. (Recommendation 27.4 at 27.125).

The Committee estimated that the recommended annual corporate business tax would be required to be slightly more than $50 from each corporation (excluding exempt corporations and those entirely without assets) to maintain the same yield as the present complex capital and place-of-business taxes.

It is further recommended that:

The special taxes under The Corporations Tax Act applicable to banks, railways, telegraph companies, express companies, sleeping car, parlour car and dining car companies be repealed, and such corporations be subject to the recommended annual corporate business tax. (Recommendation 27.5 at 27.133).

I do not propose to refer to the *Report's* recommendations and comments on the allocation of income tax revenues to the federal and provincial governments, or as to allocation of taxes under Part II through to Part IIIA of the *Income Tax Act*.

Ontario's Responsibility

As I have already indicated, the *Report* discloses a belief that Ontario has a responsibility to consider and influence the application of Canada's taxation based on corporate income. Those of us who are concerned about the effects of the various forms of taxation must not overlook the fact that there is more than one governmental jurisdiction that can have a material influence on the nature of Canada's tax system. It will be borne in mind that the Committee's recommendations for adoption of the federal corporate income tax base, as that may be deter-

mined from time to time, is apparently predicated upon the belief that uniformity in this respect is of major importance. The *Report* reflects a concern about corporate income tax but concludes that "from a pragmatic standpoint, the saving feature of the issue is that virtually all jurisdictions with which Canada and Ontario companies compete levy taxes on corporate income and, thus, their companies and residents suffer much the same consequences in both equity and economic effect . . ." (27.76 and 27.79).

Incidence of the Corporate Tax

The Committee's concern, of course, is with the question of the true incidence of the corporate income tax. The application of the principle of equal treatment of equals "should look beyond the entity on which any tax is first imposed to the individuals on whom the burden of tax finally rests" (1.21).

It is observed that "over-reliance on taxes whose ultimate burden is difficult to trace is highly questionable from the standpoint of equity" (1.22) and expresses the view that *equity* provides no basis for the taxation of corporate income (1.50). I think it can also be fairly observed that without realistic perception of the ultimate incidence of a given tax, there cannot be a knowledgeable shaping of various forms of tax so that economic and social aims will at least not be unnecessarily hampered by tax provisions, and at most may be positively aided.

The Committee has taken obvious pains to consider and set forth observations concerning the incidence of the corporate income tax. In my view, we should be very thankful for the responsible consideration and the summation contained in the *Report*. The latter observes that "*theoretical* grounds can be found for a very large variety of recommendations concerning the taxation of corporations . . ." and while there was early general agreement that the tax was borne by the shareholders "present views now range from this one extreme of no shifting to the other extreme of virtual complete shifting. *In no area of tax theory are conclusions so divergent*" (27.30).

This recognizes a lack of concensus on a question of fact that in my opinion is at least highly significant from a practical point of view—it may be potentially critical. For those who doubt the importance of the question, the *Report* will provide some examples of policy decisions that would call for diametrically opposed tax provisions if it were known that corporate income tax is generally borne by one general sector (e.g. the customers)—diametrically opposed to the provisions that would implement the same policy if that corporate income tax were known to be generally borne by a different sector (e.g. shareholders).

There will soon be either a re-adoption of the working assumption that corporate taxes are borne by the shareholders or there will be some new oversimplified working assumption adopted to take its place. The relationship between the working assumptions on which tax systems are predicated and the realities of economic and social life is a critical factor in the question of equity and in the question of the appropriateness of the system to the social-economic objectives of the province and of the nation. The truth of the concepts held by politicians, governments, union leaders, businessmen, management and people generally will become of increasing importance. We can, in my view, no longer continue with equanimity the situation described in the *Report* in which "judgments as to the particular consequence of the tax will . . . depend to a large extent on one's *assumptions* relating to the incidence of tax" (27.50). The question of "What are the valid and realistic assumptions?" must soon be settled.

As the *Report* points out, the present taxation of corporate income in Canada rests on the theory that there is no shifting of the tax and that the short-run burden rests upon the shareholders. The *Report* states that the present tax "rests on a theory of incidence that has long since been demonstrated to be false" (27.32). The *Report* contends that the newer considerations constitute "a necessary qualification rather than an outright contradiction of the conclusion yielded by [old] conventional price theory . . . [and] . . . tend to support the long-standing scepticism of businessmen regarding the validity of the no-shifting conclusion" (27.33).

The *Report* properly observes that if the corporate tax is assumed to be shifted to the buyers of the corporation's output or to the suppliers of its inputs, "in terms of conformity to ability to pay, a well-structured sales tax appears very much superior to the corporate income tax" (27.42 and .71).

There is also a useful summation of the essence of the conflicting contentions concerning the long-run shifting and concerning statistical evidence developed in respect of the dispute (27.29 to .40). In my own judgment, this summary reflects one of the major oversights in the mainstreams of the debate thus far. As I see it, there is an important distinction to be made in the economic and social factors relevant to the large and generally public corporations engaged in capital intensive industry and commerce. These are quite different from the factors applying in the case of the narrowly held, relatively small, private and family corporations.

The Carter Commission apparently concluded that the question of the actual incidence of the corporate tax was not relevant to its task. I fail to see the validity of such a conclusion, particularly when one bears in mind the great emphasis placed by that Commission on equity. I am afraid that the inference drawn at large from the Carter *Report* is, and is likely to continue to be, that the Carter Commission came down on the side of endorsing the view of the corporate income tax as a tax against the shareholder.

Now, it may be argued that the Smith *Report* endorses the Carter position but, in balance, the Smith *Report* does emphasize the undesirability of a tax, the incidence of which is indeterminate. At one point, the Smith *Report* states "What is clear . . . is that the tax fails to conform to principles of equity, and while the Canadian and Ontario governments have no practical alternative to its continued use in the short run, we firmly believe that the quality of the Canadian tax system will be substantially improved if, over a period of time, the role of the corporate income tax in the revenue structure can be very appreciably reduced." (27.74).

It seems to me to be quite clear that we have no alternative in the short run, at least, but to continue with the corporation income tax. What I wish to emphasize is my belief that a decision to continue the use of the tax is no excuse for failure to resolve the question of its true effects. Incidentally, I believe that these same remarks can be properly applied to the personal income tax—to a lesser but none the less important degree.

Integration

I must take issue with one of the conclusions that I read out of the Smith *Report*—that is that the role of the corporate income tax could be appreciably reduced "only through the substantial integration of the personal and the corporate income taxes, within a much broader tax base designed to provide greater equity and fiscal productiveness" (27.74). The type of integration recommended in the Carter *Report* in my opinion would not lead to a reduction in the particular tax, the incidence of which is in dispute. If the present income tax in the public corpo-

ration sector is substantially a tax that is passed on, in my view it is most likely that substantially the same burden would be passed on following the Carter type of integration. This would apply particularly if Canada and its provinces alone adopt integration. It might be useful to observe that a justified expectancy that a new equilibrium would be found would not in itself justify an assumption that the new level of equilibrium would be more equitable or efficient—or even as equitable or efficient.

This view is held with reference to large and public corporations only, but such a preponderance of today's economic activities in the Western civilization is conducted through or in association with these enterprises that the view is held to apply predominantly.

Having said that, I should express my view that there might well be an avenue in which the problems of income retention and surplus stripping may be avoided through closer integration of personal and corporate income taxes applicable to the private company (27.101). There are, however, a number of difficulties I see to be overcome.

Miscellaneous Observations

The Smith *Report* observes, and I think probably rightly, that there has not been an over-utilization by corporations of borrowed funds as against equity capital. Over-utilization of borrowed funds is frequently contended to be a result of the present system of taxation of corporate income (27.59 to .61).

The *Report* expresses the view that accelerated capital cost allowances and investment credits constitute a better investment incentive than an overall reduction in corporate tax rate (27.57).

The *Report* makes a noteworthy point of observing the substantial agreement among leading authorities in the study of public finance that high marginal rates of corporate income tax lessen the incentive to efficiency in management and thus affect adversely the allocation of productive resources and lessen the country's efficiency. I think it good that this point has been made and I agree that the anticipated effect should not be minimized in any evaluation of the tax (27.58); but I feel that it should also be borne in mind that the cushioning of the effect of inefficiency does not remove the ultimate pressure of return on equity targets and comparison of results therewith. Inefficient expenditures resulting in a loss of three percentage points in return on equity might, without the cushion of the corporate tax, result in an overall return of 9% as compared with a "ball park" target of 12%, whereas the effect of the 50% corporate tax would cushion the result to a 10.5% return on equity. The 9% might give rise to more violent reaction, but on these hypotheses the 10.5% would not be accepted with equanimity (27.58).

International Competition

The *Report* has a series of very useful observations on the economic effects of the corporate income tax (27.50 to .67 inclusive). However, I would question the observations concerning the effect in international business and trade. The *Report* contends that one of the criticisms of the corporate income tax which does not stand up well under scrutiny is the argument that Canadian exporters are at a disadvantage *vis à vis* foreign competitors. I am afraid that the reasons given for that conclusion are insufficient. Reference is made to the levels of corporate income tax in Japan and West Germany. Study (of which I have knowledge) of the detailed special provisions introduced from time to time in various countries reveals

that modifications in the normal corporate income tax are used as a means of encouraging exports. This applies to Japan (to which the Smith *Report* refers), and the same applies in varying degrees to many countries. I cannot agree with the statement that "if it may be assumed that the shifting behaviour is broadly similar elsewhere, the crucial determinant of the net disadvantage experienced by Canada is the differential between corporate tax rates in Canada and those encountered by our competitors" (27.62, .63 and .66). Frequently, it is not the level of the *general* corporate tax rate that is relevant, but the actual effective corporate tax burden which a country loads—or attempts to load—onto the particular line of competitive products for sale to non-residents of that country. Canada cannot afford to be naïve in this regard. Nations, as nations, do in fact actively enter into the international economic competition.

Effects of Corporate Income Tax

I agree emphatically with the inference I draw from the total context of the Smith *Report* that the Committee believes that the dispute concerning the incidence of the corporate income tax must be resolved according to the realities. The reasons for the recommended continuation of the corporate income tax are basically that the yield so dictates; that greater inequity would be created by its removal (that would certainly be the result of unilateral removal) (27.68 and .72). Furthermore, the corporate income tax is an effective economic tool (27.73). However, the foregoing is no reason for pulling the blinkers tighter. As the *Report* observes, "any generalized conclusion about the effects of the tax is quite unwarranted" (27.74).

All of my experience and all of my analyses and studies to this point have led me to the belief that the bulk of the corporate income tax is an arbitrary, capricious, inequitable tax which has one major point in its favour—from time to time it has been an expedient means of raising increased tax revenues. It has worked. One of the reasons that it has worked lies, in my view, in the phenomenon of the concentration in the large corporate sector of the preponderance of the economic activities that have led to the vast increases in efficiency in production. As I see it, one of the shares of the benefits of the increased efficiency has gone to the public sector—to governments. But there is another reason—that is that from time to time in the past the governments of this country and the governments of other countries have modified the effect of the capricious tax where its arbitrary application would or might have resulted in economic strains intolerable or unsuitable in the light of particular objectives. I am not contending that all modifications and adjustments have been justifiable on these grounds. That is not necessary to my point. What I do contend is that there is every reason to believe that one of the reasons an unneutral and inequitable tax has worked is because governments and societies have been prepared to make adjustments.

Now, the thrust of the Carter *Report* is quite different—and the Carter *Report* is not alone. There is a view that insists on treating the corporate income tax as though it were or should be truly a burden on the shareholders, that persists in the working assumption that neutrality of taxation can be attained through a corporate income tax system, and that persists in looking upon the modifications which have been made in the past from time to time as improper avoidances. An unsound tax may be made workable when there are sufficient tolerances. The rapid increase in efficiency of production tolerated the insertion of heavy tax burdens through the corporate sector. Toleration in administration was available to make some adjustments for the tight squeezes that were recognized. I suspect that, generally, the economic tolerances will be much tighter in the future—the pressures of inflation, wage parity, increasing stiffness of international competition affected in turn by the difficulties of the United States and other nations with balance of payments. I do

not think that we can any longer afford to ignore what I believe to be the realities of the burdens of the corporate income taxes.

I can easily sympathize with the view that the administration of tax laws should be a consistent application of the arbitrary rules—but it seems very clear to me that we cannot with wisdom insist on arbitrary conformity with simplified concepts and rules where we are dealing with a highly complex capricious tax burden.

To my way of thinking, the general attention in the "burden" debate is concentrated too greatly upon the question of whether the corporate income tax is in fact passed on. I daresay that there have been from time to time in the past wage increases that have not been successfully passed on, and the concerns thus involved may have faltered or failed. But that does not alter the relevant fact. The economic effort is to recover the wage costs and an adequate return on equity—and by and large that effort meets with a fair measure of success. In my view, the same thrust applies generally with respect to the corporate income tax and that would be the most appropriate working assumption in considering the appropriateness of various systems of taxation—and in the administration of the corporate income tax that we are stuck with.

It is past time that some of the old economic assumptions which still influence tax and political thinking or political rationalization be "educated out". For example, when society or the nation is or should be facing up to the question of conflict between wage parity and increased social benefits through government transfer payments, the realities of the conflict should not be lost sight of by a generally held misconception that one of these is paid for by the rich corporations or their shareholders.

The *Report* expresses the view "that a reliable knowledge of the net incidence of the revenue and expenditure patterns of the several levels of government in Canada is an indispensable prerequisite to the attainment of greater fiscal equity, as among various income groups" (5.49). A program of continuous research is urged and, in my view, rightly so. It will be not only a matter of equity that is involved but also a matter of realistic appraisal of the probable economic effects of the various forms in which the overall tax burden is interjected into the functioning of the economy. There have been a number of studies on these questions over the past few decades. There are new studies on the incidence of corporate tax apparently to be published shortly. It is purported that one of them establishes that the corporate tax is not shifted. All of these will have to be reviewed carefully. It is important that the underlying premises and assumptions particularly be fully considered.

Most of these studies are being performed in the so-called academic sector. The so-called "practical" sector of businessmen and their advisors are too prone to look upon such studies as unrealistic and of no real effect. This is dangerous. The thinking in the academic sector does affect policy. Recent tariff agreements are an example of this. The practical sector would be well to listen carefully and to learn. They would also be wise to deliberate, to accept where wise, but to challenge where the reasoning is faulty or incomplete—or where the basic premises are not judged to be realistic.

With all respect, I think that some of those in the academic sector also should listen. The assumption that the practical sector is the only prejudiced sector is dangerous to the determination of the true and complete relevant facts and to sound thinking. The personal discipline requisite to a truly open mind is, I should think, no easier in one sector than in another. It is merely a case of different prejudices having to be overcome. Only in this way can valid conclusions and acceptable working assumptions be arrived at.

Speaker: **J. S. Hausman**
Blake, Cassels & Graydon, Toronto

You have heard from the other members of the panel how the Smith Committee would have the Ontario government deal with the imposition of personal and corporate income taxes. However, the merit of a system of taxation is judged not only by the tax base adopted, but also by the administrative process devised for the collection of the tax and the procedures available to the taxpayer to resolve controversy and redress grievances.

The Committee's Philosophy of Administration

The Committee recognized the importance of tax administration and adopted as part of its philosophy of taxation the view that it is fundamentally important that tax administration be based on the principle of equity. The Committee's view of equity in taxation is perhaps best summarized by the ancient maxim of the Lord Chancellors of the Court of Equity: "equality is equity". The Committee explained its view of equity in the following way: "Tax laws, no less than other kinds of legislation, must be tailored and applied with strict adherence to the letter and spirit of [the right to equal treatment before the law]." (Ch. 1, para. 9) and in another passage: "Then in administration, the principle [of equal treatment of equals] dictates both the unbiased handling of taxpayer affairs on their merits and the existence of appropriate appeal procedures." (Ch. 1, para. 24)

However laudable the objective of complete equity may be, any system of tax administration must also meet practical requirements of the real world. Efficiency, certainly an objective worthy of achievement in a tax system, demands that tax compliance be achieved by government at the least possible cost. It is possible, therefore, that worthy objectives may conflict, with the result that adherence to one principle in tax administration may militate against the achievement of the other. The Committee has taken the position that although such a conflict may arise, the principle of equity must prevail. The Committee said: "Whatever the nature of the conflict, we wish to stress that among all the principles that we have discussed, those relating to equity are of fundamental importance in the formulation of tax policy. This is by no means to deny that in specific circumstances equity may legitimately be subordinated to other principles, but where such is argued, we place the burden of proof squarely on the proponents of the case." (Ch. 1, para. 66)

Federal-Provincial Tax Collection Arrangements

Any scheme of provincial taxation in Canada must also take into account the fact that under the *British North America Act* the fields of personal and corporation income tax are shared with the federal Parliament, as indeed are all direct taxes. Therefore, in the interests of achieving an orderly tax system for all Canadians, it is necessary that there be federal-provincial co-operation, which in practical terms means that a province must pass tax legislation uniform with that of the federal Parliament.

As far as the personal income tax is concerned, you have heard that the Smith Committee concluded that the present arrangement with the federal government providing for the imposition of a uniform tax base ought to be continued on certain conditions. The Committee also found that there are not sufficient advantages to be gained from the separate collection of personal income tax and, therefore, recommended that the federal government continue to administer and collect the personal income taxes for both jurisdictions under a tax-collection

agreement. Under the agreement at present in force, provincial administration is minimal. In fact, in order to prevent the tax base from becoming the subject of independent determination by different tribunals, the *Income Tax Act* of Ontario forbids an appeal to the provincial courts with respect to any question of the tax payable under Part 1 of the *Income Tax Act.*

In contrast with the arrangements for the collection of personal income taxes, *The Corporations Tax Act* is administered independently of the federal government by the Ontario Corporations Tax Branch of the Treasury Department. However, this Department relies heavily upon the assistance of the federal taxing authorities in the administration of its provisions. Although a right to appeal to the Supreme Court of Ontario is provided for in *The Corporations Tax Act,* the usual practice is to defer action until the matter has been finally disposed of at the federal level with the Ontario Corporations Tax Branch and the taxpayer agreeing to be bound by that result.

The Smith Committee gave consideration to the question of whether uniformity could be achieved satisfactorily by having the Ontario government continue to administer corporation tax independently of the federal authorities. After considering such advantages as uniformity, reduction in the costs of compliance and the economy and efficiency of administration which a tax-collection agreement offers, the Committee concluded that it would be in the best interests of the province of Ontario to seek a collection agreement with the federal government for the collection of the Ontario corporate income tax. The Smith Committee did, however, stipulate that under such an agreement the federal authorities would be required to carry out audits of corporations subject to Ontario tax at the request of the Treasurer, and that the federal authorities would also be required to consult regularly with the Treasurer of Ontario with regard to the desirability of proposed changes in the tax base.

Therefore, we see that the Committee has recommended that the ideal arrangement for the province of Ontario would be to have both the personal and corporate income taxes levied by the province on a uniform base with that of the federal Parliament and collected by a single agency. The Committee recognized that the implementation of these recommendations would result in an encroachment on the autonomy of the province, but points out, and I believe quite rightly, that practical considerations warrant this abridgement of the ability of the province to determine its own tax base and to administer the tax collection process.

If the province does choose to enter into such a fiscal arrangement, in my view it is not thereby relieved of the responsibility of accepting the political consequences for imposing personal and corporation income taxes. It is particularly important in a federal state, where the power to tax is divided, that it be clear to a taxpayer which governmental authority is confiscating part of his wealth in the name of the public good. I am going to suggest that the vast majority of the individual taxpayers in Ontario are not aware when they remit their tax to the Department of National Revenue in Ottawa that they are, in fact, paying part of this tax to the Treasurer of Ontario. If this is a fact, and I think it is, Ontario is imposing taxes and avoiding full responsibility to the electorate of Ontario for that action. What is probably worse, under such an arrangement, the federal government bears the responsibility, in the eyes of a majority of the taxpaying public, not only for the collection of the tax but for its imposition. I agree that it is in the interests of Canada that we foster any arrangement which results in federal-provincial co-operation. But while we are pleased to see Ontario and the federal government billing and cooing in the area of taxation, there is something wrong with the arrangement if it appears that the federal government is doing all the billing while Ontario does the cooing.

The Smith *Report* did recognize this problem to some extent and concluded that the nasty calculation at the end of the T1 General and T1 Short taxation form deducting federal tax abatement and adding the provincial tax was sufficient to inform the taxpayer that his payment covered both his federal and provincial tax liability. To require taxpayers to complete this complex calculation, which is done incorrectly in 15% of all returns filed is, to say the least, a maladroit way of reminding the taxpayer that part of the tax collected is provincial tax. The Smith Committee does add that it favours some indication on the T1 General and T1 Short form that part of the tax collected is for the province, but makes no further recommendations on this question.

Given the desirability of a uniform tax base and a single collection agency, it becomes a difficult question, but I think one worthy of consideration, how this arrangement can be constituted so that, at the very least, the federal government will not appear to be the villain of the piece. I offer one suggestion for your consideration—that a new independent Board be constituted, probably by the federal Parliament, known as the Federal-Provincial Board of Revenue Commissioners, which would have the administrative function of collecting federal and provincial income taxes. Those provinces which agreed to tax on a uniform base with the federal government could then delegate the function of collecting provincial taxes to this Board.

The concept of an independent Board was recommended by the Carter *Report* to replace the Department of National Revenue as the federal agency for tax administration. It appears that the Carter Commission felt that the establishment of such an agency would ensure that tax administration would be free from political influence. In the context of federal-provincial tax relations, such a Board might prove to have the added virtue of performing the task of tax collection for all agreeing tax jurisdictions in Canada without being specifically identified with any one of them. Such a body could be constituted with provincial representation on the Board of Revenue Commissioners, and as a practical matter could serve as a vehicle to foster federal-provincial consultation on questions of the tax base as well as on tax collection procedures.

The first question is whether constitutionally it is within the competence of the provincial Legislature, or, for that matter, the federal Parliament, to delegate the administration of the personal and corporate income taxes to such a body. The authorities appear to be reasonably clear that Parliament and a provincial Legislature can delegate administrative authority to a subordinate agency of the other.[1]

The next question is whether it would be desirable to have such an agency responsible for the collection of federal and provincial income taxes. The Smith Committee itself recommended establishment of a Department of Provincial Revenue responsible for the administration of all Ontario revenue statutes. The following is the reasoning of the Smith *Report* in coming to this conclusion:

> Among the possible structural alternatives, it is our considered opinion that a separate department in which the main revenue responsibilities are brought together offers the greatest advantages. Such a department would facilitate the consolidation of assessment, collection and appeal. . . .
>
> . . . [A] revenue department would emphasize, by the very fact of its distinct departmental status, responsibility for the efficient and equitable administration of tax statutes. In addition, separating tax policy formulation from tax administration would enhance in the public eye the importance that government attaches to revenue-raising policy and would enable the Treasury Department to concentrate its attention on broad questions of fiscal and economic policy. (Ch. 25, para. 7)

[1] See, for example, *P.E.I. Potato Marketing Board v. H. B. Willis, Inc. & A.-G. Canada,* [1952] 2 S.C.R. 392.

I submit that the delegation of the administrative function to a Federal-Provincial Board of Revenue Commissioners would have all the attributes described in this passage with the additional advantage in the case of the provincial personal and corporate income taxes of clearly demonstrating provincial responsibility for the imposition of these taxes and fostering the kind of co-operation which the Smith *Report* felt was necessary to make federalism work. I think it is an unfortunate fact of Canadian life that the sensible is not always adopted because it offends the sensibilities—regional, political or otherwise. I would not presume to say that this suggestion is sensible or even practical, but I do think it is worthy of some consideration and discussion.

Proposals Concerning Administration and Appeals

The Smith Committee had some reservations whether its own recommendations for tax collection would be acceptable to both the Ontario and federal governments. Anticipating disagreement, the Committee proceeded to make what it termed "an alternative income tax recommendation" which is in essence that *The Corporations Tax Act* be amended to incorporate by reference the provisions of the federal *Income Tax Act* and that all elections and acts taken under the federal Act be deemed to have been taken under the Ontario legislation. This left a consideration of what administrative and appeal procedures should be adopted by the Ontario government for the collection of the corporate income tax. The procedures recommended were essentially those proposed by the Committee to achieve uniform administrative and appeal procedures for all Ontario tax and revenue imposts. Unfortunately, the Commission found that the present administrative and appeal provisions required improvement, since many of them failed to take into account essential principles of equity.

While this is not advanced as a justification for some of the unfair and arbitrary rules which have found their way into our taxing statutes, it is understandable that a government seeking to impose a tax will introduce measures which ensure its efficient collection. Thus, especially in the absence of any body which effectively represents the interests of individual taxpayers in these matters, we can see how sometimes legislation is introduced that does not adequately take into account the rights of the individual. I think, therefore, that the most significant recommendation made by the Smith Committee in the area of administration and appeals is its proposal that a Select Committee of the Legislature on Civil Rights in Revenue Legislation be appointed to make a periodical review of all revenue statutes of Ontario, for the purpose of ascertaining whether or not a constant and uniform policy respecting the rights and duties of citizens is being maintained. If such a body were established, and effectively carried out its mandate, it could act as an effective counterbalance to the natural tendency of government that I have described, and ensure that in revenue statutes, efficiency of collection would not take precedence over considerations of equity.

The Committee's review of the present provisions in *The Corporations Tax Act* relating to administration and appeals led to several recommendations for reform including the following:

(a) the prohibition, except for fraud or misrepresentation, of any re-assessment after the expiry of 6 years from the date of the first or original assessment, except where an inter-governmental tax collection agreement may specify a shorter period of time;

(b) a limitation period of 5 years for any prosecution for an offence under *The Corporations Tax Act;*

(c) a limitation providing for safeguards for a person whose property has been seized to enable him to apply to a court for a review of the action and a procedure to be followed when solicitor-client privilege is claimed in respect of documents demanded or seized;

(d) the issuance of certificates of no lien under *The Corporations Tax Act.*

These recommendations are in keeping with the Committee's view of equity and are amendments to *The Corporations Tax Act* that are long overdue.

The Committee also recognized that assessing decisions often depended on administrative interpretation of complex provisions and that a taxpayer had a vital interest in knowing in advance what position the Department would take in given circumstances. The Committee accordingly recommended that the Ontario government publish from time to time information memoranda setting out administrative interpretations that have been adopted by the tax authorities. I think that the Committee could, and should, have gone further and recommended that the tax authorities ought to be required to make binding decisions as to the incidence of tax in given circumstances. The staff requirements to administer advance rulings may not be in the realm of the practical, especially if the province is forced to set up parallel collection machinery to that of the federal government. While practical limitations are always important, we should recognize the desirability of such a procedure in the interests of the principle of tax certainty in a world where business transactions are becoming more and more complex.

In the view of the Committee, to be adequate, an appeal from an assessment involves two steps: a review by the administration of its decision and a formal challenge of the administrative decision in the courts. So far as appeals to the courts are concerned, it is proposed that the Supreme Court of Ontario be empowered to extend any time limit provided for in the taxing legislation and that an appeal lie to a Special Revenue Judge of the High Court of Justice in respect of any assessment with or without administrative review of that assessment. However, it is the Smith Committee's proposals for the administrative review of decisions that are most intriguing. Briefly, the Committee recommends the creation of a statutory Board of Review constituted within the Treasury Department to hear objections to assessments. The decisions of the Board would be binding on all parties although an appeal would lie from any such decision to the High Court of Justice.

If such a body were established, it could perform a very useful function in the appeal process by providing aggrieved taxpayers with an opportunity to appeal to an impartial body in an expeditious manner in circumstances where their financial affairs would not be disclosed in public. Since its members would be drawn from the Treasury Department, it is to be hoped that such a body would have the authority and the inclination, where the statutory language is unclear, to base its decisions on principle and equity even though, according to the jargon, there is not supposed to be equity in a taxing statute. If a question before the Board involved an important point of interpretation, as opposed to a factual determination, it is also hoped that the Board would be empowered to seek the advice of the courts by way of reference, thereby relieving individual taxpayers of the responsibility of clarifying questions of law in the courts for the government and the general taxpaying public.

Conclusion

In the area of tax administration, we are indebted to the Smith Committee for its recognition that public confidence in a scheme of taxation can be maintained only by adopting procedures which ensure that controversies in revenue matters are

resolved with due regard to principles of equity. No matter how scrupulously fair the tax officials may in fact be in their dealings with the public, it is the responsibility of the legislature to provide within the taxing legislation acceptable procedures for reconciling the interests of the tax collector and the taxpayer. It is of paramount importance that a citizen, whether judging the merit of a tax system, or seeking redress, be impressed with the fact that, to paraphrase a well-known legal maxim, "justice is not only done but that it is manifestly and undoubtedly seen to be done".

Sales Tax

Chairman: John H. C. Clarry
Speakers: J. Eric Ford
W. M. Moffat
Kenyon E. Poole

Chairman: **John H. C. Clarry, Q.C.**
McCarthy & McCarthy, Toronto

Speaker: **J. Eric Ford, C.A.**
Clarkson, Gordon & Co., Toronto

Proposals for Changes in the Structure[1]

I have been asked to outline the technical tax structure changes proposed by the Ontario Committee on Taxation with respect to the *Retail Sales Tax Act*. It is my plan to summarize the changes proposed by the Committee without any comment on those changes and if I have time remaining, I shall comment briefly on some of the recommendations that have been made and also on some that, in my opinion, should have been made and were not.

The Committee's recommendations for changes in the *Retail Sales Tax Act* may be divided conveniently into two packages—those that affect the tax base and those that affect the tax administration. Those that affect the tax base are of most general interest so I propose to start there.

In looking at the recommendations that affect the tax base, we find that there are three separate types. The first of these is that services be taxed. The second, that certain exemptions be dropped and the third, that certain exemptions be retained.

Services

In my view, by far the most important recommendation made by the Committee is the recommendation that services should be subject to sales tax. The arguments in favour of taxation of services in conjunction with a retail tax levied on tangible personal property are well-known and I need not go into them at this time.

[1] *Report of the Ontario Committee on Taxation*, Vol. III, Ch. 29. Unless otherwise stated all papers in this session deal with Chapter 29.

The Committee was faced with the decision as to whether to recommend taxation of all services or whether to recommend taxation of a limited list of services which are specifically listed. For administrative reasons the Committee recommended that a specific list of services be subjected to tax rather than attempting to tax services in general.

The specific services listed by the Committee as being appropriate for taxation included the following:

(a) installation, repair and maintenance of taxable tangible personal property;

(b) personal services including those rendered by barbers, hairdressers, beauty parlours, dressmakers, steam and sauna baths, driving and dancing schools, dry cleaners and laundries;

(c) hotel, motel and other transient accommodation (defined as provided by an establishment having four or more rooms to rent and for which rent is paid for continuous occupation for less than one month);

(d) automobile parking services (excluding meter to street parking);

(e) "pay television", radio and music program services, and television cable services provided to subscribers;

(f) amusement, theatrical and other performances, sporting events and recreational facilities; and

(g) services in respect of transactions in real estate, stocks, bonds and other securities rendered by brokers, dealers and agents.

While we list services recommended by the Committee for taxation, it is intended by the Committee to be illustrative only and not as a final and complete recommendation of those services which ought to be taxed. The Committee did recommend that certain services should not be taxed. This list includes:

(a) educational, medical, dental, health, funeral and transportation services;

(b) services, the dominant use of which is made by business firms;

(c) repair and maintenance of real property; and

(d) services that cannot be conveniently taxed.

Having listed those services which, in the Committee's view, are appropriate subjects of taxation and having also listed those services which in the Committee's view should not be taxed, I might pause for a moment to provide some of the reasoning behind the choice of taxable vs. non-taxable services. The Committee recognized that many services are rendered by persons who could not conveniently be licensed to collect the tax. For example, cleaning services in respect of real property could be performed either by service organizations or by individuals who work on a daily or hourly basis or perhaps on a casual employment basis. This type of service rendered by individuals who may work for a number of employers is most commonly found in the field of repair and maintenance of real property and this is one of the reasons for exempting this field. In addition, it is extremely difficult to differentiate between repair and maintenance of real property and construction of real property which, for a variety of social reasons, has not generally been considered as an appropriate base for taxation. There are other types of service rendered by individuals which cannot conveniently be taxed and the Committee has recommended that these also should be exempted from the tax on services.

The exemption of educational, medical and other similar services is provided on the basis of the social implication of imposing a tax on this type of service. The Committee did not outline its reason for exempting transportation services but it

may be assumed that transportation services as applied to goods should be exempt because they form part of the cost of distribution which is taxed under a retail tax system. The difficulty with taxing the transportation of individuals is that this type of tax may be easily avoided by the individual purchasing his ticket in some area outside Ontario's jurisdiction. Furthermore, since a large proportion of personal travel costs are absorbed as part of business expense which, in turn, generally becomes part of the taxable value of goods and services subject to the tax, these too are a fit subject for exemption.

While the Committee did not outline what it meant by its proposed exemption of services, the dominant use of which is made by business firms, it may be assumed that this would include legal and accounting services, management consultants' services and other services generally rendered to business. In addition, it may be expected that repair and maintenance charges in respect of production machinery and other goods exempt under the producers' goods exemption would also be exempt from sales tax.

Little need be said about the list of services suggested as being appropriate for inclusion in the tax base but it might be appropriate to comment on the suggested inclusion of amusements, etc. and also services in respect to transactions in real estate, stocks, bonds and other securities. The Committee has recommended that the Ontario hospital tax which imposes a rather uneven burden on specific kinds of entertainment and theatrical performances should be abolished on the grounds that it is blatantly discriminatory. The retail sales tax imposed on amusements, theatrical and other performances would replace the hospital tax.

The Committee also recommended that the present land transfer tax and the securities transfer tax should be abolished but that the commissions charged by real estate brokers and dealers in securities should be made subject to the retail sales tax on services.

To summarize then, the Committee has recommended that certain specific services to be determined by the government should be taxed but that a number of services used by business firms or which are socially desirable should be exempted from tax. In addition, the Committee has recommended the repeal of three present taxes and the imposition of the tax on theatrical and amusement charges as well as the commissions of real estate brokers and security dealers.

Recommendations for the Elimination of Present Exemptions

The Committee has recommended that some exemptions now contained in the *Retail Sales Tax Act* should be dropped. The specific exemptions to be dropped include the following:

(a) the present exemption for prepared meals sold for consumption off the premises where sold where the value of the meal exceeds $1.50;

(b) the present exemption of sales of less than 21¢ to be replaced by an exemption for sales of less than 11¢;

(c) the exemption for sales of draft beer sold by the glass on licensed premises;

(d) the present exemptions for tangible personal property purchased by or for schools, school boards, universities, hospitals, nurses' residences, religious institutions, Ontario municipalities and publicly-supported galleries and museums, and the exemption for buses purchased for public transportation within a municipality;

(e) the exemption of books, magazines, periodicals and religious and educational publications;

(f) the exemption now applicable to student supplies; and

(g) the present exemption in respect of motor fuels taxed under the *Motor Vehicle Fuel Tax Act.*

Exemptions to be Retained

While the Committee has recommended that a number of exemptions at present found in the Act be repealed, it has also recommended that a very large number of the present exemptions should be retained and in some cases expanded. It may be useful at this stage to run quickly through the list of exemptions which would remain. The list includes:

(a) food of all kinds (including candy and soft drinks, confections, etc. which are now taxable but which the Committee recommends be exempted);

(b) commercially prepared meals sold for $1.50 or less (whether eaten on or off the premises where sold);

(c) children's clothing and footwear;

(d) fuel oil, coal, coke, wood, natural and manufactured gas and electricity;

(e) gasoline and other motive fuel used by farmers and commercial fishermen in the business of farming or commercial fishing (such motive fuel is now exempt to all purchasers provided it is taxed under the *Motor Vehicle Fuel Tax Act*. The Committee has recommended that the exemption for fuels taxed under the *Motor Vehicle Fuel Tax Act* should be repealed but that it should be retained specifically for gasoline and other motive fuel used by farmers and commercial fishermen;

(f) farm implements, machinery and specific supplies, materials and equipment, fruit trees and food-producing shrubs and plants, and agricultural products including livestock;

(g) trees sold by the Department of Lands and Forests;

(h) aircraft engaged as common carriers;

(i) natural water, including ice and steam;

(j) clay, sand, gravel and unfinished stone;

(k) boats, equipment and apparatus used by commercial fishermen;

(l) commercial ships;

(m) prescription drugs and medicines and appliances;

(n) machinery equipment and materials used directly in the process of manufacture or production of tangible personal property for sale;

(o) tangible personal property for delivery outside Ontario;

(p) railway rolling stock and repairs thereto;

(q) newspapers;

(r) uncancelled Canada postage stamps purchased at prices not exceeding their face value;

(s) coins minted by the Royal Mint of Canada and purchased at prices not exceeding their face value;

(t) equipment, as defined by the Treasurer, purchased by a licensed fur trapper;

(u) tobacco products taxed under *The Tobacco Tax Act;*

(v) cut natural evergreen Christmas trees when used for decorative purposes;

(w) settlers' personal and household effects; and

(x) tangible personal property or specified services purchased at less than 11¢.

The Committee devoted a considerable amount of attention to the question of exempting producers' goods. It concluded that the present exemptions were too narrow and they should be expanded to include some items of machinery and equipment that perhaps do not directly come in contact with the goods being manufactured. The Committee's recommendation was, therefore, that the present exemption from sales tax be reviewed and revised so that (a) all purchases of machinery, equipment and other goods that enter into the direct cost of manufacturing and producing would be exempt; and (b) purchases of all goods entering into indirect cost of manufacturing and producing would be taxable. The Committee specifically recommended that certain types of equipment including laboratory testing equipment, machine shop equipment, machinery repair and maintenance equipment, handling equipment for use during production process and small tools supplied to employees without charge for use in production should be exempt.

Administration

The Committee made a number of recommendations for changes in the administrative provisions of the Act. Of these by far the most interesting to vendors is the recommendation that Ontario discontinue the payment of remuneration to vendors for the collection of the retail sales tax. The Committee pointed out that in the 1967 fiscal year the payment of remuneration cost approximately $6 million, representing 1½% of the total yield of the tax. The Committee saw no valid reason for continuing to pay remuneration and recommended that remuneration be discontinued. I believe Mr. Moffat will have some comment to make on this recommendation.

Another change which is characterized as an administrative change is the recommendation that the present exemption for gifts be enlarged to exempt from retail sales tax all gifts made from one individual to another including those made by way of transactions for inadequate consideration. The present exemptions for gifts are restricted to those where the property is received by bequest or is received from a member of the recipient's family without payment of any consideration. The Committee felt that it was impossible to administer the tax in respect of gifts between individuals in any event so that the exemption should be enlarged.

The Committee made a number of recommendations which are of more technical interest including the recommendation that the province be made a preferred creditor rather than a secured creditor with respect to sales tax not collected by a bankrupt vendor but for which he has been assessed. The point here is that taxes collected by a vendor are deemed to be trust funds and in the event of a bankruptcy, the province is given a lien and charge on all the assets of the vendor to secure the trust funds. Where an assessment is levied against a taxpayer, the Act deems that the tax has been collected by the vendor. As a result, funds which the vendor never had are considered to be held by him in trust and the lien is given to the provincial government in respect of these assets. The issue in this area is not whether the vendor is fairly dealt with but rather it is the unfair treatment of other creditors whose security for their debts may be pre-empted by the province.

The Committee has also recommended that the provisions in the *Retail Sales Tax Act* giving the Comptroller authority to determine the fair value of taxable property be repealed. While no one apparently made representations to the

Committee that the Comptroller had ever abused the authority granted to him under the Act, the Committee took the view it would be preferable in cases of dispute to have the fair value of property determined by the courts.

The definition of "use" in the *Retail Sales Tax Act* includes the storage of goods in Ontario. The wording in the Act appears to have a few technical faults and the Committee has recommended that the definition of "use" be changed to exclude storage of goods that are held for resale rather than just the exclusion of storage of goods that are held for sale at a retail sale or for subsequent shipment outside the province.

The Committee has recommended that the present deposit or bond of 3% of the total contract price required of non-resident contractors carrying out a contract in Ontario be revised to relate more closely to the portion of construction contract prices ordinarily represented by sales tax.

The Committee has also recommended that the definition of "non-resident contractors" be changed to exclude corporations that are incorporated in Ontario. Under the present wording in the Act it would appear that a new corporation incorporated in Ontario and resident in Ontario would nevertheless be regarded as a non-resident contractor during its first 12 months of operation.

The Committee considered the taxation of rented property. Under the present Act and Regulations rentals for tangible personal property are discounted for tax purposes depending upon the length of time of the lease. The partial exemption of lease payments would no longer be fully justified if services became taxable under the Act and the Committee has therefore recommended that rentals of tangible personal property be taxable except on the amounts provided therein for (a) property and services on which the lessor was subject to tax, and (b) interest and other financing costs.

The Committee considered interprovincial relationships with respect to the collection of retail sales taxes and recommended that the government of Ontario negotiate with the other provincial governments to establish more effective means of collecting sales tax on goods sold in one province that are delivered to customers in another province.

In order to avoid or reduce the leakage that now occurs on imported goods where the purchase or importation of the goods is not reported to the Comptroller, the Committee recommended that the government of Ontario, together with other provincial governments, negotiate with the federal government to obtain its agreement to collect, on behalf of the provinces, provincial sales tax on the importation of goods into Canada.

Finally, the Committee has considered the administration of the retail sales tax and, in particular, the effectiveness of the audit staff. It noted the enormous improvement in the quality of audits in recent years and also the substantial increase in the number of auditors. However, it noted that the number of auditors was still somewhat below the number that might be required to give a suitable coverage to the 138,000 accounts in Ontario and therefore recommended that the audit staff be enlarged sufficiently to ensure an adequate enforcement program. In this connection it might be noted that the Committee has recommended that the period covered by an assessment should be reduced to two years under the *Retail Sales Tax Act* and a number of similar statutes where vendors of products are made responsible for collecting a tax on behalf of the provincial government. At the present time there is no time limit on the period during which assessment may be made and this can result in very large liabilities to vendors if they have made errors in collecting the tax. The Committee's recommendation is that statutory provision be made for the regular audit of agents who collect taxes, and that, except

in cases of misrepresentation, fraud, or failure to remit taxes collected, assessments for unpaid tax, together with interest, be limited to the two-year period before the audit, but that interest continue to run thereafter until taxes assessed are paid.

General Comments

Before proceeding to make any specific comments about the recommendations put forward by the Committee for changes in the structure in the Ontario *Retail Sales Tax Act,* I should first of all state that I am in general agreement with the recommendations which the Committee has made. There are, of course, a number of areas on which I have minor disagreements with the Committee's recommendations but taken as a whole, the recommendations they have made, if accepted by the government, would make a vast improvement in the structure of the present sales tax legislation. The Committee has gone some distance towards reducing some of the troublesome areas of exemptions. Unfortunately, as we shall see, some of their recommendations, if implemented, could give rise to new administrative difficulties, although how serious these would be, is difficult to say. I think it is important, however, to emphasize that any disagreements I have with the Committee's recommendations are relatively minor and the criticisms which I have proposed to make do not constitute a serious disagreement with the Committee's position.

Areas Not Covered

There are a number of problems under the present legislation which I had hoped would be covered by recommendations made by the Committee. There are four major areas which might be mentioned, including:

(1) taxation of the same goods by more than one province;

(2) taxation of goods when transferred between related corporations;

(3) the impossibility of taxing casual transactions between individuals; and

(4) the difficulty facing vendors who face bad debts in respect of the tax.

While the Committee dealt with the problem of the leakage in the tax occurring because of out-of-province purchases, it did not deal with the converse situation where tax is paid in respect of the same article to more than one province. In some areas interprovincial agreements have been worked out, for example, in the case of trucks used in interprovincial trade. While the system is not perfect and is still evolving, each of the agreeing provinces takes tax only on that portion of the value of equipment represented by use inside the province. In addition, settlers' effects are generally exempt and therefore there is no significant problem of double taxation here.

For many types of contractors, however, serious inequities can arise if the equipment is used in more than one province. Similar problems arise with every type of equipment which is moveable from place to place. The theoretically correct solution would be for the province which had gained the tax in the first instance to make a refund of the tax based on the value remaining at the time the goods were exported and for the import province to levy its tax on that same value. Administratively this is not sensible and it is probably easier to exempt such equipment in the province of import provided tax has previously been paid to some province.

I had hoped that the Committee would make recommendations to overcome the somewhat anomolous situation which can arise in the transfer of property between related corporations or between corporations and their shareholders at the

formation of the corporation, etc. Regulation 19 sets out rules for determining whether the transfer between related companies is taxable or non-taxable. In general, property may be transferred once between the parent and the subsidiary or between two subsidiaries of the same parent without any tax being payable. The next transfer however would be taxable because the transferring company would not have paid the tax and hence would not qualify under the terms of the Regulations. Similarly, transfers between a parent and a subsubsidiary would also be taxable.

I have never been convinced that there is a good reason for what I consider to be undue restrictiveness in this Regulation. There does not seem to be any good reason for failing to exempt sales of tax-paid goods between related companies. There is, of course, the possibility of abuse of such a blanket exemption through its use by subsidiary corporations to transfer assets in arm's-length transactions without payment of the tax. It should be pointed out however that this is possible now and it does not seem that the restrictiveness of Regulation 19 is justified on the grounds of possible abuses.

The Committee did not mention the difficulty which arises out of attempts by provincial tax authorities to collect tax on casual transactions within its borders. The Committee did consider the question of taxation of gifts and transfers for inadequate consideration between individuals and recommend that these be wholly exempted from tax as opposed to the rather more limited exemption now available. In my view, the Committee should have gone further and exempted casual transactions between individuals of used goods as long as neither of the individuals was dealing in the particular goods. Thus, neighbour to neighbour sales of furniture and other chattels would not be subject to retail sales tax.

There is a theoretical justification for such an exemption in that tax will already have been paid on the goods in the first instance by the person selling the goods and there seems to be no good reason to impose tax on the same goods again simply because of a transfer to a second (or third) owner. Since the tax cannot be collected in any event, such a provision would merely be giving statutory recognition to what already occurs.

An argument against this proposal can be made on the grounds that it would discriminate against dealers in used articles who would be required to collect the tax, whereas similar goods sold by non-dealers would not be taxable. While I have some sympathy with this argument in theory, I do not think that the imposition of tax on goods sold by a dealer would be likely to make it more difficult for the dealer to carry on business. As I have previously stated, exempting casual sales between individuals not engaged in trade in the articles concerned would simply give recognition to what is already a fact.

It would probably however be desirable to continue to tax casual transactions in automobiles and boats, both of which are subject to licensing and under which the tax can be collected by the provincial authorities. In passing, it might be mentioned that there is a theoretical argument for not taxing even automobiles and boats where they are transferred in a casual transaction but the revenue loss through exempting these items would be fairly substantial.

The Committee did not comment on the problem facing vendors who are unable to collect the retail sales tax. This occurs whenever a vendor sells goods on credit and is unable to recover either the price of the goods or the sales tax. This question may be looked at in two ways. The first way is to consider that the vendor, by granting credit terms to his customer, is advancing to his customer at his own choice an amount equivalent to the retail sales tax; the vendor, who has made a loan to his customer, should be the one to suffer in the event the account is not paid. Another way of looking at the problem is to recognize that it is unrealistic to assume that the tax can always be collected in cash at the time a sale is made or that all sales will be made C.O.D. In my view it is unnecessarily harsh to hold the vendor responsible for tax which he cannot collect and the province should hold the purchaser responsible in the event he does not pay the tax to the vendor.

I recognize that this would complicate the administration of the tax from the point of view of the government but, in my view, this complication would be warranted by the removal of an unfair penalty placed on vendors who, in addition to losing their equity in the sale through a bad debt, are also required to pay a penalty in the form of the tax. As the rate of tax edges upwards the degree of unfairness in this provision becomes greater and the problems facing vendors will become even larger.

Other Comments on Specific Recommendations

Other members of this panel will be dealing with a number of the specific recommendations made by the Committee and I do not propose to cover the same ground. There are, however, one or two areas on which I think comment should be made, mainly relating to the difficulties arising out of the Committee's recommendation that advertising costs should be exempt but that books, magazines, periodicals, etc. should be taxable.

The Committee has recommended the repeal of exemption for books, magazines, periodicals and religious and educational publications. The Committee pointed out that the reading of educational books and magazines is socially desirable but indicated some difficulty in putting publications such as the James Bond adventure stories or current issues of *Playboy* on the same level as Boswell's *Life of Johnson*. (It might be noted that there are other publications far less worthy than *Playboy* to which odious comparison might have been made.)

The Committee may have overlooked some difficulties in attempting to tax various periodicals; many of these do not originate in Canada, and hence taxation cannot be enforced. Barring some statutory provision which would prevent the entry into Canada of magazines published outside Ontario, unless the publisher voluntarily collected Ontario retail sales tax, the taxation of the vast bulk of magazines would be impractical. Most magazines offer subscriptions through the mail and it would be difficult to ensure that a subscriber to any magazine would pay the tax when purchasing a subscription through the mail. While subscription agencies within the province can be licensed as vendors and required to collect the tax, the effect of an imposition of tax on subscriptions sold by such agencies would be to eliminate their use by the purchasing public unless their subscription price were at least 5% below the price offered by the publisher directly. The same might be true of books which can be ordered directly from publishers outside the province. The natural effect then of the repeal of this exemption would be to discourage the publication of Canadian magazines and books and to encourage residents of Ontario to order their books and magazines from outside the province.

The Committee also recommended that advertising costs should not be made subject to sales tax since in many respects they are similar to producers' goods. A very significant advertising cost for many retail organizations is represented by catalogues or similar publications offering goods for sale to the public. At the present time the differentiation between the definition of a sales catalogue, which is exempt under the Ontario retail sales tax, and other forms of advertising or

catalogues, timetables, etc., which are not exempt, is somewhat difficult to draw. One might assume from the recommendation that the book exemption be repealed, that flyers, handbills, sales catalogues and every other form of publication distributed free to the public by a retail outlet advertising goods for sale, would become subject to tax. It would be patently unfair if some charge were not made with respect to newspaper supplements which are similar to flyers except for the name of the newspaper and a page number imprinted at the top of each page.

In my view the present definition of sales catalogues, pamphlets and handbills is sufficiently precise that these types of items could continue to be exempt from sales tax, thus avoiding an additional round of tax on a cost which is included in the sale price of the goods offered for sale.

Time does not permit me to comment on all of the areas of possible difficulty. My paper would not be complete, however, if I did not make some comment on the proposals to tax services. This is a recommendation with which I heartily agree. I have some concern however that the Committee may have underestimated the difficulties in collecting tax on some of the services it has recommended for taxation.

One obvious example is the suggestion that car parking charges should be subject to tax. Presumably the Committee did not intend to include in this category charges made by an apartment building for parking space or charges made by a local resident to his neighbour for the use of his garage. If the Committee had this kind of parking charge in mind I think that it has overlooked the obvious difficulty of discovering all persons who rent parking space and subjecting the charges to tax.

The same sort of difficulty also arises in the case of commercial parking lots for short-term parking. While it is easy enough to identify those major firms which rent downtown space for parking lot purposes, it is a good deal more difficult to identify all the casual lots which may be used to provide parking for sporting events, exhibitions, etc. Many of these are private property used only occasionally when some even in the community gives rise to a need for additional parking space. I foresee great difficulty in adequately policing this type of parking operation.

I am also slightly concerned about the addition of a few pennies to parking charges and the additional complication this will mean for the operators of parking facilities. While the handling of a tax of 1¢ or 2¢ on a transaction may be somewhat difficult in a retail store, it is nevertheless a manageable situation. In the case of a parking lot the difficulties of dealing with charges of 37¢ or 63¢, etc., may be much more difficult as a practical matter.

I might also point out that the proposal to tax installation, repair and maintenance charges with respect to tangible personal property, coupled with the proposal to exempt repair and maintenance of real property, could also give rise to some administrative problems. This would be apparent particularly in the area of differentiating between installation of tangible personal property which remains tangible personal property and installation of tangible personal property which, when installed, becomes real property. These are all soluble problems but it is well to recognize in advance that difficulties do exist.

Fortunately, if the Committee's proposals with respect to taxing services are implemented, Ontario will be able to draw on the experience of Manitoba which now subjects to the Manitoba sales tax many of the services mentioned by the Committee.

Conclusion

While I have outlined some difficulties in the proposals put forward for changes in the retail sales tax, and have indicated some other areas which I think deserve attention, I should like to state once again that in my view the proposals of the Committee are excellent and worthy of implementation. The Committee is to be congratulated on its study of the retail sales tax and it is my hope that the government will shortly take steps to implement many of the proposals made by the Committee.

Speaker: **W. M. Moffat**

Comptroller, S. S. Kresge Co. Ltd., Toronto

Retail Industry's Point of View

I have been asked to comment from the retail industry viewpoint on three particular aspects of the sales tax recommendations of the Ontario Committee on Taxation.

These are: the proposed change in the tax base; the proposed change in exemptions; and the proposed change in the administration of the tax. However, before dealing with my specifically allotted task, I would like to make the following general comments.

General Comment on Recommendations

With two major exceptions I believe the retail community will react quite favourably to the Committee's sales tax recommendations. One exception concerns the Committee's proposals for the treatment of remuneration to vendors. The Committee saw merit in the provision of such remuneration in the early years of the retail tax, but saw the need for such remuneration declining with each year that passed. Those of us in the retail industry, who know the real costs of collection of such a tax and extreme difficulty we would have in passing on these costs, can only assume that the Committee's conclusions on this problem were based more on conjecture than research.

Our other main criticism relates to the treatment of goods sold to distributors of merchandise for their business use. We believe that where practicable, they should be treated as tax-free in the same way as goods sold to manufacturers.

Change in the Tax Base

Small Sales

The Committee recommends that the present provision exempting all sales of less than 21¢ be amended to exempt sales of less than 11¢. The reduction of this figure is largely the result of the change in the tax rate to 5%, and is in line with the practice of other provinces. As far as retailers are concerned, there would not appear to be any difficulty in implementing this amendment, provided adequate notice to the public is given by the government.

Taxable Services

The Committee proposed that the *Retail Sales Tax Act* be amended to impose tax on an appropriate list of services, but *excluding* the following:

(a) educational, medical, dental, health, funeral and transportation services; (The combination of the last two items appears to be most appropriate.)

(b) services, the dominant use of which is made by business firms;

(c) repair and maintenance of real property; and

(d) services that cannot be conveniently taxed.

We, as retailers, believe many services should be taxed. Not only does the present exemption of most services favour expenditure made on services rather than on what J. K. Galbraith refers to as "artifacts", it injects an unnecessary regressive element into the sales tax base. High income groups make a greater proportionate use of services than do low income groups.

Taxpayers are not so naïvely optimistic that they would expect the broadening of the tax base arising from the taxation of services to bring about an actual reduction in the rate applying to the purchase of tangible personal property. At least, however, expansion of the tax base to services should obviate or postpone the necessity of increasing the sales tax rate.

Retailers would generally endorse the recommendation that the imposition of the tax be limited to those services which are primarily provided for individuals rather than businesses. To tax such services as legal fees, management consulting fees, etc., is obviously to introduce a new pyramiding effect into the tax base. Similarly, we would have no objection to the exemption of certain services to meet desirable social objectives, as in the case of medical, dental, funeral services, and public transportation, etc.

Exemptions

Food Products

The Committee recommends continuance of the exemption from the retail sales tax of all food products for human consumption, excluding prepared meals and alcoholic beverages.

The conclusion that there should be no differentiation between luxury and essential food supplies appears a sensible one; as the *Report* states, "If a loaf of plain white bread is basic, where is the line drawn as one considers raisin and egg loaves, melba toast and shortbreads." (Para. 53, p. 224.)

The Committee's conclusion here is that all edible foods, including candy and soft drinks, should be exempt. It proposes that other non-food edible products, such as patent medicines, should continue to be taxed, excepting prescription drugs and medicines. The extension of the food exemption to candy and soft drinks will be welcomed by retailers as a means of simplifying both administration and operation of the tax.

Meals

It is proposed that each commercially prepared meal sold for more than $1.50 be taxed regardless of the place where it is consumed. While this recommendation does solve some of the problems in the existing legislation, such as the treatment of drive-ins, it still leaves unanswered the very serious question regarding the desirability of taxing meals at such a low figure. It appears illogical that where food is considered to be an exempt item that it should be thought necessary to continue to tax meals. This is particularly important as most consumption of prepared meals is not considered to be a luxury, as it involves persons of all income brackets.

If the taxation of meals is considered politically desirable, it seems to us that the existing limit of $1.50 has been outdated by the passage of time and inflation, and a more appropriate limit of the exemption might be $2.50. A further difficulty has been pointed out by Professor Due regarding the definition of "meals", which requires clarification to cope with the problems created by prepared dishes (barbeque chicken, etc.) sold in conventional retail outlets.

Schools, Hospitals, Etc.

It is proposed that all exemptions of tangible personal property purchased by or for schools, hospitals, municipalities and others, be repealed. We as retailers endorse the concept that such exemptions should be replaced by appropriate compensating grants to the organizations concerned.

Books, Magazines, Etc.

It is proposed that the exemption of books, magazines, etc., be repealed. We would undoubtedly support the principle behind this recommendation. Retailers as collectors of the tax wish to see as few exemptions as possible in order that their collection responsibilities may be simplified to the greatest possible extent. However, we note in the preamble to the recommendation that the Committee appears to suggest that catalogues be treated as books. This seems to us to be quite an unreasonable proposition. Catalogues are, after all, exclusively advertisements and should be treated in the same way that the Committee proposes to deal with other forms of advertising expense.

Students' Supplies

It is proposed that the exemption of students' supplies be repealed. Retailers will generally endorse the concept of removing this exemption. The existing exemption does create confusion and provides some scope for evasion, because of the fact that many such supplies are used for purposes other than classroom use.

Rentals

The Committee recommends that rentals of tangible personal property be taxable except on the amounts provided therein for (a) property and services on which the lessor was subject to tax, and (b) interest and other financing costs. The difficulty of providing equitable tax treatment for both rentals and sales transactions has always been recognized by retailers. In the light of the Committee's proposed treatment of services the amendments to the taxation of rental agreements appears realistic.

Avoidance of Pyramiding and Double Application

As indicated in my earlier general comments, retailers believe that goods sold to distributors should be treated in the same way as goods sold to manufacturers. The Committee acknowledges the principle that where what it describes as "intermediate goods" are taxed, the tax is pyramided through the subsequent stages of production down to the final purchaser. It goes on to remark, however, that it is not administratively practical to make the exemption of intermediate or producers' goods complete. It points out that many currently taxed producers' goods are sold at retail to consumers as well as to producers, and that there would be great difficulty in distinguishing between the two types of purchases.

The Ontario provisions currently exempt machinery, apparatus and parts as defined by the Treasurer that in his opinion "are to be used by the purchaser thereof directly in the process of manufacture or production of tangible personal property for sale or use". As the Committee points out, the tendency in applying this provision and subsidiary regulations is to tax rather than to exempt. The Committee

suggests that the definition be expanded to include "laboratory testing equipment, machinery shop equipment, machinery repair and maintenance equipment, handling equipment for use during production process, small tools supplied employees without charge for use in production".

It is difficult to understand why the Committee did not recommend that goods used in the process of distribution be treated in the same way as goods used in the production process. The taxation of either introduces an undesirable element of pyramiding.

I believe retailers would concede that in many cases it would be adminstratively difficult to distinguish between goods sold for distributive purposes, and goods sold for consumption, just as this difficulty occurs in sales for production. In many other cases, however, there would be no confusion. What private citizen, for instance, buys a cash register, delivery truck or a display counter? This seems to be an unfortunate departure from the otherwise high quality of the Committee's *Report,* and one which, I can assure you, retailers will be discussing with the provincial government.

Administration of the Tax

Vendor's Commission

It is proposed that Ontario discontinue the payment of remuneration to vendors for the collection of the retail sales tax.

I am sure that all retailers will strongly oppose the recommended elimination of remuneration to vendors. The *Report* states: "When the tax was first introduced, it was no doubt reasonable to pay vendors for what was a new and frequently expensive operation in their businesses, but we do not consider this reason to have validity at the present time". (Para. 108, p. 240.) This conclusion ignores the facts that:

(a) payment of remuneration to vendors seems necessary for constitutional reasons to ensure that the tax is in fact a direct tax on the consumer;
(b) that the collection of tax is a continuing substantial expense to the vendor; and
(c) that failure to pay compensation will discriminate against retailers, if, as expected, the costs cannot be passed on in prices.

The single largest element in the collection costs is sales clerks' time involved in:

(a) making a determination of taxable and non-taxable categories;
(b) calculating the tax on the former and recording it;
(c) recording tax-exempt sales; and
(d) recording information regarding out-of-province sales.

Other expenses involved are: equipping new cash registers to register taxable sales; adjusting sales tax paid on returned merchandise; recording tax collected; compiling tax returns; determining tax payable; absorbing tax paid on goods sold on credit, in respect of which the vendor is unable to collect from the customer; and finally, occasionally incurring penalties for innocent errors.

The Retail Council of Canada recently made a sample survey of the cost of collecting sales tax. It was estimated that the cost to a large retailer represented 2.3% of his tax liability, as opposed to about 1% recovered from the Ontario government. Other studies by individual retailers and by various sections of the industry indicates that the cost of complying with the Act can vary anywhere from a minimum of 1½% to 6% of the retailer's tax liability, depending on his line of

business. This very wide range indicates a part of the difficulty in endeavouring to compensate the retailer for his actual cost, but this cannot be used as a justification for eliminating the existing level of compensation.

One of the prime arguments used to justify the elimination of the payment to vendors is that the retailer has the benefit of the use of sales tax collected for an average period of 38 days. In the case of retailers who do not extend credit, this benefit might be assumed to be worth 38/365ths of 6%, or .62% of the average tax on hand. In the case of retailers who do extend credit, about 40% to 50% of the benefit will be lost to them because of credit selling.

It is our belief that the scale of compensation should be increased—not reduced or eliminated. It is quite wrong to assume that the only substantial cost is that of equipping cash registers. The existing extensive use of productivity studies in the retail industry ensures that sales forces are scheduled so that their numbers are directly variable with the volume of business. If the time for completion of every transaction is increased even by only 15 or 20 seconds, the effect on the number of sales people required is substantial and the cost to collectors is a very real one.

Audit Staff

It is proposed that the retail sales tax audit staff be enlarged sufficiently to ensure an adequate enforcement program.

One of the most important elements in the successful collection of the sales tax is an adequate audit program to ensure that tax is collected and reported on an equitable basis. As retailers, we agree with this concept both to ensure that the maximum yield will be provided by the tax, and to ensure the peace of mind of collectors.

Conclusion

I think you will have observed from my various comments that on the whole the Smith Committee's recommendations seem to be quite close to the position adopted by the retail industry on the subject. However, in concluding, I would like to repeat our chief areas of criticism.

1. The proposal that no remuneration be paid to retailers for the duties as tax collectors.
2. The Committee's failure to suggest that goods consumed by distributors be treated as tax-free.
3. The suggestion that catalogues be classified as books, having in mind that books are included in the proposed taxable category.

Speaker: **Kenyon E. Poole**

Department of Economics, Northwestern University, Chicago

Economic and Equity Considerations[1]

The frame of reference of this paper is "The Economic Significance and Implications of the Sales Tax Proposals of the Ontario Committee on Taxation". Since the present speaker is virtually in full agreement with the analysis and recommendations of the Committee, his contribution must lie in concentrating

[1] The present paper has been written in the light of the continuing debate over the role of sales taxation in a provincial or state tax system during the period since the author's Submission to the Ontario Tax Committee entitled *Sales Tax Economics.*

attention on points which, because of lack of space, the Committee was forced to deal with summarily, or which provide a basis for relatively minor disagreement. The disagreement occurs with respect to the role of the retail sales tax in the quest for a socially acceptable distribution of income; and the "extension of remarks" relates to the dynamic aspects of sales taxation—specifically to the problems of incidence and the relation of the sales tax to the inflationary process. Since a commentator necessarily devotes his time primarily to matter on which he can make independent comment, it may appear in what follows that the areas of disagreement are more extensive than is in fact the case. This should be properly discounted.

A few remarks will also be made about the role of sales taxation in the armoury of weapons at the disposal of the policy-maker who is interested in the problems of stable economic growth. Although this can hardly be the concern of a Canadian province or an American state, the economic significance of sales taxation can be more fully appreciated in the light of the use made of this tax at the national level. This is particularly the case in view of the stress placed on the stabilization role of sales taxation by the *Report of the Royal Commission on Taxation,* coupled with its recommendations (mentioned below) with respect to the method of sharing responsibility for the sales tax between the federal and provincial governments.

Economic Effects of Sales Taxation

The best place at which to start seems to be a brief summary of the Committee's conclusions on the economic effects of sales taxation. This will be followed by an abstract of the Royal Commission's conclusions on the sales tax from the national point of view.

The retail sales tax is discussed in Volume III, Chapter 29,[2] of the Committee's *Report.* The Committee's views on the economic effects of the Ontario retail sales tax are summarized in paragraphs 122—127, as follows.

The tax is largely borne by consumers in proportion to their expenditures on taxed items, and the burden is approximately proportional to family income. It should be noted that the distribution becomes open-ended at the comparatively low level of $10,000 of family income, although this includes the bulk of family income. The lack of statistics does, however, conceal the fact that very high income receivers pay a very small proportion of their incomes in sales tax, a fact which is amply stressed in the text of the *Report.* The Committee accepts the principle that food should continue to be exempt from tax. If this is done, the burden of the tax is found to be reasonably satisfactorily distributed. The view shared by almost all observers is that while the total tax system should be progressive (how progressive is a matter to be determined), it is acknowledged that this must be accomplished through the use of other taxes. A basic element in the Committee's position for purposes of the present paper is its acceptance of the view that "at the present rate of 5%, the amended tax is unlikely to cause any widespread undesirable economic effects" (para. 123). A powerful argument in favour of retention of the Ontario sales tax is found in the Committee's view that tax-induced distortions in the distribution (and level) of resource use are maximized when only one or two taxes have to bear the brunt of the production of revenues. The Committee therefore prefers the use of a number of different taxes, each imposed at relatively low rates, over the use of one or two taxes at high rates. Therefore it believes that "when additional provincial revenues are needed, it seems reasonable to use an expenditure-based tax" (para. 124), and the retail sales tax is held to be the best of the class. In order to avoid discouragement to production it is argued that the

[2] Unless otherwise indicated, quotations from the *Report* included in this paper, are from Chapter 29 of Volume III.

exemption of producer goods should be broadened wherever administratively feasible. Finally, consumer services should be included wherever possible, both on grounds of equity and because a broader base permits growth in revenues while minimizing pressure for higher rates of tax.

In order to assess the Committee's views on the economic effects of the sales tax as recommended for use in Ontario, it may be well first to review the sales tax recommendations made by the Royal Commission on Taxation. Chapter 27 of that *Report* summarizes its views on the economic effects of sales taxes. The burden is held to be borne by consumers, and since ability to pay can only be taken into account via taxes on income, the sales tax is regarded as basically inequitable. The inequity could be reduced through exemption of "necessities" or by a credit against personal income tax liabilities for sales taxes paid. At any rate, it is not recommended that sales taxation at the federal level be abolished, and this for three reasons: (1) a sales tax can be made non-regressive, (2) it is not desirable or feasible to propose income tax rates high enough to yield the revenues now produced by the income and manufacturer's sales tax combined, and (3) there is a gain in flexibility if the national government retains a sales tax even though part of it is moved into provincial hands.

The Royal Commission *Report* takes the position that "the provinces seem to be particularly well suited to act as the collection agency for sales taxes", both for themselves and for the federal government. A major reason for advocating retention by the national government of the retail sales tax is the necessity "to impose special temporary excise taxes on certain broad classes of goods, such as consumer durables, to reduce private demand for them" during periods of "incipient inflation" (Vol. 5, p. 5). Again, the *Report* urges that the federal government be able "to veto a sales tax change proposed by one province that would beggar neighbouring provinces". A "rough and ready" way to reduce the regressivity of the sales tax would be to exempt food, shelter, and producer goods, and the "relative weight of sales taxes in the revenue mix" could be gradually reduced. Furthermore, a system of refundable credits against personal income tax liabilities could be used to replace exemptions.

The use of sales taxes as a prominent feature of the tax system aimed at stimulating saving (and therefore, at full employment, investment and the growth rate) is rejected on the ground that there are better ways of encouraging saving. The Commission prefers (Vol. 2, p. 179) allowing a deduction of specific forms of saving from gross income in determining taxable income, while restricting the extent to which such deductions are available to the higher income groups. It is recognized that it is unclear how far this will stimulate a *net* addition to savings. Attention is also called to the alternative method of stimulating saving through accelerated depreciation or an investment credit, with the tax saving to the higher income groups offset through higher rates of personal income tax. It may be parenthetically remarked that this device would produce a horizontal inequity as between those higher income receivers (stockholders) benefiting from the investment credit and accelerated depreciation and similar income and wealth groups deriving their incomes from sources not benefiting from this tax advantage.

Equity Considerations

We turn now to an evaluation of the Ontario Committee's views on the economic effects of the sales tax, first considering the question of equity. At the risk of appearing unappreciative of the injury that can be done to the economic welfare of the lowest income groups, the present speaker recommended in his submission to the Committee that food, children's clothing, and shelter be included in the tax base. The fact that there is precedent for taxing sales of food (for example under the Illinois Retailers' Occupation Tax) does not, of course, establish

a case for eliminating the exemption. Nevertheless it is believed that under the proper assumptions a case can indeed be made. Both the Royal Commission *Report* and that of the Ontario Tax Committee clearly recognize that the equity aspect of taxation ought not to be considered in terms of a particular tax. It is the distribution of the burden of the entire tax system, not that of a particular tax, that must be taken into account. Moreover, certain types of government spending benefit some income groups more than others. Therefore, if public goods and welfare expenditures, of benefit primarily to the lower income groups, cannot, because of disincentive effects on output and employment, be financed by the personal income rather than the sales tax, it seems to the writer that the sales tax is to be regarded as a form of benefit tax and should be disregarded in the question of the distribution of the tax burden by income size. A study along these lines might well be undertaken to estimate the amounts to be excluded in estimates of tax burden distributions.

The loss of revenue through the exemption of food is very great. The Committee concedes (para. 53) that no less than 40% is sacrificed, and of course the exemption of other day-to-day consumption expenditures regarded as vital to subsistence would increase this percentage still further. The case for exemption of heavy expenditures that strike a family catastrophically but sporadically is of course much greater than that for exempting continuous expenditures. For this reason the Committee's comparison of the present Ontario sales tax rate with that of 1.6% (para. 52) on the assumption of *no* exemptions admittedly over-states the extent to which undesirable economic effects could be minimized through rate reduction. Yet (still focusing attention on equity aspects) the reduction of the rate from 5% to, say, 3% and the inclusion of food in the base, would eliminate considerable force from the charge that the tax was substantially burdening the lowest income groups in an *absolute* sense. Certainly with a low rate of tax its distribution effects might be disregarded, and the possibility should be considered of providing subsidies to those with incomes below the socially acceptable level. The negative income tax, much discussed in the United States, might be a solution.

A reduction of the rate to 3% would not, however, escape the charge that the tax was regressive. What can be said in response? One reason for advocating the inclusion of food in the sales tax base is simply that far and away the majority of families enjoy a real income high enough to permit them to bear the tax. By differing on definitions various investigators would undoubtedly reach divergent conclusions as to what proportion of total food consumption is received by non-subsistence families, but in a prosperous industrial economy the proportion is certainly high. An exemption that includes non-subsistence food spending suffers from the defect inherent in all blanket measures, and in this case the effect is serious. In order to avoid an unjust burden on comparatively few families an exemption is being provided to millions of families quite able to pay, much of whose spending on food is in fact luxury spending. Strenuous efforts should be made to evolve a better system than the food exemption for safeguarding the welfare of low income receivers.

The above discussion emphasizes high average family real income as an argument in favour of retaining expendtiures on food in the sales tax base. The view is reinforced when we consider the problems involved in defining "food" in a highly dynamic economy. Engel's law states that food, along with other priority elements of family consumption, becomes a smaller proportion of income as income rises. While the conclusion is not subject to debate, it does stand in need of some qualification. Expenditure on food has risen secularly as the housewife has responded to the producers' efforts to improve product. Upgrading of quality of product constantly occurs in connection with improved efficiency of transport, better packaging, and more efficient and cheaper refrigeration, together with the transfer

of inputs from the home to the factory, which thus become part of value added. Families can now obtain foods throughout the year that once were available only seasonally, and residence in remote locations involves far less sacrifice in variety and quality than once was the case.

There is, however, no particular logic in tying this rise in socially acceptable standards of food consumption to a food exemption under the sales tax. The rise in the cost of the food budget caused by the change (upgrading) of the definition of "food" surely far outweighs the rise in cost attributable to a 5% sales tax. Furthermore—a point separate from that made earlier with respect to a sales tax as a benefit tax—the cost of food production has been reduced by the expenditure of a not inconsiderable part of the proceeds of the sales tax on the creation of public capital. The provision of improved highway facilities, police and fire protection, and enhanced educational standards, is no different in an economic sense from the costs of improved private inputs. If the consumer can bear the one in the price he pays for product, why not the other? Indeed, a portion of these public expenditures, as stated above, actually reduces the cost of bringing food to the family and thereby generates taxpaying capacity at all above-subsistence levels of income. None of this argument is intended to minimize the importance of ensuring socially acceptable real incomes to all families. But there seems little point in ignoring the cost of government factor inputs that have to be paid for in a production and distribution system that weights heavily the contribution of government.

It is very important, in assessing the above arguments, to remember that nothing that has been said relates to the overall progressivity of the tax system. A part of the sales tax is viewed here as a benefit tax, just as the prices of goods and services in the private market are in a sense "benefit taxes". Other taxes are available to redistribute income to the low income groups, who cannot finance the minimum socially acceptable benefits. The individual income tax does not have to do the job alone. Highly progressive inheritance taxes, or a progressive net wealth tax, or both, could be enlisted to finance, among their other functions, the subsidies needed to enable the lowest income groups to pay sales tax on non-exempted food. Indeed, the problem is not to save them the 5% sales tax, but to fill the entire gap between their incomes and the minimum socially acceptable level.[3] For the tax system as a whole, it is concluded, the loss of sales tax on food from those able to pay can be avoided, while at the same time the lowest income groups can be reimbursed for the tax they pay on subsistence food through funds made available from income, inheritance, or net worth tax levies on the higher income groups and graduated in any way we like.

In passing, it may be remarked that there is nothing in the above view that violates the spirit of either the Ontario Tax Committee's recommendations or those of the Royal Commission. On page 260, Volume 2 of the latter's *Report* it is noted that in Canada the average family with an income below $10,000 receives a net benefit of about 13% of its comprehensive income, while the average family with an income of $10,000 or more makes a net contribution equal to about 9% of its comprehensive income. The *Report* finds (p. 256) that the distribution of fiscal incidence (the distribution of effective expenditure rates minus the distribution of effective tax rates, by income class) or, in other words, the net benefits or burdens from the expenditure and tax structures, "is clearly favourable to the lower income brackets." But the *Report* goes on to say (p. 261) that an equitable fiscal system cannot be achieved by reducing the progressiveness of the tax system and substitut-

[3] The importance of not neglecting the non-tax aspects of the effect of the cost of food on the distribution of income is illustrated by a phenomenon that has been the subject of severe criticism in the United States. This is the unfair "tax" on food that occurs in extensive areas occupied by poor families, who cannot easily avoid excessive prices and inferior quality by trading outside of the area. They simply do not get their money's worth. Perhaps a system of government grocery stores, operating under controlled price schedules, is the solution.

ing a more progressive allocation of benefits. The same position is adopted, by implication, in the Ontario Committee's *Report,* and it is one that is entirely acceptable to economists in general. But it does not follow that the sales tax ought to be provided with any particular degree of progressivity. We are interested in the tax system as a whole, not in a particular tax. Indeed, one ought to go farther. No report devoted to fiscal matters alone is adapted to dealing with the problem of the distribution of income. The Royal Commission *Report* recognizes part of the problem (Vol. 2, p. 272, Recommendation 8) when it asks for a study "of the whole question of redistribution with terms of reference broad enough to allow consideration to be given to all existing transfer payment programmes". The device of the negative income tax is mentioned, among others.

More than this is needed, however. The terms of reference need to encompass the determinants of pre-tax distribution of income and wealth, not indeed to serve as an argument to narrow differences in income justified by economic performance, but to eliminate injustices that cannot be remedied by either the tax structure or the structure of government transfer or resource-using expenditure programs. Failing this, it ought to be recognized that excessive attention to the sales tax is tantamount to drawing a "red herring" across the path of the total issue of the distribution of income and wealth. Indeed, the necessity of undertaking a complete reappraisal of what is being done in Canada to redistribute income is strongly emphasized (p. 263). It is obvious that the position adopted by Ontario on this subject should be a part of the overall national stance.

Effect on Economic Growth

Let us now consider the second class of economic effects mentioned at the beginning of this paper. The Ontario Tax Committee rightly cuts through many of the qualifications in the theory of tax shifting in accepting the view that the sales tax is largely borne by consumers in proportion to their spending on taxed goods and services. But it may be helpful to look further into some aspects of the dynamics of sales taxes as these also affect growth and stability, and, through the latter, the pre-tax level and distribution of real net national product.

The economic effects of sales taxes are discussed (paras. 38ff) by the Committee. A question of great importance is the impact of the sales tax on consumption-saving ratio. Some discussions of this question fail to take adequate account of the impact of a tax on public saving, concentrating attention primarily on private saving. In paragraph 44 of the Committee's *Report* this error is deftly avoided. Thus: ". . . if changes in government spending are not considered, the impact of a sales tax on consumption and saving is not clear." The Royal Commission's *Report* likewise recognizes the role of public saving (Vol. 2, p. 178, "Conclusions and Recommendations", 20ff). It points out that a surplus in the budget permits an increase in the rate of capital formation "by more than the increase in private saving without inflation . . ." The *Report* goes on to say (Conclusion 22) that if the sales tax were given more weight in the tax system, and income tax progression were correspondingly reduced, the latter would have only a modest effect in stimulating saving, while the former would be "unlikely to have a dramatic effect on the rate of saving . . ." Both *Reports* appear to be agreed, therefore, that the major role of any tax, including the sales tax, in stimulating saving (and therefore also investment, provided the savings are laglessly borrowed and devoted to the purchase of capital goods) is by way of the budget surplus that may be attributable to the use of the particular tax.

The Ontario Committee alludes also (para. 45) to the argument that the sales tax may cause "a shift away from consumer goods and toward production goods because only consumer goods are taxable". This view assumes a degree of substitutability between consumer and production goods that is of doubtful validity. If passenger cars are subject to an increased rate of sales tax, will this result in an increased demand for the tools that are used to produce them? More generally, if all retail goods sold to consumers are taxed, will demand shift to the goods that produce them? The answer seems to be that it will only under very restrictive assumptions, not likely to be realized in practice. In the first place, consumers must have no way to recoup the sales tax in whole or in part through wage increases via cost-of-living clauses in labour or other contracts. Even in the absence of such a provision, consumers must have relatively small amounts of liquid assets, as well as little desire to use them to maintain levels of living. Monetary policy would have to be relatively restrictive, particularly with respect to consumer credit.

Finally, as stated above, there would have to be some reason to substitute output of producers' goods for that of consumers' goods. This is largely a matter of the technical optimum and one would suppose that the system of production would have reached the optimum before the tax was imposed. However, it can be conceded that the change in the terms of trade between consumer and producer goods might make profitable production methods at earlier stages that had hitherto been held in abeyance. We conclude, however, that this assumes (1) a high degree of flexibility in the production process, (2) substantial price effects produced by small marginal tax changes, and (3) (if we consider low rate general sales taxes rather than high rate selective excises) a very general absence of frictions and immobilities.

If it is agreed that the major effect of the tax system on aggregate saving is by way of its effect on budgetary balance and thus *public* saving, what role does the retail sales tax play? We have argued above that to the extent that the introduction of a sales tax, or a rise in its rate, extends the limits of taxable capacity, thus permitting the provinces or states to undertake capital projects otherwise impossible to them, the impact of the tax on saving and investment is immediately visible. But this is on the assumption that *private* saving is not reduced by part or all of the increase in public saving. Short of an empirical study, nothing more can be said, for the impact of a rise in the retail sales tax rate on the average propensity to save of the economy as a whole will depend on the proportion of consumption spending that is done respectively by (1) the "subsistence" groups (whose pre-tax income must somehow be raised to finance their additional tax liability); (2) the middle income groups, who respond to the tax by cutting back both consumption spending and saving; and (3) the higher income groups, who reduce saving by the amount of the tax and consumption not at all.

One more point to be made. To the extent that saving takes the form of a budgetary surplus produced by a rise in the rate of the retail sales tax there is no doubt that the proceeds will be fed back into the income stream. Therefore if the public projects made possible by the rise in tax receipts are sensibly planned, a contribution will be made to balanced public and private investment and growth, and therefore to productivity. This desirable property would not necessarily be shared by an increase in private saving caused by a shift from income to sales taxation. For the private sector would need assurance that the new investment would be profitable. Because of this we may perhaps take consolation in the fact that the major effect on saving of a tax on consumption expenditure may be expected to occur with respect to public rather than private saving.

Effect on Stability

Finally, what can be said of the role of sales taxation in the quest for economic stability? The broad-gauged view adopted by the Ontario Committee on Taxation is illustrated by the following quotation from paragraph 47:

The income tax is also more responsive than the sales tax because national income fluctuations are greater than the fluctuations in expenditures. This responsiveness of tax yields to the changes in economic activity is a virtue in that it acts as an automatic stabilizer of the economy. In this connection, we have argued earlier that although the responsibility for economic stabilization has hitherto rested mainly with the federal government, the increasing use by the provinces of their fiscal powers makes it imperative that effective provincial action be undertaken in this area, if the nation's broad economic objectives are to be achieved. It is nevertheless true that from the standpoint of a stable yield, the sales tax is superior to the personal income tax and that it therefore represents a highly desirable component of the provincial tax system.

Both the individual income tax and the sales tax possess the built-in flexibility characteristics that put an automatic brake on both downswings and upswings in business activity. In addition, through discretionary changes in rates additional stabilizing effects can be produced. But the latter are less sure than the former, as far as the sales tax is concerned, because of the dynamic consequences that they are likely to set in motion.

These consequences are largely concerned with the effect of a change in sales tax rates on pre-tax incomes. Individuals have a good deal more power to obtain increases in pre-tax income in response to a rise in the retail sales tax rate than they do when individual income tax rates (for example, withholding taxes) are increased. Sales taxes may be included in part or in whole in a consumer price index used to activate wage or other escalator contracts. If the private sector is in possession of large amounts of liquid assets, or if monetary policy is relatively easy, the basis is provided for cost-push inflation. This development can, of course, eliminate the anti-inflationary effect of the sales tax.

The extent to which sales taxation would contribute to inflation would be greatly increased if public opinion were to compel the extension of escalators to insurance contracts, social security benefits, rents, bonds, and the like. This is of importance in evaluating the Royal Commission's recommendation that the federal government should not withdraw entirely from sales taxation, but should be in a position under the threat of inflation to impose special excise taxes, especially on consumer durables, to reduce private demand (Vol. 5, pp. 4-5). This device is known to be effective during time of war, when wages and prices are subject to far-reaching controls. It would be of doubtful utility, however, in a period of inflationary pressure engendered by private or non-military government spending. The reason is that in the absence of controls wage rates and prices respond readily to inflationary pressures. Even if one rejects the importance of *pure* cost-push inflation the inflation-inhibiting power of sales taxes in this mixed situation is likely to be relatively small. Indeed, France has used the device of *reducing* sales rates in these circumstances in order to reduce pressure on the cost-of-living index, and thus in escalated increases in wages and other money incomes and forms of wealth couched in money terms.

In conclusion, it should be repeated that the present commentator finds himself in essential agreement with the Committee's views on the economic effects of a retail sales tax, as well as with its preference for this tax over alternative forms of taxes on spending, such as the turnover, early stage, or value-added taxes.

The Tax Mix

Chairman: C. Roger Archibald
Speakers: John R. Allan
Claude E. Forget
Jacques Henry
Roger P. Mendels

Chairman: **C. Roger Archibald, Q.C.**
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The Role of Commodity Taxes in the Ontario Tax Structure

The concern of this paper is the appropriateness of the role of commodity taxes under the existing Ontario tax structure and under that proposed by the Ontario Committee on Taxation. In assessing this role, the relative contribution made by these taxes to provincial tax revenue is first noted, and the impact of the recommendations of the Committee upon this contribution is examined. A cursory comparison is then made of the importance of commodity taxes in Ontario with their importance in the other Canadian provinces, and in the United States. Attention is then turned to the argument in favour of the use of the consumption tax base, and an attempt is made to assess the extent of usage proposed by the Committee. Finally, before concluding, some consideration is given to the desirability of permitting a sales tax credit against the provincial personal income tax.

Significance of Commodity Taxes

At the present time, the commodity taxes utilized by the province of Ontario account for approximately 43.8% of the tax revenue of the province.[1] If the recommendations of the Committee are implemented, their most significant effect upon these taxes would be to broaden the base of the retail sales tax by the following means:

1. a reformation and curtailment of the exemptions permitted under the tax (Ch. 29, *passim.*)[2];

[1] This estimate is based upon data presented in *Provincial Finances, 1967* (Toronto: Canadian Tax Foundation, 1967), p. 24. The taxes included are the retail sales tax, the hospitals tax, the fuel taxes, the tobacco tax, and the security and land transfer taxes.

[2] The numbers in parentheses refer to the relevant chapter and paragraph in the *Report, Ontario Committee on Taxation,* 1967.

2. the inclusion in the tax base of an appropriate list of services (29:93);

3. the extension of the tax to gasoline and other motive fuels, on a price basis that includes any fuel tax that is applicable (30:21);

4. the repeal of the *Hospitals Tax Act,* and the taxation of all expenditures on amusements and entertainment under the retail sales tax (31:32); and

5. the abolition of both the security and land transfer taxes, the commissions charged by security dealers and brokers and real estate agents to be subject to the retail sales tax (31:61 and 71).

Had these recommendations been in effect for fiscal year 1966-67, they would have raised the share of total tax revenue accounted for by commodity taxes to 47.9%, that is, by something of the order of 4.1 percentage points.[3] Since a change of this order of magnitude is not very significant, it is apparent that the Committee feels that the role of commodity taxes in the present tax structure of the province is not inappropriate. In consequence, the efforts of the Committee in this area have been directed primarily at improving the province's commodity taxes, rather than at changing, in any significant sense, their relative importance.

There are several ways in which the role of commodity taxes may be appraised. For example, if one accepts the premise that there should be some reliance in a provincial tax structure upon commodity taxes, it is then possible to inquire if the degree of dependence settled upon by the Committee is significantly out of line with the practice of other provinces or, in the U.S. setting, states. This line of inquiry is pursued in Table 1, where the percentage contribution of the principal commodity taxes to the tax revenues of the provinces is set forth.[4]

Table 1

PERCENTAGE CONTRIBUTION OF COMMODITY TAXES TO TOTAL TAX REVENUE BY PROVINCE, 1966-67

(per cent)

Newfoundland	67.7
Prince Edward Island	76.0
Nova Scotia	64.5
New Brunswick	65.8
Quebec	49.1
Ontario	43.2
Manitoba	41.0
Saskatchewan	53.5
Alberta	35.5
British Columbia	54.8
Average, all provinces	47.5

Source: *Provincial Finances,* 1967, p. 24.

It is apparent from the table that in its reliance upon commodity taxation Ontario is surpassed by all of the other provinces, with the exception only of Alberta and Manitoba. In addition, the Ontario figure of 43.2% is significantly lower than the corresponding average for the United States, which is approximately 50.0%.[5] While data of this sort may suggest that Ontario is not guilty of an undue

[3] This estimate of the increased importance of commodity taxes under the recommendations is based upon Table 8:2, *Report,* Vol. I, p. 265.

[4] It should be noted that the security and land transfer taxes which were included in the earlier discussion are omitted from consideration in Table 1.

[5] See George F. Break, *Intergovernmental Fiscal Relations in the United States.* (Washington, The Brookings Institution, 1966), Table 1-7, p. 8.

reliance upon commodity taxation, it is hardly convincing. The several provincial economies differ one from another in various ways, and there is no presumption that a tax structure that is optimal for one of them, or even most of them, is also optimal for another. In particular, the higher per capita income, the greater wealth, industrial diversification, and the relatively greater reliance upon the corporate form of organization all suggest that it may be both possible and desirable for Ontario to adopt a tax structure significantly different from those of several, at least, of the other provinces. The comparative approach is therefore not particularly useful in assessing the role of commodity taxation in the Ontario tax structure. This is especially true where it starts from an uncritical acceptance of the premise that there should be some reliance upon commodity taxes. It is to an examination of this premise that we now turn.

The Case for Commodity Taxation

In appraising the present and proposed tax structures of the province of Ontario, it is necessary to keep in mind the objectives which the tax system is intended to help achieve. The Committee singles out as being of particular importance the achievement of a high and stable level of employment, reasonable stability of the general price level, a satisfactory rate of economic growth, an equitable distribution of income, and the promotion of competition (1:16). Since these are also goals of the federal level of government, it is not essential that all of them be promoted by the provincial tax structure; nevertheless, they do provide some guidance in the attempt to evaluate that structure. Some such guidance is also provided by some of the characteristics which the Committee suggests a good tax system must possess, these characteristics being the customary ones of equity, adequacy, flexibility, elasticity, balance, neutrality, certainty, simplicity, convenience, and economy of collection and compliance (1:51). Since the Committee asserts that the equity characteristic "rises above all the rest, both because a majority of the remaining characteristics flow from it and because it goes to the core of constitutional democracy" (1:20), commodity taxation will be examined first from the point of view of equity in taxation.

In its discussion of equity, the Committee duly acknowledges the time-honoured principle that equals should be treated equally, and asserts the less obvious principle that unequals should be treated unequally. This latter proposition then raises the question of how the taxation of unequals can be equitably determined, and in this connection reference is made to the principles of taxation according to benefits received and according to ability to pay. In general, the Committee looks with favour upon taxation according to benefits received where the benefits and beneficiaries are readily identifiable, where a redistribution of income and wealth is not being sought, and where benefit taxation will not result in an inefficient use of resources (1:33). The extent to which these three criteria are simultaneously satisfied is not explored, but this omission does not deter the Committee from concluding "that taxation according to the benefit principle has an important role in our fiscal system" (1:33).

Perhaps they are correct. More doubtful, however, is the Committee's claim "that revenues derived from taxes based on the benefit principle provide a guide to what is an appropriately corresponding level of expenditure" (1.32). Certainly the simultaneous consideration of the revenue and expenditure sides of the budget that is implied by the benefit approach is desirable, but the problem of the

mechanism by which the tax shares and the level of expenditure are determined conjointly is indeed a thorny one, and one with which the Committee does not concern itself.[6]

In its discussion of the ability to pay principle, the Committee concurs in the "widely accepted practice that takes income as the prime index of tax-paying capacity (1:39). In so doing, however, the Committee does not go as far as the Royal Commission on Taxation which is so enamoured by its proposed comprehensive income base that, in the "ideal tax system", it can find no place whatever for consumption-based taxes.[7] Instead, the Ontario Committee supplements its approval of the income base by noting another time-honoured idea, that justice in taxation requires that people be taxed in relation to what they use up of their country's output (*i.e.,* in relation to their consumption), rather than in relation to what they have contributed to that output (as measured by their income). This idea is held to be sufficiently meritorious to warrant the conclusion that consumption based taxes are an essential component of a "balanced" tax system (1:39).

Clearly the choice between income and consumption as the best index of ability to pay is not open to scientific resolution, but the decision of the Committee to rely to some considerable extent upon the consumption base is not without merit. While there is some presumption in favour of income as the best *single* index of ability to pay, there is no presumption that it is an *ideal* index. Certainly taxation in relation to income can take into consideration, by means of an appropriate system of exemptions, some at least of the objective circumstances of the taxpayer. But if we equate ability to pay with ability to spend, or spending power, as Kaldor does,[8] it must be conceded that no income tax yet devised adequately recognizes the different spending capacity afforded by a given income to various taxpayers who differ in respect to wealth, age, expectations, and a host of other relevant characteristics. It follows that no income tax yet devised would adequately recognize the different abilities to pay of these various taxpayers. The taxpayers themselves, however, are more able than the statutes to determine the spending power afforded by this income, and the expenditures actually made would reflect their assessments. It would seem to follow reasonably that these expenditures should then determine to some considerable extent the magnitude of taxes actually paid. There is thus a case for supplementing the best index of ability to pay, income, with the secondary index of consumption.

Further justification for the use of the consumption base as a supplement to the income base is to be found in the complex pattern of deductions, exemptions, and special provisions that typically cloak the income tax. As Professor Harold M. Somers has observed, some of these loopholes may be growth-oriented and economically desirable, but still others serve no economically desirable purpose other than that of relieving some fortunate taxpayers of the necessity to pay a fair share of the cost of supporting government.[9] By including in the tax structure a sales tax or other consumption-based taxes, these persons would be forced to incur a more appropriate tax burden. This is especially important in a tax jurisdiction in which there is no capital gains tax.

[6] On the problem of the simultaneous determination of tax shares and level of expenditure, see Richard A. Musgrave, *The Theory of Public Finance.* New York, McGraw-Hill, 1959, pp. 73-86.

[7] *Report of the Royal Commission on Taxation,* Ottawa, Queen's Printer, 1966, Vol. I, p. 8.

[8] Nicholas Kaldor, *An Expenditure Tax,* London, George Allen and Unwin, 1955, p. 28.

[9] Harold M. Somers, "Some Economic Implications of Sales and Excise Taxation", U.S. Congress, House Committee on Ways and Means, *Excise Tax Compendium.* Washington, U.S. Government Printing Office, 1964, Part I, p. 29.

An equity argument frequently levied against the use of the expenditure base is the regressiveness of the pattern of burdens which it tends to yield. Certainly where the consumption base includes food, housing, and other basic necessities, and excludes services, the burdens imposed are decidedly regressive, but it must be recognized that regression is not a necessary concomitant of the use of the expenditure base. For example, with its present exemption structure, and assuming—as the Committee does—that its burden is borne by consumers, the Ontario retail sales tax is found to be regressive only at the upper-end of the income distribution; as between other income levels, the burden is either proportional or progressive (29:33). The regression at the upper-end of the distribution is, of course, a matter of no small consequence. Nevertheless, the Committee expresses itself as "reasonably satisfied with the distribution of the burden of the Ontario tax", especially in view of the fact that there are other components of the tax structure that are better vehicles for the introduction of progression (29:122). It should be kept in mind, however, that even if the overall pattern of burden is not unacceptably regressive, usual standards of equity will be violated to some extent by the relatively heavy burdens which, at each income level, are imposed upon large families as opposed to smaller ones. A very heavy reliance upon the consumption base is, in consequence, to be avoided if at all possible.

The appropriateness of a significant reliance upon the consumption base may also be judged by reference to the contribution made by consumption-based taxes to the achievement of economic stability and growth. Given the absence of counter-cyclical objectives in the past fiscal activity of the provinces, the stability criterion may seem to be somewhat academic. The Committee assures us, however, that such lack of concern should not continue, and that the effective pursuit of national and provincial objectives requires appropriate counter-cyclical activity on the part of the provinces (3:9).

Generally speaking, consumption-based taxes are inferior to the income taxes in the automatic promotion of economic stability. Both the progressive personal income tax and the corporate income tax have the characteristic that the proportionate changes in their yields exceeds the proportionate change in G.N.P. As a consequence, they are excellent automatic stabilizers. Commodity taxes, on the other hand, tend to be relatively poor automatic stabilizers, their yields being not nearly as responsive to changes in the level of economic activity as those of the income taxes. While this may be construed as something of a disadvantage of the commodity-based taxes, the Committee makes of it a virtue, observing that from the standpoint of stability of yield the sales tax is actually superior to the personal income tax (29:47). From the point of view of a jurisdiction which, for some considerable time, will be playing a secondary role on the stabilization front, it is probably sensible to emphasize stability of yield more strongly than effectiveness of automatic stabilization.

With regard to discretionary fiscal policy, there is probably more to be said for the sales tax, and this despite the conclusion of the Carter Commission that "changes in personal income tax rates or credits are beyond question the most effective single tool for discretionary stabilization policy."[10] In general, taxes on consumption are more favourable to savings, relative to consumption, than are income taxes. Also, their burdens are less progressively distributed; in consequence, they are more likely to be reflected in reduced consumption than are taxes the incidence of which fall further up the income scale. For these reasons, the consumption impact of commodity taxes will be greater than that of the income taxes, and they will tend to be more efficient in the checking of inflation. In

[10] *Report,* Royal Commission on Taxation, Vol. 2, p. 60.

particular, if discretionary tax increases are used to combat inflation, and if it is generally held that the tax increases are of a temporary nature, sales tax increases hold forth the promise of being very effective. If the provinces are to play a more significant stabilizing role than they have in the past, the inclusion in their tax structures of commodity-based taxes has, on balance, something to commend it.

Turning now to the effect of the commodity taxes upon economic growth, we may note that these taxes are usually considered to be more favourable to growth than the income taxes. To the extent that they fall upon spending, rather than income, taxpayers are encouraged to save. Since income taxes fall upon both spending and saving, more saving is likely to be forthcoming under a tax structure which includes both income and commodity-based taxes than under one from which the commodity base is absent. How significant the difference will be will depend in large measure upon the general economic environment. Where the economy is moving along its full potential growth path, the extra saving and the freeing of resources for investment purposes resulting from the use of the consumption base should result in a higher rate of capital accumulation. Should it be the case, however, that the provincial economy is enjoying a less than full utilization of resources, the gain will be of little consequence. In a study conducted for the Commission on Money and Credit, Musgrave[11] concluded that the effects of changes in tax policy on the growth of the economy were slight, but, as Eckstein has observed, even small gains can become important if they are sustained for a long enough period.[12] Again, it seems reasonable to include some expenditure-based taxes in the tax structure.

On grounds of equity, stabilization, and growth there would seem to be justification for the inclusion of commodity taxes in the provincial tax structure. Further justification may also be found in the adequacy and stability of yield of the sales tax, and in the concept of a balanced tax structure, in which the adverse effects of excessive reliance upon one or very few taxes are avoided by diversification of structure and relatively low rates. The really difficult question, of course, is whether or not a contribution of the order of 45%-50% of total tax revenues is the most appropriate one for commodity taxes. There is really no way in which precise answer to this question may be given, but this writer would suggest that it should be reduced from this level only if greater reliance upon the more progressive personal income tax is possible. If the joint occupancy of the personal income tax field by the federal and provincial governments makes this impossible, it is difficult to escape the conclusion that, under the circumstances, the role of commodity taxes under the present and proposed tax structures is not excessive. Indeed, if a more intensive utilization of these taxes would permit the provincial government to increase its transfers to the municipalities, thereby reducing their dependence upon the real property tax, an even more important role for commodity taxes should be welcomed.

Before concluding, it may be observed that if there is to continue to be approximately the existing degree of reliance upon commodity taxes, there is much to be said in favour of increasing their progressivity. The method chosen by the Committee—the exemption of food and other basic necessities—is unsatisfactory because it discriminates between taxpayers on the basis of their preferences for outlays on "necessities" and other items of consumption. A more satisfactory solution would involve the extension of the coverage of the tax, and the granting of credits against the provincial personal income tax. Credits of this sort are a

[11] Richard A. Musgrave, "Effects of Tax Policy on Private Capital Formation", in Commission on Money and Credit, *Fiscal and Debt Management Policy*. Englewood Cliffs, Prentice-Hall, 1962.

[12] Otto Eckstein, "Indirect Versus Direct Taxes: Implications for Stability and Investment", *Excise Tax Compendium*, p. 52.

highly flexible fiscal instrument. They may be sufficiently small to offset the sales tax upon food outlays alone, or they may be extended to provide an effective offset for all sales taxes incurred by some minimal family budget. In addition, these credits could be used to increase the overall progressivity of the tax structure by their being related inversely to taxpayer income, the credit becoming smaller, or even vanishing, as taxable income increases. As Professor Due has recently noted, the reasons given by the Commission for dismissing this scheme are hardly convincing.[13]

Conclusion

The inclusion of commodity taxes in the tax structure of the province is warranted on grounds of equity, stabilization, growth, adequacy and stability of yield, and in the interest of a "balanced" tax structure. Given the changes in the structure of the retail sales tax proposed by the Committee, the burden of this tax is unlikely to be distributed in a regressive manner, and such regression as is present may be offset by other, more progressive components of the structure. In consequence, it is difficult to take serious exception to the proposed tax structure in which commodity taxes contribute 45%-50% of total provincial tax revenues. One may hope, however, that in considering the extent to which the Committee's recommendations ought to be implemented, the provincial government will be less easily deterred than the Committee by the supposed difficulties of providing a sales tax credit against the personal income tax. The administration and compliance costs of such a scheme would be relatively small for any Canadian province, all of which already have a broad-based personal income in operation.

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The Relative Importance of Wealth Taxation in the Revenue System

Wealth taxation as practised today in the Canadian revenue system constitutes, I believe it is fair to say, a relic of the past; of a time when taxes were devised, or so it seems to us, more with an eye to political expediency than to sound fiscal principles. This is not to suggest that political expediency is very much less potent today. Indeed it probably explains why this particular form of wealth taxation has remained to this day on the statute books; voters and taxpayers are well accustomed to regard it as a normal part of the fiscal scene. Yet, to my mind, if wealth taxation were devised anew, it is unlikely it would take the form it has today—which I would characterize as a "stamp duty gone wild".

Wealth taxation in Canada at present is a dividend jurisdiction: the federal government levies a tax on *inter-vivos* gifts and an "estate tax". The provinces, for their part, do not levy any tax on gifts between living persons but do tax inheritances and bequests. Technically, provincial death transfer taxes are called "succession duties" instead of estate taxes. There is a constitutional reason for this largely semantic practice; but we shall conform to widespread usage and include both kinds of levies under the generic name "estate taxes". The constitutional issue itself is based on the prohibition against the use of indirect taxation by the provinces and

[13] John F. Due, "Ontario Committee on Taxation: Sales Tax", *Canadian Tax Journal*, Vol. XV, No. 6 (Nov.-Dec. 1967), p. 559.

the courts have interpreted this to mean that a tax on the estate was indirect whereas a tax on the beneficiaries was not. As the Smith *Report* itself says, not without humour:

> The difference, then, [between an estate tax and a succession duty] lies in the taxpayer. The estate tax assessor looks upon the body of the deceased and in effect says: "alas, my poor brother". The succession duty assessor looks upon the assembled heirs, murmuring "fortunate children". (Ch. 28, para. 40.)

The ficklessness of the distinction is highlighted by the fact that rates of succession duties can be related to the total size of the estate, not only to what each individual beneficiary receives; the federal estate tax provides abatements for the widowed spouse ($20,000 over and above the standard exemption of $40,000) and the children ($10,000 or $15,000).[1] The yield of death taxes is now shared in the proportion of three to one in favour of the provinces. Only three Canadian provinces at present have a succession duty, for which a credit is granted against the federal estate tax.[2]

The federal rates start at 10% and reach 54% when the net value of the estate exceeds $2 million.

The Ontario succession duty provides a number of graduated exemptions: $75,000 for the widow; $15,000 per dependent child; $50,000 of aggregate value to other beneficiaries in direct line; $20,000 of aggregate value for bequests to collaterals provided individual shares do not exceed $10,000, and $10,000 (of aggregate value) for strangers. The rate schedule is complex, involving three tiers of additive rates applying in turn in respect of (but not on) the estate's aggregate value, beneficiaries' individual shares and as a "surtax" on the duty already computed under the other tax schedules. All rate scales are differentiated according to the relationship between the deceased and the beneficiaries; the ranges of the several rate scales are as follows:

Relationship	Re: Estate Value	Re: Individual Share	Surtax
Direct line	2.5% to 14%	1.5% to 15%	15%
Collateral	6.0% to 17%	2.5% to 13%	20%
Stranger	12.5% to 35%	N.A.	25%

The present Ontario system also involves other complexities designed to provide relief from succession duty in respect of inter-family transfers; e.g., annuities and so-called dependants' reductions (Ch. 28, para. 128ff).

Recommendations of the Committee

The Smith Committee recommends doing away with some of those features of the succession duty. Instead of the three-tiered rate schedule, the Committee recommends a single rate schedule at progressive rates,[3] starting at 15% on the first $25,000 and going up by steps of 2 percentage points to 55% on the part of the aggregate value of an estate that exceeds $2 million. This initial rate schedule would function much as does the present initial or basic schedule; that is to

[1] Prior to February 1, 1959, the federal taxing statute was the *Dominion Succession Duty Act* under which the rates even depended in part on the value of bequests passing to each beneficiary.

[2] This credit is 50% of the federal tax. An extra 25% is rebated directly to the provinces except for British Columbia which has increased its rates up to the full amount of the credit. This year Alberta has adopted a scheme whereby the 75% provincial share of the federal estate tax is rebated to its own residents.

[3] The present rates apply to the whole of their respective bases, not to marginal increments; the proposed rate schedule on the contrary provides for marginal rates applying to marginal base increments and therefore can do without "notch" provisions.

say it would not be directly applied to the aggregate value of the entire estate to obtain the amount of tax liability. Instead it would serve to yield an "effective" or average rate which would then be applied to the value of each beneficiary's share net of that beneficiary's own exemption. No other rate or surtax would then apply. The exemptions themselves would be streamlined, as it were. The Committee's operational principle in designing those exemptions is explicitly related (Ch. 28, para. 134) to a beneficiary's status as a dependant of the deceased. The $75,000 exemption for the widow is retained and extended to the widower, the common law spouse or any other person "who, during the five years prior to the death of the deceased, resided with him, was dependent upon him and managed his household without remuneration" (Recommendation 28:32, p. 179).

The exemption for children is raised to $25,000 for a child under 21 years of age and this amount is reduced by $3,000 for older children for each year of age between 20 and 25 (Recommendation 28:33, p. 180).

The recommended rate schedule would imply a lower burden for bequests to widows and children, at least whenever the aggregate value of the estate fell short of $500,000. For estates above that amount, the percentage increase in duty in any case would be quite small. By limiting to 50% the effective rate applicable to any bequest, the recommendations of the Smith Committee would also imply a substantial duty reduction for very large estates (around $5 million). On the other hand, bequests to hitherto "preferred" beneficiaries, such as parents of the deceased or grandchildren whose parents are still alive, would bear a significantly higher rate of duty. More important, bequests to collaterals and to strangers would bear duty at a much reduced rate.

In the aggregate, the Smith Committee did not expect that the relative importance of succession duties in the provincial revenue system would be much altered. On this point, the *Report* declares (Ch. 8, para. 18):

> . . . this Report advocates far-reaching structural changes in succession duties . . . To superimpose rate increases on a newly revised tax structure would complicate matters.

In its estimates of needs and prospective revenues of the Ontario government over the years to 1975, the *Report* does, however, contemplate increases in the rates of succession duties over the period: a first rise of 10% is shown for 1971-72 and a second identical rise for 1974-75, to yield respectively $11 million and $14 million.

Finally, the Committee recommends that Ontario introduce gift tax with the same rate structure as that suggested for succession duties with annual exemptions of $2,000 per donor and $1,000 per donee, except for gifts in the form of life insurance premiums on the life of the donor. The rate of tax would also reflect, but not bear upon, the value of gifts to charitable, educational or religious organizations.

I have briefly sketched the present and proposed systems of estate and gift taxation in Ontario; the stage is now set to consider the broader policy objectives which can provide criteria for an appraisal of wealth taxes in the overall tax mix in the province.

The Criteria for an Optimal "Tax Mix"

These criteria are nothing else but the objectives and constraints used in defining an optimal tax system. On any single element of this tax system, those objectives and contraints necessarily are less binding than they may be on the whole

system. The question of what is the proper level or intensity of use of any particular tax boils down to asking to what extent the existence and particular rate structure of a given tax is a necessary part of the entire fiscal set-up.

The objectives a fiscal system is supposed to serve are many and it would be pointless to review them all at this point. Given that my particular concern lies with taxes on capital—namely estate and gift taxes—it is more useful to focus on the few objectives in respect of which the usefulness and significance of these taxes have been questioned. At the risk of neglecting some aspects of capital taxation which some might consider to be equally important, I will confine my remarks to three main considerations bearing directly on the question of whether capital taxes rightly belong to a proper tax mix and if so, to what extent. Those are revenue adequacy, equity, and encouragement to growth through capital accumulation.

Revenue Adequacy

An obvious requirement for any tax is that of providing revenue to governments. In this respect, the indicated direction of reform of estate and gift taxes is most ambiguous. Indeed, the adequacy of the revenue yield from any tax can be appraised only in connection with the level of rates at which the tax is levied. The revenue adequacy criterion must be understood to provide a sufficient yield at "reasonable" rates. It is the unfortunate fate of capital taxes to be condemned under both counts: they yield little revenue and they do so at excessive rates.

When we look at the yield of estate taxes and succession duties over the recent years (Table 1) we see that this revenue source is indeed not very large. As compared to the yield of the individual income taxes, both federal and provincial, over the same years one is forced to agree that the abolition of all taxes on gratuitous transfers at death could easily be absorbed through a moderate increase in the yields of other taxes. For the years in question the relative importance of these taxes in Canada appears to be on the decline and for Ontario proper this impression is confirmed over a much longer time span. The Ontario succession duty represented nearly 20% of total government revenue for the province in 1930 as against an estimated 3.2% for 1967 (*Report*, Ch. 28, Table 5).

Table 1

DEATH TAXES AS A PERCENTAGE OF PERSONAL INCOME TAXES
(FEDERAL AND PROVINCIAL COMBINED)
CANADA, 1960-66

(dollar figures in millions)

	1960	1961	1962	1963	1964	1965	1966
Succession duties and estate taxes:							
Federal	97	80	97	89	91	101	106
Provincial	61	66	72	82	88	108	122
Total	158	146	165	171	179	209	228
Personal Income Taxes:							
Federal	1,917	2,050	1,994	2,102	2,465	2,612	2,846
Provincial	62	75	322	385	492	743	1,008
Total	1,979	2,125	2,316	2,487	2,957	3,355	3,854
Combined death taxes as a percentage of personal income tax	8%	6.9%	7.1%	6.9%	6.0%	6.2%	5.9%

Source: D.B.S., *National Accounts, Income and Expenditure, 1966.*

Yet this reasoning is deficient. There exist several other components of the tax system whose abolition would imply only a small reduction in fiscal revenue. To take an extreme case in point, the entire progressivity of the income tax (resulting from both the rate structure and the personal exemptions) could be renewed at a slight revenue gain by applying the lowest bracket rate to the whole of taxable income before personal exemptions. For instance in 1965, whereas actual taxable income amounted to only $16.5 billion out of total reported income of $28.3 billion, adding back some $10 billion of personal exemptions and multiplying the resulting total by 11% would have yielded taxes totalling $2,922.5 million, in contrast with actual tax liabilities of $2,883.9 million. The revenue increase implied by moving from a progressive to a proportional tax would therefore have amounted to some $40 million in 1964. Of course, the rate chosen is merely illustrative. Even then, the tax foregone by exempting all returns below $2,000 would have amounted—at actual 1965 exemption and rate levels—to $38.6 million. The shift to a proportional 11% rate would thus have permitted the granting of this full exemption and a shift to a proportional levy at a higher rate would have provided even greater opportunities in this respect.

The point of all this is not that we should move over to a proportional income tax, although we should certainly attach a high priority to widening the base of the income tax and lowering the rates. What we want to stress is rather that the arguments against the various taxes on capital derived from their negligible revenue yields are inconclusive by themselves. Moreover, such arguments can be reversed.

We are told that Canadians are enjoying the benefit of an affluent society. In such a society, with a high ratio of savings to income, wealth is constantly increasing. A certain part of what individuals regard as wealth is not wealth to society as a whole because of the offsetting liabilities. This is the case with most financial wealth except that representing net liabilities of non-residents towards residents.

However, we must bear in mind that our concern here is not with an estimate of capital stock or of national wealth as such but with the total net value of the wealth (or net worth) of individuals. In trying to derive an estimate of the base of capital taxes and especially of gift and inheritance taxes, the "offsetting" liabilities of governments and corporations, neither of which ever die or pay gift tax, matters very little.

Leaving aside mutually-offsetting and other financial assets and liabilities held by residents, the stock of real capital including land and natural resources constitutes a constantly growing stock. No firm, comprehensive estimate exists as to the level and rate of increase of this stock of real capital. In the absence of data one is left to speculate as to its aggregate volume and other characteristics.

It consists of several elements: residential buildings, consumer durable goods, commercial buildings, industrial structures and plant, machinery and equipment, and transport equipment. With economies of scale and capital-saving technology some of these elements connected with industrial activity are likely to show a rate of increase smaller than that of G.N.P.; the other elements, either because they are income elastic (residential space and consumer durables) or respond to income elasticity demands (so-called tertiary activities or services), are likely to grow faster than G.N.P. With influences working in opposite directions, the movement in the total amount of "real" wealth held in private hands is probably not very different from that of total production and income. However the picture is further complicated by the partly offsetting claims of foreigners on capital accumulating in Canada, Canadian residents' claims abroad and the relative movements of savings by Canadian residents and total investment in Canada.

The aggregate base of estate and gift taxes does not directly consist of the net aggregate wealth held by residents but is made up of the relatively small part of it that is transferred through gifts and bequests. If we had a breakdown of net assets by age groups, we could derive an estimate of the base for estate taxes using mortality tables to obtain an estimate of the total net wealth owned by people dying each year. It is interesting to note here that in this report the base of an estate tax is larger than that of a net wealth tax inasmuch as people save over their lifetime. For an annual net worth tax the whole of private financial liabilities cancels an equivalent amount of private financial assets, but this need not be so under a tax on transfers at death, provided those who die off in any year have a less than proportionate share of total liabilities outstanding. This latter occurrence is likely as those who die off are mostly older people whose net assets constitute a higher proportion of total assets than is the case generally.[4]

In the absence of direct estimates of total net wealth of resident individuals, it is tempting to try to derive from survey and census data an indirect estimate of that over-all stock and, from mortality statistics combined with a known cross-section of net worth positions by age groups, an estimate of the portion of the stock that changes hands over a given year through the death of the owner. Such estimates are necessarily very rough and subject to considerable bias, given the nature of the underlying data. However, they may be useful in providing an order of magnitude against which the relative burden of estate taxation can be assessed in some rough sort of way.

The basic data is provided by J. V. Poapst's *Consumer Survey* of household assets in seven metropolitan centres for 1962. This survey provides numerous alternative breakdowns of the data according to income groups, size of the household, age of head, occupation, wife's contribution to household income, etc. The average net worth for households in each group is given. On the other hand, the relative importance and actual number of households fitting each category in the total population can be derived from census data for the preceding year or from a D.B.S. survey on the distribution on non-farm incomes in Canada by size.[5]

Three alternative estimates of resident individuals' total net worth can thus be obtained. Two estimates can be obtained using census data on the number of households by size of households and age of head. The two estimates are very close: $76.2 billion in the former case and $81.8 billion in the latter. These figures certainly over-estimate resident individuals' aggregate net worth since both are obtained by applying the average value of net worth computed for households in seven metropolitan centres to all Canadian households. However, the estimate obtained from the distribution by age group of heads of households is useful in another context in providing a comparison with the estimated value of estates passing on the death of people in each age group. This latter estimate works out at 4.58% of the former figure.[6]

Some estimate of the over-statement implicit in the two estimates of total aggregate net worth of resident individuals can be obtained by comparing them to a third estimate. This estimate is derived from data relating to the net worth of households by income groups of households (or more strictly "families and unattached individuals" in the case of the number of people in each income group). The figure obtained here is only $58 billion. Part of the difference between this

[4] This is in fact so, as can be seen from Table 100 of J. V. Poapst, *Consumer Survey*, a study prepared for the Royal Commission on Banking and Finance, Ottawa, 1964.

[5] Precise references are respectively as follows: D.B.S. *1961 Census*, Vol. 2, Part 1, Table 23, and D.B.S. (13-521) *Distribution of Non-Farm Incomes in Canada by Size*, 1961, Tables 1 and 4.

[6] D.B.S. (84-202) *Vital Statistics, 1962*, pp. 128-131.

estimate and the former is due to the higher relative weight of low income, low net worth units in Canada in contrast to the survey's seven metropolitan centres; part is also attributable to the exclusion of farm income, the inclusion of which might perhaps contribute another $3 billion to the total wealth estimate. Another factor in the discrepancy may well consist of the relatively greater under-statement of income inherent in the D.B.S. data as opposed to the *Consumer Survey*—the concept of income used for the survey is much wider.

For all these reasons we may therefore retain the figure of $70 billion as our best guess. This is a huge number that dwarfs the $146 million paid in estate taxes. Considering only the net worth of people who died in 1961, estate taxes amount to less than 5% of the conceptual base before any exemption. Compared to the total aggregate wealth of resident individuals, the burden of wealth taxes works out at less than one-fourth of 1%!

Compared to the relative importance of wealth taxation in various other developed countries, we can see from Table 2 that the reliance of Canadian governments on this source of revenue is far from being the greatest.

Table 2

IMPORTANCE OF WEALTH TAXATION IN VARIOUS COUNTRIES

1961

Country	As a % of G.N.P.	As a % of Total Government Revenue
Australia	0.71	3.06
Belgium	0.40	2.02
Canada	0.41	1.59
Germany*	1.19	4.70
Italy	0.21	1.04
Japan (1960)	0.09	0.51
Netherlands*	0.82	3.45
Sweden*	0.64	2.21
Switzerland	0.46	2.74
United Kingdom	0.88	3.60
United States	0.46	2.03

* Including a tax on net worth.

Source: C. E. Forget, *International Tax Comparisons*, studies of the Royal Commission on Taxation, Number 15, Ottawa, 1967.

The point of the foregoing estimates and figures is simply to point out that the "weight" of wealth taxation—in aggregate terms—in Canada, cannot be said by any measure to be inordinately heavy. The above estimates are also useful in reminding us of the importance of aggregate wealth owned by individuals in this country. There is no question that this part of the tax base could bear a much heavier tax load if we collectively chose to use it.

However, revenue implications, while important, are insufficient by themselves to point the way to a possible reform. Whether estate and gift taxation is abolished or its rôle is increased must depend on what is done elsewhere in the tax system to provide for the objectives of equity and income redistribution as well as economic performance; it is to these questions that we must now turn.

Equity

As reasons for maintaining, increasing or reducing the rôle of capital taxation in the over-all tax mix cannot be sought only in the examination of the yield of such taxes, there is widespread agreement to find in equity the main basis for the levying of such taxes. The Smith *Report* (Ch. 28, para. 2) appears to fully support this view. But the relevance of equity to capital taxation in itself raises many problems. There is a sense in which the contention is almost trivially true: as the possibilities provided of avoiding some taxes are different among taxpayers from the possibilities provided by other taxes, a multiplicity of taxes ensures that any single individual will bear at least a part of the burden that he should theoretically bear. Of course, this argument can be extended much further—not excepting stamp duties. A non-trivial enunciation would stress the need to economize on tax compliance, assessment and enforcement resources, a need which calls for a number of different taxes to offset the diminishing returns from the strict enforcement of any fiscal provision after a certain yield has been reached at given rates. This approach would also recognize that an additional tax implies additional administrative and compliance costs and that some of these costs are almost independent of the yield of the tax in question.

With respect to vertical equity, there is no doubt that capital taxes can be justified in this way as long as society is agreed on extending the concept of taxable capacity to capital. There is no objectively correct definition of what constitutes taxable capacity: it is a social convention much like ethical norms to which it is indeed closely related. There is no denying that of two individuals enjoying equal incomes, one who derives his income in whole or in part from the ownership of wealth, and the other, who gets his income from his work, the first enjoys greater "welfare" in the form of security, pleasure of ownership, independence and what-not. This, however, is "psychic" income only, as the money income derived from wealth—and even capital appreciation itself—are taken care of separately by other components of the tax system. (In any case, whether or not there is capital gains taxation is an entirely separate issue as long as there is any distinction between a stock and accretions or additions to that stock).

The disturbing aspect of including capital wealth as an element of ability to pay, therefore, lies in including within the meaning of that expression a type or kind of income not otherwise included, such as the relative satisfaction experienced by various people in performing their own jobs, esthetic qualities of working environment and so on, or put even more simply, hours spent working to earn a given amount of income. Should we design the tax system anew, we might therefore question the advisability of including some element of psychic income in the tax base, when other similar elements are excluded, and, more important, when strictly economic factors are simply disregarded in computing taxable income—the most important of such economic factors being the imputed income derived from many things one owns such as cars and houses. Neither can it be alleged that taxing wealth is a means of getting at imputed income since a large part of wealth does give rise to money income that is fully taxable. It would seem more sensible and certainly no more difficult to tax capital gains and imputed rent fully, than to tax all capital to achieve indirectly a result only half as good.

Disregarding those difficulties, how can one judge estate and gift taxes in the rôle of taxes on the taxpayer's ability to pay? Unlike all other taxes geared to ability to pay, capital taxes are once-in-a-lifetime levies. Some countries in Europe (Germany, Sweden, Denmark) impose an *annual* tax on capital at low progressive rates. In addition, when a tax is levied on the occasion of an inter-personal transfer of a gift or a bequest, there is some uncertainty as to whose capital is being taxed.

The complexity of the rate schedules, dependent on both the total sum of the estate or the income of the donor as well as on the amount transferred, reflects this uncertainty.

The ambiguity of the rate schedule, in terms of the underlying relation between the capital tax liability and the respective over-all situation (or ability to pay tax) of both the benefactor and beneficiary, reflects a basic muddle-headedness as to who is deemed to bear the burden of such taxes. This aspect will be dealt with later on, but the preference for a once-a-generation levy over an annual net worth tax deserves immediate attention.

The Smith *Report* dismisses the net worth levy in exactly four lines under a strictly administrative pretext (Ch. 28, paras. 6 and 10). This summary rejection leaves me uneasy. The administrative difficulty is not, to my mind, self-evident in a context where capital gains are taxed in some form or other, where interest and dividend payments are subject to withholding at source and where ownership of cars, real property and mortgages is subject to compulsory registration. Is this not the kind of fiscal world to which the Smith recommendations are destined to apply? Moreover, on grounds of taxation according to ability to pay, a once-a-generation tax is quite inefficient. First, it never reaches the substantial portion of private wealth that is consumed later by the saver and, second, it fails to apply at all in cases of generation-skipping or applies only in part in cases of *inter vivos* gifts which largely escape tax altogether or attract a differentially lower rate of tax. It should be granted, however, that the latter defect could be cured by the integration of gift and estate taxes without abandoning the once-a-generation feature. Finally, as "generations" do not succeed one another at regular intervals, the impact of these periodic taxes varies in an erratic fashion, the rates of the taxes are not geared to the average length of time wealth has been held (assuming the benefactor to bear the burden), and obviously cannot be geared to the number of years an estate will be enjoyed by the beneficiary (assuming he bears the burden). The quick succession rules can only mitigate the worst inequities.

Although the Smith *Report* makes some noise about equity and ability to pay considerations in its discussion of estate and gift taxes, the burden of its advocacy for the continued use of these taxes rests on a quite different basis: the principle of avoiding undue concentrations of wealth. To quote the *Report*

> . . . a democratic society such as ours, espousing political equality for all its citizens, cannot permit undue concentration of wealth in the hands of a few. . . . A reasonable tax on wealth is one way of ensuring a proper balance between these two objectives; capital accumulation and control of extremes of wealth. (Ch. 28, para 4.)

This concern with concentration of wealth differs from the ability to pay argument in that only extremes of wealth are of interest here, whereas even the smallest fortune should be taken into account and brought within the scope of the tax under the former approach.

Unfortunately for this new rationale of wealth taxation specifically designed to soak the filthy rich, there exist serious doubts as to its effectiveness. Professor Richard Titmuss in a book which created some stir in England when it came out in 1962, has shown that the inequality of wealth has not been very much altered in that country over the years in spite of outrageously steep rates of income tax and very progressive estate tax rates.[7] A recent Brookings study[8] summarized thus the results of a questionnaire sample survey of high income individuals:

[7] See R. M. Titmuss, *Income Distribution and Social Change; a critical study of British Statistics*. London, 1962.

[8] Robin Barlow, Harvey E. Brazer, and James N. Morgan, *Economic Behavior of the Affluent*. Washington: The Brookings Institution, 1966, p. 90.

> . . . we estimate that more than four-fifths of the total wealth of the entire high-income group was derived from savings out of current income plus the capital appreciation of the assets resulting from that thrift and less than one-fifth from gifts and inheritances. . . Even at incomes over $300,000 . . . the proportion of total assets from savings out of current income and capital appreciation thereof appears to be more than seven-tenths.

Those results must be interpreted with caution. As the authors themselves warn, the sample was based on income size not size of portfolio. The respondents with portfolios exceeding $500,000 in common stocks alone, reported in 28% of the cases "that one-half or more of their total assets reflected gifts or inheritances as distinct from appreciation and savings". Apart from this sample bias in estimating the importance of gifts and inheritances received by wealthy individuals (as distinct from high income individuals), the concept of "income" and "savings" used in the survey was too broad to support the conclusions made by the authors: investment income from inherited wealth saved by the beneficiary appears to be imputed not to "inheritances as a source of wealth" but to "saving out of current income". The minimum that can be inferred from that study is that the full taxation of investment income, including capital appreciation, may well be just as efficient an "equalizer" of wealth as death taxes are; there is no doubt that "capital appreciation" was mentioned by an ever larger number of respondents in each income class as income increased.

Other evidence of the importance of inheritance on wealth inequalities is provided by two British studies, made at 32 years' interval.[9] What both these studies appear to show is that the probability of a son's being a member of the death-taxpayer group is very much higher among those whose fathers were also members of the same group. For example, from 65% to 75% of sons with estates above £200,000 had fathers with estates in excess of £25,000 and from 50% to 60% had fathers with estates in excess of £50,000. Comparable figures for sons with estates between £50,000 and £100,000 in 1956-57 were 50% and 34% respectively. While the probability of bequeathing a large estate is therefore seen to depend on the father himself leaving an estate, the *amount* of the estate was apparently not closely related between fathers and sons. What the studies have shown, in addition, was the very little difference in the relative frequency of large estates wrought by over 20 years of heavy estate (and income) taxation.

To sum up the above remarks, we may perhaps say that gifts and inheritances do not constitute the only, nor even the most, important source of individual wealth. However, even if one adopts the view that such transfers are significant determinants of *inequalities* in wealth among individuals, as distinct from being sources of increases in wealth, the present as well as the proposed estate and gift taxes can hardly be expected to do much to redress the situation.

Admittedly the Smith recommendations do reduce the preferential treatment given to direct line and even collateral beneficiaries over "strangers" above the exemption levels. But the fact remains that a higher rate of estate tax will continue to be levied on bequests made to strangers as compared to bequests to members of the deceased's family. True enough, incentives would have to be very large indeed to induce any one to take money away from one's children to give it to strangers but the proposed tax would not even invite an even distribution of an estate among one's children. In one respect the Smith recommendations also involve the withdrawal of a feature widely used by testators to relieve part of their estates from the full impact of marginal rates—that of willing substantial sums to charitable, educational or religious institutions and thereby reducing the base of the estate taxes

[9] J. Wedgewood, *The Economics of Inheritance*. London, 1929, Chapter 6; and C. D. Harbury, "Inheritance and the Distribution of Personal Wealth in Britain", *Economic Journal*, Vol. 72 (1962), p. 845.

and reducing the rate applicable to other bequests. A similar comment could be made in respect of the recommended loss of family exemptions, as it were, when bequests are made outside the family, although it could be argued that the purpose of exemptions is to allow for the dependent status of the beneficiaries and exemptions should therefore be restricted to their use. Finally, the 50% limitation on the effective rate of estate taxation is clearly inconsistent with the objective of preventing "excessive" disparities of wealth. To say that higher rates are "confiscatory" is neither here nor there as long as it is believed that very large fortunes are against the national interest.

The conclusion that can be reached on the ground of equity with regard to estate and gift taxes is that, in their present form, they are probably irrelevant. As a periodic element in the taxation of wealth as such they represent an arbitrary feature in a system with bigger and more significant holes in it. As an attempt to reduce extremes in the distribution of wealth they are incoherent (given the non-integrated gifts tax and other avoidance devices), ill-directed (given that untaxed capital gains are a much more important factor in the building of private fortunes) and under-utilized. But, instead of taxing the stock of wealth as such, we might prefer to tax only increments to any individual's wealth: the Carter *Report* has shown us the way in that direction.

The Economic Impact of Estate Taxes

Wealth taxes, especially estate taxes, have often been held to adversely affect the rate of capital accumulation and hence to contribute to a lowering of the rate of growth of the economy. The charge, if correct, could be serious and therefore deserves some attention. There are two questions to be answered here. Who bears death taxes? In other words, what is the incidence of estate taxation? And second, how can savings behaviour or savings themselves be affected by estate taxation?

The two questions are interrelated. If we should conclude that the beneficiaries bear the greater part of the burden, through lower net inheritances, there could hardly be any major or even noticeable influence on saving behaviour or on the amount of savings by decedents. However, inasmuch as the distribution of wealth was altered by the tax (and we have seen that this is probably very little) and savings were postively influenced by wealth (a most unlikely event), then savings might actually suffer a small reduction unless beneficiaries tried to make up for the tax paid by reducing their own consumption. This could only happen if the "estate motive" for capital accumulation was itself a significant determinant of saving behaviour.

If, on the contrary, the tax is mainly borne by the deceased, the relative importance of the several possible motives for saving acquire even greater relevance. We can distinguish three motives for saving. First, saving may be a matter of *averaging lifetime income*. This hypothesis is inspired from the well-known Modigliani-Brumberg theory of consumption.[10] This is likely to be the major determinant of savings. First, since it is consumption-oriented, it is the only realistic primary objective for most savers as other possible objectives are wealth-oriented and hence, beyond the reach of most of them; second, the Barlow, Brager and Morgan study[11] clearly emphasizes the importance of that factor. Among people with income between $10,000 and $100,000 in 1963, more than 60% reported "retirement" and "children's education" as their savings objectives;

[10] See their "Utility Analyses and the Consumption Function: an interpretation of cross-section data", K. K. Kurihara (editor), *Post-Keynesian Economics*, 1954; and Modigliani and Ando, "Tests of Life Cycle Hypothesis of Savings", *Bulletin of the Oxford University Institute of Statistics (1957)*, pp. 99-124.

[11] *Op. cit.*, Chapter 4, "Savings Objectives and Investment Policies".

"retirement" alone accounted for over 50% of replies for people with income below $60,000 and never less than 20% of replies for people with income up to $130,000. Of all the reasons given for savings, consumption-related items were mentioned by virtually all respondents.

The lifetime averaging motive is not inconsistent with net capital accumulation and the transmission of inheritances. If this were the only motive to save, estates would represent a kind of "residual" which we could regard either as an unused contingency reserve or the result of a premature death (from the saver's viewpoint). As no one will lend money to a penniless retired person, there are no offsetting terminal liabilities to speak of in the case of, shall we say, overdue deaths.

Another possible objective for wealth accumulation is what we might call the "estate motive" that is to say the desire to pass on wealth to one's heirs. In the study by Barlow, Brazer and Morgan, there is an inverse relationship between that motive and another motive for saving, that of providing for the education of one's children. As the relative importance of the "estate motive" increases with income, the other objective takes on a relatively smaller and smaller importance. As noted above, however, "children's education" does not amount to a motive for wealth accumulation that is distinct from income averaging as, in the normal course of events, the children's education will take place during their parents' own lifetimes.

Finally, it is sometimes alleged that accumulation may take place for its own sake because individuals—or at least some individuals—derive enjoyment from the ownership of wealth, from the power, influence or social prestige that it confers on them. Perhaps predictably, this greedy instinct does not come out at all in questionnaire surveys.

It is unquestionably artificial to distinguish so sharply between the above motives for accumulation since any amount of saving can probably be explained, even for a single saver, only through a combination of motives. Yet, it is only if the "estate motive" is important at the margin that estate taxation may have any deterrent effect on wealth accumulation by decedents. Inasmuch as they save to provide for retirement or children's education, or because they enjoy wealth for its own sake, the prospective burden of taxation on the estates they will leave at their death can have no perceptible influence. Moreover, if the same objectives are also important to their heirs, a high tax burden on their estates should induce them through a "wealth effect" to save more during their own lifetimes than if they had inherited an estate undiminished by taxation.

In short, whether we look at it from the deceased's or the beneficiary's viewpoint, the economic impact of wealth tax turns on the significance, at the margin, of the "estate motive". It is a piece of conventional wisdom to assume that this type of motivation is important in inducing people to accumulate wealth and pass it on, undiminished, from generation to generation. The success of this notion is probably due to people's preference for lofty ideals as rationalizations of their behaviour and to puritan ethics. This last factor is illustrated by the reluctance to give money to one's children before one's death for fear of "spoiling them".[12] This stewardship concept of wealth ownership has been very much evident in many criticisms of the Carter recommendations on the taxation of gifts and inheritances and the underlying idea that "a dollar is a dollar". To quote no less an authority than Professor Wheatcroft:[13]

[12] See C. S. Shoup, *op. cit.*, p. 23.

[13] G. S. A. Wheatcroft, "Estates and Trusts", *Report of the 1967 (April) Conference* of the Canadian Tax Foundation, p. 368-376 at p. 375.

> . . . to me the dollar which comes from my father, which he got from his father and which I hope to leave to my son, is not the same dollar as the dollar I earn. I agree it is taxable, but not at the same rates as my income.

Yet, it seems that this line of thinking can be described as wishful thinking rather than a description of reality. A few paragraphs above the previous quotation, at page 374, Professor Wheatcroft acknowledges that:

> . . . the normal reluctance of wealthy people to part with their money before death will be intensified if the Carter proposals become law.

It is precisely in that reluctance to part with wealth during one's own lifetime that indirect evidence can be found concerning the relevance of wealth accumulation for its own sake as an objective for savers, and consequently the relatively smaller importance of the estate motive.

Surprise has sometimes been expressed at the relatively small amount of lifetime giving by wealthy persons.[14] In the United States as in Canada, the rates applicable to gifts are lower than those applicable to bequests and this would appear to create an incentive towards *inter vivos* giving. From the U.S. Treasury *Special Study of 1957 and 1959 Estate Taxation,* Shoup[15] extracts the information that very wealthy decedents with total gross transfers of $10 million or more give during their lifetimes amounts not exceeding 14% of total transfers. This and other failures of wealthy persons to take advantage of possibilities of reducing estate tax payable upon their deaths have appeared to many as "almost unbelievable".[16]

However, in a recent article,[17] H. M. Hochman and C. M. Lindsay point out that this behaviour is perfectly rational provided we accept, for a moment, the proposition that perhaps the objective of wealthy persons is not necessarily to maximize the present value of total net transfers to their heirs. The authors also dispel the erroneous idea that there is an interest rate factor favouring bequests over lifetime gifts, even under an assumed "estate motive". This analytical point renders even less ambiguous the virtual rejection of estate tax minimization techniques by wealthy people as a refutation of the "estate motive" as a valid behavioural hypothesis.

The Barlow, Brager and Morgan study[18] also provides reasons for scepticism as to the real importance of the estate motive.

> There is apparently a big difference between "thinking about" the handling of one's estate and "doing something" about it. Only 16 percent of the entire sample of high-income people reported having made any changes in asset holdings for estate planning purposes. As was to be expected, the proportion of those who did make changes increased with income, from 8 percent among those with incomes between $10,000 and $15,000 to 35 percent among people with incomes of over $300,000. The latter proportion appears to be small when one considers that most of the people with very high incomes are relatively old.
>
> . . .
>
> Of those who did report many engaged in estate planning activities, one-fourth had established trusts or life estates for their children; about one-fifth had transferred assets by gift directly to their children; about one-twelfth had increased the liquidity of their estates . . . and about one-tenth had acquired more life insurance.

[14] See, for instance, C. S. Shoup, *Federal Estate and Gift Taxes.* Washington: The Brookings Institution, 1965, Ch. 2, "Gifts inter vivos" at p. 21, section entitled "Why so little lifetime giving?".

[15] *Op. cit.*, p. 21 and Table C-1, p. 180.

[16] Shoup, *op. cit.*, p. 23. See also G. R. Jantscher, *Trusts and Estate Taxation,* Washington: The Brookings Institution, 1967, on the use of generation-skipping trusts, especially at p. 157.

[17] "Taxation, Interest and the Timing of Inter-Generation Wealth Transfers", *National Tax Journal,* XX, No. 2, June 1967, pp. 219-226.

[18] *Op. cit.*, p. 109.

With respect to liquidity of portfolios, the authors found (p. 36) that "among the different age groups, the elderly (aged 75 and over) were the least concerned with liquidity".

The conclusion that can be derived from all that must be that the economic impact on capital accumulation of estate taxes cannot be very large. People accumulate wealth chiefly for reasons that have nothing to do with bequeathing it to their heirs and such bequests as do take place are simply "by-products of the fact that all men must die".[19] Inasmuch as the estate motive operates at all, it may induce either less or more savings by the decedent but is almost certain, together with other motives, to induce greater savings by members of the succeeding generation.

How should we rate the treatment of this issue in the Smith Committee *Report?* Unfortunately, not very highly.

The *Report* states that the Committee was:

> impressed with the arguments and evidence supporting the view that many people, by arranging their affairs with the tax in mind, bear the principal burden. (Ch. 28, para. 30)

Unfortunately, the supporting arguments and evidence are scanty. A table purporting to show the increasing ratio of liquid to new liquid assets in decedents' portfolios in Ontario as the decedent's age or the aggregate value of the estate rise seem to confuse marketability with liquidity. Moreover, the difference between age groups and the size of total assets is not very striking. More important, even if decedents did provide the necessary liquid assets to help meet estate taxes upon their deaths, this would not mean that they would have reduced their lifetime consumption in order to leave an estate unimpaired by taxation to their heirs; and yet this is the ultimate meaning of saying that decedents bear the burden of death taxes. And if we believed that this reduction in consumption actually did take place, then we would have to conclude that total private wealth was unaffected by the tax.

However, this is not the way the Smith Committee sees it. In its opinion, ". . . we cannot assume that the size of bequests is determined without consideration for the duty" and "spending and giving must be curtailed to the extent that assets are accumulated and maintained" (Ch. 28, para. 30). In other words, if this means anything at all the testator bears the burden of succession duties by curtailing his consumption. Yet, the *Report* goes on, "It is certain, however, that the rate of increase in the number of persons inheriting great wealth is reduced by our death taxes". This "reduction in the amount of private wealth", the Committee asserts, is the "obvious effect of levying death taxes". Why? Because "It is unlikely that succession duties themselves exert a great impact on savings". (Ch. 28, paras. 34 and 35) ". . . in those cases in which [death taxation] does influence behaviour, it is more likely to increase savings than to encourage spending". (para. 37)

If these statements appear to be contradictory, it may be because the Committee could not make up its own mind about this issue or was merely using those arguments to support its recommendations, not caring a wit for the problem as such. Saying that decedents bear the burden rationalizes the gearing of estate tax rates to the total value of the estate, an otherwise meaningless rule. Saying that no economic ill results justifies retaining the tax after all while paying homage to the estate motive of wealth accumulation.

[19] Hochman and Lindsay, *op. cit.*, at p. 222.

Conclusions

My conclusions shall be brief. We have seen that wealth taxation in general, from a purely tax revenue standpoint, could make a decidedly greater contribution to public finances. This proposition is equally valid for estate and gift taxation, a subset of capital taxation. Moreover, from an economic viewpoint, given the reasons for people saving, estate and gift taxes are most unlikely to reduce the amount of savings. If anything, those taxes may very well stimulate savings.

Paradoxically, it is in equity considerations that are rooted some of the most difficult objections to estate and gift taxes. It must be pointed out that these objections do not apply to taxes other than capital taxes which would bear on gifts and bequests as long as such taxes were designed as levies on income understood in the widest sense, and hence geared to the over-all situation of the recipient (as in the Carter proposal on this question). But the taxation of wealth as such, and the haphazard taxation of wealth through estate and gift taxes to an even greater extent, appears to me arbitrary and capricious.

The contribution of the Smith *Report* in this respect, when examined in that light, must be qualified as "too little and too late".

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The Corporation Income Tax: The Committee's Position

Provincial corporate levies represent an important source of provincial tax revenue, ranging from 9.6% of total tax revenue in Prince Edward Island to 25.5% in Alberta in 1967.[1] However, because the field of corporate taxation is shared between the federal government and the provinces, the Smith Committee was rather prudent in its analysis of the taxation of corporate income. Having to choose between increased uniformity with the federal corporate levy and recommendations "that would result in a corporate income tax for Ontario based on what we considered was the combination of the best theoretical and practical considerations available, regardless of possible conflicts with the federal tax on corporate income" (*Report,* Ch. 27, para. 78), the Committee opted for uniformity, even at the cost of leaving aside "improvements that would result in further divergences from the federal tax law" (Ch. 27, para. 79).

The Committee's prudent approach to corporate taxation most probably stems from two main causes:

1. A conservative interpretation of its terms of reference.

Even though the Order-in-Council refers to the existing constitutional limitations, which could be interpreted as an invitation to exercise prudence, it also calls upon the Committee to examine the provincial tax system from the point of view of its simplicity, clearness, equity, efficiency, adequacy and conduciveness to sound growth. Such a mandate should have, in my view, led the Committee to be

[1] See Table 1.

less uniformity-minded. Recently, the Royal Commission on Taxation was less reluctant to venture somewhat into the field of federal-provincial fiscal relations,[2] even though its mandate did not specifically call for that.[3]

Table 1

PROVINCIAL CORPORATE LEVIES AND PROVINCIAL TAX REVENUE, 1967

(millions of dollars)

	Revenue from Corporation Income Tax 1967[a] [b]	Other Corporate Levies[a] [c]	Total Tax Revenue	Total Net Ordinary Revenue	Corporate Levies as percentage of Total Tax Revenue	Corporate Levies as percentage of Total Net Ordinary Revenue
Ontario	258.0		1,642.8	1,726.9	15.7	14.9
Quebec	165.0	43.0	1,310.8	1,850.0	15.9	11.2
Newfoundland	9.4	.4	55.8	155.6	17.6	6.3
P.E.I.	.9	.1	10.4	33.4	9.6	2.9
Nova Scotia	8.6	1.2	77.4	162.8	12.7	6.0
New Brunswick	7.7	1.0	62.3	171.3	14.0	5.1
Manitoba	23.7	1.6	136.1	198.7	18.6	12.7
Saskatchewan	16.2	1.1	160.8	268.8	10.8	6.4
Alberta	32.2	2.9	137.9	563.3	25.5	6.2
B.C.	51.9	3.5	374.4	659.8	14.8	8.4
All provinces	573.4	54.8	3,968.5	5,795.6	15.8	10.8

Source: All data are taken from: Canadian Tax Foundation, *Provincial Finances, 1967*, pp. 189-222.

[a] C.T.F. estimates.

[b] The rates effective in 1967 are as follows:
—12% for Ontario and Quebec,
—11% for Newfoundland, Manitoba and Saskatchewan.
—10% for other provinces.

[c] For Ontario and Quebec, these estimates represent the revenue from capital and place-of-business taxes. For all provinces (including Ontario and Quebec) the estimates reflect the revenue from taxes on the premium income of insurance companies. The 1967 rates of these other corporate levies are summarized in *Provincial Finances 1967*, Table 20, pp. 48-51.

2. An implicit assumption that federal-provincial problems are matters political rather than economic.

I am not suggesting that fiscal problems are essentially and solely technical problems, but rather that little is usually gained by neglecting the technical aspects of fiscal problems, for it is with respect to those aspects that consensus can generally be most easily reached. If we leave aside the rather minor proposal to the effect that the federal government should allow the provinces to share in the yield of the non-resident withholding tax and the special corporate surplus distribution taxes, it must be recognized that most of the changes to corporate levies proposed by the Committee are of an administrative or structural nature, as will be seen below.

These two remarks may appear to some as an exaggeration. So let me now try to substantiate my claims by quoting directly from Chapter 27 of the *Report*.

First of all, in the Commission's view, the strongest defence of the corporation income tax is its yield, and not its equity and economic efficiency (para. 68). "In terms of equity, the corporate income tax can scarcely be defended" (para. 69). Moreover, the responsiveness of that tax to changing economic conditions "enhances its value as a source of revenue during periods of expansion" (para. 68).

[2] However, in all fairness to the Committee's *Report*, it must be pointed out that federal-provincial relations have not completely been ignored. See: *Report*, Ch. 8, pp. 282-3, paras. 50-54.

[3] Some have criticized the Royal Commission on Taxation in that respect. See Marcel Bélanger, *Report of the 1967 (April) Conference* of the Canadian Tax Foundation, p. 391.

Second, the Committee is convinced that "whatever the theoretical issues relating to its use, the corporation income tax seems likely to remain an essential and major source of provincial revenue, provided it is not overworked as a result of the comparative ease with which it can be collected and of the fact that it renders comparatively few voters unhappy" (para. 68).[4] As a consequence, the Committee feels that "it would be unwise, even if practicable, for Ontario to consider any marked decrease in its reliance upon the corporate income tax, unless such a course were to be adopted generally throughout Canada" (para. 75).

Third, in the matter of raising additional provincial revenue, the Committee rates, by order of decreasing importance, increased federal personal income tax abatements, provincial sharing of federal consumption tax revenue and, as an admittedly third-best alternative, additional federal abatement on the corporate income tax (Ch. 8, paras. 52-3). The *Report* is very explicit on this point, for it presents the corporation income tax as a "decidedly inferior source of additional revenue", in view of the uncertain incidence and the capricious economic effects of that tax (Ch. 8, para. 18). This makes it quite clear that it is with some reluctance that the Committee would recommend any increase in the provincial corporation income tax rate.

However, and fourth, one should not be led to the conclusion that the main problems posed by corporation income tax were systematically avoided in the *Report*, for the Committee points out, and rightly so, that "while the Canadian and Ontario governments have no practical alternative to its continued use in the short run, we [the Committee] firmly believe that the quality of the Canadian tax system will be substantially improved if, over a period of time, the role of the corporate income tax in the revenue structure can be appreciably reduced. This would be possible only through the substantial integration of the personal and corporate income taxes, within a much broader tax base designed to provide greater equity and fiscal productiveness" (Ch. 27, para. 74).[5] But the Committee stops there. It does not go into a technical analysis of the problems posed by integration from the point of view of the provincial Treasury, but merely recommends that the province should seek the co-operation of the Canadian government in working towards the realization of that objective in a manner which would be equitable, would minimize adverse economic effects and would provide fewer opportunities for tax avoidance.

All would agree that the Committee's view of the present legislation relating to the taxation of corporate income in Canada, namely that "it rests on a theory of incidence that has long since been demonstrated to be false" (Ch. 27, para. 32), is a reasonable one, considering conflicting evidence so far. However, I feel that the Committee should have gone a lot farther in showing us how, in practice, integration can be made to work to the advantage of the "average" Ontario taxpayer and of both levels of government. Skipping over this issue, as I have argued above, is tantamount to recognizing solely the political aspects of the problem of tax reform from the provincial point of view. Since the technical aspects of integration are so important and since integration, if contemplated at all, is bound to play a central role in any project of tax reform, I think that the literature in public finance would have been greatly enriched had the Committee made specific recommendations as to the manner in which it could best be achieved.

[4] In passing, it should be remarked that the last part of that sentence, which conveys a notion which is popular in many circles, points to the political convenience of the "separate entity" assumption made about the modern corporation. One might be tempted to say, half jokingly, that if corporations, as "separate entities", are called upon to pay taxes even though they have no recognized "ability to pay" such taxes, it must be because they cannot vote.

[5] See also: Ch. 26, para. 196 and Ch. 27, paras. 49 and 101.

The Committee's Recommendations Relating to Corporate Levies

The Committee has suggested a classification of its recommendations into four categories (Ch. 8, para. 1):

1. recommendations whose impact on provincial revenue is direct and measurable;

2. recommendations whose impact on provincial revenue is direct, but defies measurement for the moment;

3. recommendations which leave unchanged the bases and the rates of taxes, but which will nevertheless have an indirect effect on provincial finances;

4. recommendations motivated by equity and efficiency and taking the form of purely structural and administrative reforms.

Of its 347 separate recommendations, the Committee devoted eight to the corporation income tax and other general corporate levies. These recommendations can be summarized in the following manner:

(a) the province should seek an agreement with the federal government for the collection of the corporation income tax;

(b) should such an agreement not be reached, then *The Corporations Tax Act* should be amended to ensure uniformity with the *Income Tax Act* (Canada);

(c) capital, place-of-business and other special taxes (on banks, railways, etc.) should be abolished and replaced by an annual corporate business tax of fixed amount;

(d) other changes be made relating to tax administration and appeals.

With the exception of (c) above, all of these recommendations must be classified into the fourth category of recommendations as identified by the Committee, that is, those which seek to achieve equity and efficiency by purely structural and administrative changes. I shall now comment on these recommendations, except for (d) above.

Collection Agreement with the Federal Government

As I have already pointed out, the Committee unambiguously opted for uniformity in the matter of joint federal-provincial taxation of corporate income. Moreover, in the Committee's opinion, the best and cheapest way to achieve uniformity is to enter into a collection agreement with the federal government (Ch. 27, para. 85), provided that the agreement embodies certain guarantees to the province. As possible benefits resulting from such an agreement, the *Report* mentions the reduction in favour of the taxpayer of the costs of compliance (Ch. 27, para. 86) and the reduction in favour of the provincial Treasury of the cost of administration (Ch. 27, paras. 87-89).[5a] Oddly enough, the *Report* even mentions as an additional benefit to the taxpayer the fact that with a single tax administration, assuming virtually identical statutes at both levels of government, there will be fewer differences of opinion over the tax implications of a given set of facts and over the most appropriate interpretation of the tax provisions, as if such differences

[5a] Even though the province would lose the penalties, fines and interest charged to delinquent taxpayers (under present collection arrangements), it would nevertheless gain by the elimination of prosecution and appeal costs, the reduction (but not the elimination) of the staff of the Corporations Tax Branch, the elimination of bad debt losses (under existing arrangements) and the assurance that the provincial Treasury would share in federal reassessments.

always worked to the disadvantage of the taxpayer (Ch. 27, para. 108).[6] I shall not comment on these alleged advantages, for I believe that, *ceteris paribus,* they are of negligible proportions.

However, the Committee recognized the potential disadvantages of a collection agreement. Let me now briefly comment on these.

First, the Committee points out that the existence of a collection agreement may limit the scope for independent provincial fiscal policy (Ch. 27, paras. 90, 91 and 94). True enough, federal and provincial objectives and priorities may differ considerably, even though more for constitutional reasons than on technical grounds. However, it seems to me that what really matters, from the provincial point of view, is not the scope for "action", but rather and almost exclusively the scope for raising additional revenue when needed, as the analysis of future tax increases undertaken by the Committee makes it abundantly clear. Indeed, one might ask when has provincial "action" been rendered impossible by such or other agreements? Taxes being both the means of raising revenue and instruments for action, it would seem that the latter aspect concerns mainly the federal government, as the *Report* explicitly recognizes elsewhere (Ch. 8, para. 52).

Second, there is a fear that a collection agreement might entail for the province a loss of autonomy over the tax base (Ch. 27, para. 94). However, one wonders why autonomy is required, unless one were willing to use it occasionally to depart from uniformity. Indeed, the Committee recognizes that the loss of autonomy is the price one has to pay for desiring uniformity and it feels that the province should be prepared to pay that price, provided that intensive consultation is established between the two levels of government (Ch. 27, paras. 95, 96 and 98). In reality, what the Committee fears most is not the loss of a provincial autonomy made redundant by the search for uniformity, but rather the fact that with a common tax base and a collection agreement it would be difficult for the province not to go along with federal policy changes of which it does not approve. It is probably for the same reason that the Committee showed its distaste for shared-cost programs.

Given that the federal and provincial corporate tax bases are virtually identical, then it should be generally accepted that duplication of administrative machinery involves a waste of resources, unless of course the provincial authorities are job-creating conscious or want to use the corporate income tax as a policy instrument. Nevertheless, one should be careful not to minimize the educational effect of maintaining a duplicate provincial administration, in so far as it can be used to train experts who think primarily in terms of provincial interests.

Uniformity of Tax Laws

If, for one reason or another, a collection agreement were not concluded, then the Committee feels that uniformity should again be the rule and that the province should try to eliminate all non-essential differences between the federal and provincial tax statutes as quickly as possible (Ch. 27, paras. 107-10).

More precisely, the Committee would want the province to amend *The Corporations Tax Act* so as to subject Ontario corporations to the provisions of the *Income Tax Act* (Canada) and the federal *Regulations,* except as otherwise specified. This, of course, is a desirable change and I shall not comment further on that.

[6] Elsewhere (Ch. 27, para. 92) the same argument is used to show that a unique (and federal) tax administration could be detrimental to the province, in so far as it could result in a misallocation of corporate income among the provinces.

Changes Pertaining to Particular Corporate Levies

The recommendation to abolish the present capital, place-of-business and special taxes applicable to selected companies is undoubtedly a wise one, and their replacement by an annual corporate business tax of fixed amount (that is, a corporation "poll" tax) and of equal yield eliminates what was a nuisance to both the taxpaying corporations and the fisc (Ch. 27, para. 125). Any argument as to the need for additional provincial revenue aside, the fact that the Committee recommended the replacement of those taxes by a new one, instead of simply abolishing them, indicates that their nuisance value to the provincial Treasury was given more weight than their nuisance value to the taxpaying corporations.[7]

Elsewhere, the Commissions argue that the provinces should share in the revenue derived by the federal government from the special taxes on corporate distributions since these levies are in fact a substitute for the personal income tax (Ch. 27, para. 105). The Committee then specifies that the provincial share should be based on the personal income tax abatement and the proportion of the income of a corporation allocated to each province. In the same vein, the Committee also suggests that the provinces should share, to the extent of the corporation income tax abatement, in the proceeds of the non-resident withholding taxes collected by the federal government (Ch. 27, para. 106).

I was a bit surprised to notice that, in the course of its discussion of the remittance (since January 1, 1966) to the provinces of 95% of the federal income tax paid by electric, gas and steam utility corporations, the Committee failed to recommend that the provinces seek a remittance *in toto* (paras. 103-4). I see no justification for the missing 5% except, perhaps, as a collection fee and, as such, it establishes an unwelcome precedent in respect of provincial sharing in the revenue from the special taxes on corporate distributions and from the non-resident corporation withholding tax.

The Corporation Income Tax in a Federal State

I stated above that the Committee's position on the problem of corporate income taxation was politically and economically a most prudent one and my remarks on the Committee's recommendations, though by no means unfavourable, made that point clearer. How much farther should the Committee have gone on that issue? I do not claim to have the answer to that question; however, I think that the answer depends critically on one's views about the incidence of the corporation income tax in a federal state. Let me now try to contribute to the discussion of that issue.

It is generally recognized that there is less agreement about who really pays the corporation income tax than there is about the incidence of any other form of taxation.[8] Both theoretical analyses and empirical studies are inconclusive on that point (Ch. 27, paras. 38-40). However, one thing is certain; present legislation on the taxation of corporate income in Canada is based on the "separate identity" doctrine and the no-shifting assumption. While the doctrine may be acceptable to many, fewer people would uncritically accept the assumption. In that respect, the Committee rightly made the following point: whether it is shifted or not, and unless it is completely avoided, the corporation income tax does affect prices and so has an influence on the allocation of resources and the level of the national and provincial products.[9]

[7] See also: W. R. Latimer, "Ontario Committee on Taxation: Personal and Corporation Income Taxes", *Canadian Tax Journal*, Vol. XV, No. 6, (November-December 1967), p. 557.

[8] Joseph A. Peckman, *Federal Tax Policy*, Washington: The Brookings Institution, 1966, p. 99.

[9] See also: *Report of the Royal Commission on Taxation*, Vol. IV, p. 20).

If one accepts the complete-shifting assumption, then one considers the corporation income tax as a cost element, that is, as a universal "direct" indirect tax on "corporate" goods and services, as pointed out in the *Report* (Ch. 27, para. 34). Then, for the sake of consistency within the tax mix, one would probably favour the enactment of legislation preventing the incorporation of firms producing goods and services which are exempt from the general sales tax; or, as the Committee points out, one could logically argue that such firms should not be required to pay the corporation income tax or that the corporation income tax should be replaced, in whole or in part, by a higher general sales tax (Ch. 27, para. 42). Whatever the case may be, the complete-shifting assumption falsifies the so-called "double-taxation" argument and renders the dividend tax credit unjustified as a remedy to double-taxation (Ch. 27, para. 43). Moreover, the assumption also leads to the conclusion that corporate income is under-taxed, with relatively more of the benefits accruing to high income shareholders than to low income shareholders (Ch. 27, paras. 49 and 123).[10] Finally, the complete-shifting assumption entails a presumption that the corporation income tax reduces the competitiveness of Canadian corporate exporters (Ch. 27, paras. 62-7) and discourages the expansion of export-oriented industries. In a country where the small size of the domestic market is already a handicap, this may constitute a real problem.

On the other hand, the no-shifting assumption implies a reduction in the net corporate rate of return and in corporate investment and a corresponding increase in the net non-corporate rate of return and in non-corporate investment (Ch. 27, para. 35). These, in turn, entail an increase in the relative price of corporate goods, which penalizes the consumers of those goods. Not only is there a transfer of tax burden from consumers of non-corporate goods to consumers of corporate goods, but also from relatively high to relatively low dividend income recipients (Para. 36). Moreover, there may also be an increase in the tax burden of those factors of production whose mobility and ease of substitution is less than that of capital (Para. 37). Finally, since the tax is assumed not to be shifted, corporate source income is over-taxed, the more so the lower the income of the shareholder (Paras. 44-5 and 48).

So, whether the tax is assumed to be shifted or not, it appears that low income shareholders and low dividend income recipients are penalized; one might readily guess that most of them live in low income and corporation-poor provinces. Moreover, the tax tends to raise the relative price of corporate goods and hence to raise the terms of trade of the corporation-abundant provinces. Starting from there, is it so surprising that regional income disparities have been shown to be so persistent in Canada?[11] In view of this, even a Martian, who was well-read in economics but totally unfamliiar with the Canadian facts of life, could guess that the following quotation from the *Report* was written for the richest province in this land since it neatly underplays the differential impact the corporate income tax has on the peripheral provinces.

> From a pragmatic standpoint, the saving feature of the issue is that virtually all jurisdictions with which Canada and Ontario companies compete levy taxes on corporate income, and thus their companies and residents suffer much the same consequences in both equity and economic effect as occur in Ontario and the rest of Canada. This, of course, is not a very satisfactory answer, but from it can be drawn one important point for practical tax policy. As long as the state of uncertainty exists concerning its incidence, the level of taxation of corporate profits in Ontario should be kept closely in line with the level prevailing in the rest of Canada. (Ch. 27, para. 76)

[10] The Committee refers to the study by John R. Allan, *The Income Tax Burden in Canadian Stockholders*, Toronto, The Canadian Tax Foundation, 1966.

[11] *Towards Sustained and Balanced Economic Growth*, Second Annual Review, Economic Council of Canada, Ottawa: Queen's Printer, December 1965, Ch. 5.

Of course, that is not a satisfactory answer. If one's judgment on the corporation income tax must, in the final analysis, depend so critically on one's views about the incidence of that tax, the very inconclusiveness of the evidence about the incidence should have led the Committee to investigate the various ways and means of bringing the burden of that tax to bear where it can most easily be identified. Integration, along with its complementary features, is such a means.

I do not wish to go into the technical aspects of integration, but I would make a number of points which I believe to be important from the point of view of economic policy, some of which are already well-known.

1. In Canada, the corporation income tax and the personal income tax are already partially, though imperfectly, integrated.

2. If full integration raises fears because of uncertain effects, this does not mean that partial and gradual integration should be ruled out; that is, the integration ratio could be increased gradually.[11a]

3. Technically, the corporation income tax is a policy instrument in the hands of the federal government. Integration would not mean that this instrument would be lost, but rather that an additional instrument would be gained, namely the integration ratio. It so happens that the flexibility and efficiency of economic policy depends on the number of policy instruments in the hands of the government.

4. Whereas the federal government could, in respect of its residents, integrate its share of the corporation income tax, so likewise could the provinces do, albeit to a lesser extent, in order not to unduly compartmentalize the Canadian capital market and thus freeze capital in the capital-rich provinces.

5. On the other hand, federal integration, without provincial integration, could be viewed as a means of effecting a net transfer of fiscal resources to the provinces, should the federal government decide to do this. This is a far cry from asking the provinces to vacate the field of corporate income taxation in order to better enable the federal government to integrate these two taxes. This, by the way, could have been investigated when the Committee was looking for ways of reducing the deficits of "staggering magnitude" that would, at unchanged tax rates, result from the implementation of its recommendations (Ch. 8, p. 274, Table 5). Instead, the Committee merely contemplated an increase to 15% in the provincial corporation income tax rate, thus raising the ratio of the estimated provincial yield of that tax to estimated P.D.P. from the almost constant 1.35% level of past years (Ch. 6, para. 49) to 1.64% by 1975, as Table 2 indicates, which reflects the Committee's claim that the corporation income tax is "an inferior source of additional revenue".

[11a] For a different view, see: *Report of the Royal Commission on Taxation* (Ottawa, Queen's Printer, 1966), Vol. IV, p. 75.

Table 2

PROPOSED CHANGES TO THE CORPORATION INCOME TAX RATE, ESTIMATED ADDITIONAL YIELD AND PROVINCIAL DOMESTIC PRODUCT

(millions of dollars)

Fiscal year	1968-69	1971-72	1974-75
Estimated corporation income tax yield at present 12% rate	284	319	382
Proposed corporation income tax rate	13%	13%	15%
Estimated corporation income tax yield at proposed rates	311	350	493
Projected provincial revenue before recommendations and at the present rate	1,925	2,265	2,724
Projected provincial revenue after recommendations and at the present rate	2,072	2,442	2,946
Projected provincial revenue after recommendations and at proposed rates	2,426	3,079	3,877
Estimated P.D.P.	21,600	25,000	30,000
Estimated corporation income tax yield as a percentage of projected provincial revenue before recommendations and at present rates	14.8	14.1	14.0
Estimated corporation income tax yield as a percentage of projected provincial revenue after recommendations			
—at present rates	13.8	13.1	13.0
—at proposed rates	12.8	11.4	12.7
Estimated corporation income tax yield as a percentage of estimated P.D.P.			
—at present rates	1.31	1.28	1.27
—at proposed rates	1.44	1.40	1.64

Source: *Report of the Ontario Committee on Taxation*, Vol. I, Tables 6:7, 6:14, 6:20, 8:5, 8:6, 8:8.

Speaker: **Roger P. Mendels**
Department of Economics, University of British Columbia

The Role of the Personal Income Tax in the Ontario Tax System

It would be difficult to improve upon Professor Allan's excellent presentation, in which he analyzes the relative advantages and disadvantages of income and consumption taxes within the provincial tax structure. Consequently, any further consideration of the points raised would be largely redundant and it is therefore proposed to limit the scope of this paper to a few comments on some of the issues arising out of the discussion.

The question as to what constitutes an appropriate tax mix for a particular economic and political entity is almost impossible to answer with any degree of objective precision. A consensus among the experts in the field is often difficult

to reach, not only because of differences of opinion concerning the proper role and function of the fiscal system, but, more seriously, because of the fact that the profession has not always been able to find precise answers to the basic questions and problems dealing with the shifting and incidence of a particular tax, and its effects on the allocation of resources and on the distribution of incomes. It is perhaps significant to note in this respect that even the theoretical foundations behind our most productive tax, viz. the progressive personal income tax, have lately been challenged with a remarkable degree of persuasion, and that we tend to put greater emphasis on socio-political grounds in order to evaluate a particular tax structure.

The fact that we are dealing here with a provincial tax structure further compounds our difficulties, since ideally the federal tax mix should also be taken into account when the tax structure of a smaller jurisdiction is to be assessed. It would thus be wrong to conclude that the reliance put by Ontario on commodity taxes does not seem excessive, when these taxes account for only 43% of provincial tax revenue as compared to an average of about 50% for the United States, when the fact that the U.S. federal government relies much more heavily on income taxes than does the Canadian federal government is not taken into account. While the Ontario tax mix may thus seem to be reasonably progressive and to strike an acceptable balance between income and commodity taxes, the Ontario taxpayer who has to pay taxes to both the federal and the provincial governments may indeed face a tax structure that is considerably more regressive than the structure faced by most residents of the United States. It is certainly encouraging to notice that it was precisely considerations like these that led the Committee to propose the basic exemptions from the real property tax in order to reduce some of the regressivity in this municipal levy, thus improving the overall provincial tax structure. It is perhaps less encouraging to note that the Committee had so little to say about the personal income tax and the potential role it could play in the provincial tax structure.

It is quite clear from the *Report* that the Committee viewed the present place of the personal income tax in the provincial tax mix as satisfactory and no real changes are therefore advocated. However, even if the role played by the personal income tax at the present time is considered appropriate, the complete reliance on the federal government to administer the tax introduces a large element of uncertainty into the picture. The recommendation that any change in the personal income tax field should only be implemented after prior consultation with the province seems somewhat unrealistic not only in view of current budgetary procedure but, more important, in view of the importance of the tax as a fiscal policy tool. Federal-provincial consultations would certainly reduce the speed with which any desired or needed changes in the tax could be implemented.

By rejecting provincial autonomy in the personal income tax field, the Committee closes the door to any provincial changes in the tax base which could be fruitfully used to counteract some particularly undesirable consequences flowing from the general provincial tax structure. Thus the income tax base could be adjusted to remove some of the regressivity of high rates of sales taxation or alternatively a certain tax credit could be granted to achieve the same end. Apparently, the governments of the majority of the states south of the border do not find that state income taxes are either impossible or too costly to implement, especially when the federal government already occupies the field with an efficient administration.

It can, of course, be argued that the fact that the Committee proposed no changes in the provincial income tax structure still amounts to a recommendation to place greater reliance on the personal income tax as a source of budgetary

revenue since the income elasticity of a progressive income tax is greater than the income elasticity of most commodity-based taxes. Increases in personal income will thus lead to greater increases in the revenues derived from the personal income tax than in the revenues derived from consumption taxes. The Committee's projections to 1975 show a small increase in the share of personal income taxes from 21% to 24%. When the provincial expenditure side is introduced into the picture, the Committee estimates that, in order to achieve an acceptable provincial debt ratio, the income tax abatement rate would have to be increased to 40% from its present level of 25%. This increase, coupled with the projected lesser increases in the rates of the other taxes would actually increase the share of the personal income tax to about 27% of budgetary revenues. Whether this increase will be realized will depend, of course, on whether or not the federal income tax structure is changed during this period of time and on whether the provincial rate of tax can be increased to 40%.

While it thus seems fairly clear that the Committee felt that the present Ontario tax mix strikes an acceptable balance between income and consumption taxes, this reviewer feels that the Committee missed an opportunity to consider the potential improvement possible through a greater integration of the provincial personal income tax with the consumption-based taxes. A provincial tax mix can be evaluated properly only if the whole fiscal structure, federal, provincial and municipal, is taken into account. This the Committee failed to do in a satisfactory fashion.

Property Tax -- Assessment and Appeals

Chairman: F. H. Finnis

Speakers: John T. Weir
Lewis Greensword
A. R. Dixon
Ian W. McClung

Chairman: **F. H. Finnis**
Research Associate, Canadian Tax Foundation

Speaker: **John T. Weir, Q.C.**
Arnup, Foulds, Weir, Boeckh, Morris & Robinson, Toronto

Introduction

My qualifications, if any, for taking part in this discussion lie in the procedural aspects of assessment and assessment appeals and, while I have a strong hunch that many of the other recommendations will turn out to be politically unattractive, I will try very hard to refrain from comment on them. I do want to remind my fellow panelists, however, that there are more votes among residential taxpayers than taxpayers occupying industrial or commercial premises.

From the viewpoint of procedure, leaving tax philosophy aside for the moment, it appears to me that the key recommendations in Volume II are, to say the least, paradoxical, if not downright contradictory. Recommendation 11:3 on page 73, reads as follows:

> The Assessment Act be amended to provide that real property is to be assessed at actual value without reference to the value at which similar real property in the vicinity is assessed.

Hence, in the "post-Smith" world, we begin with an annual assessment tied to a fixed date at 100% of market value, and while recommendation 11:16, page 119, suggests that there be taxable assessment at 70% and 50% of the assessment, the assessor's duty is to mark on the roll 100%. This duty of the assessor to mark on the roll 100% of market value is the law of Ontario today, and appears to have been the law almost since assessing for local purposes began.

This law has over these many years proved wholly impractical. Some of the reasons why the law has proved impractical in the past are as follows.

(a) The assessors cannot, even with modern office equipment, do the volume of skilled work that is required to be done each and every year.

(b) If any taxpayer's property is under-assessed, that taxpayer has no incentive to appeal, and will not in the future have any incentive to appeal, even if the appellate machinery is improved. It is to be noted here that the only incentive that the taxpayer has had in the past to appeal an under-assessment lay in the concept that he was entitled to an equitable or comparable assessment with his neighbour, and the recommendation above quoted would eliminate this right entirely.

(c) While the taxpayer has always had the privilege of appealing his neighbour's under-assessment—which the *Report* would continue—it has proved to be an unattractive opportunity because it is regarded as the unforgiveable sin to appeal a social or business neighbour's assessment, and only someone seeking to be an outcast will attempt it.

The paradox built into Recommendation 11:3 is that the concept of an entitlement to a comparable or equitable assessment has provided the only relief to the taxpayer against the Assessment Department that deliberately or carelessly assesses everyone at less than 100%. In fact, only the development of a workable system for the establishment of an equitable assessment would, in the long run, convince the assessors to assess at 100%. But to withdraw this equitable stick of carrot, imperfect as it has been in the past, is essentially contradictory to the first part of the recommendation. The failure of the *Report* in this area, in my view, means that it will simply perpetuate the system, under which we have been living, of general under-assessment, and deprive the taxpayer of what little remedy he has had in the past to combat an unfair under-assessment.

Long ago it was recognized that assessments, despite the law, were not at 100%; hence the sections in the Act for county equalization by-laws and appeals. These by-laws and appeals are retained by the *Report* (para. 18:8, p. 367) so not even the Committee is optimistic about achieving 100%. The province, when it began to pay out large sums on the basis of assessment, e.g. school grants, began its program of developing the department equalization multiplier to ensure that two municipalities with the same quantum of real value received the same grant.

If, in the "post-Smith" era we are, in fact, to have 100% assessment, the Department should be able to reduce its costs substantially by eliminating the multiplier and taking only samples for supervision purposes.

But the *Report* itself considers that, in fact, 100% is "pie in the sky"; that not only will the provincial "equalizer" be required, but its use will be extended. It will be an essential part of the measure for the basic shelter exemption (Recommendation 11:11, p. 95).

Despite this recognition that under-assessment will likely continue, as has already been said, the taxpayer's remedy will be effectively eliminated because the equitable assessment principle will be repealed (p. 73, para. 34).

But it is too easy to be critical. Everyone, even under the present Act, is in favour of 100% assessment. (It is like motherhood—those who oppose, are suspected of not being married). How might it be done? Why not begin slowly, with two years to achieve 100% assessment? Give the assessor a valuation date, say, January 1, 1967, and require that all taxes paid in 1970 and 1971 be paid on this assessment. Then move the date to 1969 for taxes paid in 1972 and 1973. Admittedly, some values will change in the four years between 1967 and 1971, but after trying to live with a system based on 1940 in 1967, I am prepared to live now with these suggested lags until assessment education is widened, both in

the assessment departments and in the taxpayers. Once a truly proper and efficient system of valuation is established, we may be able to move to an annual valuation, but let us walk well before we try to run.

An alternative is a rotating system by which one-third of the assessor's bailiwick is brought up to the year prior to tax payments each year. This suggestion is not capable of implementation in a beginning year. For example, one cannot ask only one-third of the Metro taxpayers to pay on 50% or 70% of market value in 1968 while others are paying on 33% or 45% of 1968 value. For this reason, a sort of "Hobson's choice" dictates that we give assessors at least two and possibly three years to bring all assessments up to 100% of, say, January 1, 1967.

Second, I suggest we give the provincial equalization multiplier statutory effect. Require it to be published prior to the time for taxpayers' appeals to be launched. And the issue in the taxpayer's appeal should be made "whether or not he is over-assessed in relation to the assessment multiplied by the provincial equalization factor". For example, if Metro Toronto is found by the province to be assessing at 90% instead of 100%, then a taxpayer is entitled to have the tribunal hearing his appeal fix his assessment at 90% of value.

Metro would then become vitally concerned in either reaching 100% or appealing against the provincial multiplier. Recommendation 11:6, page 80, contemplates an appeal by the municipality against the provincial factor. This recommendation would in its bald form not be very practical unless regulations were enacted indicating the basic method, including a statistical formula for judging the correctness of the provincial factor. The *Report* refers to the problems in attempting to determine the accuracy of comparing a finished assessment for an area with the 100% standard. Even if you do not like my alternative, I suggest that annual assessment is "impossible" and that Recommendation 11:6 is only sensible if regulations setting out the method are established.

The *Report* discusses in some detail the confusion in the present appeal procedures, but fails to put its finger on the cause, except to over-state the constitutional problem.

The real weakness in processing an assessment appeal is to determine the "issue". No taxpayer in Toronto is assessed at 100% of "market value". Is the issue on his appeal today whether or not the assessment conforms with the "manual", provincial or local? Is it whether or not the property could be reconstructed, less depreciation, in 1940 at its assessed figure? Since equity is going to be out in "post-Smith" land, as a result of Recommendation 11:3, then the issue may be: "Is the assessment higher than actual value?" No taxpayer can win if property is assessed at, say 95% of value, although the provincial factor says the average is 85%.

It will be suggested that these comments are unfair because the *Report* provides other incentives to induce 100% assessing. For example, Recommendations 11:7 to 11:9 (pp. 80-82) all provide for the province moving in one way or another to compel 100% assessing. A careful examination of the recommendations in the light of the existing political relationship between the province and locally elected councillors should convince one that only in rare cases will they be used. The province's ox is not gored, because every time it is called upon to pay money, including the payments of the "basic shelter allowance", it can use its multiplier to get fair treatment. The province has no financial incentive to demand, even at the risk of some local hard feelings, a 100% assessment. Not so the taxpayer. The use of the factor is denied to him by Mr. Smith and his colleagues.

Again, if my suggestion of permitting the taxpayer to use the provincial multiplier is "too far out" because the "factor" is not regarded as an exact measure, then deny its use to the province. Make the province pay its grants and its shelter allowance on the assessment roll as returned. If this were done, Recommendations 11:7 to 11:9 would be invoked very frequently until assessors and their bosses found out that this 100% of market value was really no fooling; it means 100%, not 60%, 70% or 80%.

With the province taking no financial risk, as the *Report* recommends, then the taxpayer will continue to suffer most of the injustice that the *Report* so boldly describes in Chapter 13 and its Appendix.

Procedure on Appeals—(Ch. 18, p. 359)

Recommendation 18:1 (p. 364) suggests a reorganization of the Courts of Revision, which seems practical.

Recommendation 18:2 is a big step, but it will be of small help unless "working papers" are defined and required to be kept. Penalties must also be established for failure to comply with the requirement. Police court penalties are of no use. No one is going to fine an Assessment Commissioner $25 for failure on the part of a member of his staff. It would be better that the penalty of failure be taken out in costs against the municipality, in respect of which there is a very far-reaching recommendation in 18:7 (p. 367).

But instead of 18:2, why not require the assessor to show that the assessment is correct? I suggest that the Act place the onus on the municipality to lead evidence on the valuation at the Assessment Appeal Board, and at the first judicial trial of the assessment.[1] The former without the latter will not do very much because there will be no stenographic record at the Board of the assessor's evidence, and the proceedings at the judicial level must be *de novo* or the Appeal Boards will be bogged down in "procedure".

Recommendation 18:4 (p. 365) has a curious omission. The text at page 366 suggests a further appeal to the Court of Appeal for Ontario, a suggestion that has been advocated by most lawyers and The Canadian Bar Association for many years, yet it does not get the character of a recommendation, nor the bold type of "what is important". The Summary of Recommendations in Volume I omits this recommendation also.

Recommendation 18:4 is a most practical recommendation in terms of its constitutional simplicity. In most areas, the County Court is well-equipped to carry out the function, but as suggested, more judges will be required, particularly in Toronto. This hearing before the County Court must become a judicial proceeding in which the municipality makes its case for the valuation through its assessment staff and any other witnesses, and the taxpayer calls his experts. If the new Appeal Boards are really independent administrative bodies, the volume of appeals will not be too heavy. If they perform badly, the expense of many appeals will induce the municipality to appoint fair-minded members. The concept of "no costs" before the Board is a good one, but costs should follow the decision before the County Court, and rarely should "solicitor and client" costs be given. After all, valuation is an opinion, not a mathematical science.

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[1] *Assessment Act*, Ch. 110, Statutes of New Brunswick, 1965-66, section 31 . . . "in any appeal, the Minister shall prove the correctness of the assessment".

General

This paper has failed to cover all of its assigned area. But many of the recommendations are clearly desirable; for example, eliminating power to proscribe manuals (Ch. 13, paras. 108-115, p. 230), again a recommendation of The Canadian Bar Association, and the tidying up of definitions, etc. (Ch. 11, p. 68).

This paper may seem unduly critical of the sections of the *Report* discussed. It should not be so regarded by the Committee or those attending here. In fact, the text of the *Report* is the finest, deepest and frankest discussion of the problem ever produced. It is so good that no one will dare to discuss assessment except in its framework.

My criticism is directed to the form of the solutions only. Regretfully, I think they lack a true understanding of how government at all levels and taxpayers behave in the practical world. The *Report* is too idealistic. The lawyer understands that litigants don't want "justice"—they want to "win". Like Adam Smith, I want a system that relies for its regulatory balances upon self-interest.

To summarize, we want assessments to be equitable because all are made at 100% of market value on a fixed date.

Accepting this goal, we and the Committee must recognize that for some reason (mistakes, too little time, too little staff, etc.) this may not be achieved for some years. If it does happen (and the *Report* acknowledges that it can happen), then the taxpayer must not be left without a remedy. He must be given the right to an assessment that bears the same proportion to 100% as does his neighbour's. Out of this *Report,* we must find the means to ensure this elemental justice to every taxpayer.

Speaker: **Lewis Greensword**
Assessment Commissioner, Municipality of Metropolitan Toronto

Recommendations for Assessment Changes

A sound assessment program is the very backbone of the financial structure of local government, and as an assessor I am of course vitally interested and concerned with any concept which would change the *status quo* and increase the efficiency and effectiveness of assessment departments in Ontario.

As a relative newcomer to this province I must say I am rather dismayed at much of the legislation governing assessment matters, and find that I am in substantial agreement with the *Report of the Ontario Committee on Taxation* respecting many of their comments concerning the need for revision of much of the statutory direction to assessors contained in the present *Assessment Act.* At the same time it must be admitted I am not at all in agreement with some of their recommendations; with others I have the feeling they have gone too far, and still others, not far enough.

I propose to discuss very briefly this morning a number of the observations and recommendations assigned to me and contained in that portion of the *Report of the Ontario Committee on Taxation* which deals with the assessment function.

Assessment Manuals

On the matter of the practicability of current manuals, the *Report* offers certain criticisms of the two-part new Ontario assessment manual, pointing out, rather academically, that the manual uses the term "appraisal" where no doubt

the term "assessment" would be more in keeping with the intent, outlining the difficulties and possible fallacies of attempting to distill "inflationary forces" components out of current value trends, and emphasizing the fact that the current manual cost schedules are indicative of 1962 values and therefore are now five years out of date.

No assessment manual is completely accurate and foolproof, and therefore all manuals can quite properly be criticized on certain grounds. These manuals are essentially manuals of cost factors, prepared for guidance and assistance in determining the cost approach to value, although other important methods of valuation such as market analysis and capitalization of income are dealt with as well.

Up-dated costs, as obtained from manuals, tend to indicate the upper limit of value, but are very necessary in mass assessment work in order that uniformity and equity of assessments may be achieved. They are therefore a valuable tool to the assessor, but assessments should not and usually are not determined on the basis of cost alone.

The major point of the Committee relative to the new provincial manual appears to be the fear that if it were made applicable "by reference" to all Ontario municipalities, there would exist the danger that the provisions contained therein would be given preference over all other value indicators in the determination of assessed values. Admittedly this would be an unfortunate situation, should it occur, but I do not believe the manual was compiled for this specific purpose, nor do I think it likely that we will ever see the mandatory adoption of any manual to the exclusion of all other guides towards the achievement of "actual value".

Annual Reassessment at "Actual Value"

On the matter of the difficulties of annual reassessment, Recommendation 13:3, p. 237, reads:

> The Assessment Branch of the Department of Municipal Affairs develop and promote the adoption of a plan of annual reassessment in each municipal assessment jurisdiction.

The difficulty in knowing what was in the mind of the Committee with respect to this recommendation lies in the phrase "annual reassessment", and an intensive perusal of the text of the *Report* does not readily clarify the matter.

If we are to interpret "annual assessment" as one in which every property is revalued every year in an up-to-the-minute relationship with current "actual value" as evidenced by sales, rents, costs, etc., the plan is of course impossible to implement in a jurisdiction as large as Metropolitan Toronto.

It is believed, however, that the Committee envisages the immediate start by all jurisdictions on a program designed to bring all assessments into relatively close conformity with current "actual value". This program, which would take three to four years to complete, would be supplemented in subsequent years by an "annual reassessment", wherein each property would be revalued as required, using as a check a judicious assessment sales analysis system, and every property would further be physically re-inspected once every three or four years. An on-site inspection any less frequently would lead to assessment inequities owing to physical changes affecting value not being observed by the assessor, and if performed more frequently would tend to contribute to a system of necessarily hurried inspections which would be undesirable for many reasons, including high cost and possible lack of thoroughness.

It must be realized that it is administratively impossible to maintain all assessments at all times at a level of full current "actual value". If values go up, assess-

ments should follow in turn; if values go down, assessments should likewise decline. By the very nature of the assessment process assessments will necessarily lag slightly behind current demonstrable values.

To be entirely realistic it might be wise to consider declaring "actual value" for the purposes of *The Assessment Act* to be on a progressively moving base encompassing an average of the two- or three-year period immediately preceding the year in which the roll is being compiled. In this way the effect of any temporary rapid fluctuation in values would be softened and a more stable assessment and taxation situation would result.

In any event it would seem unwise and completely unnecessary to continually adjust assessments in response to nominal market value changes. In conformity with this suggestion it might be wise to consider enacting a rule that once all assessments are brought into close proximity to "actual value", changes in assessment magnitude would not be mandatory unless such deviations became greater than, say, 10%.

Effects of Reassessment

On the matter of the effects and public acceptance of assessments at 100% of value, the Committee expresses the view that the public is unlikely to be particularly enraptured with a change to assessment at 100% of current value and that substantial and well-planned public enlightenment campaigns should be carried out by all concerned, principally by the provincial government.

There is no doubt that full value assessments should be instituted across the province without delay. Many jurisdictions, including Metropolitan Toronto, are using assessment datum lines of the early 1940's, which are now more than a quarter of a century out of date. Values based so far in the past are hard to attack as well as hard to defend, and inequities are bound to insinuate themselves into the very fabric of such a system.

Most property owners have a relatively good knowledge of the worth of their holdings, and in spite of the resistance that will undoubtedly be attendant upon such a change in assessment levels they are certainly going to have a far better idea of relative equity between properties if assessments are set at a base approaching current value. Therefore, although there will be opposition to the change, I do not think it will be a valid opposition. The advantages of 100% assessments far outweigh the disadvantages.

Responsibility for Assessment

The Committee apparently is in favour of retaining the major responsibility for assessments at the local level, increasing the size of assessment jurisdictions in order that specialized professional staff and modern assessment methods and techniques may be utilized, strengthening the role of the Assessment Branch of the Department of Municipal Affairs in the matter of assisting in the training and retraining of local assessors as well as primarily being responsible for the assessment of certain "special purpose" enterprises, educational institutions, public hospitals, etc., and the production and publication of equalization indices for all local jurisdictions.

There can be no quarrel with these views. Indeed, great strides have been made in the last year or two in these and other related areas of assessment activity. I have been particularly impressed by the co-operation and mutual assistance between the Assessment Branch and the local jurisdictions in such endeavours as

standardization of forms and notices, assessment theory study sessions and practical field training of staff, licensing of assessors, improvement of the Queen's University Extension Course for assessors and utilization of data processing equipment where it can be advantageous.

Assessment of "Special Purpose" Properties

Committee has a great deal to say about many categories ranging from farms, recognized historic sites and golf courses to pipe-line companies, municipal utility enterprises and transportation and communication properties.

In general, with a few notable exceptions, the *Report* appears to favour the adherence to recommended normal assessment procedures for all "special purpose" properties and the rescinding of all legislation requiring or permitting assessments at fixed or statutory rates. This change is long overdue and a brief analysis of the recommendation with respect to transportation and communication properties will point up the need for revision of existing legislation in this special field. Recommendation 13:2 (p. 225) of the *Report* reads as follows:

> Real property used for transportation or communications enterprises be assessable on the same basis as other real property; and
>
> (a) the responsibility for assessing the properties of transportation and communications enterprises that overlap local assessment jurisdictions be assigned to the Assessment Branch of the Department of Municipal Affairs, and assessments of such properties be subject to appeal by the local taxing jurisdictions within which they are situated, and
>
> (b) the Assessment Branch be empowered
>
> (i) to assess other transportation and communications properties at the request of the responsible local jurisdiction, and
>
> (ii) to relinquish to local jurisdictions the responsibility for assessing transportation and communications properties where the extent of overlapping jurisdiction is nominal.

At the present time a wide and confusing range of methods, techniques, procedures and criteria, coupled with certain statutory rates, are prescribed by statute relative to the assessment and taxation of transportation and communication enterprises in Ontario.

Land and buildings of telephone or telegraph companies are assessed on the same basis as other real property in the jurisdiction. A business assessment of 25% on those portions of the land and buildings used for business purposes is also applied. When taxing these properties, the total assessed value is placed in the commercial tax rate column without any consideration being given to those portions not used for business, which in other real property would be shown in the residential tax rate column. In Metropolitan Toronto the telephone and telegraph companies are assessed at 75% and 50% respectively of their gross receipts in lieu of an assessment on the number of circuits and plant within the jurisdiction.

Distribution pipe-lines of a pipe-line company are assessed in the same manner as other real property, but transmission pipe-lines of such a company are assessed in accordance with a schedule of statutory rates which vary with the inside or outside diameter of the pipe and are subject to statutory depreciation rates up to a prescribed maximum.

Railway roadways or rights-of-way are assessed at the average value of land "in the locality"; other railway lands are assessed on a similar basis to other real property within the jurisdiction. Structures, substructures, superstructures, rails,

ties, poles, wires and other property on railway lands and used exclusively for railway purposes (except stations, freight sheds, offices, warehouses, elevators, hotels, round-houses, machines and repair shops, etc.) are exempt from assessment, but if located upon, in, over, under or affixed to any highway, street or road are assessable at their "actual cash value" as they would be appraised upon a sale to another company possessing "similar powers, rights, and franchises . . ."

Land occupied by a municipal utility is by statute assessable at the average value of land "in the vicinity"; any building utilized in connection with and located on such land is assessed on the same basis as other real property within the jurisdiction.

Land owned by the Hydro Power Commission of Ontario is assessed under *The Power Commission Act* at the average value of land "in the locality" and any executive and administrative buildings are assessed on the same basis as other real property; a grant-in-lieu is paid equivalent to the general and school rate applied to these values; a grant-in-lieu is paid on any generating station or transformer station building based on an assessment of $2.00 per square foot of "inside ground floor area" multiplied by the provincial equalization factor for the subject jurisdiction for that year; all other hydro buildings are assessed in the normal manner, but no grants are paid thereon.

Many other permutations and combinations of the foregoing various systems which govern the existing procedures respecting other transportation and communication enterprises could be set out, but this will suffice to illustrate the very unwieldy and circuitous operations required by the assessor and the treasurer under current legislation.

There does not appear to be any sound reason why these types of special purpose properties should not be at least assessable on the same basis as all other real property. No objection is taken with respect to those portions of the recommendation dealing with the delegation of responsibility for making the assessments.

Other Duties of Assessors

On the matter of the non-assessment responsibilities of the assessor the *Report* rather thoroughly covers the field, listing many of the statutory duties required of the assessor which are totally unrelated to the valuation of real property and which take up so much of the time of an assessment department.

These duties include the gathering of information used in the preparation of the voters' lists, jury lists, population statistics, and so on, such as the names of all owners and tenants and their respective citizenship, age, occupation, marital status in the case of women, religion, school support, number of persons resident in each household classified by age groups, number of dogs and number of bitches, etc. The assessor is responsible for the calculations in preparation for local improvement levies, changes in exempt status of property during the course of the year, recording new occupants of business properties, and noting when a newly-constructed building becomes suitable for occupancy. The assessor is also involved in cancellations, reductions or refunds of taxes due to demolition, fire damage or inability to pay, as well as the extremely time-consuming duties of apportionment of total assessment with respect to individual occupancies and school support amounts in multi-occupancy properties.

Having noted many of the foregoing mandatory duties the Committee merely questions the necessity of assigning this work to a licensed assessor who has been suitably trained in assessment techniques, and remarks that a number of assessment

departments use less qualified people for this work, hired sometimes on a temporary basis. No mention is made of the wisdom of relieving assessors entirely of the performance of much of this fact-gathering.

Owing to the unprecedented growth of apartment living in recent years, the rapid increase in the number of commercially-employed wives and mothers, the great influx of "new Canadians"—many with little or no ability to converse in the English language—the widespread residential and commercial mobility of a great segment of the population, etc., the ability of the assessor in Metropolitan Toronto to acquire on his first call all the information required by statute has been severely curtailed. It is quite common for the assessor to find a responsible adult at home in less than 50% of his calls during a normal working day. To complete his assigned work necessitates many extra calls by the assessor, mostly at night, and this in turn has resulted in many administrative problems, as well as many staff members of excellent potential turning in frustration to other fields of endeavour.

In spite of the unquestioned need in our present complex society for myriads of statistical data, it is strongly suggested that the prime function of the assessor should be one of pure valuation coupled with its related facets, and that much of the general information now required by law to be gathered by the assessor should be made the responsibility of some other agency.

The present system undoubtedly stems from the relatively simple needs of local governments of early days and the consideration that the assessor was the one local government representative in annual contact with the property owner. While he was on the property he could gather the other bits and pieces of information as well as assessing, even to the recording of the number of dogs in the household. The amount and scope of required general information has increased in recent years to such staggering proportions that the time the assessor in Ontario has been able to devote to his prime assessment function has been very detrimentally affected. The valuation duties of the assessor have at the same time become so complex that the present system of required "extra curricular" activities on his part is in dire need of major surgery rather than the palliatives of aspirin and bandages.

Appeals

On the matter of the role of the assessor in appeals, the Committee does not appear to have much specific comment, other than to recommend that the appealing property owner be accorded the statutory right to examine, personally or through an agent, all the material used to establish the assessment subject to objection.

There can be no serious quarrel with this point although as a matter of general practice, as stated by the *Report,* this information is normally given to a property owner by the assessors of Ontario upon request. It should be made abundantly clear, however, that such disclosure should be with respect only to information pertaining to the property of the party appealing.

The *Report* qualifies the recommendation by admitting that the assessor should be "protected from nuisance inquiries to no serious purpose", and states that this can be accomplished by first requiring the property owner to file his notice of appeal. In that all that is required to constitute a valid appeal under the current legislation is for the property owner to write "over-assessed" on the tear-off section of the Assessment Notice, sign his name, and send it to the pertinent assessment department, there is substantial doubt that this alone will forestall frivolous or vexatious appeals.

It is my submission that any property owner who is of the opinion that his property has been assessed unfairly should be required to submit this assertion in writing to the assessor, stating the specific grounds of complaint, so that the assessor may have at least a remote idea of the premise of the complaint. For example, under the present situation, the first time the assessor may have knowledge of certain properties being relied upon by the appellant as "comparable" is often during the course of the actual hearing before the court, at which time the court must recess while the assessor leaves the courtroom to obtain his records with respect to the alleged "comparable" properties.

The assessor performs a multi-faceted role in the matter of the appeal process. He must receive the appeals, draw up the required schedules, list all pertinent information for the assistance of the court, investigate all complaints, defend his valuations if he is satisfied they are fair and equitable, bring any errors or omissions to the attention of the court for disposition, and generally assist those appellants who may be unaware of the necessity of appealing value rather than taxes, or with any other matters, the burden of proof resting as it does with the party alleging the assessment to be incorrect.

I am of the opinion there is a general unawareness of the magnitude of work the assessor must perform in relation to appeals during the course of a working year. Perhaps a few brief statistics would be helpful in this regard. Taking a broad average over the past several years, the Metropolitan Toronto Assessment Department is required to deal with about 42,700 appeals per annum. This includes 12,500 miscellaneous appeals (ownership, tenancy, sections 53 and 54, etc.), 20,000 school support appeals, 8,000 quantum appeals, 1,300 business appeals and 1,400 county court appeals. Many other more protracted appeals are taken each year to the Ontario Municipal Board as the final authority on questions of fact, as well as appeals to the Court of Appeal or the Supreme Court on questions of law.

Speaker: **A. R. Dixon**
Municipal Taxation Counsel, Dominion Stores Limited, Toronto

The particular aspects of property tax recommendations by the Smith Committee with which this panel is dealing are "Assessment and Appeals". On looking through my program, I note that the first of the six concurrent panel discussions yesterday afternoon was concerned with property tax under the headings "Base" and "Exemptions".

I can foresee a degree of overlap between what I propose to say this morning on "assessment" and what the panel members yesterday afternoon have said on the subject of the base of property tax. I think that this is inevitable, and I can only hope that there may be some difference in viewpoints between yesterday's panelists and my own views today.

The Committee's recommendations are summarized in Chapter 7 of Volume I of their *Report,* and the detailed recommendations, as far as they relate to assessments and appeals in respect of property taxes, are set out in Chapters 11, 12, 13 and 18 of Volume II of the *Report.*

Since my experience lies largely in the field of industrial and commercial properties, I shall be dealing primarily with these rather than residential properties.

For those who are interested, I might mention that Chapter 10 in Volume II of the *Report* sets out at some length the historical reasons for the present basis of property assessment and taxes. Bearing in mind the subject of the panel discussion, I will deal first with assessment and then go on to appeals.

Assessments

First, although it may not come strictly within the present context, I think I should mention that the Committee recommends that machinery in a building, apart from such machinery that is used only or primarily for the purposes of the building or structure or to make it more habitable, shall be excluded from assessment. The present *Assessment Act* (sec. 4(17)) specifically exempts all machinery and equipment used for manufacturing or farming purposes, apart from such machinery and equipment that is used for lighting, heating, or other building purposes or for producing power for sale, and the section then goes on to exclude from assessment exemption such machinery and equipment used for certain other purposes, such as in connection with a transportation system.

This recommendation is set out in Chapter 11, p. 70 of the *Report,* and would certainly avoid a great deal of the sort of litigation which has been waged in recent years, owing to the uncertainty of definition in the present Act.

Another point arising out of the same recommendation is that the definition of land should include the value created by improving the land by grading, sodding, planting, paving, etc. At the moment, there appears to be some doubt in the minds of certain assessors as to whether paving, for instance, should be assessed as part of the land or part of the building. This may seem to be of academic interest only, but in fact it can be quite important, because if paving is not included as part of the value of the building, presumably no depreciation can be allowed for it; also where there is common parking area in a shopping centre which area is not at the present time assessable for business tax purposes, the value of the paving would be included in the assessment figure on which business assessment is based. I will refer further to this matter later.

The Committee also recommends that all legislative instruction as to the circumstances affecting value required to be taken into account in determining actual value for assessment purposes be removed from the legislation, including the right to adopt assessment manuals by reference (Recommendation 11:2, p. 72).

At the moment, *The Assessment Act* permits the Minister to make regulations to provide that the use of assessment manuals shall be mandatory, and that the provisions in the relevant manuals shall over-ride any provisions in the Act itself. The present provision in *The Assessment Act* has been greatly criticized. (No regulations have, in fact, yet been made.)

This power is provided in sec. 21(1) of *The Assessment Act,* R.S.O. 1960, Ch. 23, as amended, which reads as follows:

> The Lieutenant Governor in Council may make regulations adopting by reference manuals prepared by the Department for the guidance of assessors in valuating lands and may make such manuals apply to any municipality, municipalities or class of municipalities with such changes as he deems appropriate with respect to any municipality, municipalities or class of municipalities.
>
> (2) The assessors and assessment commissioners of the municipality or municipalities to which the manuals apply shall comply with such manuals.
>
> (3) Where there is any conflict between any provision of Section 35 and any provision of the manuals as they may be changed by any regulation, the provision of the manuals prevails.

(Section 35, to which I shall refer later, provides that land shall be assessed at its actual value.)

The Committee notes (Ch. 11, p. 73) that "subsection 16 of Section 72 and subsection 2 of Section 86 [of *The Assessment Act*] encourage the appeal tribunals to give consideration to the value at which similar land in the vicinity is assessed". They then state that "the law as amplified by court decisions has not established once and for all whether actual value or equity between similar properties is to take precedence under the law". They therefore recommend that "*The Assessment Act* be amended to provide that real property is to be assessed at actual value without reference to the value at which similar real property in the vicinity is assessed" (Recommendation 11:3).

As to the meaning of "actual value", at p. 204, para. 3, the Committee states that it is highly desirable to assess at current market values.

There are two points for comment here: the first is that, up to now, in certain cases where neighbouring properties have been under-assessed, an appellant has been able on appeal to have the assessment of his own property reduced to the same level, which works hardship on property owners who have not been similarly under-assessed.

The second point is that the use of current market value as a basis for assessment appears to be a very desirable alteration. For one thing—although this applies primarily to residential property—it enables a taxpayer to check just what his property is worth in the assessor's estimation against his own estimate, or, as the Committee puts it, (p. 234, para. 125) it would "place in the hands of the taxpayer a comprehensive estimate of the worth of his property".

Another point in favour of this recommendation is that errors in fact or in judgment are likely to be minimized. To quote once again, (p. 234, para. 126): "A departure of $500 from a 1940-level valuation of $5,000 or thereabouts represents an error of 10 per cent. If the $500 difference is related to a current value of $15,000, the error is only one-third as great."

Up to the present time, except where the new provincial assessment manual has been adopted, there have been a variety of bases of assessment.

The use of current market value for assessment purposes should save assessors a great deal of trouble in that they will not have to relate cost of new buildings and/or land back to the values in the base year, which said base year in some cases is as far back as the early 1940's. It is likely that the new basis of valuation for assessment purposes will not be unfavourably received by the general public, either. It has already been introduced into some municipalities, and I was speaking recently to an assessment commissioner who has introduced this basis into four of the ten municipalities under his jurisdiction, and he said that he had been surprised how little protest had been made against it, once the position had been explained to taxpayers. The usual procedure is for an assessment commissioner to set aside a certain period—possibly a week or more—to hold an "open house" which taxpayers can attend and have their own assessments explained to them.

There is one further observation to be made about current market value and that is that, up to now, an assessor when assessing property has been permitted to take into account the highest and best use to which a property may be put.

Section 35(1) of *The Assessment Act* provides that, subject to qualifications set out in the section, land shall be assessed at actual value, and that in ascertaining

such actual value (of land without building thereon) consideration shall be given to the present use, location, rental value, sale value and any other circumstance affecting the value. "Any other circumstance" is often held to include the consideration of the highest and best use, but the Committee, referring to frequency of assessment, says (p. 230, para. 105) that "If an assessment is truly intended to form the basis of taxation of a property for only one year, the speculative potential for increased value need be given little weight."

Residential Assessment

As far as residential property is concerned, only 70% of the assessed value would be used for tax purposes. Incidentally a further recommendation is that a "basic shelter exemption" should be allowed in respect of each self-contained dwelling unit of (a) $2,000 multiplied by the provincial equalization factor for the municipality, or (b) 50% of the residential taxable assessment applicable to such unit, whichever is the less.

The province would underwrite the full cost of the basic shelter exemption so that the municipality would not lose any tax revenue under this proposal.

Apparently, the province proposes to introduce the basic shelter exemption this year, in which event, as long as residential assessments remain at their present low rate, with a consequently high mill rate, residential taxpayers will be considerably better off than they are now.

I would just like to say a word about the proposed frequency of reassessment. The *Report* states:

> Traditionally, the assessment legislation in Ontario has required annual reassessment of all the properties in a municipality. At the end of World War II, however, provision was made for the adoption by by-law of either a two-year or a three-year rotary system of assessment. Under such a plan, the municipal territory is divided into two or three parts and one part is reassessed each year. At the end of the two- or three-year span, the assessment placed upon the roll will have been entirely revised. The rotary assessment system has not become widely popular, primarily because the necessity of reassessment as a regular recurring process has not been accepted. (Ch. 13, para. 129, p. 234)

The Committee then discusses the practice in other provinces; it appears that, where specific periods are laid down, five years is the maximum period during which a property can go without reassessment. The Committee then asks whether annual reassessment is a practical goal or whether it would be more realistic to aim for a reassessment at regular intervals of from three to five years.

Thereafter, it recommends that the Assessment Branch of the Department of Municipal Affairs should develop and promote the adoption of a plan of annual reassessment in each municipal assessment jurisdiction. It also suggests that pertinent real property information, obtained by other municipal department and local boards, and through electrical inspections by the Hydro-Electric Power Commission of Ontario, should be made available on a regular basis to municipal assessment departments.

I don't think annual reassessments are practicable—at least, without a greatly augmented staff of assessors at the municipal level. If assessment responsibilities are elevated to a regional basis, then the same problem would merely be transferred to that level. There is a grave shortage of qualified assessors at the present time.

Business Assessment

Section 9 of *The Assessment Act* sets out the percentages of property assessments which shall be used for purposes of business assessment. These range from 150% for the business of a distiller down to 10% for the business of a supervised car park (where this is conducted on unimproved land). There is a "basket" clause which provides a rate of 25% for any business not otherwise covered in that section.

Subsequent subsections of section 9 set out exemptions, which we do not have time to consider in detail at the moment, except possibly the first of these. This provides that where any person liable to be assessed for business assessment carries on a business that, by reason of its nature or location, makes it reasonably necessary for him to provide without charge parking for the vehicles of his employees, such person is not liable for business assessment on the land reasonably necessary for such purpose as determined by the assessor. The last few words of this subsection originally read ". . . such person is not liable for business assessment on land actually used for such purpose". It will be seen that this amendment gives an assessor a discretionary power as to the amount of land, if any, which can be exempted for this purpose. This is not a desirable state of affairs.

The Committee recommends that municipalities should be permitted to pass by-laws exempting from business assessment lands set aside for free employee parking for a five-year period, and be permitted to renew such exemptions by by-law for further periods of five years. It seems illogical that this particular power should be entrusted to the whim of individual municipalities.

Whilst on the subject of parking areas, I think I should mention a problem which, as the Committee says, (Ch. 12, para. 168, p. 170) has arisen in recent years through court decisions on the application of business assessment to shopping centre parking areas. At the moment, such areas are not assessable for business tax either against the businesses that share in their use or the shopping centre's owner.

The Committee proposes that all property used in common by business tenants and their customers should be subject to business assessment against either the owner or the tenants. Of course, this still leaves open the question of what proportion, if any, of such common area should be assessed against individual tenants. Possibly it could be apportioned on either the area occupied by each store or on the proportion of rental paid by each store tenant.

At the present time, business tax is the liability of the tenant, and overdue taxes are not a charge on the property occupied. The Committee's recommendations are that business tax should be replaced by a standard occupancy tax. (Recommendation 11:16, p. 119)

Business properties other than transportation and communications properties, but including working farms and taxable mining properties, would be subject to property tax on a taxable assessment of 50% of the assessed value.

Occupants of business properties other than working farms and transportation and communications properties, but including taxable mining properties, would be subject to business occupancy tax on a taxable assessment of 50% of the assessed value of the occupied property at the same mill rate as the property tax.

To complete the picture, the Committee recommends that the owner of a business property should be made responsible for the collection and remittance of municipal and school taxes levied in respect of business assessments on his tenants

and should be made liable for such taxes that he fails to collect, and the business property should be subject to a lien for any such taxes that are not paid. The Committee thinks that it is not unreasonable to place this responsibility on the landlord, as in the majority of cases landlords would bear a lighter load than at present, and business tenants would bear a greater one. (Recommendation 14:5, p. 284)

I do not agree that business tenants would always bear a greater burden than at present. This would depend on what percentage of their business assessment they are now being taxed. However, it is true that the landlord of a commercial property would be better off in practically every case, as, unless there were a provision in the lease that the tenant pay property taxes, then under the proposed legislation, the landlord's liability would be reduced from tax on 100% of the assessed value, by way of property tax, to 50% of the occupancy tax. There is no time for a further explanation of this matter but I would refer you to "Proposals for Taxation of Business" in Chapter 11, pp. 106-7, and particularly to the interim proposals in paragraphs 161 to 163.

The Committee does emphasize, however, that the business occupant would remain "primarily"[1] liable for business taxes, and the actual business assessment upon each property or part property occupied for business purposes would continue to be made upon the business occupant. Notice of such assessment, however, would be given both to the owner and to the occupant and each would have a right of appeal.

The Committee's proposal is that landlord and tenant be made jointly and separately liable for business taxes, and that the landlord be made the tax collector on behalf of the local authority. They add that, if the landlord is to be placed in this position, he should be accorded the same rights for collection of business tax as for his rents under *The Landlord and Tenant Act*. (Ch. 14, para. 64, p. 283)

Assessment Appeals

The recommendations for appeal procedure with regard to property assessments are set out in Chapter 18 in Volume II of the *Report* (p. 359).

The Committee describes the present state of local appeal procedure in Ontario as "a non-hierarchial contortion of four appeal levels that flounder in imprecision", and points out that the taxpayer may choose to contest the validity of an assessment by any one of the following three methods:

1. by an action for a declaration or other relief, such as an injunction, based upon the allegation that the assessment is invalid;
2. by raising the invalidity of an assessment as a defence when the municipality takes an action for recovery of tax or to enforce any of its rights;
3. by other Court procedures, such as *certiorari* or *mandamus* or a declaration of right under Section 15(2) of The Judicature Act or a motion under Section 87(a) of The Assessment Act or under Rule 612(1)(b) of the Rules of Practice.

Briefly, the Committee's recommendations for assessment appeal procedures, which appear under the heading "Administrative Process", (p. 364) are:

(a) The present Courts of Revision be replaced by one or more Assessment Appeal Boards for each city, separated town and county or any combination thereof, or any larger taxing unit that may be formed, composed of three members to be appointed for a three-year term and remunerated by the municipality;

(b) Similar Assessment Appeal Boards be appointed for each district by the Minister of Municipal Affairs upon the recommendation of the local municipalities within the district; and

[1] This is the Committee's word. I would prefer, possibly, "basically".

(c) The members of an Assessment Board be persons meeting prescribed qualifications who are, or in the year prior to their term of office were, neither employees nor members of the Council of the municipality or the Council of any local elective body with jurisdiction within that municipality. (Recomdation 18:1, p. 364)

Under the heading "The Judicial Process", (para. 16, p. 365) the Committee proposes (but does not actually make a specific recommendation) that an appeal would be made first either to an Assessment Appeal Board, or alternatively direct to the County or District Court.

From a decision of the County or District Court, a full appeal on fact and law would go to the Court of Appeal, with a final right of appeal to the Supreme Court of Canada, in accordance with the existing rules for appeal to the last Court.

I note that there is no suggestion that at any level of appeal the assessor shall be called upon to justify his assessments. There is such a provision at one level under the new legislation in New Brunswick. (Section 31 of the *Assessment Act*, 1965-66, Statutes of New Brunswick, Ch. 110.) I should like to know how this provision is working in that province before commenting on its possible introduction here.

General

After these numerous comparisons of present law and of the Committee's proposals, it only remains for me to express my opinion of the Committee's recommendations—where I have not already done so—as far as they relate to the aspects of property tax with which I have been dealing this morning.

And when I express such opinion it relates of course to proposed assessments and taxes on commercial and industrial properties; I am not speaking in my personal capacity as a residential taxpayer.

If it is conceded, as I think it must be, that property taxes are here to stay because no suitable alternative can be found for raising municipal revenue, then the proposals would not leave industrial or commercial taxpayers much worse off than they are now, if at all. Incidentally, I should have mentioned earlier that one of the Committee's recommendations is that industrial and commercial properties should enjoy, if that is the correct word, the same tax rates as residential properties.

I think particularly the recommendation for assessment at 100% current market value is a good one, and also that the proposals for new appeal procedures would be immeasurably superior to the present system.

Speaker: **Ian W. McClung**
Assessment Commissioner, Dufferin and Wellington Counties, Guelph

I wish to thank the sponsoring bodies for the opportunity of taking part in this very interesting and thought-provoking conference and trust that what we have to offer may, in some small way, be of benefit.

As a matter of confession I could hardly wait to get my hands on a copy of the Committee's *Report*. Upon receiving a copy, as an assessor, I naturally turned to the property tax section and immediately breathed a huge sigh of relief as I read the Introduction to Volume II:

1. More than thirty years ago an American public finance authority remarked that "If any tax could have been eliminated by adverse criticism, the general property tax should have been eliminated long ago."[1] The briefs presented to us and the more recent public discussion confirm that the property tax is still unpopular. In a sense our recommendations also confirm the view that the property tax is still invulnerable to criticism. For while we propose major reforms in the form of the property tax and a reduction in the weight placed upon it, we too are unable to propose that it be abolished.
2. We take this position because we have been unable to discover or devise a workable alternative to the real property tax as the major revenue source of local governments that would not drastically reduce, or even destroy, either local autonomy or local fiscal responsibility. To explain why we have reached this conclusion we must first discuss why we think local autonomy and responsibility are important and what the relationship of the taxing powers of local governments is to the realization of these objectives.

May I, at this time, on behalf of the assessment profession in Ontario, thank the Committee for recommending that property taxation be retained.

No professional man has been bombarded as much with the proposal that property taxation be abolished as has the assessor. It is reassuring to note that after much exhaustive study property taxation appears to be here to stay.

Farm Assessment

The area assigned to me concerns farm assessment, now and under Ontario Committee on Taxation proposals; evaluation of reforms now in progress; and existing legislative deficiencies.

Farm assessment as it now exists is, in my humble opinion, pitifully sad. It is an area where the least amount of research has been done to bring it up to modern-day thinking. However, do not go away with the idea that the sad state of affairs was caused by the assessor and has been made even worse through the years by the assessor. On the contrary, the assessor did not pass the present legislation, the assessor did not conveniently forget to define "a farm" or "a farmer".

The assessor for years has been one of the lowest-paid municipal employees, if not the lowest. His job has been put up for tender if he dared ask for a raise and he has been hauled on the carpet more often than any other appointed official for trying to do his job according to the statutes. It is indeed reassuring to see at last some degree of recognition for the assessment profession instead of just criticism. Constructive cirticism we need and desire—knocks we can do without.

Farm assessment now has as many variations as there are assessors and rural municipalities. In 1950 and again in 1954 an attempt was made through the provincial assessment manual to standardize farm land assessment. Two main groupings or divisions were established and in turn were broken down into different classes:

(1) soils suitable for the production of general farm crops in rotation, and

(2) soils which are not suitable for cultivation in regular rotation.

The valuation per acre was then set out by grouping counties of similar nature together.

While this approach made it much easier for the assessor and the Courts of Revision it left a wide variance in equality of assessment.

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[1] Jens P. Jensen, *Property Taxation in the United States*, University of Chicago Press, 1931, p. 478.

At present almost any one who owns a cow or plants some corn is assessed at farm land rates. Why? Because there have been no definitions of "a farm" or "a farmer" and the assessor and/or the courts have taken the easy way out.

Lands that many years ago were productive, but since have become summer homes or country homes for urban escapees are still in too many instances receiving the preferential treatment originally meant for the productive *bona fide* farm.

The Committee recommends as follows:

> The assessment of the land and structures of a farm property be separated into working farm assessment, and residential assessment, and
>
> (a) the farm dwelling and the other parts of the farm holding not qualifying as working farm be classified as residential property;
>
> (b) where part of a farm property does not qualify as working farm because it is not fully utilized, only that portion of the farm lands and structures that is reasonable in the circumstances be classified as working farm; and
>
> (c) the onus be upon the farm owner to establish the extent to which a farm property should be classified as working farm. (Recommendation 11:14, p. 117)

To back up its recommendation the Committee makes the following statements:

> 199. In our view, land that is in productive farm use should qualify as a business for ordinary realty tax purposes, enjoying a preferential position over residential properties. But, unlike other businesses, it should be exempt, we are convinced, from the business occupancy tax whose effect is to make total weight of taxation upon business heavier than upon residential properties. The result of the farm exemption will be, in effect, to exempt food at the primary stage of production from the business occupancy levy, for this tax has ,in some ways, the same ultimate effects as a sales tax.
>
> 200. In separating the residence from the farm, a question will arise as to the amount of land that should be included with the residence. Should it be only sufficient land to serve as a site for the house? What is a sufficient site? We answer the question by adopting a somewhat different approach to this problem.
>
> 201. As we see it, only that part of the farm land and structures that contribute directly and significantly to the business of farming should be classified as farm business property; the remainder should be treated as residential. As with other property assessment questions, the assessor would have the responsibility of determining the status of the property on the basis of the evidence he is able to obtain with respect to it. Consequently, he may require information from the owner as to the gross revenues of the farm as evidence that it is truly a commercial operation. Where a farm is only partly worked, the assessor may decide to grant a farm classification applicable to only a fraction of the value of the fields and farm buildings. The remainder would be included in the residential assessment along with the farm house. The provision of The Assessment Act would have to be carefully worded to establish and maintain such an arrangement. (Ch. 11 ,pp. 116-7.)

We trust it was not the intention of the Committee to take any burden of research and work from the back of the assessor through these recommendations, because, in fact, they are indeed placing considerably more pressure upon him.

I might say that I would welcome legislation of this type and accept the challenge which it brings to the assessor. We must, however, be realistic enough to realize that much difficult interpretation will result. With all due respect to the legislators, we would make this appeal. Please, in some degree at least, interpret the legislation within the Acts before we assessors and the courts come up with our weird interpretations.

The Committee places the onus upon the farmer to designate which portion of the property is working farm. This is in vast contrast to the many comments heard in the past that the onus should be shifted away from the property owner to the assessor. Are we not deluding ourselves that the onus can be placed upon the farmer, unless very stringent regulations are included in the legislation? The ultimate decision as to what is working farm must be made by the assessor with the final decision as to its fairness being determined by the Courts.

The largest single obstacle to equitable assessment of farm properties lies in the lack of a proper definition of a farm.

It is interesting to note the Committee's views on this problem and if you will bear with me I would like to quote their ideas:

> 202. Despite the special treatment that has been accorded to farm properties for more than a century, The Assessment Act has never contained a definition of "farm" of general applicability. The lack of a definition of "farm" or of "farmer" has been a concern of Ontario assessors for a considerable number of years. The need for such a definition was also brought to our attention at our public hearings. There is a definition in Section 24 of the Act that is employed only for the purpose of specifying the voting qualifications of the members of farm families. It is not suitable for most other purposes.
>
> 203. The lack of a definition of "farm" or "farmer" has resulted in litigation without resolving the matter once and for all. Questions continue to arise, such as the proper place to draw the line between a market garden or nursery and a wholesale florist's operation, the validity of treating honey production as farming but not the production of queen bees, and the classification of a cheese factory as farming but not other food-processing operations.
>
> 204. The expansion of feeder operations and other intensive production techniques and the shifting of emphasis generally from land to productive equipment adds to the desirability of attempting some definition that will clarify and stabilize the meaning of farming. If we are to do so, the prelude to a good definition is a clear understanding of the principles that would govern any distinctive treatment of farming for tax purposes. For example, at one time the special valuation provisions relating to farm lands and buildings were not applicable unless the principal occupation of the owner was farming. More recently the benefit of the special valuation has been extended to farms under other ownership as long as the lands are used solely for farm purposes.
>
> 205. It may be thought impossible to develop a helpful definition of "farm" or "farmer". But if the task is difficult, it is hard to believe that problems created by no definition are less than the difficulties of interpretation that might follow upon the Province's best efforts to define these terms. Furthermore, in England where a similar distinction needs to be drawn, apparently satisfactory definitoins of "agricultural land" and of "agricultural buildings" are found in the Rating and Valuation Act. In addition to defining a "farm" it might be advisable to define "market garden" and "nursery". These terms are now employed in The Assessment Act along with "farm" in granting exemption from business tax. We think, however, it should be quite sufficient to construct a definition of "farm" that includes properties ordinarily described as market gardens or nurseries, without introducing the terminology into the amended statute.
>
> 206. It is not our intention to attempt the precise wording of a definition of "farm". We do suggest, however, that a farm should be defined as land and structures used solely for or in support of the growing of natural or primary products and their further preparation for marketing on the property where they are grown.
>
> 207. With some such a definition of "farm", the word "farmer" should not be difficult to define. We are not inclined to be much concerned with that definition, however, since we think the benefits of farm tax treatment ought not to be confined to farm owners who themselves qualify as farmers. We are more concerned with a

> statutory definition of properties that qualify as "working farms". We suggest that the working farm might be described as one where the productive land and structures constituting the farm property are being used commercially at half or more of their capacity. Finally, it might then be made clear that in the event that farm property is not being used sufficiently to qualify as a working farm, a part of the property might be so classified by the assessor and the remaining farm property classified with the residential portion of the farm, as we have previously recommended.

Who better than the Ontario Committee on Taxation, after hearing the many briefs from all parties concerned can give us a workable definition of a farm? The provincial legislature? I doubt it very much.

What about the relative weights of taxation on the various property classifications? As you all know, assessment will be made at 100% of actual current value. The Committee then proposes to tax residential, recreational and wasteland property on 70% of the assessed value. Working farm property is to be grouped with commercial or business properties, etc. and taxed on 50% of the assessed value. Is this or some differential between residential and farm property proper? I, for one, agree that it is. Will the city dweller object? I do not think he will. Most people, in my opinion, recognize the need, for the present at least, to subsidize the *bona fide* farm operation and if the *bona fide* operation can be and is defined, very little criticism will result from the Committee's proposal. The cry of "foul" will come, however, from those areas which have been receiving a benefit from the present inferior legislation and who have been gaining at the expense of the *bona fide* farm operation. However, government has been known to turn a deaf ear to the town criers in the past and possibly we can gain some good results if it were tried again.

My evaluation of the reforms now in progress would be this.

The greatest step forward towards proper equalization was the creation by the province of legislation to allow for county assessment. Another giant step was taken when the new provincial assessment manual was produced and a staff formed to school the local and county assessment units.

But is this the only progress? Not at all. We in Wellington and Dufferin Counties feel we have advanced beyond county assessment since the Counties of Wellington and Dufferin, two completely separate political units with a total land area of approximately 1,000,000 acres, were the first to unite under one assessment jurisdiction. Would that more of the local elected representatives had the courage and foresight to initiate such systems. The result might be the much discussed local autonomy staying closer to home.

Before taking my leave, I would like to comment briefly on two other areas of the Committee's *Report*.

Exemptions

I firmly believe that there should be no exemptions from taxation, not even for the church. As an active Baptist and one who was raised in the parsonage I welcome the day that the church pays its fair share of the tax burden. Not because the municipalities need the revenue as much as the church needs revitalization and, in my opinion, taxation would help. It would also quieten once and for all the agnostics and atheists who have been haranguing against the church on the grounds that it is a parasite in society, sponging on the poor taxpayer's good-will.

Governmental Regions

I also firmly believe that the regions suggested by the *Report* are unrealistic at this time and will be for quite a number of years. My alternative would be the re-entry of the cities into the county structure and the union of a number of counties to a level dictated by economic conditions. Over-simplified? Maybe.

Let us not sit on the fence. We must jump one way or the other. If we in the local and county areas do not make the decisions they will be made for us.

Grants to Municipalities

Chairman: E. A. Jarrett

Speakers: True Davidson
Ralph Cowle
Lloyd Groombridge
Eric Beecroft

Chairman: **E. A. Jarrett, F.C.A.**
Glendinning, Jarrett, Gould & Co., Toronto

Speaker: **Miss True Davidson**
Mayor, Borough of East York

Thank you very much Mr. Chairman. The men who preside always allow the fair sex to lead off. This gives the other speakers, whether in a political campaign or a panel discussion, the opportunity to make mincemeat of anything she has said.

I was pressed into service to fill a physical gap, and that is all I am trying to fill. It is true that I have been sitting on a Joint Committee of the Association of Ontario Mayors and Reeves and the O.M.A., which has been discussing the Smith *Report* for nearly a year now. I have even prepared drafts and statements on some of its recommendations, but the subjects assigned to me here have not yet been reached by this Committee and there are probably none involving municipal finance on which I am less qualified to speak.

Nothing of course could be more challenging to a politician than to be asked to speak on something he knows nothing about—perhaps the public image of the politician would be better if we did not respond so readily to these temptations. Controller Margaret Campbell, whose time I am taking, is almost a professional in the field of housing and can command the facilities of a large staff to provide adequate and accurate information in all financial fields. I am a rank amateur—perhaps the ranking amateur in a program which is as studded with professionals as a Christmas cake is with nuts.

And since we are talking of food, let me suggest that the pills should come before the meal, then the less substantial part of the menu and finally the "pièce de résistance". (Notez, s'il vous plaît, comment j'essaie à être bilingue!) So I shall approach my subject today in this order: health first, distasteful though it may be, then a few platitudes about housing and, finally, the community enrichment grants on which I could talk for the rest of the morning.

Health Grants

You ask me—you haven't, but I am assuming you will—why I find the subject of health distasteful? Well, really the pill is not so nasty—sugar-coated as it is by the Smith *Report*.

The Smith *Report*, dated August, 1967, examines the legislation of June 1967 but also the regulations of November 1967. Obviously, the Smith Committee had a look at the regulations before they were published. In actual fact, so did the health officials of many municipalities. But there was no effort to inform municipal officials, elected or appointed, much less to discuss with them the viability of districts for which they would be the tax collecting and general administrative authorities.

Legislation may sound pretty innocuous, but governments are like bees—they sit down on you with a sting in the regulations. There is no reference in the public health legislation to 25%, 50%, or 75%. There is only a paragraph authorizing the Minister to "pay grants in such amounts and upon such terms and conditions as the regulations prescribe to the Board of Health of a municipality which provides full-time public health services".

There are three kinds of grants covered in the regulations of November, 1967. The first is for 25% to municipalities providing adequate health services. The grants are 50% to a Health Unit and 75% to a District Health Unit. An arbitrary list of acceptable health districts is attached.

A health unit is a special inter-municipal organization. Grants have heretofore been made to it on the basis of population. Thus, in the Leaside-East York Health Unit the grant was 33⅓% to Leaside because its population was smaller, although its per capita assessment was much higher and consequently its tax rate much lower than that of East York which received a grant of only 25%. The Smith *Report* praises the government (and justly, I think) for increasing the overall grants to health units to 50%. It suggests, however, that if it is the intention of the government to ensure general health expenditures of a satisfactory standard, there is no reason why all municipalities which provide such service should not receive the same grants, i.e., 50% instead of 25%. Underlying the reasonableness of this is the amusing situation of the Borough of East York, made up of the former town of Leaside and the former township of East York. It received grants for a public health unit board prior to the passage of Bill 81. Although the Municipal Board, in laying down the terms of union, said that this would continue to be treated as a health unit, it has so far not been recognized for anything more than the 25%. That is, the amalgamation of the two areas has given one community less than it was receiving before, and considerably less than health units are receiving now. One word: the Minister has promised to look into this, so perhaps all may yet be well for us. But why should there be this difference for identical work?

As far as district health units are concerned, the Smith *Report* recommends against the policy established in the regulations of November, 1967. It takes the position that grants should not be used as a form of threat or cajolery to force the adoption of certain forms of organization and administration. It urges that structural reforms should be secured by direct governmental action. The action of the Department of Health in setting up its own system of health districts, while well-intended, is, in the opinion of many practical students of municipal affairs, somewhat ill-advised. The districts are in no way related either to the regions proposed in the Smith *Report* or to those already partially operative in educational affairs or welfare. The insistence on a health district composed of all of Metropolitan Toronto under a united Board of Health ignores the administrative problems

involved in setting up such a Board on any proper representative basis. Ironically enough, it is, at the same time, in direct contravention of Bill 81 (taking effect in the very year in which the regulations were published) by which the health services in Metropolitan Toronto are to be retained as a responsibility of the area municipalities. Evidently the right hand of government knows not what the left hand does.

The Smith Committee would hold up all single-purpose regions, however; while agreeing that multi-purpose regional units are better than single-function units, I cannot hold out for "all or nothing at all", like a writer of love songs rather than a cold-eyed group of experts. This emotional attitude, for I can only call it such, towards the achievement of the complete aim of the Smith *Report,* to me is one of its weaknesses.

Even although it is ten years since I sat on a board of education, I have a vivid memory of the muddle caused by a variety of overlapping special-purpose education districts. But I am not intellectual like the framers of the Smith *Report.* I am a practising politician. No matter what your political powers, you can only force people a certain distance. It is much pleasanter and more efficient to secure their willing co-operation. I suggest therefore, as the Ontario mayors and reeves will suggest regarding welfare in their brief on the Smith *Report,* that the first step for the provincial government is to set up its regional plan—not to *enforce* it, not to *attempt to implement* it, but to *set up the pattern.* Special purpose districts might then be set up provided they conformed to these regional boundaries.

As for the nature of the plan, the Smith boundaries, in my opinion, are much better than those proposed by the Department of Health. I am not going to have time to analyze the two sets of regions, but I can give you an example. The Four-City Urbanizing Area, recommended in the Smith *Report,* is reduced to three cities in the Health Plan. Yet most people would agree that those four cities are a unit which will gradually become more and more a single urban unit as time goes on.

It appears that the Department of Health has set up its list of regions on what you might call a basis of expediency. They want to be able to operate with existing municipal boundaries, regardless of the efficient and desirable pattern for ultimate, multi-purpose regional government. This may be true of welfare and education regions also. This is why I say that, while I don't believe that you can hold up all these things until you get complete multi-purpose regional government, I think the pattern must be laid down so that all single special-purpose units can conform to it.

My first general criticism of the Smith *Report* then is that it smacks of the study lamp. It is obviously the work of accountants and academics. It is uncompromising in its demands for total logic. It deals with ends and does not consider how, or even whether, they can be implemented. In short, although it is intended to be applied to a political situation, it is not a political document.

Housing and Redevelopment Subsidies

Well, after the pill, the soup. And am I ever in it! When I come to talk about housing and redevelopment, I am really in as great confusion as the Smith Commissioners apparently found themselves in. You will notice that although they are very glib and exact in many of their recommendations, when they come to deal with housing they have only one recommendation of major importance. This has to do with subsidies for construction of low rental housing for the aged.

When in my wild search for statistics which could satisfy the computerized appetities of this audience, I consulted Mr. Varcoe, the Metropolitan Building

Commissioner; he told me that in theory "they"—we always talk about the government as "they"—paid 50% of the difference between the C.M.H.C. first mortgage and the actual cost, or $500 per suite, whichever was less. In our case, he said $500 was always less. So it was always $500 we got. "They" got off with less than half of the cost of construction so we always had to pay more than half. The Smith Committee recommended removal of this ceiling. In view of the steadily rising cost of construction, any reference to 50% with a ceiling of $500 per suite is obviously meaningless.

As far as other recommendations regarding housing, the Commissioners were pretty cagey. Perhaps this is partly because of the involvement of the federal government, although they do not hesitate to comment on other matters for this reason. The whole question of public housing is also tied up with urban renewal which is extremely complicated and at present very touchy.

I have with me a clipping regarding Controller Campbell's comments on housing, according to which she recommends that federal and provincial governments should differentiate between rural and urban areas, since the latter face higher land and construction costs and trickier problems of urban renewal. If she were here, I am sure she would garnish this course with some highly spiced comments on urban renewal in general, but where she would put pepper in her demands for increased government assistance in this field, I take the whole concept with several grains of very salty salt.

I believe in programs of modest slum clean-up — not clear-out — where required, under the Department of Health, I think. I believe in programs of area maintenance and rehabilitation by local municipalities, as far as possible on a local improvement basis. I believe in block plans, tree planting and provision of services and amenities. But I am very, very suspicious about uprooting large numbers of home-owners or long-term tenants, especially in the present state of house shortage, so that we can point with pride to shiny new multiple dwellings, schools and parks.

I don't believe we should try to put everybody into the strait jacket of middle-class propriety, which recent novelists suggest fosters more juvenile delinquency, adult vice and mental instability than any slums can do. Independence means more to me than a T.V. set, or even an electric refrigerator, and because I value it so much myself, I would encourage and foster it in others. I have not yet explored all the ramifications of the Smith *Report* and I am still hoping that somewhere in some hidden corner may lurk some savoury little recommendation such as might empower municipalities to levy increased taxes against homes which are improperly maintained on the outside.

I don't care about the inside. If you want to live in filth inside your own home, as long as it doesn't reach the point of being a sanitary danger to the community, I think you have a right. I like to have baths regularly, but some people don't take them even if the bathroom is right at their elbow, and who am I to say they are wrong? Are my neighbours dogs and cats that I should bathe them against their will? I say no. I would like the power to levy additional taxes on homes which are lowering neighbourhood values, and to reduce them as steps are mended, rickety verandas removed or repaired, and woodwork painted. The reduction would have to be big enough—noticeable enough—that it would mean a financial profit to the occupant if he were willing to do the work himself. He ought to be able to pay for the paint or the extra lumber, fix up the place, and make a profit by the reduction in taxes. Then you would have much less need for complete clearance even in urban renewal areas. There might even be grants to

help provide instruction on the spot in the necessary skills for those who would accept it. Complete clearance is used because it is cheaper and easier to do the whole thing than it is to rehabilitate the houses that haven't been maintained properly. But we are really now in the field of welfare and of the imagination, neither of which I am expected to use in my talk this morning.

Special Community Enrichment Grants

The main course has to do with special grants. Unfortunately, this is the part where I fell asleep last night when I was trying to prepare something for this morning about these grants. I have read the Smith *Report* and I have discussed it with some of my friends. One friend said that community enrichment grants were a misleading suggestion and that councillors, who are of course a bunch of ignorant fly-by-nights, corrupt and venal and stupid, would think that this meant grants that brought money into the community. Councils would never dream of enriching people's lives culturally or providing occupation for this increasing amount of leisure that we are going to have. (By the bye, those people who talk about our increasing leisure have never talked to a fireman and inquired into his interest in moonlighting. I find that people are much less anxious to have more leisure than to have more money.)

However, call these community enrichment grants what you will, I'm not thoroughly sold on them, and I'll tell you why. It's the combination of grants for organized recreation and cultural opportunities.

There are some communities in which it is not easy to get money for anything except roads and sewers, and not even sewers always. Roads, people will pay for because they see them; sewers they don't see except when these back up during a flash flood. Ratepayers then ask the municipality to clean out the cellars but even then they don't demand separation of storm and sanitary sewers. Public study doesn't go that far usually.

Even among more sophisticated communities, there are some which think all recreation should be a matter for informal volunteer organizations, and there is much to be said for this. There are others that will spend a great deal freely on organized sport but won't spend on libraries; and sometimes, I suppose, *vice versa*.

I have a feeling that there is going to be a great deal of hard feeling in communities and among volunteers who serve on recreation councils and library boards, not to mention increased difficulties for councils that try to be impartial, if a blanket grant is substituted for special grants.

But, you may say, how do you divide recreation and culture? Libraries in cities are really the cultural centres in their communities. They put on art shows, they put on musical programs, they put on movies, they do all sorts of things which would have made the library boards of a half-century ago turn over in their swivel-chairs at least.

Perhaps a solution would be to divide grants for recreation and physical education, or for recreation and physical development, or something of this sort, from grants for libraries, museums and cultural developments, or for recreations of the mind and the aesthetic faculties, or something of that sort. Thus, each municipality would be encouraged to explore both avenues. This would be better than making one blanket grant in my opinion.

It is interesting to notice that sometimes grants are an inducement and sometimes they aren't. I never heard the East York Library Board suggest that we should spend more money in order to get more money from the province, but

I have seen boards which seemed to talk of nothing else. Why it should be felt that you must spend more in order to get back, as a grant, a small fraction of what you have spent, I cannot see. You know what you need, or you should know. You should find out what you need and then a grant may help you to get it—not spend more merely to get more. I feel that is a poor way for people to plan their budget.

I would not object to a block grant for libraries which would include local museums. There should certainly be some special consideration for small museums in this post-centennial year. All sorts of them have sprung up all over the country, and without help many will wither on the vine. It won't be only the proposed Toronto Art Centre that will become an urban renewal project. It will be all the little museums over the province if some assistance is not given to their maintenance. Some of them have been accepted without too much enthusiasm on the part of the councils, and more as the result of the enthusiasm of some individual or group in the community. For example, the East York centennial project, a historical centre in the Don Valley which should be of as much interest to the rest of Metro as it is to our own people, is being run almost entirely by volunteer work. How long volunteers can keep a project open six days a week, I am not sure. Perhaps some special inducement is needed in these post-centennial years to convince councils that the provincial government believes in maintaining these historical projects, art projects, etc.

As for experimenting with Metro Toronto in connection with a general enrichment grant, I think the suggested $2.00 per capita might correspond roughly with what is being given now in the city and the boroughs, but it wouldn't be an encouragement to add anything. In fact, I have written here in large capital letters "NO" and several exclamation marks after it. Much as I admire and love the Smith Commissioners, and wonderful as I think most of their recommendations if they could ever be implemented *in toto,* I think the *Report* fails to recognize that people are people. People are not as unresisting as pegs that you can move around on a cribbage board to arrange suitable patterns. Nor are they saints with the wisdom of Solomon added to their haloes. And the difference between theory and practice has never come home to me more forcefully than at this moment. In theory, block enrichment grants sound fine, but when I think of turning them over to the Metropolitan Toronto Council to divide with the area municipalities I get nightmares! Hair would be torn. Voices would be raised in angry protest. Everybody would be accusing everybody else of being parochial and it would probably end up with Metro taking the whole thing for some Metropolitan project like the Metropolitan Library Board, the O'Keefe Centre, or the Conference Hall at the C.N.E.

I presume you are familiar with the Metro set-up. Metro is the second level of government. If it takes unconditional per capita grants and puts them in its receipts, in theory the benefit spreads equitably over all the municipality; but here is the catch. The Metro tax is spread roughly according to assessment. East York, with the lowest per capita assessment in Metro, does not benefit from a cut in the Metro rate as much as it would benefit from the use of a per capita grant to reduce its local rate. The present system of distributing the present per capita grants is strongly assailed by the City of Toronto.

This should not be considered as a criticism of metropolitan government. Bad as I consider some features of Bill 81—particularly the growing expenditures and red tape involved in assigning welfare to Metro—the system is admired all around the world as an example of co-operation without excessive centralization. While I think it would be very unwise to put additional services on a metropolitan basis,

and would even urge decentralized administration for some of those already recognized as metropolitan financial responsibilities, I believe Ontario should recognize the values of the metropolitan system and be prepared to use it in other appropriate regions. But grants should not be handed over to the higher level of metropolitan government as a means of forcing a progressive erosion of the powers of the lower level.

Obviously you get more efficiency as you get larger until you reach the point where you can use full-time professional help. From that moment the law of diminishing returns comes into effect and eventually you bog down in your own red tape. Furthermore, I would urge that grants be used not to set up authorities independent of the municipal government. The greatest possible freedom and flexibility should be given to local government because this is where people have a chance to shape the services they want.

Speaker: **Ralph Cowle, F.C.A.**
Touche, Ross, Bailey & Smart, London

The Need for Grant Co-ordination

The *Report* of the Committee points up strongly the need for some central authority to assess the impact of grant programs on local finance. In the interest of simplicity and to ensure that provincial grants contribute effectively and equitably towards clearly defined objectives, the Committee recommends the establishment of a Cabinet-level body to co-ordinate provincial grants. Whatever the body to which this responsibility may be assigned, all grant programs should be rationalized within the context of an overall philosophy of provincial assistance to municipalities.

It is an inescapable fact, but one frequently ignored, that substantially the same group of taxpayers pay both the local and provincial taxes levied within the province and a transfer of funds from one taxing authority to another, does nothing to diminish the total tax burden. Demands on the part of municipalities for provincial assistance give rise to the need for additional provincial revenues. As a result, the incidence of the real property tax, which can be identified, has been in part shifted to the provincial jurisdiction where it can no longer be identified, and because it can no longer be identified, there is a tendency to assume that in some manner the burden has been shifted to someone else. While no one can dispute that provincial grants redistribute the burden of expenditure for basic municipal services, it is impossible to say, with any degree of precision, just where that burden comes to rest. The fact remains that the primary source of funds for provincial grants to municipalities is the taxation of provincial residents.

In one of the concluding paragraphs of the portion of the *Report* dealing with local finance, the Committee states: "One of the principles of taxation to which we lend the greatest weight is that every governmental entity should bear the onus of raising its own tax revenue." Again, the Committee in its *Report* states: "In democratic societies, there are surely few principles that equal in importance the dictum that every government should, to the maximum practical extent, shoulder the responsibility of raising its own revenue." While few would challenge the validity of this principle, it is obvious we have, for compelling reasons, departed far from it. An analysis of the reasons for this departure, should, I believe, provide a general outline of a philosophy of provincial assistance to municipalities. If available sources of local revenue are not equal to the present fiscal responsibilities of municipalities, then either those responsibilities must be reallocated as between local and provincial governments or local revenues must be supplemented by assistance from the provincial government.

Grant programs should be evaluated with reference to the extent that they make a significant contribution to:

1. the equalization of disparities in the relative tax burden as between different municipalities or regions, i.e., those with relatively low or high ratios of industrial to residential assessment;
2. the equalization of the relative tax burden as between individuals within a particular tax entity;
3. the reconciliation of fiscal responsibility with administrative policy; and
4. the attainment of specific objectives encompassed by what the Committee has designated "Environmental Grants". A number of these are minor in their effect on local fiscal policy and as the Committee has pointed out could well be terminated.

Undoubtedly a co-ordinating body such as that suggested by the Committee would go far towards bringing order out of the chaos that characterizes the present grant structure and could ensure its adaptability to changing circumstances and priorities.

The Effect of Provincial Grants

The difficulties faced by municipalities in attempting to cope with rapidly growing expenditures from a relatively inelastic tax base, have resulted in increasing amounts of provincial assistance in the form of grants to municipalities. This development has complicated the task of financial forecasting for municipal finance officers for three principal reasons.

1. Because provincial grants, including grants for school purposes, comprise a very significant portion of local revenues, revisions in grant regulations or inaccurate budgeting due to errors or misunderstandings can result in substantial deviations from projected financial results.

2. The growth in complexity of certain grants has made it more difficult for municipal officials to predict with a fair degree of accuracy what provincial assistance may be anticipated. The following extract from the Committee's *Report* illustrates the problem: "The grant for public libraries is marked by a degree of complexity out of all proportion to its monetary yield." Speaking of other recreation and community service grants, the Committee has this to say: "As to the complexities they entail, they produce one of our favourite examples of the extent to which the pell-mell accumulation of grant programs has created an administrative maze." Small wonder if the municipal budget officer is pleasantly astonished to find that his forecast of grant revenue approximates the reality.

3. Long-term financing for capital projects must be formulated on present grant policies. Changes in grant programs during the period covered by such forecasts may have significant effects on capital requirements.

While not related directly to fiscal budgeting, the diversity of accounting treatment accorded grants to municipalities has created difficulties, particularly in the case of municipalities which have undergone major boundary revisions resulting from annexation. Grants which are related in some measure to specific municipal expenditures may, in some instances, be considered to be revenue of the year in which they are received, although the expenditures may have been incurred during the previous year. This treatment may be justified by the reasoning that such grants are considered to be provincial assistance for the year of payment and that the

expenditures of the previous year are merely the basis on which the amount of the grant is calculated. On the other hand, certain grants, even though not received during the year, may be considered to be a contribution by the province towards specific expenditures incurred by the municipality and, accordingly, are accrued as revenue of the year in which the expenditures are made. Formulation of a uniform policy in the accounting treatment of provincial grants is a problem to which the co-ordinating body, proposed by the Committee, might address itself.

Termination of Certain Grants

The Committee has recommended that the province assume responsibility for the costs of the administration of justice and of indigent hospitalization. Adoption of these recommendations would, of course, terminate the need for provincial grants in respect of these two matters. Particularly in urban municipalities, fines represent a significant source of revenue. Notwithstanding the view of the Committee that "Fines should be identified with law enforcement, not the administration of justice" it has been suggested that the transfer to the province of the responsibility for the administration of justice should be accompanied by an appropriate apportionment of the revenue from fines between the municipalities and the province. Presumably, such apportionment would be a transitional feature designed to cushion the impact of this transfer of fiscal responsibility which may be found to vary widely between municipalities.

The Committee has also recommended that the province assume full responsibility for the cost of indigent hospitalization by providing premium-free hospital insurance coverage to recipients of general welfare assistance.

By far the greater part of provincial assistance to municipalities is provided through grants for school purposes, road expenditures, and the unconditional per capita grant.

The Committee has reviewed the multitude of grants for various purposes which fall outside these three main categories and has recommended outright abolition of several, which either no longer serve their purpose, or which, because of the small amounts involved in relation to the cost of administration, could be discontinued without significant financial dislocation.

Among the grants proposed for abolition are grants on behalf of the municipal contribution towards pensions and workmen's compensation for police and firemen, and grants for such specific purposes as school nursing inspection, school dental services, venereal disease clinics, and weed, warble fly and plant disease control. In the opinion of the Committee "any fiscal consequences arising from their abolition should be more than compensated for by the general fiscal arrangements we propose".

A variety of grants for recreation and community services cover amenities which frequently are enjoyed on a regional rather than a local basis. Conditional upon the adoption of some form of regional government, the Committee has recommended the substitution of a block grant payable to the regional authority in place of the present assortment of complex conditional grants. Many of these grants, in the Committee's words, "run afoul of virtually every principle that in our opinion should underlie an equitable system of provincial-local fiscal relations".

Basic Shelter Exemption Grant

The basic shelter exemption grant proposed by the Committee is intended to reimburse the municipalities for the loss of revenue resulting from the basic shelter exemption of $2,000. The declared purpose of this proposed exemption is to ameliorate the severe regressiveness of the real property tax, which bears relatively more heavily on the low income groups.

To the extent that this device produces the desired result, both the exemption and the related grant will, I believe, receive broad endorsement. There can be little doubt of the immediate relief afforded by this measure to the owner-occupants of residential property. Theoretically the lessening of the tax burden on the owners of rented residential properties should ultimately be reflected either in a lowering of rentals or in a deferral of rental increases to the tenants of such properties. If this reasoning has prompted the Committee to extend the basic shelter exemption to rented residential property, I must confess I do not share their optimism that the desired objective will be attained. The relief to the owners of rented properties is immediate and tangible; the relief to the tenants of such properties is remote and contingent.

Unless, therefore, some means can be devised to ensure the immediate transfer to the tenant of the relief afforded by the basic shelter exemption, the reasons given by the Committee for extending the exemption to rented residential accommodation are not convincing. It is true, as pointed out in the *Report* of the Committee, that the tenants must, in the final analysis, bear the taxes imposed on the landlords. However, it is unrealistic to expect that an immediate reduction in taxes on rented properties would accrue to the benefit of the tenants except through the slow and cumbersome operation of the forces of supply and demand, a process affected by interest rates, the cost of construction, and other factors of greater influence on the cost of accommodation than municipal taxes.

The Proposed Unconditional Grant

Unconditional grants based upon municipal status and population were introduced some ten years ago and were designed to ease the burden of the property tax on residential taxpayers. Provision was made for a reduction, equal to the amount of the grant, in the levy for general purposes on residential property. As a consequence, the so-called "split mill rate" was imposed under which owners of residential property were taxed at a lower mill rate than were the owners of business properties. The "split mill rate concept" was later extended to rates for school purposes by the *Residential and Farm School Tax Assistance Act* and by amendment of the *Schools Administration Act*. As a result, the overall reduction in the residential mill rate below the business rate now exceeds 10% in most municipalities, according to the Committee's *Report*.

The present unconditional grants, which have given rise in part to the differential between residential and business mill rates, have been criticized by the Committee on three main grounds:

1. Municipal status is one of the factors upon which the amount of the present grant is based. The Committee has stated the case convincingly for the elimination of municipal status as a factor in the determination of the amount of unconditional grant to which a municipality should be entitled.

2. The present per capita rates of unconditional grants are dependent on, and apply to, the total population of a municipality. Since the per capita rates are graduated, a slight change in a municipality's population may shift it to a different population range with a resultant change in the aggregate grant greatly dispro-

portionate to the small change in population. The Committee has proposed an effective remedy for this problem in recommending rising per capita payments to be applied on marginal increases in population rather than on total population.

3. The Committee has expressed the view that the split mill rate is not an appropriate means of granting relief to owners of farm and residential property and business properties supplemented by a "new unconditional grant designed to give all property, whether farm, residential or commercial, the same relief as was reserved for residential and farm property exclusively under the existing *Municipal Unconditional Grants Act*".

Removal of municipal status as one of the factors on which unconditional grants are based, and the application of the per capita rates of grant to marginal increases in population would constitute major improvements over the present unconditional grant.

The Committee's proposal for the abolition of the split mill rate must be considered in conjunction with its recommendation that a tax differential between residential and business properties be retained through the device of subjecting to tax at the same mill rate a different percentage of assessed value—70% in the case of residential properties as opposed to 100% in the case of business properties, with the latter shared equally by landlord and tenant.

It appears to be the view of the Committee that specific relief to residential property owners should be restricted to the basic shelter exemption of $2,000 and to limiting the taxable assessment of residential properties to 70% of actual value.

Undoubtedly the Committee's proposals in regard to taxable assessment and the proposed new unconditional grant will mean an extensive reallocation of the tax burden both as between residential taxpayers and as between the owners and occupants of business properties. However, the overall objective is indicated by the Committee's statement:

> If this change is to be absorbed equitably, we deem it most important that none of the provincial support now given to residential and farm taxpayers through the split mill rate be sacrificed, and also that these taxpayers bear none of the burden of relieving commercial property of its higher mill rate.

In other words, the proposals are designed to afford some relief to the owners and occupants of business properties at the expense of provincial revenues, while at the same time ensuring that the position of the residential taxpayer is not prejudiced.

While the Committee acknowledges that the 70% basis of assessment for residential properties is arbitrary and could be the subject of debate, the fact that it has proposed a lower basis of taxable assessment for residential property than for business indicates that it recognizes the desirability of preferential treatment for residential accommodation. Justification for preferential treatment of owner-occupied residential property may be found in the fact that local business taxes are deductible for income tax purposes, whereas municipal taxes levied on owner-occupied residential property must be paid from income already subjected to taxes. The consequences of this disparity were not serious when rates of personal income tax were relatively low. At their present levels, however, the owner is at a distinct disadvantage. In the case of a corporation, taxable at the lowest combined rate of federal and provincial income tax, real property taxes of $1,000 represent a reduction in disposable after-tax income of $770. For corporations taxable at the high rate of tax applicable to taxable income in excess of $35,000, municipal taxes of $1,000 would represent a reduction in disposable after-tax income of $480. The residential taxpayer, on the other hand, must pay his local tax bill from income already subjected to income tax and consequently $1,000 of municipal taxes represents to him a reduction in his disposable income of $1,000 regardless of his personal rate of income tax.

The Committee has expressed concern that businesses subjected to a heavy burden of local taxation might find themselves at a disadvantage in competition with businesses not so affected. Undoubtedly business is concerned with the level of municipal taxation, as indeed with all other costs of operation, but viewed in relation to such other factors as labour environment and strategic geographical location, the municipal tax bill is not a major item in the operating budgets of most business enterprises, and frequently may comprise as little as ½ of 1% of gross revenue.

Assuming that the Committee's proposals are designed to ensure what is considered to be an equitable sharing of the burden of local taxation between residential and business ratepayers, and if the proposal that uniform mill rates be applied to both residential and business taxable assessment, a residential tax base of something less than 70% of actual assessment might not be unreasonable.

Speaker: **Lloyd Groombridge**
Treasurer, City of Chatham

When the Ontario Committee on Taxation was carrying out its study I was honoured to be invited to appear before it to state my views on certain aspects of municipal finance, on the basis of questions which were put to me. I should like to say now that I have the highest admiration for this Committee and a great deal of respect for its ability, because it took my advice. Mind you, it didn't agree with me in every case, which only goes to prove no one is perfect. But it did so frequently enough to satisfy me of its competence. Since the Committee and I are generally in agreement, my comments will be more in the nature of explaining the Committee's recommendations and reasons for them, and not so much in opposition.

It has been suggested that I comment on road grants, before and after Committee recommendations. It has also been suggested that I mention rural grants, but I decline to get too involved in this subject, except in so far as road grants are concerned, because I have had no experience with them.

Road Grants

Road grants have been in existence longer than any other, except education grants. The Department of Highways currently pays grants in varying percentages of the cost of various types of work done on roads in various types of municipalities. There are connecting-link subsidies at 75% and 90%; suburban roads subsidies at 50% and 80%; and county road grants on a basis similar to suburban roads, but they include supplementary assistance designed to compensate for fiscal disparities between counties. Township road grants are 50% to 80% of some costs, and 80% to 100% of others, and there is a formula to equalize them. Town and village roads are subsidizable at 50%, with expenditures on bridges and culverts qualifying for up to 80%, at the discretion of the Minister. Cities and separated towns receive 33⅓% on all categories of road, street, bridge, and culvert expenditures. Then there are development roads at 100% (excluding

costs of purchasing land) in townships, counties, and improvement districts; and roads and bridges under the jurisdiction of Metro Toronto, bring 50%. Ministerially approved studies will be subsidized at 75% for any municipality and, finally, by agreement with the Minister any municipality may get assistance for the construction, maintenance and operation of controlled-access urban expressways or freeways, but no rate of grant is specified in the Act. Were you able to follow that?

The Committee said, and I agree, that the present policy of grants based largely upon municipal status does not properly compensate municipalities and it proposed what it felt is a better solution. If the Committee's recommendations are followed, this is what will be done in the future.

First, the Committee says there are two beneficiaries of roads, those who benefit by use, and those whose benefit derives from access to their properties. The Committee said that "use" in the case of roads is measurable, and those who benefit in this manner should pay in direct proportion to the degree of use they derive from the road. The remaining cost should be borne by those whose benefit lies in access to property, and this plainly is the justification for this part of the cost being levied against property by local taxation.

The Committee estimated that user benefits should pay 65% to 75% of all road costs. Naturally, different kinds of roads benefit users and property differently. An arterial road, for example, is proportionately of more benefit to users than to properties, and a purely local road, such as a crescent or dead-end street in a subdivision, might be considered to be a 100% benefit to property owners alone.

The Committee recommended that the Department of Highways prepare a scheme for classifying all roads in the province according to user and local access benefits that flow from them. It felt five years to be sufficient time for such an undertaking and that upon its completion, grants should then be paid according to the user benefits assigned to each class of road.

Changing circumstances from time to time would require continuing study and there will undoubtedly be disagreements between the Department and the municipalities as to the classification given to any road. Therefore, the Committee recommends a course of appeal.

An appeal by any municipality would first of all be taken to the Department. At this level the municipality would simply be asking the Department to review its finding. If the appellant were still dissatisfied, there would be a further appeal to the Ontario Municipal Board. The Board would be empowered to require further studies by the Department and its decision would be final.

The Committee realized that the changes it recommended could cause rather acute problems for some municipalities, particularly during the transitional period, and especially in the case of those municipalities which would cease to enjoy high grant rates based upon their legal status. It therefore recommended that a program of assistance be devised that would make the transition easier for such municipalities. It stressed, in order that this remain a temporary measure which will not have a built-in likelihood of permanence, that the plan firmly provide for phasing-out. This phasing-out period would also be over five years.

The Committee also went on record as being opposed to the principle of equalization in benefit grants and, since the proposed road grants are substitutes for direct benefit from use, it is only to the access portion of road costs that equalization payments, if any, should be related. Therefore, the Committee would do away with township and county equalization grants when its new scheme is implemented.

There is a feature in the present formula for equalization of grants to counties which the Committee disliked. When a county is in receipt of supplementary assistance, but levies a mill rate higher than necessary, (in combination with its grants), it loses part or all of its supplementary assistance. The Committee says this is an unjustifiable interference in the local autonomy and discourages additional efforts on the part of the county to improve its own standards. The province does nothing like this in the field of education or in the case of township roads. The Committee, therefore, says that as long as the present system remains in effect, its grant procedures should be altered to ensure that no penalties will be imposed upon counties for fiscal efforts designed to enable them to exceed the level of defined needs.

The last comments the Committee made in connection with road grants are related to Ministerial discretion. The Committee recognized the need for such discretion in such matters as the allocation of funds available for road grants, the establishment of priorities, standards, etc., but it feels Ministerial discretion is too great and should be reduced on the principle of certainty. With less discretion on the part of the Minister there would be more certainty on the part of municipalities in anticipating grants whose yield is calculable and less jockeying for Ministerial favour.

Development roads are a particular example of Ministerial discretion which can be dispensed with if the Committee's recommendations with regard to grant apportionment on the basis of use are adopted. Only conditions of sparse population would then justify discretion.

The Committee's recommendation for this problem is that population sparsity should be the sole criterion for the designation of development roads and that a list of roads to be so designated should be tabled annually in the legislature.

Development roads, providing access to resource or resort areas, may never properly qualify for municipal fiscal support and the Committee would place these roads exclusively under provincial jurisdiction. Those that might be absorbed into the municipal structure should be phased out over a ten-year period so that at the end of that time they would be integral parts of the municipal road system as revised by the Committee's general recommendations.

Finally the Committee thinks all remaining areas of Ministerial discretion could also be handled by the twin devices of easily understood criteria and tabling in the Legislature. Therefore, its final recommendation is to the effect that a report on all special considerations of required assistance that cannot be geared to formulas should be tabled in the Legislature together with the dollar amounts involved.

This then is the run-down on road grants before and after the Committee's recommendations. I can find no serious fault with the Committee's recommendations with respect to roads. Certainly the existing grant structure needs changing and since I have not heard of a better solution, I am compelled to agree that the Committee's proposals should at least be tried out.

Grants and Local Autonomy

I have also been asked to comment on the effects of grants upon local autonomy. My first reaction to any mention of local autonomy is to try to remember it in its proper perspective. I often say that local government has no autonomy as a matter of right because local municipalities have no reason for existing except as means for the province to carry out its responsibilities. The province is consti-

tutionally authorized to set up municipal institutions and it is legally free to act as it sees fit. It can create, modify or abolish any and all kinds of local government units. This is in keeping with the principle that any authority having power to grant should also have power to take away.

Strictly speaking the provincial-municipal relationship is one of superior and subordinate. In practice, however, the Committee felt it is one of senior-junior partnership. This seems like pretty good thinking. It suggests at least a partial responsibility and right on the part of the junior partner to a voice in the shaping of its affairs.

The province has no monopoly on wisdom or virtue, and it should not use grants in any way to suppress wide measures of discretionary authority by the municipalities as to the quantity and quality of services entrusted to them.

We had a recent outstanding example of what I mean. I am referring to the new ambulance grant which became effective in 1966. Up to and including the year 1965 we in Chatham were blessed with what we liked to call the best ambulance service in Ontario—bar none. We had a splendid, knowledgeable operator to deal with. The city gave him a $7,000 annual subsidy and council was happy, the citizens were happy, the operator was happy, and even the Municipal Treasurer was happy. Everyone was happy, including the press and radio which were complimentary of the whole deal.

Then the province got into it and offered to pay 50% of the city's cost in return for certain standards. Now wouldn't you think our cost would go down to $3,500? Well it didn't. In 1967 our 50%-share rose to about $11,000, 50% more than our previous 100%. Now nobody is happy. I believe this example demonstrates clearly the ability of municipalities sometimes to arrange thoroughly adequate services at lower cost than the provincial government can.

If municipal autonomy is a safeguard to the democratic process, grants are a constant threat to it. They should never be used in such a way as to discourage innovation and experimentation by the local authorities.

Perhaps the most important principle behind good municipal government is the equal matching of fiscal authority and responsibility. To the extent that finances in the form of grants are not the direct responsibility of the municipalities, they run counter to the principle of matching authority and accountability.

Grants, especially conditional ones, directly influence spending patterns when the councils feel they cannot waive them, and this often forces elimination of projects the councils might otherwise favour. Pressures of this sort cannot help but create serious interference with autonomy.

Notwithstanding all this, grants do have a practical place in our affairs, but they should be as unconditional as possible, leaving room for practical and creative thinking at the municipal level out of which much good may continue to flow. I think the main thing is that we should contantly seek to avoid the sacrifice of responsible government in the name of administrative expediency.

The New Unconditional Grant

Fortunately the Committee has also recommended major changes in this type of grant. In principle the Committee favoured more unconditional grants or, where there are conditions, they should be for broad purposes such as health and welfare, or recreation and community services, leaving the local authority an element of choice as to the specific allocation of the funds.

In making this change and in abolishing the split mill rate the Committee said none of the present aid to residential and farm properties should be sacrificed and no local taxpayers should be required to provide the cost of relief to commercial and industrial ratepayers. The Committee said the province, which created the split rate in the first place, should provide the cure. For education, recommended increased provincial aid from 45% to 60% would eliminate the split but for municipal purposes a new grant is needed.

In order that equal relief will be available to all classes of property the Committee proposed a new unconditional grant of $7.00 per capita to all municipalities up to 2,500 population with an increase of .50¢ per capita for the next 2,500 population and an additional .50¢ per capita for each subsequent doubling of population. There would be no difference between municipalities in northern and southern Ontario because administration of justice, which has up to December 31st, 1967 accounted for a $1.00 differential in favour of southern municipalities, has now been assumed in its entirety by the province.

Under the Committee's recommendations payments would be made on marginal population increases rather than on increases in the population of the municipality taken as a whole. This means less drastic consequences will attach to small population changes than occur at present. For example, under the proposed schedule, the only difference between a municipal population of 9,999 and 10,000 is $8.50. Under the existing schedule the difference is $2,505. Since the population changes under the new schedule have a less drastic effect than under the present system, annual assessed populations will suffice instead of the present use of the last quinquennial census, adjusted when there is an increase of 7% or more. This means recognition of yearly population changes which have such a bearing on the course of expenditures. Once again the Committee's thinking appears to have been very sound and I support the recommendation.

Basic Shelter Exemption Grants

The Committee was greatly concerned over the regressive nature of the present property tax base, which takes more account of the value of shelter than of ability to pay. The weight of taxation falls relatively more heavily on low income persons than on those in upper brackets.

The Committee studied all sorts of alternatives such as statutory tax limits, home-improvement grants, etc. Having given much thought to this problem it concluded that what it calls a "basic shelter exemption" involving a "basic shelter exemption grant", would be the best answer.

This plan involves a provincial grant to make up the tax losses resulting from exempting from taxation the first $2,000 (up to 50% of municipal and school tax liability) of equalized assessment for every self-contained dwelling unit, whether a detached single family dwelling or a unit within an apartment house, and whether owner-occupied or rented. The Committee believed forces of competition will ultimately lead landlords to pass the saving on to tenants. This is a very debatable point.

Rooming houses, boarding houses and other shared accommodation caused the Committee some concern, but after due deliberation it decided shared accommodation should be treated the same as single-family dwellings.

The 50% limitation of residential taxable assessment is designed to prevent complete tax relief which could otherwise occur in residences with very low values. This recognizes the fact that even modest dwellings create demands for services.

Assumption of responsibility for this grant by the province, reflecting its greater ability to absorb the cost, is a better alternative to requiring local taxpayers to absorb it out of property taxes. The main advantage of the Committee's idea is that it would combat regressiveness in the present municipal tax structure by giving relatively greater assistance to low-value properties which usually house persons in the lower income bracket. And the benefit is magnified because, under other recommendations, property would only be assessed at 70% of actual value. Thus the tax base for each unit would be current actual value, less 30%, less $2,000. The benefit would rise with each tax rate increase. To prevent the benefit from being reduced it will be necessary to increase the exemption from time to time as market values rise.

Until reassessment has been accomplished in a municipality the exemption would have to be scaled down to approximately the same proportion of the full $2,000 as present assessed values bear to current values and the Committee suggests using provincial equalization indexes for this purpose.

The provincial grant would be the amount determined by applying the mill rate for the taxing authority to the aggregate value of all the residential and farm assessment exemptions within that authority. The grant would be payable to every tax-levying body, be they municipalities, regional governments or school boards, which under other recommendations will also be tax-levying authorities.

We have been hoping the Department of Municipal Affairs would have been able to give us some direction in this matter, especially if the provincial government expects to implement the program for the year 1968, as was stated last fall. There are many questions to be answered. For instance, does the province intend to follow the Smith Committee's recommendations in principle only, or in detail? Will the mill rate be based on assessment before or after the application of the exemption? What about collectors' rolls that have already been prepared? Chatham's tax ledger for 1968 is already printed and interim tax notices have been mailed. This means that for assessment purposes our collector's roll has been run off. I hope we have not already billed someone for more interim taxes than his final tax bill will amount to after applying the exemption. I think we will be all right because our interim levy was for only about 30% of last year's rate. But what about municipalities that may have already levied interim taxes for 50%?

Conservation Grants

Another subject I was asked to discuss is conservation grants. They are paid to conservation authorities which comprise drainage areas or watersheds. Certain administrative expenses, the cost of land for flood control projects and park improvements are subsidizable at 50% with a $10,000 ceiling for any individual project in any given year. Reservoirs and flood control engineering studies qualify for 75%, as do some specified development and maintenance costs.

The Committee did not quarrel much with a 1967 *Report* of a Select Committee of the Legislature on Conservation Authorities, except to say it believed its own recommendations for boundary changes to set up multi-purpose governments in place of single-purpose bodies are a better solution. It did recommend abolition of dollar ceilings because the nature of a project should be the basic factor in determining eligibility rather than dollar amounts. And the Committee also noted that dollar ceilings become more stringent as loss in purchasing power of money takes place.

Revenue Forecasting and Grants

The last thing I was asked to discuss is revenue forecasting and grants. Apart from this particular year (in which one guess is as good as another) we don't consider this to be a serious problem. The very word "estimates" in budgeting implies a degree of uncertainty, and revenues are as easily capable of being estimated as are expenditures, and perhaps more so. Reasonable variances are acceptable. It has been my experience over eighteen budgets that we are grossly wrong on about half of the items. The strange thing is that they have a way of balancing each other out so that the whole year's activity comes to within 10% or 20% of the estimates.

Occasionally the province changes something after our budget has been adopted, but the trend for any such changes is that they usually improve our position and never the other way around. This is not an ideal situation but it is not a bad one.

Change of Fiscal Period

However, there is another recommendation of the Committee which would alter the municipal fiscal period from the calendar year to that of April 1 to March 31. I can see all sorts of problems if this is done without also changing the elected term of councils and school boards accordingly. If the term is not changed, elected bodies coming into authority on January 1 will be in a peculiar position for the first three months while they work with the remnant of an inherited budget program that runs to March 31, while the outgoing council will not be around to complete its work.

When I reviewed these comments I found I was not satisfied with them myself, so I cannot blame you if you feel the same way. However, I hope they have been a little bit informative and if they have generated some new and different thoughts, then I am pleased to have had a part in this discussion.

Speaker: **Eric Beecroft**
Department of Political Science, University of Western Ontario

I have the Chairman's kind permission to limit myself to a rather minor part in the panel. The issues I shall mention are, in the main, peripheral ones. I may encroach a little on the subjects of several other seminars; but the Smith Committee itself, in its exceedingly well-integrated and well-written *Report,* has recognized the interrelationship of the grant system to such matters as the quality of planning and budgeting and, generally, the quality of municipal policy-making and administration.

Grant Systems Intended to Supplement Municipally Levied Tax Revenues

The Committee points out that our ability to develop non-property sources of municipal tax revenue "is severely circumscribed by limited territorial jurisdiction". From this it reasons that, with larger municipal jurisdictions, we would find it easier to justify the extension of municipal taxing power. For example, it might, as the Committee suggests, be feasible for regional or metropolitan governments to use the income tax. The more nearly municipalities can come to meeting their needs through their own approved sources of tax revenues, the nearer they will normally be to effective autonomy. It can also be taken as axiomatic that the increasingly tax-conscious public is never going to be happy to see any large

proportion of municipal expenditures covered out of unconditional grants. There will always be a tendency to cling to the common-sense principle that, as far as possible, the unit that spends taxes should raise the necessary revenues to meet its expenditures. The aim of grant systems will be to cover the residual amounts after tax revenues are estimated—not *vice versa.*

This principle is clearly underlined in the *Report,* and it is made a part of the case for regional government. The Committee appears to believe that municipalities in their present multiplicity—most of them unable to plan and budget on a sound community-wide basis—cannot expect to receive greater revenue-raising authority and, moreover, cannot expect a grant system to shore up an obsolete policy-making and budgeting structure.

If revision of municipal structure and financial-planning procedure is urgently required (as the Committee earnestly believes), shouldn't the province state clearly and positively that it is prepared to encourage and assist the new-style regional governments to enter the income tax field?

Would this not provide a new and lively incentive to fusion or amalgamation or to the prompt establishment of a second-tier government having boundaries commensurate with the actual human settlement and capable of the kind of financial planning required to cope with the entire community plant?

If we mean business about the modernization of government to match the realities of the modern community, a direct and sure-fire financial incentive is not only justifiable but imperative.

Certain Kinds of Grants Linked to Regional Government

The Smith Committee proposes to make a "community enrichment" grant (for such purposes as recreational facilities) available to regional governments when they are established. (Metropolitan Toronto, as an existing regional government, would benefit immediately.) The favourable feature of this type of grant is that, while it is conditional inasmuch as it must be spent for the general purpose of such grants, it can be used by each regional government to meet its own scale of priorities. This is a desirable departure from the piecemeal grant schemes which have been prevalent in the past. The Committee rightly believes that regional governments, with an overview of the community as a whole and a well-manned system of planning and budgeting, can determine their own scale of priorities. This kind of grant, incidentally, means a gain in municipal autonomy, a kind of autonomy which cannot normally be enjoyed by small municipalities.

Indeed, regional government, by making possible both the sharing of increased tax sources and the more flexible kinds of grant systems, means a considerable gain in effective autonomy. What often goes by the name of autonomy now is merely the privilege of being relatively dormant or being the spending and administering agent for programs initiated at the provincial level.

Advantages of Regional Government

Every province nowadays surely has to advise its taxpayers that fiscal efficiency and sophistication are among its primary aims in this era of colossal public expenditures. The Smith Committee seems to believe that the distribution of both taxing power and grants must be consistent with the kind of knowledge and skills which can only be practised in a well-staffed, multi-purpose government able to take account of the interrelation of all community programs and services. As one taxpayer, I would feel much better about seeing both the unconditional grants and the tied grants going to governments that are (a) adequately designed to plan the physical development of the total community and (b) operated under a system of parliamentary sovereignty—in which all acts of government are subject to review of one legislature.

Planning Grants Deserve Special Consideration

One of the prerequisites for sound financial planning is a well-co-ordinated system of community planning—the integration of all forms of community development, such as transportation facilities, water supply, pollution control, housing, schools and recreation facilities, so that all of these programs support one another. Sound physical planning is the basis of sound long-term budgeting for community-building in Canada. This is surely worth mentioning; it greatly strengthens the case for regional government and for careful attention to programming techniques.

But I do not find a word in the Smith *Report* about direct subsidies to encourage comprehensive physical planning. Planning grants are a major feature of federal government policy in the United States; large sums have been spent in recent years through the Housing and Urban Development Department to stimulate community-wide planning by state and municipal agencies. The impact of these federal planning grants, plus project grants conditional upon the existence of workable community-wide programs, are doing much to produce better long-term community planning and, as a consequence, better long-term capital works budgeting.

Our federal government, through the *National Housing Act,* has made use of planning grants to encourage measures of urban renewal. In Prime Minister Pearson's recent statement to the Premiers' Conference on Urban Development in December, he indicated the government's readiness to increase federal assistance to physical and regional planning. Planning grants have in fact been strongly advocated for a number of years by the municipalities themselves in the annual submissions of the Canadian Federation of Mayors and Municipalities.

Should financial incentives not be a basic feature of our fiscal strategy? If in this country our provinces believe that they should be the prime motivating force in community-building, the planning process must be directly subsidized and encouraged.

It will not be sufficient merely to set up in provincial capitals large bureaus from which technical aid will be offered. Central province-wide planning bodies are a necessity; but nothing is more evident from the planning experience of all western countries than the need for high-quality comprehensive planning (physical and financial planning) at the level of the regional community. This requires much more adequate resident staff than we now have for planning and administration in most of our major centres.

If our federal government is loathe to bribe the provinces with more federal carrots in the form of planning grants, should it not invite the provinces to undertake, through a multi-lateral agreement, to subsidize planning? It would be still better if such a province as Ontario would take the initiative in pressing for concerted federal-provincial effort to establish a generous planning grant system.

Planning and Forecasting

This is a practical phase of the working of federalism, even more important than our lofty debates over constitutional doctrine. Municipalities are responsible for a very large and increasing proportion of public investment. Yet most of them are not equipped to contribute to the flow of organized information and well-

considered estimates which is now being developed at the federal-provincial level, especially through the work of the Tax Structure Committee. This need for sophisticated municipal participation in the network of intergovernmental forecasting and budgeting is one of the strongest arguments for regional planning and regional government. It is also a strong argument for speedy adoption of the planning grants—and, as a further device, more training grants—to bring about highly skilled program-making and budgeting at the level of the urban-centred community.

I am in general accord with the Smith *Report* proposals for the annual review of grant programs, for the strengthening of provincial staff, for continuing studies and for publication of an annual review of provincial-local finance. But these central undertakings are of course no substitute for such reviews and continuing studies at the regional level. These latter are necessary to enrich and to give realism to the former.

Basic Shelter Exemption

I should like to add a brief comment, though it is not relevant to my other notes, on the basic shelter exemption.

While accepting this proposal, I find that there is considerable objection, which I fully share, to the omission of the tenant as a direct beneficiary of the exemption. I cannot share the optimism of the Committee that the landlord will promptly pass on the benefit to the tenant. The tenant, as well as the owner-occupant, deserves a direct guarantee of relief. I am very glad to note that the Bureau of Municipal Research has drawn attention to some practices in the United States which seem to show that direct benefits to tenants are workable.*

* The Bureau of Municipal Research Bulletin, *Civic Affairs*, January 1968, presents a most valuable concise commentary on the *Report* of the Ontario Committee on Taxation as it relates to local government.

Municipal Debt

Chairman: J. S. Eakin

Speakers: David W. Slater
J. C. Jaggard
I. Frank Markson
Archibald Smith

Chairman: **J. S. Eakin**
Commissioner of Finance and Treasurer, Municipality of Metropolitan Toronto

Speaker: **David W. Slater**
Department of Economics, Queen's University, Kingston

Your chairman suggested that I might deal with some general background matters on the Smith *Report* related to our topic—municipal debt. When I worked over the Smith *Report* recently, three general points concerned me. The first is the contrast between a fairly optimistic outlook regarding municipal debt financing in the Smith *Report* and the current debates in the United States which are often put in the terms of the prospect of riots in the street next summer. The urgency of city problems and the priority of resources impresses one for the United States. Some of the leading American economists are saying, "let's stop worrying about inflation; let's stop worrying about the balance of payments; we have more urgent tasks in our cities. If we don't do those urgent things in our cities we literally are going to have domestic riots. Resources are scarce but they must be found for urban programs." Contrast that with the Smith *Report* regarding our topics of municipal finance and debt—and the relatively optimistic outlook in Canada stands out.

A distinct, but closely related, point is the anti-Galbraithian tone of the Smith *Report*. A few years ago John Kenneth Galbraith led the critics of the affluent society in suggesting that we were getting the priorities all wrong in our society. The quality of life, public investment, the requirements of improved education, and improvement of our cities were badly neglected. Many of these activities are local; if they are neglected, it is because local government finance is inadequate. An enormous increase in the capacity to carry out these local area activities was advocated, including stronger revenue positions, improved ability to carry debt and transfers of income to local government. The Smith *Report* does not reflect such a deep sense of urgency.

The third thing that struck me in reviewing the Smith *Report* was the contrast between the role of the federal government in urban problems in Canada and U.S.A. With respect to the role of the federal government in municipal financing, the Smith *Report* is pretty much a *status quo* document. This contrasts with the

United States where, to a very considerable extent, the federal government feels a responsibility to come in and deal with local problems by grants, by making capital available, and by federal action programs, etc. A few years ago some moves in this direction arose in Canada, but they have been reduced. Canadians are continuing to run, and the Smith *Report* reflects a belief that we should make a serious attempt to continue to run, a genuine federal system; that, by and large, with respect to the municipality, it is the provincial responsibility and the federal government ought to keep its hands off local problems.

Turning to the *Report* itself, I concentrate my remarks on three points regarding municipal debt. The first is the assessment of the prospects with respect to municipal financing and municipal debt that are a part of the Smith *Report*. The second is the Smith *Report's* view on the use of capital by municipalities and the third is the relationship between senior government financing and municipal debt.

Prospects for Municipal Financing

The lack of concern in the Smith *Report* over the present high levels of municipal taxation has been deplored, and the absence in the *Report* of a concern over finding major new revenue sources for municipalities has been noted. The Smith *Report* seeks enlarged municipal revenue but does not treat municipal finances as being close to a crisis of inadequate resources. Improved municipal revenue—yes, but revolutionary change in the level of structure of municipal finance—no. And the documentary underpinning in the *Report* supports the Smith position (says Smith).

The documentary material in the *Report* on the adequacy of municipal revenue and debt-carrying capacity adds up as follows. First, compare municipal debt and provincial debt. In the past decade or so, and I will just use rough terms, the growth of activities and functions at the municipal level has been very rapid and the growth of municipal debt in relationship to provincial income, gross provincial product, and the tax capacity, etc., of the municipalities has been very substantial. But the growth of the provincial debt *per se* has been really very modest. The record of the last decade shows that the really rapid growth of debt of governments in this province has been for local governments and the relatively slow-growing debt has been the provincial debt. This might suggest prospective inadequacy of municipal revenues. But then, when the Smith Committee looks ahead it sees the provincial and municipal levels of government collectively facing growing expenditures in relation to their revenue, a tendency for their collective deficits to rise, and therefore a problem of raising more revenue.

But in thinking about the balance of these problems between the local government and the provincial government *per se,* the documents suggest that we are going to live in a very different world in the next decade than we have in the past. The growth of the debts of the municipalities is forecast to follow pretty much in line with the growth of their revenue, exceptional burdens are not foreseen. But the growth of the provincial debts is to be exceptionally rapid.

If we accept these forecasts by the Committee, we come up with a very different view about the urgency of tackling municipal financial problems, including debt problems, than would be expected from an extrapolation into the future from the experience of the last decade.

Now how does the Committee come to this view of what I call relative optimism about the prospects for municipal finance? First, in its projections of the revenue of municipalities, it is relatively optimistic about the prospect of increasing mill rates. It takes a view that if you assess the levels of municipal taxation in relationship to the wealth of the communities, the amounts of property, the

incomes of the people who reside in the communities and so on, local taxation is not all that high now and certainly is not all that high by historical standards and not all that high by acceptable standards of reasonableness. So the forecast is based upon an expectation of mill rates rising, if not steadily, at least on the average persistently, and fairly moderate rates of the expansion of the municipal tax base through the property tax and other ways. The tax base is to be improved also by shifting assessments on to the current basis. All of these things have led the Committee to a relatively optimistic view of the growth of local government revenue. What is relatively optimistic depends, of course, on what is your expectation of the growth of municipal expenditure.

Municipal Expenditure Projection

Regarding municipal expenditures, it seems to me that there is optimism here too. I interpret the forecast of expenditures as reflecting a view that the municipalities are "over the expenditure hump". They had enormous burdens with the buildup of the primary and secondary school system, but those burdens are largely behind us. The principal educational buildup that still lies ahead is in post-secondary education which falls primarily and directly on to the level of the provincial government, both for the Colleges of Applied Arts and Technology and the universities. With respect to other local area requirements, roads, streets, and other kinds of basic capital structure, as I interpret it, the Committee is relatively optimistic about the municipalities being over the development hump. To sum up, the Committee makes an optimistic projection about the growth of local government revenues, and takes a fairly sanguine view about the slower pace of growth of municipal expenditures. From this it follows that there is not a major worry over municipal deficits or municipal capital financing.

As an aside, my first contrast between Smith and the U.S.A. comes in here. If you were looking at an American city nowadays, looking in particular at a northern American city with a mixed population, you would forecast slow growth in revenues and huge increases in local area expenses—because of the ghettos, the problems of the urban poverty, and the problems of urban reconstruction. You couldn't possibly come out with the optimistic outlook that the Smith Committee has for Ontario. I wonder if the Smith optimism is really warranted.

The Smith *Report* projects revenues and expenditures for the provincial government *per se;* it came up with a very different view than for municipalities. It forecasts a growth of provincial revenue but foresees much more rapid growth—a kind of escalation—in the growth of provincial government expenditures both on current and capital account. Recently I have been through the financial arithmetic of the university parts of higher education in this province for the next two or three years. It is just one piece of the story, but it supports the Smith judgment concerning the enormously rapid growth of both current and capital expenditure of the province. In so far as there is a gap between revenue and expenditure projections at current tax rates, in so far as there is an increasing gap between what you might call the debt financing that has been done and the debt financing that appears to lie ahead, the Smith people really foresee this as much more a provincial financial problem *per se* and less relatively a municipal problem, in the next decade than in the past.

Use of Capital

The second subject for my discussion concerns the use of capital by the municipalities. As I interpret the Smith *Report* on the use of capital and debt by municipalities, its view seems also optimistic. It is not a view that the *status quo* of

municipal capital financing is exactly right, but that it will do. They do not see the need for major changes. First, the levels of municipal taxation are not regarded as excessive. They can grow, probably they ought to grow in relationship to the value of property. Second, the Smith *Report* does not regard the use of debt financing by municipalities as generally excessive. Thus the Committee does not see a great overhang of excessive municipal debt in this province from past financial practices. Some of the old views about debt limits and short-term payoffs of debentures are regarded as too restrictive to sensible use of debt financing by municipalities. The Smith *Report* does not recommend any major fundamental changes in municipal debt finance. The Committee adopts a middle of the road position with respect to, as it were, the question of whether capital works in municipalities should be paid for "by future generations" or paid for on a current basis. It rejects both extreme views. I interpret the Committee's view as follows: that we have roughly the right balance in use of debt financing as compared with financing out of current expenditures. We have roughly the right kinds of limits on debt financing in relationship to municipal revenue. They could be made a little more generous, but we don't really have a fundamental problem in this respect. Nor is there a need for a fundamental change in sources of capital financing for local needs because the Committee foresees municipalities being able to finance growing and improving services without having to adopt rules or make new arrangements in their financing.

Financing Through Senior Governments

Now the last topic to which I address myself is the question of senior governments as sources of capital for local government needs. A few years ago in this country there was a growing support for the view that a senior government, let us say the federal government, ought to become an increasingly large granting agency and an increasingly large source of loan funds for municipalities. Certainly there was also a view, quite widespread though not universally accepted, that the provinces ought to become the raisers of capital for local governments. By implication the view was that the local government use of market financing ought to be reduced. Some of this thinking was due to Galbraithian notions of inadequate public and private investment to deal with local area needs. The argument was reinforced by a particular paradox of Canadian economic experience in the late 1950's; despite a growing shortfall below potential output and employment we apparently couldn't build up urban facilities and educational institutions. At the very time when we had an increasing capacity to undertake public investment, and a growing need, the economy did not respond. Many people then suggested that if we could get senior governments to make capital available to the local governments, then a way would be found of breaking through to realizing public investment when both the opportunity and need were great. Many of you, in fact all of you, I am sure, are aware that in the United States, the federal government has been in the business of local government finance very strongly indeed since the end of World War II through the federal highway program, the urban development and renewal programs and a whole series of other programs. The U.S. federal government makes grants available or lends capital or carries out action programs. In the late 1950's and early 1960's we got into this kind of experience.

The Smith *Report* really doesn't have much enthusiasm for the federal government getting involved with the financing of municipalities and municipal debt or municipal capital projects. In other words, I think it is conventional in this respect and there is a lot to be said for that. With respect to the provincial governments making capital funds available to the local governments, my interpretation of the Smith *Report* is that it is a bit conventional in that respect too. In the first place there is a view that if the municipalities are in a relatively strong revenue position

in relationship to their expenditures they will have (and will obviously appear to the market to have) the capacity to carry on debt financing within limits. Those limits are regarded by Smith as meaningful and realistic in relationship to the size of the problem. Thus it follows that we may not really have a great problem if we rely primarily on market financing of municipal debt. We can use, on a limited basis and for particular sorts of things, a lending operation by the provincial government.

One of the special problems in this respect is the recent schemes of forced saving in this country under the *Canada Pension Plan*. These are making rather large packages of capital available to the provinces and, in so far as that capital is to be made available, in part at least, for municipal financing, there is a question of whether it is made available to municipal financing through the market or made available by some non-market mechanism. Now I am not clear myself on whether the Smith people have come down with a very definite view on this matter. This means merely that there are some things in the Smith *Report* that I haven't really got into my head yet. My general impression, with respect to the use of senior government lending to local governments or grants towards capital projects in lieu of lending, is that the Smith *Report* is really orthodox, conservative and conventional. It pretty much stands on what I regard as the traditional, that is the post-war pattern of arrangements in municipal debt financing that we have had in Ontario.

Speaker: **J. C. Jaggard**
Treasurer, City of Hamilton

Philosophy Behind Debt

The old saying that there are three things in life which are inescapable—birth, taxes and death—is still a truism and because the creation and subsequent repayment of debt, plus the interest, is such a elemental part of taxes today, the conference sponsors have seen fit to devote a morning to that municipal debt. Municipal debt affects every one of us personally, and because of its magnitude, it also affects the financial policies and economy of the province and the nation as well.

When our needs were simple and our pocketbook skimpy, we simply postponed our needs until we had saved up enough money to pay for them. The first world war, the ensuing depression and market crash, and the second world war, with the unleashed power of atomic warfare, had an indelible and lasting effect on the philosophy of the people in their attitude towards life. "Why save for tomorrow? It may never come. Why not get it now, enjoy it, and pay for it while we're enjoying it? Why pay for it in cash? Let our children, and perhaps our children's children, help to pay for it—with cheaper dollars!"

And this individual philosophy has become in part the philosophy of the electors, the elected councils, the appointed boards and commissions and even, to some extent, the appointed administrative officials, when civic needs are being considered. And yet, it's not just this change in philosophy which accounts for the phenomenal and disturbing increase in municipal debt. The effects of continuing inflation are self-evident.

Growth of Municipal Debt

Added to this is the trek from the farms to the cities in search of the good life, a delusion surely, but as powerful as the ebb and flow of the tide—and as constant. The resultant demands for new schools, new roads and freeways, new

sewerage facilities, increased water supply, urban renewal—not to mention the amenities of recreation, libraries, auditoriums, art galleries—has intensified the search for funds for capital projects.

The two opposite forces—too many demands and always too little money—have emphasized the need for better research and more imaginative and intelligent long-range planning for capital projects, for more careful use of the funds required, for improved allocation of priorities and adherence to these priorities, for better accounting controls, for a lively and continuing search for ways to stretch the ability of the borrowed dollars to do a better job.

Control of Debt

Although many of the major municipalities have prepared annual five-year capital budgets for some time, revising these each year (Hamilton, my city, for example, was one of the first to do so in 1955), it is only within very recent years that the Ontario Municipal Board, the arbiter of all capital expenditures which require borrowed moneys, has required the submission to it of an annual five-year capital budget.

A capital budget, initially prepared from the requests made by all the spending agencies which must have their funds supplied by a municipality, is carefully scrutinized, analyzed and finally developed by a capital budget committee, which, in its best judgment, allots priorities in the various sectors of capital needs: public works, municipal services, and social requirements, including hospitals, cultural and recreational facilities and educational needs. During this preparatory period, a constant requirement to be kept in mind is that the demands on the tax dollar, in terms of debt and debt repayment, be held within bounds which are realistic, and on this score, the necessary unanimity never prevails.

Although it is commonly believed that the Ontario Municipal Board places great reliance upon the relationship of the percentage which debt is of assessment, this is not surely the only criterion. The difficulty here lies in the fact that the assessed values used throughout Ontario municipalities vary greatly from municipality to municipality, and even though an equalization factor is used, comparability between municipalities is still lacking. The Ontario Committee on Taxation has recognized this difficulty and devoted considerable attention to it in Chapter 13. The *Report* recommends a consistent method of assessment through the province, with reassessment as required, so that assessments throughout the province may indeed be comparable. If and when this is accomplished, then a comparison of debt to assessment may be meaningful and comparable, and may be used as a yardstick in making a judgment of what is a safe debt limit.

My own municipality, for a number of years, has imposed upon itself a limit to annual debt charges; these shall not exceed 25% of the tax levy. This type of limitation, although perhaps not perfect, does recognize both the annually increasing assessment and the annually increasing mill rate.

After the Capital Budget Committee—which in Hamilton is composed of the senior member of the Board of Control, the City Engineer, the Director of Traffic, the Director of Planning, the City Solicitor, with the Treasurer as Chairman and his Deputy as Secretary (and in other municipalities may be the finance committee of Council)—has prepared, considered, revised and approved the budget, it is presented to Board of Control and then to Council for approval. After approval, and translation into the form required by the O.M.B., it is presented to that body, who, in their wisdom, may either approve without change or require changes and reductions to be made.

The role of Solomon which has been imposed on that board, and particularly on its chairman, has, in my opinion, been thoughtfully and carefully exercised; rather than being a hindrance, the Board has been of great assistance to the Treasurer in his job of keeping the debt structure of a municipality within proper bounds.

The O.M.B., after approving the budget, sets a quota of dollars which may be borrowed, but, until this year, has required subsequent individual approval for each capital project to be financed by borrowed funds.

The Board this year has taken another step forward, perhaps in answer to the recommendation contained in the *Report* (Ch. 22, p. 488, para. 128), and has said, in effect, to certain of the major municipalities, that after submission of the capital program and its approval by the Board, the municipality may proceed to implement the capital project included in the first year of such capital budget without further reference to the Board, as long as those projects which require assent of the electors, or those which involve a rating against certain individual properties are properly advertised and objections, if any, are heard by the O.M.B. The Treasurer must in each instance certify that the project involved is a part of the approved capital program and that the required funds are available.

Recommendations of the Committee

The *Report* contains the following recommendation:

> The provision for referendum on money by-laws be abolished and instead:
>
> (a) the provincial authority responsible for approving borrowings be required to give electors or persons qualified to vote on money by-laws an opportunity to speak at a hearing prior to making a decision on an application; and
>
> (b) municipal councils be required to give owners and other persons qualified to vote on money by-laws notice of, and an opportunity to speak at, any council meeting at which it is proposed to discuss expenditures that will be financed through borrowing beyond the year. (Recommendation 22:7)

The revision this year by the O.M.B. in the treatment of capital budget approval should fulfil the first part of this recommendation. The recommendation that councils be made an open forum for the discussion of these matters is one that, in my opinion, should not be permitted. At the committee level, however, this might be acceptable.

This revision of procedure for approved capital projects will impose upon the council and the administrative officials, particularly the Treasurer, heightened responsibilities, but will also enable the municipality to proceed more quickly to implement the needed capital works.

The *Report of Ontario Committee on Taxation*, Chapter 22, paragraph 132, recommends that "the responsibility for giving all approvals of municipal borrowings required by statute be transferred from the Ontario Municipal Board to the Department of Municipal Affairs". (Recommendations 22.9)

The sterling job which has been done by the O.M.B. in the past, and in particular, under its present Chairman, should not be lightly disregarded and very serious review and consideration of this recommendation should be given before the recommendation of the Committee is given effect. It might be well for the government to make inquiries of the councils and officials who deal with the Board before any change is made.

While the Taxation Committee has not attempted to define a "safe limit" for municipal debt, it has suggested a number of areas which should be explored in order to contain and minimize the amount of debt incurred.

At page 477 of Chapter 22, the *Report* recommends:

> The maximum term of capital borrowing for each type of asset, based upon a realistic concept of its anticipated useful life, be set out in a schedule to a Regulation prescribed by *The Municipal Act,* in lieu of the present provisions of the Act fixing, or empowering the Ontario Municipal Board to fix, the term of capital debt. (Recommendation 22:3)

The Committee emphasizes its viewpoint by saying that there should be either a comprehensive list of maximum terms or none at all, and further points out that such a list should make ample allowance for obsolescence before the asset is physically depreciated.

The *Report,* in Chapter 22, paragraphs 92 to 109, deals with a number of suggestions and recommendations to decrease the amount of debt incurred and I will attempt to deal with each of these briefly. Paragraph 92 suggests that a lesser term of years than normal be used for the repayment of the debt. Whilst the theory is fine, the actual practice, because of the increased annual debt charges, has a very definite effect on the capacity of the municipality to cope with its capital asset requirements in the early years.

Again in paragraph 94 the suggestion is made that the term be shortened. Perhaps one way in which this might be accomplished gradually would be, year by year, to shorten the term by one year; that is, the term of 20-year debentures would be shortened to 15, 15's to 10 and 10's to 5, and 5's perhaps to 3 or 2 depending on the term of the elected council. Such a course would have to be tempered with care, so that debt-incurring capacity would not be too greatly reduced.

Paragraph 95 suggests a modification to the normal equal annual instalment method used for serial debentures, in that the annual instalment of principal be the same, with the interest decreasing year by year. While this does have the effect of producing a somewhat reduced total cost over the term of the debenture, the annual payment in the early years is appreciably higher and debt-carrying capacity in these early years may be impaired.

The Committee recommends a fuller use of reserve funds for the financing of capital improvements. *The Municipal Act,* as constituted, permits the establishment of a number of useful reserves and private legislation has in some instances permitted the creation of similar-purpose reserves.

The *Report* mentions the possible use of sinking fund surpluses to either reduce debt in advance of maturity or to forestall the creation of new debt. *The Municipal Act,* or, in a limited number of instances, private legislation, requires that the actuarially required annual sinking fund deposit be presumed to earn interest at the rate of only 3% per annum. This restriction increases the annual payment, plus interest, to prohibitively high levels and until the province takes cognizance of the fact that sinking fund deposits can certainly, on average, earn more than 3%, sinking fund debentures are not likely to be used extensively, unless it is difficult to borrow otherwise.

The use of any sinking fund surplus, other than for the purposes of that precise sinking fund, is at the discretion of the Department of Municipal Affairs, and until the end of that precise sinking fund debenture issue is well within sight, it is doubtful that permission should be sought for the use of any sinking fund surplus for any other purpose.

The *Report* suggests in paragraphs 99 and 102, and again this is certainly nothing new, that capital assets of small cost be provided for in the current budget. Most provident municipalities have been following this course, and in many instances to an impressive and increasing degree, for many years. Here the persuasive abilities of administrative officials is an important factor.

The *Report* commends the annual provision of a capital levy from current revenue and points out that a two-mill levy for capital purposes in Metro Toronto in the years 1957 to 1965, provided the astonishing total of $85 million; $57 million of the total were allocated for subways and $28 million for schools.

Hamilton was perhaps the second city to adopt this idea, beginning in 1959 at 1½ mills, 2½ in 1960, and 3½ beginning in 1965, and has raised over $13 million in that period.

For your consideration I would recommend that, once having established an annual mill rate levy for capital purposes, the percentage of this levy be kept at least constant, with ever-increasing mill rates, so that a reasonably constant source of down-payment moneys will be available for capital projects. A somewhat similar suggestion in pararaph 101 is that a down-payment, of perhaps 10%, be required for every capital project.

Nestled amongst these commonly-used but still constructive suggestions is one contained in paragraph 103, that reserves, such as working fund reserves, accumulated patiently and with great difficulty over the years, be reduced, by up to 10% each year as allowed by statute, or more, if authorized by the Department of Municipal Affairs, either for the acquisition of capital assets or for a down-payment. Such a course will, I am sure, be resisted by all provident Treasurers and they will be sustained in their efforts by all knowledgeable councils.

The Committee suggests, in paragraph 104, that encouragement be given to the commutation of payments for local improvements or other municipal services by offering attractive discounts.

The *Report* recommends the use of non-recurring revenue items for the purchase of capital assets. Again, many municipalities do exactly this, but the temptation presented to Council to use such windfalls to hold or reduce the tax rate is ever-present.

After a thorough search amongst the various methods of partially advancing to a pay-as-you-go financing of capital asset acquisitions, the Committee has come out strongly for concentration on a variant of the mill rate capital levy.

The recommendation contained in paragraph 107 is as follows:

> Municipal corporations and each of their associated local boards be required to provide in their annual estimates amounts for capital purposes equal to the lesser of:
>
> (a) the amount of capital expenditures in their five-year capital budget that remains to be financed, and
>
> (b) a statutorily specified percentage of their estimated current expenditures. (Recommendation 22:4)

If the municipality is one which is experiencing rapid expansion and the contingent capital requirements, the first part of the recommendation is completely beyond the financial capability of any such municipality. The alternate suggestion that a specified percentage of the current expenditures be allocated for capital purposes is the variant of the mill-rate capital levy, and this recommendation is worthwhile. The judgment of Solomon, however, will be required to set a per-

centage that will be possible for the many municipalities, each in differing stages of growth and consequent capital needs. A further variant which might be considered is a range of percentages, minimum and maximum.

Paragraph 108 envisages the creation of a reserve from funds developed in this manner but not used in the current year.

The Committee in paragraph 109 recommends that a municipality or local board be permitted to make provision, without limit, for capital expenditures from revenue, provided that each such provision is clearly identified in the annual estimates of the body concerned at the time they are adopted. There is an inherent danger in this recommendation. The power of some boards, composed in many instances with a minority council representation, has already done much to whittle away the jurisdiction of the elected council, and any extension of this power, as envisioned by this recommendation, is one that should be very carefully considered before implementation.

Although the *Report* has discussed what should be included as debt, and has suggested ways to minimize debt, it has still not answered the question "What is a safe debt limit?"

While the City of Hamilton has found its own answer in limiting debt charges to 25% of the tax levy, perhaps no one overall answer is possible, having due regard to the state of individual municipal development, the level of the municipality's present tax rate, the still-unresolved question of what costs should be met from property taxes. Perhaps the work of the Committee is still not finished, and will not be so until it develops a well-reasoned and constructive approach to this problem.

Lest my remarks have seemed too critical, let me assure you that the Ontario Committee's *Report on Taxation* has, for the first time, brought to the fore the many changes and revisions which may be desirable in the whole range of municipal activity and is the healthiest stimulus for increased awareness of municipal problems which has appeared in many years.

Speaker: **I. Frank Markson**
Treasurer, Corporation of the City of Oshawa

After perusing the *Report of the Ontario Committee on Taxation,* my own comments are given in the hope that I can remove some of the buckshot from our municipal and provincial hides, to paraphrase the comments of Dr. T. H. McLeod, Vice-Principal and Dean of Commerce, Saskatchewan University, when discussing the Glassco *Report* on government organization.[1] Dr. McLeod said in conclusion "If you load your musket with sufficient buckshot, poke it into the impenetrable woods and pull the trigger you are bound to hit something. But this does not prove you have either a keen eye or a steady hand."

Looking over some of the principal recommendations assigned me by our Chairman for discussion, I regret to say the authors, at times, seem to have penetratingly analyzed the obvious and at other times have jumped too quickly to conclusions because of inadequate research—a pitfall commonly associated with the era of the Consultant, who, if you are not careful, may assist you to go wrong with confidence.

1 *Canadian Public Administration,* Vol. VI, No. 4, p. 386. "Glassco Commission Report", paper presented to the Fifteenth Annual Conference of The Institute of Public Administration of Canada, 1963.

Let us state and examine the reasoning behind these recommendations from a municipal treasurer's point of view.

Evaluation of Current Borrowing Control

Recommendations 22:1 (p. 467)

> Payment of provincial grants be scheduled throughout the year to help ensure an orderly flow of funds to meet the expenditure patterns of the recipient local authorities.

My immediate reaction to this recommendation is "When do we start?" If the provincial authorities wish to pursue this proposal it would be most desirable from a municipal viewpoint if adequate consultation could take place between provincial and municipal officials to ensure that administrative procedures are kept simple and flexible. What a pleasant change it would be to receive our meagre alms so regularly. Perhaps we might hope for a single cheque each month. If municipalities appeal to Allah once more, He may grant our plea for a reduction in the requests for form copies and various authorized signatures that will rest in peace forever in dusty provincial filing cabinets.

Recommendation 22:2 (p. 468)

> The present limit on municipal borrowing for current purposes be replaced by new provisions
>
> (a) setting new statutory limits based solely on the last adopted estimates of revenue for a full year,
>
> (b) permitting borrowing without prior approval within the limits of 15 per cent of such revenues without notice, and 25 per cent with a full explanation given to the Province within 30 days of the borrowing,
>
> (c) permitting borrowing in excess of 25 per cent of such revenues only with prior approval of the Province, and, if municipal councillors undertake such borrowing without provincial approval, applying the present penalty of disqualification from holding office for two years, and
>
> (d) empowering the Province to require municipalities that borrow in excess of 15 per cent of revenues to create and maintain a working-fund reserve through a contribution of up to 3 per cent of the current levy.

Section 329 of *The Municipal Act* sets a current limit of 70% of total estimated revenues as set forth in the estimates adopted for the year. Estimated revenues do not include revenues derivable or derived from the sale of assets, debenture issues or borrowings, or from a surplus including arrears of taxes and proceeds from the sale of assets. With the exception of small rural municipalities which do not ask for tax payments until late in the year, the limits proposed certainly would be more generous in the later stages of the year—November and December —than the present 70% limit, because the former would be based on total estimated revenue for the year, whereas the latter is based on the uncollected balance of the revenues estimated for the year less certain exclusions I have just mentioned.

The new limits seem to me to complicate matters by involving the Department of Municipal Affairs and municipalities in unnecessary communications. Table 22:1 on page 451 shows borrowing data on current account for the years 1950 to 1965. The authors state that "at the close of 1964" an improved position is revealed based on "the increased accumulation of working-fund reserves" encouraged by a 1957 memorandum from the Department of Municipal Affairs to municipalities on this matter.

centage that will be possible for the many municipalities, each in differing stages of growth and consequent capital needs. A further variant which might be considered is a range of percentages, minimum and maximum.

Paragraph 108 envisages the creation of a reserve from funds developed in this manner but not used in the current year.

The Committee in paragraph 109 recommends that a municipality or local board be permitted to make provision, without limit, for capital expenditures from revenue, provided that each such provision is clearly identified in the annual estimates of the body concerned at the time they are adopted. There is an inherent danger in this recommendation. The power of some boards, composed in many instances with a minority council representation, has already done much to whittle away the jurisdiction of the elected council, and any extension of this power, as envisioned by this recommendation, is one that should be very carefully considered before implementation.

Although the *Report* has discussed what should be included as debt, and has suggested ways to minimize debt, it has still not answered the question "What is a safe debt limit?"

While the City of Hamilton has found its own answer in limiting debt charges to 25% of the tax levy, perhaps no one overall answer is possible, having due regard to the state of individual municipal development, the level of the municipality's present tax rate, the still-unresolved question of what costs should be met from property taxes. Perhaps the work of the Committee is still not finished, and will not be so until it develops a well-reasoned and constructive approach to this problem.

Lest my remarks have seemed too critical, let me assure you that the Ontario Committee's *Report on Taxation* has, for the first time, brought to the fore the many changes and revisions which may be desirable in the whole range of municipal activity and is the healthiest stimulus for increased awareness of municipal problems which has appeared in many years.

Speaker: **I. Frank Markson**
Treasurer, Corporation of the City of Oshawa

After perusing the *Report of the Ontario Committee on Taxation,* my own comments are given in the hope that I can remove some of the buckshot from our municipal and provincial hides, to paraphrase the comments of Dr. T. H. McLeod, Vice-Principal and Dean of Commerce, Saskatchewan University, when discussing the Glassco *Report* on government organization.[1] Dr. McLeod said in conclusion "If you load your musket with sufficient buckshot, poke it into the impenetrable woods and pull the trigger you are bound to hit something. But this does not prove you have either a keen eye or a steady hand."

Looking over some of the principal recommendations assigned me by our Chairman for discussion, I regret to say the authors, at times, seem to have penetratingly analyzed the obvious and at other times have jumped too quickly to conclusions because of inadequate research—a pitfall commonly associated with the era of the Consultant, who, if you are not careful, may assist you to go wrong with confidence.

[1] *Canadian Public Administration,* Vol. VI, No. 4, p. 386. "Glassco Commission Report", paper presented to the Fifteenth Annual Conference of The Institute of Public Administration of Canada, 1963.

Let us state and examine the reasoning behind these recommendations from a municipal treasurer's point of view.

Evaluation of Current Borrowing Control

Recommendations 22:1 (p. 467)

> Payment of provincial grants be scheduled throughout the year to help ensure an orderly flow of funds to meet the expenditure patterns of the recipient local authorities.

My immediate reaction to this recommendation is "When do we start?" If the provincial authorities wish to pursue this proposal it would be most desirable from a municipal viewpoint if adequate consultation could take place between provincial and municipal officials to ensure that administrative procedures are kept simple and flexible. What a pleasant change it would be to receive our meagre alms so regularly. Perhaps we might hope for a single cheque each month. If municipalities appeal to Allah once more, He may grant our plea for a reduction in the requests for form copies and various authorized signatures that will rest in peace forever in dusty provincial filing cabinets.

Recommendation 22:2 (p. 468)

> The present limit on municipal borrowing for current purposes be replaced by new provisions
>
> (a) setting new statutory limits based solely on the last adopted estimates of revenue for a full year,
>
> (b) permitting borrowing without prior approval within the limits of 15 per cent of such revenues without notice, and 25 per cent with a full explanation given to the Province within 30 days of the borrowing,
>
> (c) permitting borrowing in excess of 25 per cent of such revenues only with prior approval of the Province, and, if municipal councillors undertake such borrowing without provincial approval, applying the present penalty of disqualification from holding office for two years, and
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The authors fail to show, and it may be for lack of available data, the interest cost on current borrowings and its significance in relation to other current expenditures. Until these data are obtained, I cannot see how they can make a case for amending the present legislation.

Indeed, it seems to me that the most direct way to minimize interest costs, from a provincial point of view, would be to set mandatory due dates for the first and final tax instalments payable in the year. Obviously, earlier tax receipts would reduce current borrowings. With respect to item (d) of Recommendation 22:2 empowering the province to require municipalities that borrow in excess of 15% of revenues to create and maintain a working-fund reserve through a contribution of up to 3% of the current levy, the obvious question to ask is what is meant by "maintain". If it is an annual contribution, for how long should it be maintained? If it is a total reserve of 3% of the current levy, this would usually work out at about 2% of total revenues. I might add that the 1957 Department of Municipal Affairs memorandum on reserves encourages municipalities to accumulate reserves up to 40% of the latest tax levy and related revenues. The minimum reserve proposed by the Committee is so ludicrously small that its effect would be insignificant—something like opposing an oncoming tank with a bow and arrow.

Recommendation 22:2(d) is of the rigid variety, no matter how slightly it violates the right of municipalities to decide what to include in their estimates. On the other hand, the intention of the 1957 Department memorandum, encouraging municipal reserves, is a more satisfactory approach. Surely, the provincial authorities do not wish to be blasted by irate taxpayers for insisting that the mill rates be increased—a distinct pleasure reserved for municipal councils. How else can a council justify its very existence if its capacity to absorb local blame is endangered?

Recommendation 22:8 (p. 489)

(a) Every municipality be required each year to submit for provincial approval a capital budget for a period of at least five years;

(b) upon approval of such capital budget or any amendment thereto, a municipality be permitted to effect without further approval the borrowing required for the proposals scheduled therein for commencement in the first year; and

(c) upon effecting any borrowing so permitted, the municipality be required to notify the Province forthwith.

The use of the word "budget" is not clear. I suspect the authors mean quota or forecast. Most municipal finance men usually associate the word "budget" with the annual adoption of current and capital estimates, and "forecast" with expenditures beyond the budget year. Quotas are established annually by the Ontario Municipal Board.

With respect to the quotas obtained from capital expenditure forecasts, the authors conclude paragraph 37, page 460 with the sentence, "At the end of 1965, 310 municipalities were operating on quota, an increase of 142 over the previous year". They omit to indicate whether or not a need exists for the remaining 656 municipalities to submit capital expenditure forecasts for quota establishments. I suspect that many Ontario municipalities do not need to submit such forecasts simply because they do not make capital expenditures. I further suspect that many municipalities, usually under the 2,000 population mark, may have only a single capital expenditure, such as a school every two or three years. Why is it necessary for them to submit a capital expenditure forecast on one single item for quota, when all they need to seek from the Board is authority to incur the expenditure when the need arises? It is doubtful that a blanket statute as recommended would contribute substantially to the efficiency of provincial stewardship over municipal borrowings.

Item (b) of this recommendation is not novel since *The Ontario Municipal Board Act* was amended in the spring of 1967, to allow for such a procedure, which has recently been implemented by the Board for certain municipalities.

Recommendation 22:9 (p. 490)

The responsibility for giving all approvals of municipal borrowings required by statute be transferred from the Ontario Municipal Board to the Department of Municipal Affairs.

Consider the tasty morsels from preceding paragraphs which I have selected as background information. Paragraph 128 on page 488 commences "We are impressed with the progress the Ontario Municipal Board has made towards the development of capital budgeting." Apparently the authors are not impressed enough. In paragraph 130, the authors hedge against their recommendation by offering a piece of advice to the Board: ". . . our opinion is that it [the Board] should make full use of the expanding research and information potential of the Department of Municipal Affairs. It ought, moreover, to direct the expansion of certain operations into channels that will afford greater support to the exercise of the borrowing control responsibility." The question arising in my mind is, if, as and when the Board needs information from the Department surely they don't have to be told like children to ask for it? The second piece of advice about "exercise of the borrowing control responsibility" escapes me completely.

I refer to Mr. Jaggard's assumption that the Board places "great reliance upon the relationship of the percentage which debt is of provincial equalized assessment". I agree with this assumption. There must be other factors which are discreetly and carefully examined by the Board, if, as and when required such as:

1. the nature of the debt position now and in future
2. assessment and its commercial and non-commercial relationship
3. increase in projected debt over retirement
4. debt charges ratio to tax levy
5. tax arrears trend and tax collection efficiency.

With respect to these factors, they can readily be obtained from existing statistical information of which every municipal treasurer, worth his salt, makes frequent use. But one important factor of the Board's borrowing control effectiveness can be easily overlooked because it cannot be obtained from statistical sources no matter how extensive. That is, the formal and informal contact which the Board members have with municipal officials as they hold hearings in many municipalities.

The Board members have a collective wealth of knowledge and practical municipal experience in law, engineering, finance, planning and administration. The majority of them have worked for municipalities. Indeed, they have always impressed me with their acute awareness of municipal financial problems which has gained them an enviable reputation throughout this province. What advantage then can be derived from shifting this harmonious and effective relationship to Department of Municipal Affairs? Does the Department have the same calibre of staff to successfully take over? The authors do not indicate this.

The effect of this recommendation would be the same as placing a baby first in the hands of the Department, and second, when it starts crying, into the com-

forting, but perhaps reluctant, arms of ministerial discretion. Consider this appetizer offered us by the authors on "ministerial discretion" from Chapter 21, dealing with grants.

> Nevertheless, if we may paraphrase a famous saying, we are of the opinion that in Ontario, ministerial discretion is great, has been increasing and ought to be reduced. (p. 420, para. 31)

Truly the authors in proposing such an untimely change, without producing comparative facts on the administrative capacity and experience of the personnel of both the Board and Department who would be involved in the control procedures over borrowing, fail to justify, in my mind, the need for such a transfer of duties and responsibilities.

In summation, Mr. Chairman, I would say before this *Report* is given muscle in the municipal debt area assigned to me, at least three of the recommendations should be carefully examined, altered or pickled and preserved for posterity. Let us not increase administrative dyspepsia with a remedy supposed to reduce it.

The other recommendations assigned to me were those covering interest on provincial loans to municipalities, to be found on page 491, and changing the system of grants to pay school boards the provincial share of costs instead of debt charges, on page 492. I agree with these recommendations.

Speaker: **Archibald Smith**

Manager of The Municipal Department, Wood Gundy Securities Limited, Toronto

Debenture Marketing

Unlike the magnitude of the subject encompassed by the terms of reference of the Ontario Committee on Taxation, mine are rather limited in scope, being confined to the subject "Can we improve debenture marketing". Should I stray from my allotted subject I trust that you will overlook my digressions.

Before proceeding further, I must make it clear that my comments are not in any way to be construed as the views of the Investment Dealers' Association of Canada nor are they necessarily the views of my employer, Wood Gundy Securities Limited.

Methods of Marketing

For the benefit of those who might not be too familiar with the procedures used by a municipality to market debentures, these fall into four main categories, as follows: by calling for tenders from interested parties to purchase the debentures; by appointing a fiscal agent, on a continuing basis or for a stipulated period of time, and at a fixed fee, to market the debentures; by appointing an agent on a "one-shot" basis to sell the debentures, or by the municipal treasurer himself selling them over the counter to local residents. Normally, this last exercise is confined to small, short-term issues, and while advantageous from the standpoint of reducing interest costs, does not constitute a very large percentage of the total debenture financing in any one year.

In asking the question "Can we improve debenture marketing" it would appear that our concern is more with, first, the interest costs of such an operation, and the resultant burden on the taxpayer, rather than in the method of marketing employed, although the latter operation may be extremely important in the matter

of costs; and second, with the primary as opposed to the secondary market, although the shortcomings of the latter are to a great extent the result of the form of debenture selected in the initial distribution.

Historically, as stated in the *Report*, the main purchasers of Canadian municipal debentures have been chartered banks, trust companies, life insurance companies and in more recent years, corporate pension funds. Debentures have assumed various forms but, in the main, the serial or instalment debentures consisting as closely as possible of equal annual instalments of principal and interest has been the form used most consistently by municipal borrowers. This form of debenture ensures an orderly retirement of the debt and enables the municipal treasurer to budget quite readily for the required annual amounts.

Other types of debentures used have taken the form of equal annual instalments of principal with interest payments correspondingly reduced each year, and the sinking fund type of security whereby the debenture is issued for a specific period of time with interest payments falling due annually but with no principal repayment being made until the specified period has elapsed. Such issues provide for a specific amount of money to be deposited in a sinking fund each year and invested at a stipulated rate of interest sufficient to retire the obligation, either in whole or in part, on its maturity date.

Due to the backlog of financing existing at the end of World War II and through subsequent years until approximately the late 1950's when the polarization of population and industry in our major urban areas created an insatiable demand for borrowed funds, the serial form of debenture retained a certain amount of its attraction for trust companies and life insurance companies because its unique method of repayment was suitable for their disbursement requirements and, to a certain extent, because it provided a fairly rapid repayment of the debt. However, investment in this form of debenture involves considerable administration costs and with the availability of N.H.A. and conventional mortgages which provide much higher yields and are insured in the event of default, and which embody all the favourable repayment features of serial debentures, the historic purchasers of serial municipal debentures, to an increasing extent, withdrew from this form of investment in favour of mortgages and corporate sinking fund bonds, and until municipal debentures can compete with the beneficial advantages afforded by such alternative investment forms, they will remain unattractive to the institutional investor.

As an indication of the preference shown for mortgage loans in recent years, investments in this form of security by twelve representative Canadian insurance companies[1] consistently show increases in net new investments each year. Figures for 1964, 1965 and 1966 are reported at $723 million, $836 million and $868.1 million respectively, while net new investments by these institutions in municipal debentures were $34.2 million in 1964, minus $4.2 million in 1965 and minus $6.2 million in 1966.

However chartered banks, interested mainly in the short-term portion of serial issues, have maintained and even increased their net holdings of municipal bonds over the years but their interest is largely centred in the primary rather than the secondary market and largely in the debentures of those municipalities where they have the banking business and not municipalities in general.

Municipal Issues in Recent Years

Although other historic buyers, whose function requires the investment of their funds for the longest period possible, have in recent years become net dis-investors in municipal debentures, capital markets continue to play a very important role in

[1] *Bank of Canada Statistical Summary*, December 1967.

providing funds for municipal purposes. Net new issues floated in 1965 and 1966 amounted to $271 million and $328 million, of which the internal pay portions totalled $252 million and $258 million[2] respectively. These figures, of course, exclude net new issues sold to provincial authorities, and which, for the years in question, were estimated at $89 million and $116 million. These totals for 1965 and 1966, when the full effect of Municipal Development and Loan Fund set up by the federal government began to be felt, are considerably reduced from the 1964 total of net new municipal issues which stood at $440 million and of which $324 million were internal pay securities. Thus it will be noted that the historic investor in long-term municipal securities had become a net dis-investor in the years when the volume of new issues had fallen, so that the seriousness of the situation had not become readily apparent.

Figures compiled by Wood Gundy Securities Limited show an estimated total of new municipal issues amounting to $549,398,000 in 1967, almost equivalent to the total gross amount of new issues in 1964. Net dis-investment in new issues for the first ten months of 1967 amounted to $1.6 million. The 1967 figure, however, is based on issues appearing in the capital market, and includes $143 million payable in U.S. funds but excludes, for example, debentures sold directly to provincial authorities like the Ontario Education Capital Aid Corporation, which we would estimate at approximately the same amount as was purchased by that Corporation in 1966, namely $121 million.

Sales of new issues by Ontario municipalities in the capital markets during 1966 were in the region of $164.5 million and $144.8 million for the period January 1 to October 31, 1967, the latest information available. In both cases such new issues by Ontario municipalities approximated 29.5% of the total new municipal issues in Canada.

Recommendations of the Committee

The gravity of the decline in interest shown by Canadian investors for municipal debentures, I suggest, has been overlooked, owing to the extent of the financing done in the New York market and by the not inconsiderable purchases by U.S. insurance companies acquiring Canadian internal pay municipal debentures for deposit with the Superintendent of Insurance in Ottawa. Should a situation arise where we are unable to utilize the New York market, and if the Committee's recommendation 22:11, Chapter 22, paragraph 138 of the *Report,* that "the practice of lending through the Ontario Education Capital Aid Corporation be abolished" is put into effect, so that a portion of borrowing for school purposes returns to the capital market, municipal financing in Canada, short of being subsidized to an even greater extent by the senior levels of government, will have to be cut back drastically or be redesigned to attract the Canadian institutional investor back into the fold.

At the outset I must agree with the recommendation of the Committee that government subsidies in the form of loans to municipalities at low interest rates should be drastically curtailed and that municipalities be subjected to the discipline of the market-place, this being the most realistic and equitable method of allocation of the available scarce resources and the only reasonable method of keeping borrowing in check.

However, I feel that these sentiments are rather naïve, in that "give-away" programs, once implemented, are extremely difficult to contain, let alone terminate. The further recommendation pertaining to the abolition of the Ontario

[2] *Ibid.*

Education Capital Aid Corporation and its substitution by a system of paying capital grants to municipalities and school boards at the time of construction is not without merit. However, as a contributor to the Canada Pension Plan, the source from which these funds for school capital purposes are at present obtained, I question the philosophy underlying the investment of these funds in loans to municipalities at 6½% while so many other investment opportunities of at least comparable quality and providing much higher earnings are available. I would suggest that these funds should be invested in accordance with recognized pension fund requirements and not used for purposes dictated by political expediency, and that the funds required to implement the Committee's recommendation concerning capital school grants should be sought elsewhere.

The *Report's* further suggestion that capital borrowing for separate school boards should be carried out by municipalities in the same manner as for other boards appears to be sound, not simply because of the lower interest costs inherent in such a move, but also as a means of ensuring better control of the formation of new school plant than currently obtains.

Other members of the panel have commented on the suggestions of the *Report* concerning possible adjustments of the length of the term of municipal borrowing. Other suggestions as to methods to be used to improve debenture marketing, like that contained in the *Report* of utilizing variable interest rates as offering some protection against the continuing depreciation of the currency, would, I feel, be impractical; nor would the widespread use of a system of provincial guarantees, a matter which the Committee quite rightly condemns, be of lasting benefit in reducing borrowing costs. Experience along these lines in other provinces has shown that the investor is concerned more with the underlying credit than with the guarantee, so that through time the guarantee loses a considerable amount of its attraction. The indiscriminate use of the guarantee, moreover, tends to dilute the credit standing of the guaranteeing body so that through time the overall costs of borrowing, other things remaining equal, revert to their previous level.

In my opinion, the most sensible and practical way of improving debenture marketing would be for the larger municipalities to make wider use of the sinking fund debenture for at least the longer part of their issues. Since the 1955 amendments to *The Ontario Municipal Act,* municipalities have had the power, subject of course to the approval of the Ontario Municipal Board, to issue debentures under the sinking fund plan, and, since the operation or supervision of such sinking funds is also subject to the approval of the provincial authorities, many of the earlier misgivings about their management are no longer pertinent. The adoption of this method of borrowing in the current period of high interest rates is, to all appearances, an extremely costly business, particularly when statutory regulations still provide that sinking fund deposits should be calculated on a maximum earning rate of 3%. There is no solution to this problem in *The Municipal Act* as it now stands, and although some of the responsibility for this state of affairs lies with the investment dealer in not having made stronger representation in the past to have changes made, I feel that municipal officials are not entirely blameless, being concerned more with taxpayer reactions to the cost of the primary distribution rather than with the creation of the widest possible, continuing markets, both primary and secondary, for their securities.

While I appreciate that the municipal treasurer is charged with keeping costs as low as possible, I would suggest that in the adoption of the sinking fund method of financing, the larger municipalities would obtain interest costs, lower by about ¼ of 1%, than are currently received on their issues of instalment debentures.

It would be beneficial if such sinking funds could be callable for sinking fund purposes at the option of the provincial treasurer or the municipalities. Some thought also might be given, as in the case in the province of Quebec, to making the sinking fund debentures redeemable at 100% of their face value and creating a schedule of obligatory sinking fund payments corresponding to the principal amounts which would mature annually under the serial or instalment plan. In this way the cost disadvantage of a straight sinking fund issue is overcome and there is the additional incentive that the municipalities may at some stage of the interest cycle be able to purchase those debentures on the open market which will provide for that year's retirement at less than par. From the investors' position, the principal objections to the instalment debentures will have been met, in that only one maturity date for both trading and accounting purposes is used. At the same time, I would further suggest that the regulations prohibiting municipalities from using refunding issues might be re-examined as, on occasion, they create an unnecessary hardship.

Further improvements in the marketing of municipal debentures might be achieved by improving and broadening the quality and scope of municipal statistics. In Ontario, current annual reports, based on the format set up in the 1930's, are inadequate since the simple municipal structures of that era no longer exist, while the overlapping debt structures between municipalities, and the heterogeneous forms of school grants, make it almost impossible to ascertain debt positions with any degree of accuracy. The situation is further complicated by direct capital loans from senior governments, forgiveness provisions, and a welter of subsidies, grants and shared cost programs embodied in formulae quite incomprehensible to the layman. For instance, assessment data, the yardstick against which debenture indebtedness is measured, is incomplete, in that information is not provided on the amounts applicable to the various classes of properties included in the assessment total, making it difficult to ascertain where the burden of debt really lies.

Concerning a "safe" debt level, I will only say that in these days of ever-increasing inflationary pressures we might be as well advised to ascertain, for example, a "safe" level for labour costs. No doubt the arbitrary checks, based on percentages of debt to assessment and debt charges to revenues currently employed, have been of inestimable value in keeping our municipalities out of difficulties. However, certain municipalities might well be penalized if universal arbitrary ratios for determining the maximum, permissible amount of debenture debt are imposed.

In the main I am satisfied with, and endorse the recommendations contained in the *Report* applying to municipal debenture financing, but would like in closing to condemn and reject that profound statement contained in Chapter 31, page 294, recommendation No. 3, which proposes that securities taxes be assessed against the commissions earned by brokers and dealers, and which concludes, "where no commission is charged by a security dealer or broker, a reasonable commission be deemed to have been charged".

Death and Gift Taxes

Chairman: W. A. Macdonald

Speakers: W. D'Arcy Blair
K. A. Foulds
Berkeley Hynes

Chairman: **W. A. Macdonald**
McMillan, Binch, Stuart, Berry, Dunn, Corrigan & Howland, Toronto

Speaker: **W. D'Arcy Blair, Q.C.**
Barrister and Solicitor, Toronto

The Tax Base

In presenting their discussion and recommendations the Committee gives full recognition to the limitations on the provinces' taxing powers contained in the *British North America Act*. The province is limited to "direct taxation within the Province in order to the raising of a revenue for provincial purposes". The present Ontario *Succession Duty Act* has been carefully drawn with regard to these limitations and the Committee in its *Report* raises no question on this score.

The present Act levies duty first on all property situate in Ontario passing on the death; secondly it levies duty on a beneficiary resident or domiciled in Ontario to whom personal property situate outside of Ontario is transmitted on the death of a person domiciled in Ontario; finally the Act levies duty in respect of dispositions, that is gifts made during lifetime. As the Committee points out, the rules governing which dispositions are taxable are quite complex, the reason for this being again the necessity for complying with the constitutional limitation on the province's taxing powers; however the requisite under the Act is that either the property which was the subject of the disposition, or the donee, be within Ontario at the date of the death of the deceased.

Residence of Deceased as a Test

As the Committee proposes in Recommendation*, it is no doubt a logical enlargement of the tax base under modern conditions to include residence as the basis of taxation to some degree. It may well be questioned whether residence for one year is not too short a period. It would probably make effective and equitable enforcement extremely difficult. It is to be borne in mind that in taxing the beneficiary as if the deceased were domiciled here all personal property situate

* All recommendations referred to in this and the other papers in this panel session are in Chapter 28 of the *Report*.

outside Ontario transmitted to that beneficiary would be taxed. The accumulation of that property might have had little or nothing to do with Ontario if the deceased had resided here for only a year. On the other hand, if the deceased had resided in Ontario for a large part of his working life, there are good reasons for taxing what he had accumulated. A year seems to be too short a period.

Situs of Property

The courts have decided that the provinces under the constitutional limitations on their taxing powers have no power to enact rules to determine the situs of property for death tax purposes, but must abide by the common law rules. The federal government on the other hand, with its unlimited taxing power, can enact rules for determining the situs of property and has done so in the *Estate Tax Act*.

The estate tax situs rules vary in several significant respects from the common law rules binding the provinces. As the Committee points out, this is most undesirable. For one thing it is confusing for testators, executors and others.

As to the first alternative in the Committee's proposal 2, the federal government has steadfastly refused to give up its own situs rules. It is doubtful therefore if it can be prevailed upon to do so now. As to the Committee's alternative proposal, I think it very doubtful that Ontario, or any of the provinces, would be satisfied to leave the determination of situs rules in the hands of the federal government. The matter is of prime significance and the provinces would no doubt want assurance of consultation in the formulation of the situs rules. On balance, I am inclined to favour the Committee's first alternative, if it can be achieved.

Credits for Duty Paid Elsewhere

Ontario now allows a credit for duty paid to certain other named jurisdictions. Recommendation 3 would broaden the existing system and bring it into line with present day economic conditions. The recommendation would have to be carefully worked out in relation to the priority of credits contained in section 9 of the *Estate Tax Act,* and the conventions which the federal government has with other countries. Otherwise marked inequalities and inequities could result.

The second part of the recommendation, that is for allowing 75% credit for estate tax on property situate in non-collecting provinces, is not workable while the estate tax situs rules and the provincial situs rules are not uniform. Under the recommendation, Ontario could give a credit, say, for property situate under the common law rules in Manitoba, a non-collecting province, and situate in British Columbia under the estate tax rules. The federal government would give a credit to the estate in that case under section 9, and Ontario would also give a credit, although Manitoba received nothing under the tax-sharing arrangement with the federal government.

Property Passing on Death

I will deal with two general basic Recommendations, 5 and 19, before dealing with the recommendations on specific points.

With respect to 5, the Ontario Act has always been administered on the basis that the term "passing on the death" did not apply when the deceased had an interest only during his lifetime. The British courts have given a different meaning to the term and have interpreted it to apply where the deceased had only an interest for life, and that there is a passing on his death. The Committee devote

little space to the discussion of this point but its significance cannot be emphasized too strongly. It is a fundamental point, and it is eminently desirable that departmental practice should be given legislative sanction.

It has been departmental practice to make allowance for property passing on the death for partial or full consideration. In my opinion the amendment recommended by the Committee (No. 19) is desirable not only as a technical correction, but as bringing into higher relief the considerations affecting the taxation of property in some circumstances.

Joint Property and Life Insurance

Recommendations on these questions are numbers 6 and 18. Arguments, pro and con, concerning the basis on which these two classes of property should be taxed, are well known. In each case the Committee has made its recommendations on balance. In any case, both recommendations are dependent on the enactment by Ontario of a gift tax, and discussion at this time may be academic. In connection with insurance, the Committee recommends that gifts used directly or indirectly to pay premiums on insurance on the life of the donor be excluded from the exemption of $1,000 for gifts made to any one person in any year and from the general exemption of $2,000 to be allowed each year to an individual, as recommended in the gift tax proposals. In my opinion, a distinction of this kind in the case of any class of property is unsound in principle, and in this particular case will give extreme administrative difficulty.

The Committee recommends that the following be added to the classes of property deemed to pass on the death of the deceased: payments on the death of a deceased employee in recognition of services (17); gift tax that is recoverable as a deduction from federal estate tax or provincial succession duties or by way of refund of gift taxes (22).

With reference to community of property (8), I may point out that since the end of World War II, a great many married couples have come here from community jurisdictions. Usually the community attaches to property acquired here. In many cases the couple have come to Ontario with very little, and if they have acquired a sizeable Ontario estate, there is often an unfair tax advantage on the death, say, of the husband.

I will just mention the exemption recommended for certain household furnishings (7).

Dispositions

The two recommendations with respect to dispositions are important. The first (20), reducing the present five-year period to one of three years, is based on the assumption that Ontario will introduce a gift tax.

The second (23) is subject to many arguments pro and con. In an expanding and inflationary economy, valuation at the date of gift will receive a great deal of support. Nevertheless, in my opinion, valuation at the date the liability for duty arises, that is the date of death, is to be preferred.

Life Interests and Remaindermen; Annuities and Pensions

The Committee makes extensive recommendations under these headings. Almost all of the recommendations raise questions and reservations.

Recommendations 9 and 15 recommend the use of a modern standard mortality table, and at a compound interest rate that more closely reflects current rates of interest. In valuing life interests arising now, one is dealing with interests which may normally extend over periods of, say, up to 35 or 40 years. We all know the great fluctuations in interest rates which can occur. As between life tenant and remainderman, it is a case of dividing the pie. While the revenue may not be affected very much, an interest rate that is out of line could cause serious inequities between life tenant and remainderman. Very careful consideration should be given to the level to which the interest rate is raised, and I would feel that current interest rates may be found too high.

Actuaries also tell me that there are some compensations in using a mortality table such as that now used and that in any case to get a high degree of accuracy, male and female tables should both be used. The Committee does not mention this distinction.

Instalment Payment of Duty

The Committee takes the basic position that the province should not be expected to wait for the duties merely because a deceased chose to leave a life interest to one beneficiary and the remaining interest to another, but say that there are problems in requiring a life tenant and a remainderman to pay as at the date of death. I suggest that the Committee's basic statement is an over-simplification and that it is foreign to the concept of a succession duty. It may be appropriate to an estate tax. A succession duty is a tax on the individual in respect of the particular interest which he takes. The method of payment therefore should recognize and conform to the basis of the tax. In the case of remainder interests, for example, the amount of the interest, its nature, who the beneficiary will be, and even whether or not duty will be payable, may not be determined for many years after the testator's death. The taxing Act should not be an instrument to bring pressure on testators to frame their wills to conform to the method of payment in the Act.

The proposals (10) for the amounts of the instalments of duty to be computed having regard to the life expectancy of the life tenant and the addition of compound interest are of course distinct departures from the present system. These proposals invite close scrutiny from both the actuarial standpoint and that of the practical effect on the estate and the beneficiary.

It is of course apparent that the next proposal (11), that instalments continue for the duration of the life tenancy, goes beyond a mere method of payment of the duty and affects the amount. This proposal could result in marked inequities between life tenant beneficiaries.

The Committee recommends (12) that where the life tenant elects to pay by instalments and the remainderman has paid his duty as at the date of death, the remainderman's duties be recomputed when he falls into possession. Apart from anything else, this proposal would be burdensome administratively. No one ever lives his exact expectancy and the proposal would involve a disproportionate amount of re-opening and re-assessment.

The Committee proposes (13) that where the duties of both the life tenant and the remainderman have been settled at the date of death, there be no recomputation upon the death of the life tenant.

This whole set of recommendations, including proposals 14 and 16 which are parallel to the proposals I have mentioned, pose questions. Without being exhaustive the following are representative.

(a) What is the basis for treating the life tenant who pays in instalments, and the life tenant who pays at the date of death, differently as to the amount of duty each pays?

(b) Why should the position of the remainderman as to recomputation of his duty depend on the method of payment chosen by the life tenant?

(c) How do you deal with encroachments on the capital, which may not be for the benefit of the particular life tenant or remainderman, and could for example, reduce the life tenant's income below the annual instalments of duty?

(d) Are the life tenant and remainderman who have elected to postpone their duty to be allowed to change their election?

Conclusion

May I end by saying that the Committee has done a realistic piece of work in its recommendations on the tax base. It has provided a practical starting point for the re-writing of the Act, which, as it says, is overdue.

Speaker: **Kenneth A. Foulds, Q.C.**
Arnup, Foulds, Weir, Boeckh, Morris & Robinson, Toronto

Deductions, Exemptions, Calculations of Tax and Rate Structure

In considering this part of the Committee's *Report* I am thinking particularly of the effect of the proposals on the family and other beneficiaries who would be bearing the taxes and the advice we would give if the proposals were adopted.

The effect on the government revenues, if the recommendations were adopted, can be discussed in other places along with the broader question of how much a government should be raising from this source. In any event the entire succession duty revenue in this province is not a very significant part of the total provincial revenue and the difference between the present revenue and that which would be raised under the proposals does not appear from the *Report* to be very substantial.

In looking for a way to deal with the proposals, it occurred to me that if we tried to group them in the way we think of this subject when advising clients (and, incidentally, when advising ourselves), it should be possible to come up with something we could easily relate to real life.

Any reference to a proposal by number is to the numbering system adopted in Chapter 28, Vol. III of the Committee's *Report*. The same system is used in the Foundation's *Tax Memo* No. 45 dated August 1967. All numbers in that *Memo* are in the series between paragraphs 338 and 351.

Proposals Affecting All Estates

Liabilities (26)

Some point is made that duties should be adjusted or refunded when a liability becomes payable after the duties have been settled. This includes contingent liabilities which later become payable but the proposal is subject to the provision that before you can get a refund there must be a liability of more than $1,000 involved. This seems a reasonable arrangement.

Death and Funeral Expenses (27)

The proposal makes some point of the fact that all expenses in connection with the death and funeral that are paid from the estate should be treated as deductions. It appears from the text of the *Report* that some expenses are disallowed if the Department considered them to be unreasonable and in that context, the proposal would provide some relief. I think it would also cover the question which has sometimes been raised that a wife's funeral expenses are not a proper deductible item because it is a husband's duty to pay for his wife's funeral. It appears from the *Report* that the recommendation does not extend to executors' compensation, although one would think it should extend to those items since they are amounts the beneficiaries never receive.

Legal Costs (28)

The proposal is to go considerably beyond the present maximum of $100 as an allowance for legal expenses, by allowing as a deduction amounts not exceeding the standard tariff of the applicable County Law Association for legal services in preparing application for and obtaining probate or letters of administration, preparing succession duty and estate tax returns, and preparing notarial copies of letters probate or letters of administration. This reference to the tariff of County Law Associations is a curious error in the *Report,* since fees in these matters are not fixed by County Law Associations but are fixed for the whole province by Order in Council published in the Ontario Regulations. A considerable part of these fees, particularly those involving settlement of succession duty and estate tax, are discretionary in the Surrogate Court and it would appear from the proposals that that portion of the fee is not deductible.

Proposals Affecting the Immediate Family

By far the largest number of estates involve the immediate family, that is the wife, husband and children and grandchildren and I propose to discuss them next.

Relatives and Dependants

(Repeal of Present Provisions) (30)

To clear the decks one simple proposal is that all the present provisions in the *Succession Duty Act* for giving preferential treatment to relatives and dependants be repealed. This gives effect to the many valid criticisms which have been made about the unnecessary complexity of the dependants' deductions.

Dependants' Deductions

To replace the present provisions there are two proposals. One (31) is that a widow or widower be allowed an exemption of $75,000. The other (33) is that a child receive an exemption depending upon his age. For those under 21 the exemption is $25,000 and this gradually decreases until at age 25 or more the exemption is $10,000. The deduction proposals are so drawn that if the children's exemptions are not needed to free them from tax, if, for example, everything was left to the wife or husband, then the wife or husband can claim an additional exemption equal to the aggregate of the unused portions of the exemptions to which the children were entitled. The effect of these provisions would be that a widow with two children under 21 years would have an exemption of $125,000 between them. A widow with three adult children over 25 years would have an exemption of $105,000 between them.

There are a few detailed recommendations dealing with the position of children with no surviving parent, and grandchildren in some circumstances would be entitled to the exemption their parent would have had if the grandchild inherits from a grandparent.

Results

The combined effect of the dependants' deductions and the proposed tax rates and tax method works out in this way, and for comparative purposes I have also calculated what the tax would be under the present Act. In making all calculations I have, for the sake of simplicity, omitted gifts *inter vivos* and the $6,000 deduction from aggregate, and made calculations on the basis of an estate after the $6,000 deduction. The following tables show some results of the recommendations.

EXAMPLE A

The estate has an aggregate net value of $150,000 and is to be distributed $100,000 to the widow with the remainder equally to each of four children, ages 28, 24, 20 and 16 ($12,500 each) ($6,000 disposition exemption omitted).

Computation of Beneficiaries' Rate

Aggregate net value	$150,000
Basic duty on $150,000 according to the proposed rate schedule	30,000
Beneficiary's rate $\frac{30,000}{150,000}$ x 100%	20%

Computation of Duties

Widow:

Property passing			100,000
Aggregate taxable value			100,000
Deduct: (1) Widow's exemption		$75,000	
(2) Unused exemption in respect of children nos. 2, 3 and 4		25,500	100,500
Net taxable value			Nil
Duty			Nil

Child No. 1 — 28 years of age:

Aggregate taxable value	12,500	
Deduct exemption	10,000	
Net taxable value	2,500	
Duty on $2,500 at 20%		$500

Child No. 2 — 24 years of age:

Aggregate taxable value	12,500	
Deduct exemption	13,000	
Net taxable value	Nil	
Duty		Nil

Child No. 3 — 20 years of age:

Aggregate taxable value	12,500	
Deduct exemption	25,000	
Net taxable value	Nil	
Duty		Nil

Child No. 4 — 16 years of age:

Aggregate taxable value	12,500	
Deduct exemption	25,000	
Net taxable value	Nil	
Duty		Nil
Total duties payable		$500
Deduct 50% credit in recognition of Federal Estate Tax		250
Net duties payable		$250

Comparative figures are as follows (to nearest $100)

	Report's Recommendation	Present Act
Tax on above family with $150,000	$ 250	$ 5,200
Tax on same family but with $200,000 and ⅔ going to widow	5,700	12,500
Tax on family with widow and 3 children 23, 20 and 15. Total of $250,000 with $150,000 to widow and rest to children	13,000	18,000
Tax on last-mentioned family with $300,000 and $180,000 going to widow	20,000	23,000
Tax on family with widow and 2 children ages 45 and 40 and a grandchild who is child of deceased child of testator. Total $1,000,000 with $500,000 to widow. $200,000 to each child and $100,000 to grandchild	173,000	156,000
Tax on last-mentioned family with $2,000,000 with $1,000,000 going to widow and rest in proportion	434,000	389,000

Comment on Dependants' Position

Calculations show that where there is a wife and several children, estates of up to $125,000 or so will usually have either no tax or very slight tax. I think most people would agree that at that level there should be freedom from tax. After all, both husband and wife have probably contributed substantially to the family savings and this exemption gives added recognition to that situation.

I would comment next on estates above that figure up to the area of, say, $250,000. This size of estate is being found more frequently and I would suggest that that trend is going to continue. Take for example a person in his sixties with perhaps a house free of mortgage, some insurance perhaps (including a large group insurance policy), some other assets and particularly the capitalized value of whatever pension his widow may receive under a pension plan. This last figure is something which we are only beginning to see frequently in large amounts. Assets of these kinds can well get into the area approaching $250,000. Succession duty on such an estate to an immediate family before and after the changes made in the proposals would work out approximately as shown in the calculations.

These calculations show, it is true, some reduction in tax but I suggest that the reductions are not a substantial amount having regard to the size of the estates involved. It will be recalled that various organizations, particularly women's organizations, made representations to the Committee about this whole subject of a widow's position in relation to tax. It would seem that in the sizes of estates I have been discussing, the proposals give some relief but not in my view a significant amount. This is most clearly seen if you look at the Carter Commission's recommendations on the point which would have freed entirely transfers between husband and wife. That particular recommendation was probably the Carter recommendation which would have done more for more families than any other provision in the whole *Report*. Or, as someone put it more bluntly, it was the only good thing in the Carter *Report*. However, I am not here to discuss Carter.

When you get to the larger estates, up towards the half million and into the millions, it is probably difficult to argue that any real need can be shown. The effect on these estates before and after the Smith proposals is also shown in the calculations at the $2,000,000 level. The proposals would result in slightly higher taxation. I could not seriously disagree with that.

Proposals Affecting Other Relatives and Strangers

When you come to consider more distant relatives and persons who are not related to the deceased, the proposed changes have, in some cases, quite dramatic results.

In the case of strangers, particularly, the Ontario rates have always been very high in comparison with those imposed on other beneficiaries. The proposals would put strangers on the same basis as relatives such as brothers, sisters, nephews, nieces, parents and others.

Here are some figures that contain some comparisons.

EXAMPLE B

The estate has an aggregate net value of $600,000 and is to be distributed one-half to a sister and one-half to a stranger.

Computation of Beneficiaries' Rate

Aggregate net value	$600,000	
Basic duty on 600,000 according to the proposed rate schedule	195,000	
Beneficiary's rate $\frac{195,000}{600,000} \times 100\%$	32.5%	

Computation of Duties

Sister:		
Aggregate taxable value	300,000	
Net taxable value	300,000	
Duty on 300,000 at 32.5%		$ 97,500
Stranger:		
Aggregate taxable value	300,000	
Net taxable value	300,000	
Duty on 300,000 at 32.5%		97,500
Total duties		$195,000

Deduct 50% credit in recognition of Federal Estate Tax	97,500
Net duties payable	$ 97,500

The *Report's* recommendations would impose a tax of only about $97,000 in contrast to the tax under the present Act of $183,000.

Therefore, more distant relatives and strangers appear to benefit very substantially by the recommendations, at least in larger estates. The *Report* does not give reasons for these substantial reductions in tax on gifts to relatives and strangers. The result seems to be a by-product of the adoption of the uniform rate.

***Proposals Affecting Charitable Organizations* (29)**

The proposals relating to charitable organizations are of two main kinds.

In the first place charitable gifts during a person's lifetime, within three years of death, and charitable bequests under a will, would all be included in arriving at the total value of the estate for the purpose of determining the rate of tax. The charitable gifts and bequests would themselves be exempt from duty to the extent of the amount actually paid or payable to the organization if in Canada and to the extent of some proportion if the organization was outside Canada. I understand that this relates to a situation which has arisen several times where relatives were left specific amounts and the residue was left to a charity with succession duty payable out of residue. This apparently resulted in the relatives' having their succession duty paid and receiving a larger total benefit because of the existence of the charitable exemption, although the charity received only part of the theoretical residue. Such a plan was really in the nature of a gimmick subject to certain pitfalls, particularly if the size of an estate fluctuated widely between the date of the will and the date of death. However, if the government considers that the proposal is necessary to prevent some undue reduction in tax, it seems to me that we should not object.

Some comparative figures are these.

EXAMPLE C

The estate has an aggregate net value of $1,000,000 and is to be distributed $700,000 to the widow with the remainder to an Ontario charitable organization.

Computation of Beneficiaries' Rate

Aggregate net value	$1,000,000	
Basic duty on $1,000,000 according to the proposed rate schedule	387,000	
Beneficiary's rate $\frac{387,000}{1,000,000} \times 100\%$	38.7%	

Computation of Duties

Widow:		
Aggregate taxable value	700,000	
Deduct widow's exemption	75,000	
Net taxable value	625,000	
Duty on 625,000 at 38.7%		$241,875

Charity therefore receives the residue of $300,000 less the $241,875 taxes paid on the widow's interest; therefore only $58,125 *actually received* by the charity is free from duty.

Tax on residue not received by charity:	
Duty on $241,875 at 38.7%	$ 93,605
Total duties	$335,480
Deduct 50% credit in recognition of Federal Estate Tax	167,740
Net duties payable	$167,740

By comparison the tax in the same situation under the present Act would be considerably lower at $112,000.

Calculations of Tax

The method of calculating the tax will be pretty clear from the examples given.

You take the net estate and see from the table what the total tax would be in dollars. You then take those dollars as a percentage of the net estate and that is the rate of tax applied to all beneficiaries.

It is said that all these recommendations taken together produce a simpler tax calculation. I hope this is so but I will await further practical experience with the proposals before agreeing or disagreeing.

Miscellaneous Proposals

Special Exemptions

I want to read one proposed exemption which is number 32. It is this:—

> For succession duty purposes, in the absence of an exemption to a spouse, the same exemption as for a spouse be given to a person who, during the five years prior to the death of the deceased, resided with him, was dependent upon him and managed his household without remuneration.

When I first read this I thought that it was an attempt to help to deal with the old problem of the impecunious relative looking after someone without pay, which has always had various problems associated with it, particularly after the person dies. I find, however, that I was not reading enough into the proposal because the Tax Foundation, when publishing *Tax Memo* Number 45, gave the proposal a heading which was not in the Committee's *Report*. The heading is "Common-Law Partners". Reading the text of the *Report* it is apparent that the Committee intended to cover both kinds of situations.

Knowing the practice of the Succession Duty Department in requiring precise proof of entitlement to all exemptions I can foresee a good deal of difficulty in proving all the factors. You have to prove the five years, that the person was dependent, that the person managed the household and did it without remuneration. Experience will show some of the complications of proving these factors.

It is also apparent from the text of the *Report* that the Committee intended the exemption to be available to a man, although the proposal is not worded that

way. When the man came to prove compliance with all the conditions I would be afraid that he would fail to prove he had managed the household unless he was particularly good at cooking.

Minor Exemptions (39)

All the present minor exemptions in respect of small amounts of property, such as $500 bequests and some other items of that kind would be abolished and instead there would be an exemption from succession duty of dispositions made in any one year to any one person that did not exceed $1,000.

$6,000 Exemption (40)

An exemption of $6,000 is allowed from the total value of the estate, which is an amount equal to the aggregate deduction allowable for gift tax in the three years prior to the death of the deceased, and each beneficiary is entitled to some part of that deduction. The part would be what is reasonably apportionable to him, whatever that is.

Tax Credit (40)

Each beneficiary would get a tax credit equal to the amount of gift tax paid or payable by the deceased with respect to gifts made in the person's lifetime if they are included in the value of the estate.

Conclusion

My general conclusions on the recommendations about deductions, exemptions, calculation of tax and the rate structure are as follows:

(a) they would remove some minor inequities;

(b) they would do something for the immediate family by way of reducing taxes up to about the level of $150,000;

(c) they would give substantial tax benefits to relatives and strangers, the reasons for which are not made clear;

(d) apart from this, the proposals have no major significance.

Speaker: **Berkeley Hynes**
Canada Permanent Companies, Toronto

My task is to comment on the administrative consideration of the recommendations in regard to valuations (25), Information Returns (43) and Gift Tax (55).

The Committee's recommendations for computation of duties are extremely welcome to anyone who has lived daily with the present Act, with its bewildering array of differing complicated rate schedules for each preferred, collateral and stranger classes, not to mention the inevitable surtaxes.

Those horrid and almost incomprehensible dependants' allowances and reductions would be only a forgotten nightmare.

Estate planners have spent long hours doing various calculations for clients of considerable means to show the savings in duties that would be payable through leaving the residue of an estate to charity subject to payment of duties on taxable

bequests. If you have never done this exercise you may not appreciate how tragic the result is if your client has not told you of all gifts, for example, or the value of them that subsequently fall within the five years preceding his death.

The Commission is to be supported for removing this unjustified escape of duties.

Information Returns

In regard to the Information Returns, the Commissioners state what I have found to be quite true in regard to the facts about the deceased that are usually known by his family and beneficiaries.

In most cases the executors disclose the facts required by the beneficiaries to complete their affidavits. Consequently it makes good sense to accept the recommendation that only the executor or administrator be required to include in his affidavit an inventory of all the property passing on the death of the deceased and it follows that this document should be called the "Succession Duty Return".

The Committee recommends that the Succession Duty Return be filed within six months to be compatible with the alternate valuation date recommended, i.e. date of death, or 150 days after date of death with assets sold at price received. I cannot think of a reason for not endorsing this fair recommendation but it will require generous regulations to make it effective.

Valuation

The Commissioners have recommended that all dutiable property be valued at its "fair market value". These words are the same as in the ***Estate Tax Act.***

Could executors hope in the future that when they have settled the value with either department, the other would accept that value? Somebody said "time is money" and having to expend it going over the same ground with both departments seems wasteful in the important matter of settling estates.

Most corporate trustees have computers and these will produce the enclosures for the returns. Let us hope that both departments will be flexible and accept the same pieces of paper produced by the computer and attached to their returns. If this is not the case, I would recommend that before the Act is amended the Ontario Department agree that their return may contain the inserts that are acceptable to the estate tax Department.

The option of 150 days after death is quite workable for listed securities, but if judged by the time valuations of non-listed shares or interests in private companies or partnerships have been settled under the present Act I wonder how meaningful this will prove.

The Department presumably would not discuss valuations until the Succession Duty Return was filed, which would not be until 150 days after death. Executors will have to consider carefully the decision to hold private company shares or interests until the value is settled with the Department, against a sale during the 150-day period.

Some of the questions that come to mind are the following.

What value will the Department place on a sale to former employees with small cash down and promise to pay, which is often the case? Will a discount be allowed? Will duties be assessed as a cash sale? How do you value an interest in expectancy in a foreign estate made up of shares? Could a drastic change in valuation at the alternate date be available to make the decision in 30 days? Will

small deductions such as five months' depreciation on a Cadillac, a private plane or a yacht be allowed automatically at the alternate valuation date? Will the extra administration expense be required to substantiate each alternate valuation or will common sense prevail? Will the company's auditor produce a statement as at the date of death and 150 days after death before the six months' period ends, in order for the executor to decide what date he is going to file in his return?

The death of a sole proprietor usually removes the chief operating person and it would follow that a valuation 150 days after death would reflect this loss. A prudent executor could spend many hours of his time and perhaps retain experienced advice to obtain better operating results in this period. Would the government assessor allow this extra expense in fixing the value?

It would appear that 30 days is insufficient time for an executor to get evidence of value to make a decision whether to accept the alternate valuation date. What happens if, as a result of the Department's final assessment of value, the total result is greater than a value at death? Will the executor be allowed to reverse his choice of date?

What I am saying here is that I think the value of listed shares and bonds quoted daily by dealers should be treated separately in regard to the option date.

Gift Tax

The Smith Committee has made certain recommendations with respect to the imposition of a gift tax in Ontario. At present, neither the province of Ontario nor any other province levies such a tax.

In view of the fact that the recommended gift tax differs substantially from the present gift tax levied by the federal government, it might be useful to refresh our minds by making a brief reference to the federal provisions.

Gift tax in Canada is levied under sections 111 to 115 of the *Income Tax Act* and is applicable to gifts made after January 1, 1935, except in the case of transfers between husband and wife where the effective date was April 30, 1941.

Gift tax is payable on property or money transferred as a gift or donation by a resident in Canada whether or not the property is situated in or out of Canada.

The rates range from 10% at $5,000 to 28% at $1,000,000.

The exemptions are:

1. gifts not exceeding $4,000 or one-half the difference between taxpayers taxable income in the previous year and tax payable thereon, whichever is the greater;
2. gifts to charitable or educational organizations in Canada;
3. gifts to Dominion of Canada or province;
4. gifts to any number of persons not exceeding $1,000 to each person;
5. once-in-a-lifetime gift to spouse of residence or to child of farm property up to $10,000.

The Smith Committee proposes a provincial gift tax with a rate structure based on that recommended for succession duties, that is from 15% to 55%. It also proposes the following exemptions:

(a) gift to any government in Canada;

(b) gifts to recognized charitable, educational or religious organizations;

(c) gifts to any one person not exceeding $1,000;

(d) general exemption of $2,000 each year to an individual with respect to otherwise taxable gifts;

(e) gift used directly or indirectly to pay a premium on any contract of insurance on the life of the donor is *excepted* from the exemptions in (c) or (d) above;

(f) gifts that would be exempt under (d) and gifts exceeding $1,000 in the year to any one organization that would be exempt under (b) are to be included in the aggregate value to determine the rate of taxation but shall be excluded from the net taxable value subject to the tax.

The recommendations in paragraphs (a), (b) and (c) are substantially the same as those at present in force in the federal field. However, those in (d), (e) and (f) differ considerably and require some thought.

The Committee premises its recommendations on two alternatives: either the federal government gets out of the gift tax field or it brings it into line with the Ontario proposals.

The first alternative is not too likely to happen; the second may not be too popular in other provinces and could raise problems. For example, will the federal authorities have to come into line every time that Ontario changes its Act? It would seem more appropriate and practical for the provinces to stay in line with the federal Act and either have a gift tax identical to the federal or not have any at all.

In regard to the rate structure for gift tax it should be pointed out that the gifts are not cumulative beyond the year; that is, if gifts of, say, $10,000 are made annually the tax at the succession duty rate would remain the same per annum, or 15% on $10,000 less the annual exemption of $2,000.

As to the amount of the exemption, though the rate is not particularly high, it is considered that $2,000 is too low, and further that there should be express exemption for necessities, medical expenses and education. The $2,000 exemption when applied between spouses seems somewhat niggardly; it would not even allow a husband to buy his wife a car. It should also be noted that a wife's services are surely worth more than $2,000. It would cost much more than $2,000 to employ a housekeeper to do the work a wife does.

The provisions with respect to life insurance raise two points, one of which appears to reflect a failure on the part of the Committee to understand fully the nature of life insurance.

First, paragraph (e) speaks of gifts used directly or indirectly to pay premiums. How is an indirect payment to be determined or defined? Is $500 paid from a $1,000 gift an indirect payment? If a gift of $1,000 is given in 1968 and applied to a premium in 1978 is this an indirect payment?

In paragraph 217 of Chapter 28 appears this rather odd statement: "A sizeable policy of life insurance can be purchased and paid out of gifts of $2,000 each year, thereby significantly decreasing the tax base for the succession duty without any corresponding payment of gift tax." The average thinking person receiving a gift of $2,000 each year would be further ahead by purchasing good common stocks than by paying premiums on a policy on the life of a third party. If this is not so, why do insurance companies employ actuaries to estimate, among other things, life expectancies? The Committee has fallen into a trap of thinking that every insured is going to die next year, or at least before the policy has paid for

itself. The reverse is the case, otherwise insurance companies would go out of business. If the Committee refuses to accept this point, should there not be a refund of tax when gifts to pay the premiums have exceeded the cost of purchasing the policy, since by that time the beneficiary is no longer getting the benefit of the gamble on the life of the insured?

I would imagine that charities will make their feelings known to the government about their gifts being included for rate purposes.

Gift taxes appear to have their place in plugging escape routes from succession duties but their enforcement creates many administrative problems.

Mining and Forestry Taxes

Chairman: William M. Brace

Speakers: Charles B. Mitchell
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Chairman: **William M. Brace, F.C.A.**
Touche, Ross, Bailey & Smart, Toronto

Speaker: **Charles B. Mitchell, C.A.**
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I am very pleased to have the opportunity to speak to you about implications of the *Report of the Ontario Committee on Taxation* for the mining industry. The Committee's *Report,* as a whole, is a challenging document of an extremely practical nature. It recommends basic reforms of the present tax structure which have been long overdue. Regarding its recommendations for the mining industry, it proposes retaining the basic idea of a special tax on mines, but it recommends that the tax be applied in an appreciably different way.

The Committee's recommendations, if implemented, would undoubtedly result in greater equity, at least with regard to the Mines Profits Tax, a more appropriate return for the government and a marked simplification of administration.

Ignoring the general corporations tax, the main source of provincial revenue from mines in Ontario is the venerable Mines Profits Tax, which has been part of the *Mining Tax Act* of Ontario for almost 60 years. This tax was first introduced in 1907 by the *Supplementary Revenue Act* of that year, and apart from changes in the tax rates and some liberalization of expense deductions, the provisions of the present statute are substantially the same as those enacted in 1907.

As a matter of simple realism, the Smith Committee points out that this stability in law indicates that the mining industry in Ontario has found this tax to be generally satisfactory, although this may be due in part to the low rates of tax involved and in part to the fair manner in which the tax has been administered.

Nevertheless, the Committee has not allowed itself to be guided by simple pragmatism in making its recommendations for the industry. Although there has been little criticism of present legislation by the mining industry, the Committee has left no doubt that it believes the legislation to be unsatisfactory, and it has recommended that it be thoroughly overhauled.

The Commissioners agreed in principle with the imposition of a special tax on mining profits as a means of "securing for the province a share of the economic rent for the use of its resources." A tax on profits was deemed appropriate on both constitutional and economic grounds.

The collection of royalties—a solution employed elsewhere—would not be possible in Ontario because it would be unconstitutional. Today, in Ontario, mineral rights are, in many cases, privately owned and the province has not reserved the right to any royalty in mineral production. So, if the province were to decide to impose a constitutionally valid royalty on mineral production, it would have to buy back all privately owned mineral rights. This, according to the Commission, would involve such a staggering cost as to amount to "the most extensive and the most expensive expropriation in the history of the Province".

While agreeing with the concept of a special tax on profits, the Committee decided that the present tax structure was unsatisfactory for various reasons, including the following:

1. because of limitations in the deductions allowed in computing the tax base, the tax is not a tax on actual profits and;
2. bearing in mind the fact that the tax is also intended to finance grants made by the province to mining municipalities and school boards to compensate them for being deprived of the opportunity of levying municipal taxes on property used in mining operations, the Committee found that the present tax does not yield the province a reasonable rate of return.

The Proposed System

In view of this, the Committee has recommended a revised system of taxing mining profits, the main features of which are as follows:

1. The determination of profits subject to tax would be on a basis more in line with that followed for income tax purposes.
2. The amount subject to tax would include not only mining profits but also processing profits earned by a mine operator from processing ore mined.
3. Ontario mine operators would continue to be exempt, at least for the time being, from municipal property and business tax on property now exempt from tax, and the exemption would be extended to include all land, buildings and plant used in processing minerals through to the prime metal stage.
4. A two-stage tax would be introduced:
   (a) the first stage tax—the proposed Mines Services Tax—would be based on total mining and processing profits and would be at a rate sufficient to finance provincial payments to mining municipalities;
   (b) the second stage tax—the Mines Profits Tax—would be based on that portion of mining and processing profits in excess of a normal rate of return on the mine operator's gross investment in mining and processing assets, and would be at a rate sufficient to provide the province with a reasonable return for the use of the resource.

The Committee's studies indicated that a 3% Mines Services Tax would be required to yield an amount approximately equal to the level of mining grants which the province made to mining municipalities in 1966. It is open to question whether the 3% rate would be sufficient if and when the Commission's recommendations are implemented.

Based on 1962 figures a Mines Profits Tax of slightly more than 6%, together with the proposed 3% Mines Services Tax, would have yielded approximately the same total amount of revenue in 1966 as the present mining tax. However, the Commissioners recommended that the rate of Mines Profit Tax should be set initially at a flat rate of 12% and that consideration should be given to an adjustment of this rate if the revenue yield in the first few years of operation of the new tax system were to be less than they estimated.

Based on 1962 figures, they estimated that a 3% Mines Services Tax would have yielded about $5.9 million in that year and that a 12% Mines Profits tax would have produced approximately 50% more than the amount of tax actually levied in 1962 under present legislation. The Commissioners feel that the increased tax would compare favourably with the level of tax enforced by other provinces, specifically Quebec and Manitoba. Moreover, they believe that the proposed system would be considerably more equitable and so should not discourage mining activity in the province.

The Commissioners have pointed out that the brunt of the increased tax would be felt by the nickel producers because of the elimination of the special processing allowance they now receive. Owners of older mines would also pay higher taxes due to the fact that the special investment allowance is based on the written-down value of assets. However, if the *Report* had been implemented in 1962, 40 of Ontario's 65 mines would, in the aggregate, have paid less tax.

It should be noted at this stage that the Committee does not believe that municipal services should ideally be financed by a tax on profits but believes that the government should continue this tax under present circumstances. However, if some assessment problems can be resolved and if the fiscal structure of Ontario municipalities is rationalized to permit dormitory municipalities to share in taxes levied on mining property in municipalities other than those in which the mine workers reside, the Committee feels that the Mines Services Tax should be abolished and replaced by regular municipal taxes.

In order to achieve this, the Committee has recommended that provincial authorities immediately proceed to assess all mining structures which are exempt from municipal property and business taxes. Pending the development of statistical data on exempt mining assessments and the implementation of its recommendations on the rationalization of the municipal structure, the Committee has concluded that municipal services should be financed out of a tax on mining profits. However, the Committee has recommended that the grants formula be revised and that, subject to certain transitional provisions, payments to mining municipalities be based solely on the loss in taxation revenue resulting from the lack of commercial and industrial assessment.

Specific Recommendations

In turning to the specific recommendations affecting the amount subject to tax, it should be remembered that the tax base for the Mines Services Tax differs from that of Mines Profits Tax.

The Two-Stage Tax

The Committee's justification for the two-stage tax is based on the following grounds. It believes that the Mines Profits Tax, which is designed to provide the province with its share of an economic rent for the use of mining rights, should apply only to profits in excess of a reasonable rate of return. On the other hand,

it believes that mine operators should be required to discharge their responsibility to pay for municipal services and that the Mines Services Tax should accordingly be based on all profits attributable to mining and processing operations.

Exemptions

The Committee opposed allowing an exemption similar to the three-year exemption now permitted under the *Income Tax Act* for new mines. It also opposed the deduction of royalty payments (other than royalties payable to the province), interest and financing costs, and any allowance for depletion. In these respects the recommendations are similar to the provisions of the present Act.

The Committee also rejects the concept of excluding processing profits from the tax base, especially in view of the fact that all profits through to the prime metal stage are considered to be profits from the operation of a mine for the purpose of income tax concessions. It accordingly has recommended that the present processing allowance be eliminated. However, if the present system is retained, the Committee proposes:

1. that the formula to be used in determining the general processing allowance should be written into *The Mining Tax Act* or the *Regulations*, and not left to the discretion of the Mine Assessor;
2. that the allowance should be computed on the written-down value of processing assets rather than on their original cost;
3. that the existing maximum and minimum limitation on the amount of the allowance, based on combined mining and processing profits, should be eliminated; and
4. that the special processing allowance now given to nickel companies should be discontinued.

The Committee also indicated that it would favour a greater allowance than the present 8%—possibly 12%.

In determining the base for the Mines Services or first stage tax, all amounts received under the *Emergency Gold Mining Assistance Act* are to be included with mining and processing revenues. In addition to direct mining and processing expenses, the proposed deductions allowed for purposes of the first stage tax are as follows:

1. an allowance for depreciation on depreciable assets employed in mining and processing;
2. an allowance in respect of expenditures incurred in developing the mine; and
3. all other expenses that are allowed as a deduction for income tax purposes, excepting, as I have said, interest and financing costs, royalties or rentals for mining rights (other than those payable to the province), municipal property and business taxes, including the Mines Services Tax, and depletion allowances.

Suitable provisions would be made for the allocation of expenses if the mine operator also carries on other business operations, such as the processing of ore beyond the prime metal stage. Any profits attributable to such other activities would not be taxable and any expenses properly related to these activities would not be deductible in computing the amount subject to the tax. These allocations would presumably be similar to those now required for income tax purposes and most, if not all, of the allocation problems now encountered in determining the amount of mining tax payable should therefore be simplified.

The following additional deductions would be allowed in determining the amount subject to the Mines Profits Tax:

1. the Mines Services Tax and any other municipal taxes on non-exempt property used directly or indirectly in mining and processing operations;
2. expenditures incurred in the year or any previous year on exploration in Ontario to the extent that the expenditures were not previously deductible;
3. amounts received under the *Emergency Gold Mining Assistance Act;*
4. an allowance for investment in mining and processing assets; and
5. losses incurred in mining and processing in the five preceding years and the two succeeding years to the extent that they were not deductible in a previous year.

The rates of depreciation suggested by the Committee are similar to those now allowed, i.e. not less than 5% or more than 15% of the original cost of the depreciable assets. However, the Committee recommends that, if it can be demonstrated that the life of the mine is less than 6⅔ years, a rate greater than 15% based on the expected life of the mine may be allowed. No allowance would be permitted until the assets were actually used in the mining or processing operations.

A distinction is made between exploration expenditures and development expenditures. Expenditures incurred on a mine property prior to commencement of shaft-sinking (in the case of an underground mine) or the stripping of overburden (in the case of an open-pit operation) would be considered to be exploration expenditures. All subsequent expenditures incurred in developing an ore body would be classed as development expenditures.

Exploration expenditures would not be deductible in computing the tax base for the Mines Services Tax, as the Committee believes that this tax should not be structured in such a way that the revenue from it could fluctuate from year to year depending upon the amount of exploration that a mine operator might choose to perform. However, expenditures relating to exploration work done in Ontario would be deductible for Mines Profits Tax purposes to the extent of profits otherwise subject to the Mines Profits Tax. Any expenditures not allowed as a deduction because of this limitation could be carried forward and deducted from future years' profits.

Expenditures incurred in developing a mine would be deductible for purposes of both the Mines Services Tax and the Mines Profits Tax at a rate of not less than 10% or more than 20% of the total expenditures incurred in developing the mine, commencing with the year in which the mine first came into commercial production. A faster write-off might be allowed if it could be demonstrated that the life expectancy of the mine was less than five years.

Transitional provisions are proposed for the deduction of exploration expenditures and expenditures for the development of a mine that came into production within four years prior to the effective date of any implementing legislation.

Conclusion

The changes suggested by the Committee with respect to exploration and development expenditures should be welcomed by non-producing mining companies as they would enable them to carry forward the deduction of these expenditures until a mine was brought into production. Under the present Act, the deduction would be lost if the taxpayer did not have another mine in production at the time the expenditures were incurred. However, the changes might result in some

acceleration in the payment of tax by producing mines inasmuch as development expenditures on outside properties would no longer be deductible in the year incurred but would be deductible only on an amortized basis after the new mine came into production. In addition, on the basis of my reading of the *Report,* it appears that no deduction would be allowed for development expenditures on a mine which failed to reach the production stage. It also is not clear to me whether development expenditures incurred after commencement of production would be treated as ordinary operating expenses or as development expenditures. The transitional provisions relating to the deductibility of exploration and development expenditures incurred prior to implementation may also be subject to criticism to the extent that producing mines could be denied the right to a deduction that would otherwise be available under the present Act. For example, a company which claimed the minimum deduction of 15% per year in respect of deductible development costs incurred five years prior to implementation would lose the right to deduct the unclaimed balance of 25%.

As I have previously stated, the Commissioners have proposed that a portion of the total mining and processing profits representing a reasonable return on investment should be included in determining the amount of profits that are subject to the second stage tax. This is to be accomplished by means of the proposed new investment allowance.

Speaker: **W. O. Hardacre, C.A.**
Ontario Mining Association, Toronto

How often it has been stated that death and taxes are the only certain things in this world! May I suggest an amendment to Benjamin Franklin's letter and add a third item—the reports of Royal Commissions.

While still reeling from the recommendations of one Royal Commission, the mining industry, together with all other Ontario taxpayers, is faced with the task of switching its attention to a completely new set of proposals and doing this while waiting for the federal government's declaration following its review of submissions it received with respect to the Carter *Report.*

The indication that federal plans will be to move towards reform of the existing structure rather than the adoption of untried tax philosophies has provided some measure of relief. You will have to concede that to hold one's breath while waiting upon a federal announcement and to speak at the same time on a provincial program is no mean feat. The Ontario Committee on Taxation had of course to proceed without waiting for the Carter *Report* and we acknowledge the validity of their reasons for doing so.

The *Report of the Ontario Committee on Taxation* proceeds in such a logical way through a complicated tax structure; its views, its philosophies and its recommendations are well presented in an easy-to-read fashion, and its treatment of the reader with a generous measure of equality has made it a delight to analyze. It is a pleasure to note that the individual Commissioners have been invited to this conference so that we may meet and hear them.

The Smith Report: Initial Reaction

You will recall the two categories of letters received by the federal government regarding the Carter *Report* described in Montreal by The Honourable E. J. Benson. The first started out "You crooks" and the second "We appreciate the opportunity to present our views" and then proceeded in the same vein as the first. Well—meet another writer of the second category—but as we go on you will see that we in the mining industry are not really oversensitive to new proposals although we disagree with some of them.

The initial reaction of the industry to the Smith *Report* may be described as a qualified and reserved acceptance of the major philosophies and proposals. As we looked at the *Report* more closely we were reminded that a stable and encouraging tax climate is of the utmost importance to development of the mining industry. We also have come to believe that the shift from a simple measurement of mining taxes to a more complicated two-stage tax is only a method of housekeeping, having in it some unusual and inequitable results. What matters is the total tax bill of each mining company and not the mechanics of arriving at the amount.

There was another reason for this initial stand and it is to be found in my opening remarks. When one Commission takes your shirt, your pants, and your boots, by comparison you feel a sense of relief when the second Commission takes only your socks and at least allows you to stand clothed in somewhat more than your own dignity. This is not to say that if there were more to take it would not have been taken. When appointed to consider easier ways to pluck the goose, it is not surprising that not only is the method of plucking reviewed but also an additional quantity of feathers is pulled. The latter result is probably the true purpose of the appointment.

Philosophies of the Mining Industry

The Commissioners used three chapters to outline their philosophies and establish the foundation for their recommendations. We have some recommendations too—not nearly as lengthy.

We endorse the views of the Commissioners when they say "the soundness of a tax system must be judged not only in the light of its technical performance but also in relation to the particular priorities that one attaches to its various objectives, not all of which may be mutually compatible"; and we accept the onus they thrust upon us to prove that such policies will best further the public interest.

Let's look at the public interest. Ontario is highly industrialized in a strip from Cornwall to Sarnia, 500 miles long and 50 miles wide. But public interest is not only the interest of the citizens living in Toronto, Hamilton, Ottawa, London, Sarnia and places in between. It is the interest of all the people in all the province.

The province outside the strip badly needs development, and especially Northern Ontario, which is off the east-west transportation axis and far from the available labour in the South.

Industrialization of the North has not been pronounced, and in fact virtually all secondary industry is dependent upon the location of a major facility of one of the natural resources.

What is to be developed in the North?

Development of what it has—its natural resources, its forest products, its mines and its recreational facilities.

The supply of commercial minerals is not confined to Ontario, nor to Canada. Iron is plentiful the world over, large copper deposits are located in the United States, South America and Africa, nickel in the lateritic soils is found in the West Indies, Central America, Australia and the South Pacific. The oceans of the world hold untold wealth. Ontario mineral resources thus compete with mineral resources

throughout the world. It would be naïve in the extreme not to accept the fact that investment will flow to those locations that will produce the greatest profit. If any cost factor acts as a disincentive—and this includes taxes—then that factor will inhibit development of those areas where it applies.

Therefore, in looking at taxes as they apply to the mining industry we urge that the special taxes the industry now pays, that is, the Mines Profits Tax, be held at least to its present level and that new taxes be avoided. To do otherwise will discourage investment and retard provincial development. In fact, the framers of tax laws and the economic advisors to the government could well consider whether the time for special taxes has not passed, and estimate what greater development would follow with their removal.

This is no idle comment; examples can be cited in Minnesota showing what benefits arise from or are encouraged by bold and imaginative tax policies. For years ways had been sought to profitably mine taconite, a low-grade iron ore difficult to separate from the other elements in a very hard rock. To foster the production of this high-cost low-grade ore, an alternative method of taxation applicable to taconite was introduced and the Minnesota constitution was amended by public vote to guarantee that the proportion of such taxes paid by the taconite industry would not be greater than the proportion of taxes paid by all other industry for a guaranteed period of 25 years.

More recently, Minnesota has again demonstrated its willingness to pave the way for the development of its low-grade copper-nickel deposits by enacting, in 1967, legislation similar to the taconite provisions to replace a system of taxation which would otherwise prevent the development of these low-grade ore deposits.

With the incentive of a stable tax climate it has returned prosperity to the northeast mining range of Minnesota with a billion dollar investment in the taconite industry, and has opened the door for more of the same for the copper-nickel industry.

So you see, tax systems can be used not only as revenue-producing devices but also as development incentives. This point and the arguments in favour of continuing this practice have been rehearsed before when dealing with the Carter *Report* and will not be repeated—except for one word on incentives by the way of tax relief as a preference to grants. The advantage of incentives through tax relief are many.

First, if the objective is unsuccessful only the entrepreneur loses—not the public as would be the case if the taxpayers' money were used for grants.

Second, the incentive is visible and determinable and programs may be planned with a certainty as to the size of the tax cost to the investor.

Third, the decision-making, risk and responsibility remain with the private sector, and the imposition of another layer of government administration with all the ramifications that go with grants is avoided. By ramifications I mean the intervention of decisions other than economic ones in deciding upon grants, the enlargement of the government administrative machinery and the rigidity that develops among administrators whose functions are enforcement and compliance and do not embrace the responsibilities for taking risks and meeting payrolls.

The Two-Stage Tax

The Mines Services Tax

At first reading, the idea of a two-stage tax, one part to meet municipal revenue requirements and the second forming part of the general revenues of the province, appears attractive. However, when the administration of a Mines Services Tax plus a Mines Profits Tax is placed alongside the relative simplicity of the present one-stage Mines Profits Tax the proposal loses its appeal. I will deal with these disadvantages in a moment but first for background we must look at the present system a little more closely.

It has been the practice to exempt mineral land and mining plant from municipal property taxation in favour of a provincial royalty tax. This tax money has flowed into the Consolidated Revenue Fund of the province and from that fund the mining municipalities have been paid grants to meet their needs. Although it is apparent that a link exists between such cash inflow to the province and the outflow to the municipalities, the relationship is indirect. The needs of the municipalities are not bound or limited to the amount obtained from the mining industry, and on the other hand the province is not restricted in its taxation policy as to the tax it levies on the mining industry. This has been quite true in practice. The tax rate against the industry has been raised without the direct appearance of increased payments to municipalities. On the other hand, the reverse has also been the case—municipalities have argued for and received additional revenue without being restricted to a statutory proportion of the Mines Profits Tax. That this should be so and that it should be reasonable can be argued from the standpoint of both the municipalities and the mines. I will not presume to put the case for the municipalities other than by observing that under the present system the responsibility of the province to the municipalities is clear and if the provincial revenues from mining fell this responsibility could not be avoided. By proposing that municipal services be paid for by a Mines Services Tax which would be paid only by profitable mines, the Commissioners by inference develop an economic concept of collective responsibility for the mining industry as a whole—and it is the only industry so singled out.

Payment of grants to municipalities from a Consolidated Revenue Fund, to which all taxpayers—including mines—contribute, recognizes that the municipalities are the prime responsibility of the province as a whole. On this ground we urge the continuation of the present system and reject the Mines Services Tax.

Another objection to the Mines Services Tax is the possible shifting of the tax burden from one mine to another by reason of circumstances beyond control of any particular mine in question. For example, the curtailment of production from one mine increases the tax load of all other mines, including its own competitors. Even broad government social policy could cause this—witness the restriction on uranium sales. Under a Mines Services Tax, the cost of maintaining Elliot Lake would be borne mainly by all other mines instead of by the economy as a whole.

While the industry has many common goals and acts through its associations, it must be remembered that any grouping is an aggregation of individuals, many in direct competition with one another—and speaking of competition may I point out that Macys does not only not tell Gimbels, but it doesn't pay Gimbels' taxes either.

The administration of a Mines Services Tax would be difficult, and as our research into its possible application proceeds we run into situations which do not arise under a single-stage tax. I wonder if my neighbour in the Garden City of Hamilton realizes that under the Smith *Report* he could suddenly find himself living in a designated mining municipality without moving a stick of furniture. This is due to the bringing of processing of iron ore under the umbrella of the definition of mining. If this were the only result he could feel himself complimented to stand alongside the citizens of our present mining communities—but there is a wrinkle. The steel companies would find themselves paying a Mines Services Tax and Hamilton would thereby be precluded from levying property taxes on a portion

of the steel plants; yet because Hamilton's proportion of industrial assessment remained sufficiently high, the city would not qualify to receive a grant. This would be politically untenable and would probably result in a special grant; and we are right back to the same tax procedures as with the present one-stage tax.

In passing, it is strange to note that the Commission proposes an earmarked tax such as the Mines Services Tax when the day of such taxes is past and the Commission itself objects to this concept. As for the size of the tax, the Commissioners estimate a 3% tax on a certain profit base would be sufficient. An interjection is necessary here. The *Report* speaks of an estimated 3% Mines Services Tax and a 12% Mines Profits Tax. In this case 3% plus 12% does not equal 15%, since there are two different tax bases. I do not propose to argue against the size of the Mines Services Tax since it is governed by municipal requirements; and assuming responsible men make responsible decisions then these requirements must be met. The important thing here is the uncertainty of the size of the tax bite, for the reasons mentioned before; and its impact is also uncertain because it is not a fixed statutory rate but is calculated annually. The 3% figure is only an estimate derived from comparing 1966 grants with 1962 profit figures, and calculations made by us indicate the rate would be between 4% and 5%.

We heartily endorse the Commission's recommendations that federal-provincial agreement be obtained so that mining taxes are fully deductible under both the federal and provincial income tax rules. The present situation by which many companies pay greater income taxes than are intended, because of the disallowance of part of the mining profits tax for income tax purposes, points up an anomaly in the federal tax law which ought to have been changed long ago. I refer here to all the difficulties and frustrations that have occurred with respect to that infamous federal tax rule—Regulation 701. Representations by the industry to have the two levels of government dove-tail their taxes have been fruitless in the past and we see no likelihood that in the present climate a Mines Services Tax would be allowed as a deduction for income tax purposes; for this reason also, we reject it as an inappropriate tax.

A tax of this size, and of uncertain application and impact can do nothing but chase investment away.

The Mines Profits Tax

I now wish to comment on the proposals for calculating the Mines Profits Tax, and these remarks will apply whether the Mines Profits Tax remains a single tax or becomes the second part of a two-stage tax system.

The Commission justifies this tax on the grounds of a fair return to the province by way of an economic rent. I understand economic rent to mean the excess price obtained for a resource in fixed supply, as demand creates such excess price over some normal price if supply were not fixed.

The supply of ore is not fixed.

By definition, ore is a mineral-bearing material which is profitable to mine. Obviously under one set of market conditions, a mineral deposit of a certain grade will not be profitable to mine, and under another, for example rising prices, new technology and so on, the deposit will be profitable and the supply increased.

I want to deal with the practicalities of the proposal.

The present tax is meant to be a royalty tax and is based on profits rather than on production or sales, because when dealing with ore the costs leading up to the same final output will vary widely according to grade, location, ground conditions, the presence of impurities and so on. Because such a tax, however described, has been levied and paid these many years, it is not proposed to raise a major objection to it. We have lived with it long enough to know it, perhaps not as a friend but at least as a necessary but measured burden. I remind you of my earlier challenge to those concerned to consider what new development would be inspired by the complete removal of special taxation against the resource industries.

Being a royalty tax it is levied on mine profits which are determined, in certain cases, by deducting from the proceeds from the sale of ore at the pit's mouth, expenses, payments and deductions stipulated in the Act. In other cases when the ore is processed and an end product is sold, the Mine Assessor has to determine that portion of the overall profits that relate solely to mining operations. This has meant the application of rules by the Mine Assessor to ascertain an equitable valuation of the ore at the pit's mouth after giving recognition to the mining and processing complexities that exist in particular operations such as those found in the nickel industry.

Only a few companies completely process their ore in Ontario; others do so in varying degree. One thing they all do in common is to get the ore out—only here can be found a common base on which to levy a royalty-type tax modified by the resulting profit. These rules are well known to the taxpaying community, they work and they are fair. To bring into the scope of this tax the processing profits is both unfair to those companies that have invested in processing plants in Ontario when compared with those who have not, but the Smith proposals militate against the establishment and expansion of such plants. It is also unfair to impose a royalty tax against the processing operations of the mining industry when processing of raw materials into a finished state by other industries escapes such special tax.

One reason the Commissioners put forward to justify imposing a mining tax on processing is that the provincial and federal income tax statutes recognize such profit for purposes of calculating the depletion allowance. I fail to comprehend the reasoning leading to this conclusion. The Mines Profits Tax being a royalty tax is one particular kind of a tax designed for a specific purpose—income tax is another, and the measurement of a depletion allowance by reference to the size of taxable income does not make an argument for saying that processing is thereby a proper base on which to measure a royalty tax.

Regarding the withdrawal of the exemption from mining tax for iron ore smelted in Canada, I can only repeat my statement about the world-wide availability of iron ore. The iron ore people are convinced that iron ore mining is so marginally profitable that any cost increase will send the steel companies looking for other sources beyond Ontario. It would be a pity to see the beginnings of an iron ore mining industry in Ontario dampened by the withdrawal of an incentive that is proving its worth.

Rate of Investment Allowance

Having objected on basic grounds to a proposal one runs the risk that further comment upon those parts of the proposal that will be effective only upon its adoption will weaken the basic objection or imply resignation to the likelihood of such adoption. I want to refer to the rate of the investment allowance, but in doing so I want to reassure you that what I shall say does not imply such resignation. The Commission quite openly used this alternative approach without detracting from its first choice, and I want to do the same. While the Commission treats a processing allowance and an investment allowance as two different things, they accomplish at least mathematically the same thing—that is the allocation of a combined profit to

segregate the profit subject to mining tax. The processing allowance differentiates this profit subject to mining tax by functions; the investment allowance does it by attempting to determine a profit in excess of normal, arising because of dealing with a natural resource.

In attempting to arrive at this rate, the Commissioners came up with a rate of 7.84% after tax, obtained by comparing earnings as a percentage of stock prices for an eighteen-month period ending October 31, 1966. They further allow this percentage only on the depreciated balance of the investment and not its full cost. Our analysis of this recommendation is incomplete because of the time available to study the *Report,* but there are two points that cause us concern. First, we are not sure that the method of relating earnings to stock prices is the right method. To achieve a stated percentage of return based on stock price one would have to start with a much higher rate of return on any particular capital expenditure in order to offset lower rates of return or losses that issue from an aggregate of business decisions, remembering that not all are successful, and all the undefined factors that affect stock price. Is there any investor willing to consider his investment base declining when deciding if he has his money in the right place? I think not; 7.84% of not very much is not very much, and 7.84% of zero is still zero. As I have said our analysis here is incomplete.

One idea that could be used as an incentive has come out of the use of the term "investment allowance". If overall profits have been segregated to delineate the mining profit, an investment allowance applying to such mining profit could spur the development of new mines by lightening their tax load.

We urge that this incentive proposal be given serious consideration.

Rate of Mines Profits Tax

The Ontario Mining Association urged in its brief to the Commission that the tax be a flat rate rather than the graduated rate so as to preserve the royalty nature of the tax, which the present graduated tax rate contradicts. It is pleasing to note that the Commission has also opted for a flat rate. It is possible to be too agreeable; we urged the adoption of the bottom rate of 6%, the Commission went for 12%— how about sticking to the present scale? In all seriousness, however, while the Commission demonstrates that 12% is below Quebec's rate I must again emphasize that mining is international in scope and the rates that are set will enter into the decisions as to where the next investment dollar should be placed. I do urge again that the total tax bill of the mining industry be lightened, not increased, if Ontario is to continue as a land of opportunity and attract investment.

Some Other Points

We also endorse the Commission's recommendations to exclude the Emergency Gold Mining Assistance from the cost computations for tax purposes. We are in agreement with the recommendations with respect to the loss carry-back and carry-forward provisions.

We concur with the depreciation recommendation for the early write-off provisions for short-life mines but object to the delay in starting depreciation only from the date assets are put into use. The mining industry is heavily capital-intensive and requires in many cases a lead time of from two to five years before a mine can be placed in operation. The delay recommended would place an additional burden on the financial requirements of the industry. Companies do not spend money for assets they do not intend to use.

We accept the Commission's recommendations for the carry-forward, where necessary, for later write-off exploration and pre-production development expenses, except that the transitional provisions which assume a mandatory write-off of these costs on an annual basis seems a rather harsh restriction against newly established mines. Perhaps some formula could be worked out to extend the full benefits of the new proposals to all taxpayers having development costs in some period prior to the adoption of the 10% write-off procedure. Generally we feel exploration and development costs should be deducted in the year of expenditure, if the taxpayer has sufficient income, on the grounds that these items are proper business expenses for the year in question and should not be deferred to the future.

Without commenting on the principle of setting an acreage tax to discourage land hoarding, it is our view that mine development will not turn on the existence or absence of such a tax. Development will only take place in a favourable economic climate including taxes. Persons do not let investments lie idle if they can avoid doing so.

The Commission has pointed out the very efficient running of the Mine Assessor's office as part of the Department of Mines. We agree and we wish the Commission had left it at that. Experience tells us that if a program is working well it is better to welcome the fact and not disturb it.

As regards the sales tax—we note that in practice the government is straying a long way from a retail sales tax. It is only necessary to examine recent regulations and observe the work of the sales tax auditors. In theory, all purchases by a person producing or selling taxable goods and services ought to be free of tax to avoid pyramiding. Where tax-exempt purchasing is not practical for administrative reasons—such as a hardware dealer being unable to distinguish between a taxable and non-taxable sale—all such items could be taxed at the time of sale but refunds should be permitted to the person who uses such items in his business. The continued arbitrary classification of some business expenses as taxable items, for example the taxation of waste removal equipment, safety equipment and pollution control equipment, runs counter to the philosophy of a retail sales tax since such expenses are normal business expenses; and it also works against the public good by discouraging safety and pollution control.

Conclusion

Let me sum up our views in brief.

1. The government should be seeking ways to stimulate the development of the province and in particular it should be seeking ways to encourage new mines and expand existing ones. We submit that positive incentives are required—not a higher tax bill. We must remember that Ontario minerals are competing in a world market. Greater tax revenues will result from greater investment encouraged by an imaginative tax policy. Lower tax revenues will come about as new investment is discouraged. As special taxes, or increased tax burdens, work against the expansion of the mining industry we oppose them.

2. We are faced with the reports of two Royal Commissions and we urge the Ontario government to seek the fullest co-operation of the federal government to dove-tail the tax structures of both levels.

3. The retention of a single-stage tax is preferable to a two-stage tax on the grounds of ensuring a stable tax climate for encouraging investment, to provide equity as between mines and for reasons of practicality.

4. The Mines Profits Tax should continue to be levied on only the extractive operation since the tax is a royalty tax in nature and it is the extractive process only

which is captive to the geographical limits of the province. In determining such profits, the present rules for apportioning profits should be retained. We do not agree with the method of calculating the investment allowance nor with the suggested rate. We must point out that levying mining taxes on processing plants will hinder the establishment of new processing facilities in Ontario.

5. We concur with the liberalizing of the exploration and pre-development cost write-offs but urge the continuation of the present practice for the immediate write-off of these costs to the extent of available taxable income.

6. We concur with the Commission regarding the tax treatment of gold mining assistance and warmly applaud its attempt to have all provincial mining taxes recognized for income tax purposes.

7. We call for a review of the sales tax as it is working out in practice, to get back to the concept of a retail tax to avoid pyramiding of the tax to the consumer.

8. We hope that the Prime Minister of Ontario will shortly announce a timetable for those who wish to comment on the *Report's* recommendations as well as the timing and procedure in which the government would plan to make its decision known regarding the subject matter of the *Report*. We believe that sufficient time must be given to permit taxpayers to take into account the results of the federal White Paper which is to be presented this spring. We want to be able to proceed in our studies with some certainty of the implications of one report upon the other and the effect of both upon plans for the encouragement and development of the economy in general and, in particular, for the mining industry in Ontario for which I speak.

Speaker: **Clifford R. Bowles, C.A.**
The Great Lakes Paper Co. Ltd., Fort William

I propose to cover the forest industry aspects of the *Report* in two parts: first the recommendations regarding *The Logging Tax Act,* which is a tax on income; and secondly the recommendations concerning *The Crown Timber Act,* under which charges levied are not based on income, but rather on the holding of timber limits and the removal of timber therefrom. The Committee's recommendations regarding *The Crown Timber Act* propose a substantial departure from the current taxation structure and I will attempt to cover this aspect in considerable detail.

Before discussing the recommendations in detail I should comment that, in my opinion, the recommendations concerning forestry taxation are sound in principle. Some further study on the part of the Department of Lands and Forests is necessary before the actual financial aspects of the recommendations can be calculated and, if and when these are known, there will undoubtedly be loud objections from individual companies.

Logging Tax

Recommendation

33:4 "In negotiation of general federal-provincial fiscal agreements, Ontario offer to repeal *The Logging Tax Act* in return for an additional share of income taxes imposed on taxpayers engaged in logging that approximates the present net return to Ontario from the logging tax arrangement, and, pending such repeal, *The Logging Tax Act* be amended by the enactment of loss-carry-over provisions similar to those included in the federal *Income Tax Act* and *The Corporation Tax Act* of Ontario."

Commentary

Logging tax was introduced in Ontario in 1950 and, until 1962, was regarded as a business expense for purposes of federal and provincial corporate income tax. Amendments to the federal-provincial agreements in 1962 permitted a full deduction of logging taxes from federal and provincial corporate income taxes otherwise payable in the ratio of 66⅔% federal and 33⅓% provincial. The net effect is to transfer additional taxation revenue to the province from the federal government. The current annual yield to the province approximates $3 million.

Logging tax is imposed on "income from logging operations" which, in essence, is defined as income (not taxable income) for federal and provincial income tax purposes less an allowance of "8% of the original cost of depreciable assets used in processing operations". The 8% allowance cannot exceed 65% nor be less than 35% of income before deduction of such allowance. The *Report* questions the arbitrary nature of the 8% allowance and recommends review of this item if the logging tax were to be retained.

The absence of loss-carry-over provisions results in the logging tax being a direct burden on taxpayers in years in which income for corporate income tax purposes is substantially reduced or eliminated by reason of loss-carry-over. This burden frequently falls upon the taxpayer who can least afford it—the smaller logging company in earlier or difficult operating years when working capital difficulties are often encountered.

While my terms of reference do not include the recommendations regarding general assessment procedures, I feel that a few remarks are in order. The present legislation contains no limitation on the right of the government to assess or reassess. Elsewhere in the *Report* (Chapter 25) it is recommended that the period be established as six years from the date of the original assessment. The four-year limitation contained in the federal *Income Tax Act* results in the disallowance of logging tax assessed after four years and the portion normally deductible from federal income tax (66⅔%) must be borne by the taxpayer.

Conclusion

Logging tax, in most cases, does not represent additional taxation revenue. The present treatment does result in a transfer of taxation revenues, in relatively small amount, from the federal to the provincial treasury. The recommendation that *The Logging Tax Act* be repealed in return for an additional share of federal taxation revenues seems most sound and logical.

The enactment of loss-carry-over provisions, if the logging tax is retained, would eliminate the most serious objection at the present time.

Tenure and Severance Charges

Recommendations

33:1 "The present ground rent and fire-protection charges on Crown lands be abolished and replaced by tenure charges fixed at rates per foot of allowable cut based on sound principles and on further study by the Department of Lands and Forests."

33:2 "The Department of Lands and Forests make appropriate adjustments in the rates of Crown dues so that combined tenure charges and Crown dues per cubic foot cut by a licensee, whose actual cut is equal to his allowable cut, will approximate the amount of such combined charges under present rates."

33:3 "With respect to privately owned forest land, fire-protection charges be reviewed and set on a cost-recovery basis."

Commentary

Tenure and severence charges are dealt with collectively as the recommendations regarding such charges are, to a large extent, interdependent. The Committee has recommended that the province frame its policy so as to obtain the best possible long-term return from its forest resources, subject to the limits imposed by consideration of the public interest in the need for scenic beauty and recreation.

Tenure charges are levied under *The Crown Timber Act* and include ground rental, currently at the annual rate of $1.00 per square mile, and fire-protection charges, currently at the annual rate of $12.80 per square mile. These charges are levied on all Crown lands covered by licence.

Severance charges, generally known as stumpage, are also levied under *The Crown Timber Act* and are determined at varying rates, depending on species, per cubic foot, per board foot or per cord, on the volume of timber cut. A "bonus", established by competitive bidding or by negotiation with the Department of Lands and Forests prior to granting the licence, is frequently charged in addition to the basic charges.

The structure currently in effect leans heavily towards severance charges. Stumpage accounts for over 90% of the total revenue of approximately $14 million in recent years. The Committee concludes that the stumpage system encourages the holding of over-mature stands and excessively large tracts of timber so that other operators are precluded from carrying on operations that otherwise might exist. The Committee's studies show that "major licensees in Ontario hold, on the average, limits capable of yielding twice their present annual requirements".

The comparison of present annual requirements with the total capability of licensed areas is not, in my opinion, a fair comparison. Capability of the licensed areas must be compared with the total requirements if all mills were operated at maximum capacity. I submit that there would be little investment in the lumber or pulp and paper industries if timber limits were assigned on the basis of less than full capacity. The lumber industry is largely dependent on construction activity for its market, and the cyclical nature of this industry is well known. Pulp mills at the present time obtain a substantial portion of their raw material from private wood lot owners and in the form of wood chips produced from sawmill residue. The volumes available from these sources are not consistent from year to year and therefore the pulp and paper industry must have limits adequate to supply their maximum needs. Furthermore certain licensed areas must be classified as economically non-merchantable at the present time because of their remote locations and the impossibility of delivering timber to the processing site at a cost consistent with the selling price of the finished product. No doubt technological advances and "northern development" will in time change the status of such areas but, for the present, it is, in my opinion, unreasonable to include the full capability of all licensed areas.

It is difficult to draw comparisons between the present Ontario charges on limit holders and those in effect in other provinces. In British Columbia, for

example, tenure charges per square mile range from seven to fourteen times those in effect in Ontario and stumpage charges on volumes cut approximate 20% of the Ontario rates.

The Department of Lands and Forests at the present time maintains records with regard to the allowable annual cut for each limit. This of course is necessary to ensure sound forest management on a sustained yield basis. The Committee's recommendation that tenure charges be predicated on the allowable annual cut would not involve additional costs. It would take into account the peculiarities of each limit such as growth rate and species mix. Inclusion of the entire allowable cut figure could, however, have the following results.

1. Reduction or elimination of the private wood lot as a source of timber. The owner of a wood lot depends on this revenue for his living and, unless due consideration is given to this source, many persons could be seriously affected.

2. The use of sawmill residue as a raw material for pulp mills could be reduced, as the economics of this source would be changed. Lumbering in Ontario is a marginal operation and, in many cases, sawmills depend on chip sales revenues for their existence. Sound forestry management surely requires the fullest possible use of all timber cut and governmental charges should not be so structured as to conflict with this objective.

The Committee recommends that fire-protection charges relative to privately owned forest lands be set on a cost-recovery basis. This is a service provided by the province and there can be no objection to charging for this service in amounts adequate to meet the cost.

Conclusion

The Committee's recommendation that the present severance charges (stumpage) be reduced and that tenure charges on limit holders be increased is, in my opinion, sound in principle. There do appear, however, to be several minor objections which must be carefully studied for their overall effect on the economy of the province. The Committee recognized the complexity of the subject by recommending further study by the Department of Lands and Forests.

I wish to commend the Commissioners and members of their staff for recommending a basically sound and practical forestry taxation system.

Luncheon

Guest of Honour: The Honourable Charles S. MacNaughton

Presiding: F. Warren Hurst

Presiding: **F. Warren Hurst, F.C.A.**
President, Bureau of Municipal Research

I should like to introduce the distinguished guests at our head table. Starting at the right end of the table, we have: Dominic DelGuidice, Executive Director, Bureau of Municipal Research; F. H. Finnis, Research Associate, Canadian Tax Foundation; J. Stefan Dupré, Department of Political Economy, University of Toronto; M. L. Garland, Treasurer, Bureau of Municipal Research; C. E. Bateman, President, Association of Ontario Counties; J. S. Eakin, Commissioner of Finance and Treasurer, Municipality of Metropolitan Toronto; John M. Godfrey, Q.C., Vice-Chairman, Canadian Tax Foundation; E. A. Jarrett, F.C.A., Honorary Chairman, Bureau of Municipal Research; H. Ian Macdonald, Deputy Provincial Treasurer (Finance and Economics), Province of Ontario; H. Marcel Caron, C.A., Chairman, Canadian Tax Foundation; our Guest of Honour, The Hon. Charles S. MacNaughton, who will be introduced to you shortly.

Starting at the left end of the table we have: Douglas J. Sherbaniuk, Director, Canadian Tax Foundation; William K. Sims, Past President, Association of Municipal Clerks and Treasurers of Ontario; W. A. Macdonald, Q.C., McMillan, Binch, Stuart & Co., Hollis E. Beckett, Q.C., Chairman of the Ontario Select Committee on *The Municipal Act* and Related Acts, which reported in March, 1965; Sol Laskin, President, Association of Ontario Mayors and Reeves; Douglas Clark, Department of Finance, Government of Canada; Wm. A. Brace, F.C.A., Member of the Board of Governors of the Canadian Tax Foundation; William Allen, Chairman of Metropolitan Toronto Council; H. H. Walker, F.C.A., Deputy Provincial Treasurer (Revenue), Province of Ontario; Hon. W. D. McKeough, Minister of Municipal Affairs.

Our speaker for the luncheon today will be The Honourable Charles S. MacNaughton, the Treasurer of the Province of Ontario. It is really most appropriate that the Treasurer of Ontario should speak to us because I understand that among his many responsibilities is the co-ordination of the decision-making process involved in looking at the *Report of the Ontario Committee on Taxation*. And the decisions that he and many others here will be involved in will in one way or another affect every single person in this room. I think it also appropriate that the Head Table should include, as I mentioned, others involved in this process. I suppose, Mr. McKeough, that your Department numerically probably has more

recommendations to look at than any other Department and I am sure, Mr. MacNaughton, that your two deputies, Ian Macdonald and Hal Walker, will also have a great deal to do within the next few months.

Ladies and Gentlemen, our distinguished speaker for the day, The Honourable Charles MacNaughton.

Guest of Honour: **The Honourable Charles S. MacNaughton**
Treasurer of the Province of Ontario

Prime Minister John Robarts, who had hoped to be with you today, has asked me to extend his greetings and his regrets that it is impossible for him to attend this significant conference. He also requested that I convey his gratification over the wide-ranging interest in the reform of Ontario's tax system which is evident by this large and distinguished audience. He indicated to me that he hopes this interest is typical of the desire across this province to achieve constructive reform.

The Prime Minister and the Ontario government, as you know, have demonstrated a deep and active interest in the Confederation of Tomorrow at this milestone in our national history. He and the government have no less concern for the Ontario of Tomorrow, which is just as important to Canada as it is to the citizens who live in this province.

Your attendance here today strengthens my belief in the importance of the Smith *Report* in developing the structure for an Ontario of Tomorrow which will be even more dynamic, more vital and more progressive than it is today. This prospect of reform opens wide the massive door of opportunity in this province.

The Smith *Report* reflects the rapid change and increasing complexity which has developed with such compelling force in this province in the post-war years. One need only consider the simple statistic that the budget of this province is now four times greater than the budget of the government of Canada on the eve of World War II to recognize that taxation, as well as government activity, must be practised with high skill, great care and deep responsibility.

The government of this province recognized this challenge when it commissioned the *Report of the Ontario Committee on Taxation*. The Committee recognized it in spending four and one-half years of research and study to ensure a thorough and comprehensive report. The government further recognizes the challenge of full evaluation of the report to ensure that the considerable changes which must undoubtedly come in our tax system are both efficient and imaginative.

For those given to pessimism or anxiety in the face of difficult decision, the *Report* will cause concern. This is not the attitude of this government, for we believe it provides a rare opportunity for development, purposeful economic and financial planning and, above all, sound leadership in the art of governing progressive people.

We believe it calls for both drive and desire on the part of government to ensure a climate of economic growth and development which, in itself, generates the tax resources required to finance government services. Ontario wants to stimulate the kind of growth which will avoid the need for crushing tax burdens or enlarged public borrowings.

Demands on Public Funds

I also believe that, in addition to enlightened taxation at a sensible level, the prescription for remedying ills in our current tax system also includes efficient and purposeful spending of public funds. That's the reason we have been assessing our budgetary program in the sense of careful planning of priorities. That's the reason why both the Premier and I have argued repeatedly that Canada must develop prudent priority planning for expenditures among all levels of government.

Let's review for a moment the major conditions which have contributed to our financial responsibilities and consider the extent to which these conditions may change in the future.

—Technology has required heavy capital investment in public services.

—Our concern for those who have missed the mainstream of economic growth has resulted in a growing level of social services.

—Rapid proliferation of urban life has added new dimensions to public expenditure.

—There has been increasing recognition that provision of social capital by governments is a prerequisite to economic growth in modern society.

—But, above all, the population explosion among the young age groups and an increasing demand for education for all ages has produced an unprecedented requirement for costly facilities.

As a result of these developments, the very increase in wealth and incomes has added to our problems and to the potential areas of government expenditure.

These conditions are by no means confined to Ontario. They are evident in every advanced economy in the world. Furthermore, as much as we are concerned about modifying the rate of increase in our spending, it would be unrealistic to suggest that the demands on government will subside.

However, at least two reassuring prospects appear before us. First, we have broken the back of many of our basic requirements. We have a broadly-based system of social security and we have been providing educational facilities at an almost breathless pace. These pressures should soften in the years that lie immediately ahead. Second, and for this we are indebted to the Smith Committee, we have a thorough and comprehensive *Report* before us which provides guidelines to a systematic and staged attack on our problems over the next few years.

The Smith *Report* will spark the development of a logical and comprehensive series of changes across the face of this province which will be of major importance for each and every citizen of Ontario. Its far-reaching significance compels the government to do everything in its power to stimulate a fair, objective and non-partisan discussion of the *Report* and its issues.

For this reason, I am delighted at the initiative taken by the Canadian Tax Foundation and the Bureau of Municipal Research in organizing this conference with the depth of discussion which has been evident here during these two days.

Ontario's Needs

Today I want to stress two matters of broad concern arising out of the *Report*. First, its recommendations for increased financial aid to the municipalities, to provide relief for the hard-pressed property taxpayer, add significant weight to the overwhelming evidence that effective co-ordination of federal-provincial-municipal

expenditures is essential. Second, the *Report* deals not only with finances, but also with people and governmental institutions. In particular, it emphatically asserts that basic changes in the structure of local government should accompany adjustments in the provincial-municipal financial relationship.

On the first point, let me cite the effects of two current proposals to show the compelling need for more effective co-ordination in determining priorities for expenditure among all governments.

As I told the Tax Structure Committee in Ottawa this week, the Smith *Report* shows that Ontario needs a much larger share of the personal income tax revenue, together with increases and extension in other tax fields, to provide tax relief to the municipal ratepayer and to meet our own growing costs. The Smith recommendation for our immediate needs is eight percentage points, rising to twelve by 1974.

At this very moment, as you know, the federal government appears to be committed to the launching of a universal medicare plan which the Minister of Finance estimates will cost the equivalent of a 12% increase in the personal income tax levied by the federal government.

These two prospects alone provide sobering evidence that, as I pointed out to the Tax Structure meeting, we are approaching a crisis in intergovernmental finance.

Redistribution

If the federal government does not recognize our needs and does not redistribute tax fields and revenue sources accordingly, as indeed it appears to have no intention of doing at this moment, we face a taxation nightmare.

I can only hope that out of the constitutional conference to take place next month, and the meetings which will follow it, we can evolve new means of joint planning and even of joint decision-making.

I recognize the obstacles of traditional parliamentary practice, the cardinal principle of budgetary secrecy, the competition that exists between governments and the pressure on governments to develop new programs. But, if we are to achieve the Confederation of Tomorrow which all of us want, we must come to grips with this priority problem—and with the least possible delay.

Better Use of Public Funds

Hand in hand with this need to redistribute taxation revenues more equitably among governments goes the need for efficient and purposeful use of public funds. In our own budgetary process, we have been developing new techniques such as program budgeting, cost-benefit analysis and five-year forecasting as a means of planning our own fiscal developments. In economic planning, we have been developing goals and targets for guidelines to government activity and as a means of creating an atmosphere in which the private economy can flourish most effectively.

Regional Government

On the second point, the Smith *Report* opens the door to objective debate on regional government. While the Prime Minister of this province has indicated on numerous occasions that regional development and regional government involve a different set of considerations, there is no doubt that regional planning and development can be more effective under appropriate local and regional institutions of government.

The *Report* supplies an imaginative basis for discussion against which a renewed attack can be launched on regional problems. Provincial-municipal fiscal policy quite properly becomes the common denominator between regional government considerations and regional development responsibilities. One major step has already been taken in the decision to consolidate school boards on a county basis and to make them responsible for the levying and collection of their own taxes. This will give taxpayers a better opportunity to assess educational expenditures.

The government's goal in regional development will be to create regions with the opportunity to develop their resources and to guide their economy in the direction that will benefit them most. We want to balance out the economic differences between communities by broadening the assessment base. Here the wheel comes full circle because in the character of regional governmental change will come the machinery and means of helping all regions develop purposefully and effectively.

Government and the Report

I would like to tell you something of the developments which are taking place in our evaluation of the Smith *Report*. You will appreciate that the task of analyzing some 350 or more recommendations is not an easy one. However, we have been aware for some time of the need for tax changes, we have been considering our own remedies and we are anxious to proceed with reform now that we have Smith's recommendations.

I think you will agree that we have already shown our desire to move ahead by our acceptance of two central recommendations in the Smith *Report*—the basic shelter grant program and the take-over of administration of justice costs by the province. Both of these measures will relieve the property tax burden on homeowners and tenants and particularly on low-income families.

The Department of Municipal Affairs has undertaken the necessary research to develop the administrative procedures on which implementation of the basic shelter proposal can be based. The government intends to follow through with the application of this program during the current year.

It is anticipated that the introduction of this system will impose initially an additional administrative burden on municipal officials. In the interests of their taxpayers, however, the government requests the full co-operation of the municipalities not only to facilitate the implementation but also to ensure that the benefit of the measure is fully realized by those it is designed to aid.

The assumption of administration of justice costs is already in process, as you know. Again, the complex details of implementing this measure are being worked out.

These two measures are designed to help shift the burden of taxation from the narrow base of real property tax, particularly residential, to the broader-based fields which provide federal-provincial funds. This process, the heart of Smith's recommendations, should not be construed as meaning that the total of all taxes required by all jurisdictions will be materially reduced. It would be folly to suggest, as I indicated earlier, that those total requirements will not continue to grow with the development of our economic and social responsibilities.

It is equally unrealistic to ignore the consideration of total tax load, regardless of how the taxes are levied, who levies them or how the burden is distributed. This must be the writing on the wall, large and clear at this particular time in our development, which I can only hope will be read and recognized by our federal

counterparts. The saving grace in this context, I hope, is the expressed desire by governments at all levels to exercise prudent control, selectivity and priority when formulating expenditure programs.

Equally important in this process of transferring funds from the provincial to the municipal level is the critical need for restraints on spending by our municipalities. This major increase in financial aid—and I think it fair to point out that the cost of these two measures alone amounts to about one-third of the total provincial aid Smith recommends for the municipalities at this particular time—must not be interpreted as encouragement toward unnecessary spending at the municipal level, or the purpose of aiding the property taxpayer will be defeated. I know our responsible municipal leaders in this province will recognize their obligations in this regard. I know they will appreciate that the province may have to ensure that, in the process of transferring additional funds, appropriate restraints are applied.

I might interject here that we have already found the process of reform is not without problems. The cost of these two programs, estimated by the Smith Committee to be $126 million in 1966, will be in the order of $175 million in 1968. Our action in taking over administration of justice costs has brought jurisdictional difficulties of union and employee concern, but we are confident they will be resolved. While every change will bring its own problems, we are not discouraged from proceeding with reform.

You may recall that at the time of the publication of the Smith *Report* I said that further action by the government would be premature without full evaluation and consultation with our municipal authorities. I stated that we could not subscribe to the rather forbidding series of tax changes proposed without time for adequate analysis. At the same time, we wanted to set a course based on a rigorous planning of government expenditure consistent with the maximum economic growth of our province and in recognition that the greatest burden has fallen on municipal taxpayers.

Subsequently, Prime Minister Robarts suggested two absolute priorities in the immediate years ahead for this government. The first was the necessity for the revamping and reorganizing of our municipal structure of government and the second was the need for reorganizing our provincial tax structure. We are now attacking both of these priorities, using the Smith *Report* as an effective guideline.

In my own Department of Treasury, we have undertaken a major change, in line with Smith's recommendations, to facilitate our implementation of reform. The Department has been bolstered by the marriage of the Chief Economist's office from the Department of Economics and Development with our finance functions. This permits a concentration on tax administration and collection on one side, and fiscal, economic and taxation policy planning on the other. On this latter side, a new fiscal and taxation policy branch has the principal responsibility for evolving policy out of the recommendations of the *Report*.

Our Central Committee of Economic and Fiscal Advisers, which consists of the Deputy Provincial Treasurer of Finance and Economics as chairman, the Deputy Provincial Treasurer of Revenue and the Secretary of Treasury Board, has been charged with the responsibility of bringing together the assessment of all recommendations emanating from the *Report*. This committee has broken down the recommendations, distributed them to the various departments for analysis, and is now reviewing the comments prepared by those departments.

Public Expression of Views

I want to set out now, and in some detail, the time-table for submission of briefs to the government on the recommendations of the Ontario Committee on Taxation. This schedule will also incorporate the process of consultation with our municipal leaders, whose advice and comment will be welcomed by the government, as the Prime Minister and myself have already indicated.

I know you will appreciate that, while we want to get the benefit of every considered view in this province, it is simply impossible for us to enter into detailed discussions on the recommendations. To simplify our task of analysis and to allow an early preparation of a white paper by the government, the emphasis must be on written submissions which can be given careful evaluation.

Submission of Briefs

The schedule of target dates for presentation of briefs stretches over a three-month period.

By March 1, we would like to have the views of individuals and non-government organizations, including those areas of private enterprise which may be affected directly or indirectly by the recommendations.

By April 1, the government wants to have the submissions from those municipalities who wish to present their individual views. We would urge that the opinions of the many local government agencies be channelled through their elected bodies to consolidate the submission from each municipality. This does not preclude separate submissions from these agencies but it does suggest that the total municipal view is desirable. In referring to the municipal area, I want to make it clear that I am considering it in the broad sense which would include school boards, utility commissions, county councils and those government bodies which consist of more than one municipality.

By May 1, we hope to receive briefs from the provincial associations representing elected municipal bodies and elected officials, including school boards and trustees, utility commissions and commissioners.

This will complete the presentation of written submissions which, I would emphasize again, must be the principal means of receiving views. The categories are intended to cover all areas of interest in this province. If I have not mentioned some groups specifically, let me make it clear that all are invited to put forward their advice to the government. The submissions should be addressed to myself, as Treasurer of Ontario, at the Parliament Buildings, Toronto.

Let me summarize briefly the timetable we have established:

March 1 — Private individuals and organizations

April 1 — Individual municipalities

May 1 — Municipal associations

Meetings

During the month of May, the government proposes to hold a series of meetings to encourage discussion on the major recommendations. We will invite the executive members and/or special committees of the provincial associations to present the collective views of their members on the more vital areas of reform as they determine them.

In addition, we may find from the submission of briefs that certain municipalities will incorporate significant areas of concern not covered by the associations. In these cases, the government will invite the elected representatives of these municipalities to make special presentations during this series of meetings.

Following the submission of briefs from individual municipalities in April, we will announce the schedule and details of the meetings to be held in May.

This will conclude the first stage of public discussion on the *Report*. The views we receive from this exercise will assist us in preparing a white paper—an outline of the government's general intentions on implementation and staging of taxation reform for this province. This paper will be subject to further review and comment from the public before its proposals are put forward in the form of legislation.

To ensure that this procedure is widely known across the province, I shall arrange to send copies of this statement to all of our municipalities. Additional copies will be available from my office upon request.

From this outline, I trust it is abundantly clear that the government wants and welcomes the considered and constructive comments of every interested party in this province.

Those who have helped to create the Ontario of Today are invited to assist us in drafting the guidelines for the Ontario of Tomorrow. The government wants the widest possible participation in the search toward new shape and force of public operations in Ontario.

Conclusion

In conclusion, let me re-emphasize five points I set out at the time the Smith *Report* was tabled:

First of all, the need to achieve greater order and integration in the total federal-provincial-municipal tax scene, as we have argued repeatedly in the past, has been reaffirmed by the Committee.

Secondly, consideration must be given the matter of equity in terms of the individual taxpayer since it must be the individual with whom we are concerned.

Thirdly, individual taxpayers are entitled to some opportunity to assess the cost of the particular services they are receiving. We must break through the deceptive shadow of "free" services and let people know their costs in order that they may assess their value.

Fourthly, an effective system of control over the combined expenditures and borrowings of provincial and municipal governments must be sought.

Fifthly, more efficient forms of government must be developed across this province with objectivity and good will.

This is a tall order but we are determined to fill it, with the help and co-operation of municipal leaders and the people of this province.

Regional Government -- Pro and Con

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Comment on the Current Debate

The topic given for this session is *Regional Government — Pro and Con.* Presumably there was an assumption made by the program organizers either that each of us had conflicting opinions or that two of us would be for and two against. If the latter assumption was made, then it probably follows that Donald Rowat and myself, being neither local government administrators nor elected representatives, would take the position calling for the most change. I think it is generally true that we "academics" tend to be more radical in our outlook, not being bound by the realities of municipal experience. In this case, however, both Mr. Bateman and Dr. Taylor were members of the Regional Government Committee of the Association of Ontario Counties and participated in producing a report entitled "A Blueprint for Local Government Reorganization". I will have more to say about this report later but I mention it now only to indicate that all four of us on the panel appear generally to be on one side of the regional government debate.

Projected Urban Growth and Requirements

Before making some particular remarks about the regional government issues in Ontario I should like to review with you briefly some of the points made by the Economic Council of Canada in its *Fourth Annual Review.*[1] I think this approach may be instructive since in its chapter entitled "The Challenge of Rapid Urban Growth" the Council sets forth a clear picture of the past and anticipated future of urbanization in Canada—and urbanization has been a basic factor in all recent discussions about regional government.

[1] *The Canadian Economy From the 1960's to the 1970's, Fourth Annual Review,* Economic Council of Canada, September 1967.

The Council notes that around the year 1800 there were 22 cities in the world of more than 100,000 population and that by the year 1900 there were approximately 800 such cities. Put another way, in 1800 less than 2% of the total world population resided in such large urban units while by 1900 the percentage had increased to 5.5% and by 1960 was over 20%. Another comparison provided is that between 1800 and 1950 the percentage of population in urban units of over 5,000 more than doubled every fifty years.

In Canada the average annual growth rate of the urban population has been running at slightly over 4%; 62% of Canada's population in 1961 was contained in urban areas and thus not high compared with several other modern industrial nations. The rate of urbanization, however, has been much higher than that in at least nine other such industrial nations.

Perhaps even more significant than total growth of urban population is the growing concentration of urban population in larger centres. Thus between 1851 and 1961 the total population of the country grew 7 times while the urban population grew 40 times. The "big city" share of the population was 9% in 1901 and 44% in 1961. The number of large centres had increased from 2 to 18 in that period. The Council estimates that 80% of the Canadian population in 1980 will be living in urban areas and 60% of the total will be in 29 urban centres (15,000,000).

Ontario has the highest degree of urban concentration at present but Quebec is expected to be urbanized to a comparable degree by 1980. The rate of shift to urban settlements is expected to be highest on the Prairies and lowest in the Maritimes. Of the Ontario and Quebec population, 86% is expected to be urban by 1980 but this process is seen as slowing down by the year 2000. It is expected that Ontario will add 2.3 million persons to its urban population between 1966 and 1980 and by that year a third of the total Canadian population will reside in Toronto, Montreal and Vancouver. Six cities are anticipated to be between 500,000 and 1,000,000 population and 20 cities are expected to be between 100,000 and 500,000. Overall, the increase in urban population is expected to be close to 6,000,000 in the 14-year period.

With these trends and projections in mind, the Council notes at p. 191 of their *Fourth Annual Report:*

> The projected increase of some 5.8 million people in total urban population by 1980—and more particularly the 60% rise anticipated for the larger centres—provides a broad measure of the urban growth problem ahead. Clearly, however, it is a minimum measure only. Even if these major cities were already functioning models of urban efficiency and attractiveness, growth of this magnitude would itself involve substantial new investment and threaten severe strain and potential social cost. In reality, of course, there has long been widespread concern about the mounting deficiencies of our cities and the heavy backlogs of essential improvements. Shortages and inadequacy of urban housing, traffic and transport problems, air and water pollution, the confused jumble of conflicting land uses, decaying neighbourhoods and monotonous suburbs, urban poverty and social disturbance, steadily rising property tax burdens, and the frustrations of municipal administration—these are familiar problems to the average Canadian city dweller today. Yet it is against this background that our larger cities must face up to the continuous pressures of accommodating and fulfilling the wide-ranging needs of a further period of rapid expansion.

The Council then goes on to attempt to measure some of the needs cited. In the field of housing for instance the Council estimates that by 1980 new housing demand in the 29 major centres will equal the total national demand existing in 1920. Of this total amount perhaps two-thirds of all new units will need to be of

the multiple-family form. In addition, about a million substandard houses should be removed by that time and at least a quarter of these are to be found in the large centres. Further, the Council estimates that about a half million acres of land will be required for the physical expansion of the 29 larger centres from 1961 to 1980, that is an increase of about 40% as against a 60% population increase in these centres. With these space needs in mind, the Council notes at p. 196:

> In southern Ontario a new dimension is beginning to appear as distinct urban-centred regions tend more and more to merge together and create a new and complex web of interrelationships. On the whole, however, the regional and interurban aspects of city growth are relatively unexplored, and it appears that analytical and institutional arrangements for dealing with an emerging range of problems are scarcely developed. The task of dealing with these problems is urgent and should be a major preoccupation of provincial public policy.

In dealing with transportation the Council notes that between 1945 and 1965 the rate of growth in motor vehicle population was more than double that of the human population, and a further increase of 60% is indicated by 1980. With 11 million vehicles estimated to be in existence and requiring facilities for their use by 1980 the Council suggests a possible investment of about $4 billion for urban transportation. Significantly, I think, the Council notes at p. 201 that

> . . . the problem of providing adequate urban transportation today ranks in economic importance with that of developing the national transcontinental transport system in the past.

In the case of water supply, the increase in per capita consumption, together with increased urban population, will mean that over the next fifteen years new capacity to supply an additional 1½ billion gallons of water daily will be required to meet the needs of the larger cities. This means a doubling of existing plant and equipment for municipal water and sanitary facilities with an investment averaging roughly $130 million a year. Similar comments are made about recreation as well as other urban needs.

Organization and Administration

Of most direct relevance to this discussion are the Council's comments with respect to urban organization and administration. The Council begins its argument for area-wide local government by noting that in 1961 there were 18 urban areas in Canada with over 100,000 population each and containing in total about 260 municipalities. In spite of several logical shifts of functions to "higher" levels of government (such as in the fields of health, education and welfare) the Council believes, and I share its view, that there will remain a vast number of regulatory, protective, supply and service functions which will need to be performed at the so-called lower level.

The basic difficulty arises in the interrelation between the performance of and paying for these functions, and the territorial area within which they are performed. The Council suggests that there are three factors supporting a concept of unified area-wide local government.

(1) The factor of a minimum size of organizational unit capable from any point of view of performing specified functions. It is well-known that advancing technology, the need to use expert skills, and adequate scale, varies from one program to another. (It may be noted in passing here that the problems of economy of scale in such matters as transportation, water supply, sewage and waste disposal, health and hospital services, urban planning, etc. has led to a number of special-purpose districts especially in the United States.)

(2) "External benefits and costs". It is impossible at present to match costs and benefits within one jurisdiction. Many examples could be cited but they are all too familiar to you to need illustration.

(3) Allocation of scarce funds for competing demand; as the collective needs of the modern urban community continue to diversify and expand, this factor is of increasing importance. The Council correctly notes, I think, that area-wide local government in itself is no guarantee of better allocation but "it can provide a broader perspective and a more objective framework for public expenditure decisions than if the evaluation of program responsibilities in an essentially unified area is splintered among several separate jurisdictions" (p. 211).

The struggle between maintaining participation and achieving economic equity leads the Council to a discussion of various solutions. This discussion is somewhat similar to that of the Ontario Tax Committee in its postulation of the two objectives of access and service which I shall comment on later. After reviewing the many forms of solutions that have been tried, such as annexations, amalgamations, special districts and metropolitan government, and emphasizing that any particular solution to area organization must be combined with effective internal structures and administration, the Council concludes at p. 214:

> If urban government is to attract the calibre of elected representatives required to meet its challenges, it must provide adequate opportunities for the exercise of leadership, initiative and responsible decision making. By the same token, it must increasingly professionalize its administrative services to provide opportunities for a career in public service. . . .
>
> In the field of area-wide structure, only strong provincial leadership is likely to be effective in the face of the attachment of local interest to entrenched fragmentation.
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> . . . . .
>
> Finally, a re-evaluation of provincial legislation and regulation of municipal government, at least in respect of the large metropolitan areas, would appear to be in order. The broad aim here must surely be to assure to these governments a range of powers, an administrative structure, and the skilled manpower resources necessary to deal adequately with the enlarging variety and scope of their problems.

In a final section on the financial implications of urban growth the Council cites the well-known fact that about 75% of municipal revenue comes from property taxes. What is disturbing, however, is that property taxation increased 1½ times as fast as personal income in the period 1953 to 1963. The Council speculates that the tax base probably grew as fast as income but it estimates that by 1980 the larger urban areas will experience a widening gap between income and expenditures. The principle suggested at p. 221 by the Council is that "services whose benefits accrue to areas wider than the individual municipality should in part be the responsibility of a wider government jurisdiction".

The taxation principle suggested is that the sources of taxation for services to people should be wide and dynamic while services to property should be narrow and static.

I do not think it would be an over-statement to suggest that the Economic Council views the future of the Canadian economy very much in terms of the urban economy. The Council notes that in the past senior governments unfortunately have treated urban problems in terms of maintaining financial control rather than planning for growth.

Local Government Structure

With this sketchy review of the Economic Council's report—which does not do justice to it—I should like to turn now to the Ontario scene and review the nature of the local government problem as I see it, to review a number of approaches to solutions and, finally, to comment specifically on the scheme suggested by the Ontario Committee on Taxation.

Apart from observations made during my employment with Metropolitan Toronto, I first became involved in a regional government problem in the Ottawa area. With these influences and my work experience since then, I think I can safely paraphrase the conclusions reached in the Ottawa study in terms of the inadequacies of the present structure of local government and have the same conclusions apply to many areas of the province. What is wrong in the growing number of urban regions both in terms of local government organization and internal structure may be summarized in the following list of deficiencies.

(1) They are not sufficiently responsive either to area-wide needs such as regional planning or, in the large urban wards, to really local needs.

(2) They are not sufficiently responsible but provide instead too many opportunities for one body to pass the blame to another when needs are not met. Because authority is divided among far too many bodies there is no clear-cut accountability whereby the electorate knows exactly who is responsible when something goes wrong.

(3) They are not sufficiently capable of performing certain necessary functions in large parts of the area because adequate financial resources and trained staff are lacking.

(4) They are not properly co-ordinated in handling the growing number of problems which affect more than one municipality or which require the close co-operation of several administrative departments.

(5) They are not equitable in the ratios of elected representatives to population or in the allocation of the resources of costs and benefits of municipal government.

(6) They are not particularly efficient because of the duplication among numerous administrations and the fact that many of them are too small to employ trained staff or use modern methods. The negotiations required for any intergovernmental co-ordination which is attempted are also inherently inefficient and time-consuming and may also be inconclusive.

(7) They have not been sufficiently adaptable to changing needs being bound by rigid boundaries, organizational structures and procedures which require external intervention by the province to alter them. They are not capable of self-evolution.

From my reading of the Peel, Halton and Niagara reviews, similar deficiencies appear and I will be surprised if, when the reviews currently going on in the Lakehead, Wentworth County, Brant County, Waterloo County, Ontario County, etc. are published, they do not show more comparable problems than atypical ones.

As to the proposals for change—proposals for the creation of regional local government in Ontario—I should like to concentrate on the two most recent publications: that of the Association of Ontario Counties published last fall, and the more recent *Report of the Ontario Taxation Committee*. I am aware, of course, of the recommendations of the Select Committee of the Legislature on The Municipal Act and Related Acts as contained in their *Fourth and Final Report* of March 1965. There is, however, such a striking similarity between that *Report* and the position adopted by the Association of Counties that I thought it more appropriate to comment directly on the Association's policy document.

The Select Committee strongly recommended the establishment of regional government using the county initially as the basic unit, including the cities and separated towns. The Committee called for the direct election of members of the regional council, three-year terms, indirect election of the head of the council, and the assignment of a significant number of functions to the regional level. Very little is said in the *Report* about the effect of the proposed changes on existing local units but I developed a strong suspicion that the Committee would hope that the local units would go away.

The Association of Counties published a lively "blueprint" in which a program of gradual change was put forth. The components of the system suggested were:

(1) The retention of a two-tier system of local government; that is, the county as the regional unit, and the towns, the townships and villages as the lower units. Cities and separated towns would become part of the system but police villages would be abolished. The Association recommended that all legislation for the implementation of a regional government be permissive, echoing the position taken by the Select Committee. It is notable that the Association would give cities the power to apply to the Ontario Municipal Board for approval to secede from the county.

(2) On the question of boundaries, the Association felt that initially no boundary changes should be made but did concede that it had difficulty in justifying the continuation of so many small municipalities. The report mentions three counties, one where 25 of the 29 municipalities had a population in 1966 of less than 2,500 (Hastings), one where the proportion was 24 out of 27 (Grey) and still another where it was 16 out of 33 (Simcoe). I find it curious that the Association adopted a position that a review of boundaries of each county should be made within every ten-year period by the Minister of Municipal Affairs while also stating that there should be provision for a county or a local municipality to make application to the O.M.B. to have such a review made. This appears confusing to me since on the one hand it is not clear whether a Ministerial review would result in mandatory changes or why the O.M.B. should become involved in the same process on the other.

(3) On the question of division of functions between the regional and local governmental units, the Association "emphatically proposes that no functions be transferred to the county that could be performed better at the local level". The following functions are considered by the Association to be better carried out by the county: assessment, planning, taxation, education, parks and recreation, water and sewer mains, water pollution, roads, public transportation, health and welfare, fire, policing, and garbage disposal. The Association, however, does not propose that these functions be reassigned as a matter of provincial statute but rather that "the decision to assume a new responsibility at the county level should be by a majority vote of the county council". It seems to me that the Association treated the problem of residual functions for the local municipalities in much the same inadequate way that the Select Committee did in its *Report*.

(4) I find the Association's position on representation not only confusing but apparently inconsistent. The report states initially, for instance, that "your committee recommends that representation should be based on assessed population". Further on, the report states that "your committee recommends that each individual county be permitted to establish its own represenation formula". Finally the report states: "your committee recommends that no one municipality should have a majority of the voting power in its county council." Immediately following

that quotation is the next one—"your committee supports the premise that 'the man who pays the piper has the right to call the tune'." I think the only comment I can make here is the old adage "you can't have your cake and eat it too".

I cannot help but note at this point that in an earlier part of the Association's report the committee who prepared it, after casting some doubts about the practical wisdom of the "Commissioners learned in political science, economics and related fields" who had been appointed to conduct local government reviews, noted that "we bring the practical political know-how of our elected representatives and the administrative skills of our appointed officials to the problem".

(5) I find the Association's position on the question of election to office similarly confusing. On the one hand the Association says that "the present system of indirect election to county council is sound"; but then the report goes on to say that apart from the head of each member municipality being automatically a member of the regional council, "those additional members required to meet the representation needs of each municipality should run at large in their local municipality for the office of county councillor. They should hold office on both the local council and the county council".

I suppose this is a form of indirect election but would have the dubiously beneficial effect of substantially enlarging local councils at a time when most of their important functions have been transferred to the regional level.

(6) The study committee recommended to the Association that the head of the regional government be elected at large but in the Summary of Recommendations it is held "that the head of the county council be elected by secret ballot by the county council and from among its own members".

I can only assume in this case that the Association amended the committee recommendation.

There are other more minor aspects to the Association's report dealing with such matters as the distribution of assets and liabilities, the tenure of administrative personnel, the question of names of local government units and term of office, but I have attempted to summarize the substantial points contained in the report.

Finally, I shall summarize my impressions of Chapter 23 of the Ontario Committee on Taxation's *Report* which deals with regional government and comment on what I think are its strengths and its weaknesses. Initially the Committee lists four reasons why it deals with governmental structure. These are:

(1) The efficiency of raising taxes from property requires assessment and collection on a regional basis.

(2) The problem of equity (in reference to provincial grants) cannot be solved under the present structure of local government.

(3) Taxation from other than property sources is extremely limited by the existing limited territory of local municipalities.

(4) Changes have already occurred or are proposed.

The Committee then reviews current proposals in terms of area expansion together with revisions to internal structure. It reviews what it calls lower-tier reform principally through expansion and regional government innovations which continue the two-tier principle of organization. The *Report* suggests, correctly I think, that these processes are not mutually exclusive and indeed can be complementary. As to lower-tier reform through expansion, the Committee notes that only two of 32 cities are now of the same size as they were in 1945. Twenty-six cities

have at least doubled their acreage while eight have expanded over 500%. While suggesting that annexation proceedings have probably lagged behind need, the Committee notes with satisfaction that lower-tier evolution has been substantial indeed. Further evidence of this trend is noted in the fact that police villages have not been permissible since 1965 and that in 1964 all townships, except those over 10,000 population, became minimum units as "school areas". In this process over 1,500 rural public school boards were removed.

The Committee then notes that regional government studies have been going on but that no action has resulted to date. The Committee is more confident than I am at the moment in suggesting that implementation of the regional government recommendations will occur "in more than one" area.

The Committee also reviews the provincial interests in this matter by referring to the *Report* of the Select Committee on the Municipal Act and Related Acts which I have already mentioned and, in what I consider a fairly patronizing way, states that "the Prime Minister of Ontario himself" has chosen to discuss the merits of regional government.

The formation of the Ontario Association of Counties in 1960 and the history of the position of the Ontario Municipal Association on this subject are also noted.

Theory of Access and Service

One of the most interesting aspects of the Committee's *Report* is then tackled, namely, the formulation of a theory of local government in which the prime values of access and service are set forth. The concept of access has to do with what I mentioned earlier as relating to participation, responsiveness, etc., while the service notion is related to efficiency and in this respect the Committee correctly notes that this value has often led to the establishment of many *ad hoc* authorities. In the words of the Committee:

> . . . a true reconciliation of service and access, must be the fundamental concern of those who would restructure our local institutions, and that the size of local government areas is an important, but nonetheless partial consideration. To put it in a slightly different way, the key to successful and lasting reform lies in seeking to consider service and access together in tailoring units of appropriate size and patterns to serve both objectives jointly. In this manner the achievement of balance between service and access becomes the principal criterion against which the appropriateness of any given size will be judged. (Ch. 23, para. 35.)

Having stated this basic principle, the Committee then in a few short paragraphs suggests that it would not be feasible to create an effective access and service arrangement with respect to each function, since this would result in a number of overlapping jurisdictions. The best solution, it says, is for the continuation of a two-tier system of local government, or in the words of the *Report:*

> The twin objectives of service and access can be realized in optimal balance through a full-fledged regional government and a streamlined lower-tier level. (Ch. 23, para. 38)

The immediately preceding sentence, however, states: "It may well be that the ideal to be pursued, even amidst the complexities of the present, is a single . . . level."

As I shall note later, this apparent schizophrenic attitude shows up more clearly when the Committee discusses the different types of regional government proposed. Of central importance to the *Report* is the formulation of five criteria used as a basis for the recommended scheme for local government reorganization.

60. We have first a *community criterion.*

(1) A governmental region should possess to a reasonable degree a combination of historical, geographical, economic and sociological characteristics such that some sense of community already exists and shows promise of further development subsequent to the creation of the region.

Next, we have a *balance criterion.*

(2) A region should be so structured that diverse interests within its boundaries are reasonably balanced and give promise of remaining so in the foreseeable future.

We come now to a *financial criterion.*

(3) Every region should possess an adequate tax base, such that it will have the capacity to achieve substantial service equalization through its own tax resources, thereby reducing and simplifying the provincial task of evening out local fiscal disparities.

Closely linked to the financial criterion is a *functional criterion.*

(4) Every region should be so constituted that it has the capacity to perform those functions that confer region-wide benefits with the greatest possible efficiency, efficiency being understood in terms of economies of scale, specialization and the application of modern technology.

Finally, there is a *co-operation criterion.*

(5) Regions should be so delineated and their governments so organized that the co-operative discharge of certain functions can readily become an integral part of their over-all responsibility.

Regional Requirements

Based on these criteria, the Committee then sets out its scheme for regional government. I feel sure the basic outlines are already familiar to you, but as a reminder, the proposal is for the creation of seven metropolitan regions, three urbanizing regions and twelve county regions; all of these are in southern Ontario. In northern Ontario two regions are classified as metropolitan while the remaining five are called northern district regions.

I found it interesting that the Committee's discussion of each type of region is introduced by a different heading. In the case of metropolitan regions the heading is, "The Need for Metropolitan Regions"; in the case of urbanizing regions the heading is, "The Case for Urbanizing Regions"; whereas the discussion of county regions is headed, "The Nature of County Regions".

I found the discussion on metropolitan regions inadequate in that the criteria established were quickly dismissed with the statement that these areas "require special treatment". The major fear expressed by the Committee was that

> the relation of Toronto to York County, of Ottawa to Carleton, of London to Middlesex, for example, would be such that those inhabitants of the respective counties who did not form part of the immediate metropolitan community would have virtually no voice in any democratically representative regional government. (Ch. 23, para. 62)

However true this may be, the Committee chose to ignore similar issues that exist in urbanizing and county regions. You will recall that the Association of Ontario Counties solved this problem neatly by not providing for representation by population. The Committee does leave an implication that in metropolitan districts the two-tier system may not be necessary.

For instance, it says, "Wherever a two-level municipal system is deemed desirable within a metropolitan environment . . ." (para. 66) and further, at para. 67,

> do not deem it our responsibility to define the extent to which unification of individual services might appropriately be carried in particular metropolitan regions or to suggest areas over which single-tier government would be satisfactory.

I find "The Case for Urbanizing Regions" to be extremely vague and unconvincing in the four paragraphs devoted to it. No mention is made of the application of the five basic criteria, but much is made of competition for commercial and industrial development. The only implication left is that there might be less need for area-wide functions than would be necessary in the metropolitan regions.

Having rather quickly discussed metropolitan and urbanizing regions, the Committee then spends a great deal of time discussing the nature of county regions. While the discussion is extensive, it is by no means complete and I was bothered by the almost apologetic attitude taken. The Committee suggests that 13 counties could remain intact within their present boundaries, but, as I indicated earlier, there is no discussion about the dominance of urban centres within some of these counties, nor is there any discussion of the possible effect of the dominance by urban representation as it relates to the spreading of urban taxation to the rural areas. The Committee very easily assumes that fiscal discrepancies can be met by provincial grants.

A long discussion takes place about the functions that should be assumed by the county regions. These include roads, public health, welfare, secondary education, parks and recreation, conservation, co-ordination of protective services, hospital facilities planning, regional planning, library services, water supply, sewage disposal and garbage disposal. One interesting item concerns sewage disposal where the Committee assumes that county regions could take over the role now being performed by the Ontario Water Resources Commission. Again I have the distinct feeling that once the five basic criteria had been formulated, the Committee chose to forget or ignore them when it came to discussing their application to the structure of government which they put forward. In the discussion on county regions the content is very much service-oriented as opposed to access-oriented and in the case of borrowing, it suggests, at paragraph 145, that

> our regional municipalities with their larger populations and broader tax bases can co-ordinate local capital borrowing, [and] exercise some control over the lower-tier financial operations. . . .

while at the same time strongly asserting the need for directly elected regional councils.

On two other points I concur in the Committee's recommendations. One has to do with the dissolution of the so-called economic regions (ten) that are now established in the province and making their function a normal part of the regional government responsibilities. The other has to do with the proposal that secondary education become a direct function of the regional councils.

There is a minimum of discussion concerning the future of the lower-tier municipalities as was the case, you will remember, in the *Report* of the Association of Ontario Counties. The Committee does, however, note that there were 940 local governments in Ontario in 1964 of which 276 had populations of less than 1,000 and 86 had less than 400. In terms of expenditures, 263 spent less than $100,000 and, of these, 117 spent less than $50,000 and 9 less than $10,000. The Committee is probably correct, however, in suggesting that

> These obvious deficiencies notwithstanding, we have formed the opinion that, from a financial standpoint, the creation of a network of regional government should have priority over a major provincial effort to consolidate and enlarge small municipalities. (Ch. 23, para. 156)

Need for Action

Having reviewed these various statements of need, of objectives and methods, I find myself not only unsettled in my opinions but over-extended in the time

allotted to me. I find the combination of the views of the Select Committee and the Association of Ontario Counties important in that they do express a provincial and local willingness to contemplate change in our local government organization. That there are many shortcomings and inconsistencies in their positions is perhaps not too important. I find the chapter on regional government in the *Report* of the Ontario Taxation Committee a provocative beginning of a potentially meaningful debate. If we are to adopt the point of view of the Association of Ontario Counties, there is little more to say since the granting of permissive legislation providing that each county can formulate its own solution would remove the problem from theoretical considerations and depend for results upon the actions of each individual county. Presumably the implementation of the recommendations of the Tax Committee (which the Committee says could be accomplished within five years) would involve a combination of general mandatory legislation together with a range of permissive actions. Both of these are in contrast to the Select Committee's view which was firmly for a uniform approach throughout the province.

At the very least I think there is sufficient evidence before the provincial government that change is needed and that some form of action can and will be taken. What I am not sure about, is whether action is likely to come from the series of individual studies that have been completed or are in progress or whether some more general approach is required.

The degree of importance attached by the Taxation Committee to its regional government recommendations, if only as a means of implementing tax reform, leads me on the one hand to think that a broad and intensive regional government "royal commission" might be in order, expanding the work started by the Committee in one chapter of its *Report,* and on the other hand to sympathize with the Association of Ontario Counties' point of view that individual solutions are probably required.

Somewhere between these two positions a solution must be found. I think the government must decide on those changes which are common and basic and which should apply throughout most of the area and then I think there are very good grounds for continuing from that point and working out localized solutions. Under the current circumstances I would think the issuance of a white paper comparable to the "Design for Development" document published in 1966 would be in order, with the main difference being that this white paper would be followed by action.

Speaker: **C. E. Bateman**
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The Practical Approach to Regional Government

Some time ago I was afforded the pleasure by the sponsors of this tax conference of being asked to be a panelist on this subject of regional government. What surprised me was that I was further asked if I would speak against the subject or, in other words, take the contrary approach. To me this was disturbing for in my opinion—and that opinion is shared by many others—we already have a system of regional government in this province: a system that is tried and true and a system that has withstood the storms of political onslaught for over a century.

However, in the course of my conversation, I found what was really meant was that I was to give my views on the recommendations contained in the *Report of the Ontario Committee on Taxation,* commonly known as the Smith *Report,* and in that respect, let me assure you, I have no hesitation in taking the opposing view.

In order that we might have a clearer view of the subject at hand, I think it would be wise if we were, first of all, to take a look at a few of the events of our historic past; then, perhaps, we can peer into the crystal ball and see what we think the future holds. First of all, our past.

1. The latter part of the year 1700 and the coming of the loyalists to southern Ontario. They brought with them the desire for a system of local government to which many had become accustomed. They wanted this system as opposed to government by Justices of the Peace, convening district courts of quarter sessions with responsibility to no one.

2. 1837 and the rebellion of Upper Canada, the cause of which was said to be a system of government by the Justices, which limited popular participation in local government.

3. Lord Durham is sent from England to investigate the causes of the rebellion and reports that, in his opinion, the remedy would be a system of municipal institutions as an indispensable requirement for peace and good government.

4. 1849, the *Baldwin Act,* and the end of a long struggle lasting nearly 60 years to achieve for the municipalities the right to local self-government.

5. 1888, and a three-man commission is appointed by the provincial government to investigate municipal institutions in Ontario as well as in other provinces and countries. It reported that the Ontario system was vastly superior to all others in its simplicity, symmetry and sufficiency. It further found that one of the major difficulties in the government of cities was the size of the administrative unit which led to decreased interest and control by the taxpayers and resulted in waste and corruption. The commissioners could find little fault with the rural municipal government, but noted that a weakness in the county system was the large and unwieldy size of county councils.

6. The mid 1960's and a multitude of special commissions and committees are appointed by the provincial government to investigate municipal reform. Their reports and their findings are as divergent as the number appointed. No uniform recommendation is forthcoming and the government takes no action.

7. Late 1967 and the government announces that the costs of the administration of justice will be assumed by the province and further that 1,600 school boards will be replaced by 100 boards of education.

So much for our historic past. Now let us gaze into that crystal ball and look at the immediate future.

1. January 1969, and the newly appointed Lieutenant-Governor, James Allen, at the opening of the Legislature states that the government of the day will introduce major municipal legislation.

2. February 1969, John Robarts, at the opening of the first regional detention centre at Napanee, announces that the recommendations contained in the Smith *Report* with respect to regional government will be implemented.

3. July 1969, Premier John Robarts announces his retirement.

4. October 1969, Bill Davis is elected as Leader of the Conservative Party in Ontario.

5. February and March 1970, the stormiest session of the Legislature ever witnessed.

6. June 1970, a provincial election with Bill Davis and his Conservative government going down to defeat.

7. Bob Nixon, the Leader of the Liberal Party and Stephen Lewis, the new Leader of the New Democratic Party, each with 53 seats, decide to form a coalition government.

8. July 1970, and Blair Fraser, writing in *Maclean's* in an article entitled, "The End of a Regime", places the cause of the defeat of the Conservative government on the fact that they chose to listen to the ideologists and the political economists and commissioners rather than to the practical approach offered by the Select Comittee's *Report* of 1965, or the blueprint of local government reorganization submitted by the Association of Ontario Counties.

Do you find this hard to believe? Well, personally, I do too, for I doubt very much that this, or any other government for that matter, will ignore completely the present structure of municipal organization and establish a new system of regional government by a sharp, surgical operation. After all, the existing local government structure in Ontario has taken over a century to evolve and, I suggest to you, that the effective approach should therefore be evolutionary rather than revolutionary.

The Select Committee recognized this fact and noted "that the present system embodies the collective experience, knowledge and wisdom of many persons". It further stated, "that the system has worked rather well and should not be lightly dismissed".

Philosophy of Government

Now, before being branded as being a negative thinker speaking simply to retain the *status quo* and my own administrative position with a county, let me assure you that basically I agree with many of the recommendations contained in the Smith *Report*. During the past year, the Association of Ontario Counties prepared a blueprint for local government reorganization. That blueprint was overwhelmingly endorsed by a large and enthusiastic convention with a large representation from nearly every county in the province. Basically the recommendations of the two Reports are compatible. We each believe in a two-tier system of local government and that the two critical values of our system of government must be access and service. We further agree that a governmental region should possess an adequate tax and revenue base in order for it to have the capacity to provide the necessary services through its own tax resources. These functions or services must also be performed with some degree of efficiency. Finally, we agree that regions should be so drawn and their governments so organized that the discharge of any function or service can easily and readily become part of their overall responsibility.

It probably goes without saying that we also basically agree on the services that a regional government should provide. Such things as assessment, planning, taxation, education, parks and recreation, arterial roads, public health, welfare and capital borrowing are all services that must be provided by the region and I doubt that any can or will argue against them.

However, having listed the foregoing criteria, which of course are simply basic to good government, the similarity between the two briefs ends. The Smith Committee *Report* follows the pattern set by the ones before—Jones, Mayo and Plunkett—and, under the cloak of efficiency, abolishes a century of experience and tradition and proposes a system of government that is foreign and untried. It further perpetuates the error, to a great extent, of separating urban and rural communities—a system, which I suggest to you, is unacceptable to the people of Ontario.

Urban and Rural Regional Structure

So let us take a good hard look at what is proposed and examine the map of southern Ontario provided in Chapter 23 of the Smith *Report*. Admittedly, it's pretty vague but the Committee is proposing a set of 22 regions for southern Ontario. Looking at these regions, we find that seven are called metropolitan. Excluding Metro Toronto, which has already been dealt with, we find that we have six left: Ottawa; Hamilton; London; Windsor; the four cities of Kitchener, Waterloo, Galt and Guelph; and the Niagara region which they state has been dealt with by the Mayo Commission.

So, by a stroke of the pen, they have chosen to perpetuate the error of separating urban from rural, created a "city state" type of government, with the excuse that these metropolitan areas require more elaborate and complex services. But let us look again at these regional services—assessment, taxation, capital borrowing, planning, arterial roads, public health, welfare, libraries and parks. Are all of these services not necessary to the rural as well as to the urban dweller? I know there are a few isolated services that are urban in nature, such as garbage disposal, sewage treatment and public transit, but did this Smith Committee never consider that these isolated services might be charged directly to the area receiving the benefit? Is this not what is already being done with respect to local improvements in most of our urban centres?

Are we not creating two classes of people, the "have's" and the "have-not's"? Those in the urban centres with their heavier industrial and commercial assessment will have benefits far greater than those in the rural communities who are forced to rely on the more meagre farm and vacation land tax base.

Is this therefore in line with the professed aims and objectives of the Department of Economics and Development? In their "Equalization of Industrial Opportunity Program" they claim to want to provide an expansion of industry and employment in areas of slow growth. Their professed wish is to provide opportunities for gainful employment of our young people in the smaller centres of population and to provide a wider base of industrial assessment in Ontario's smaller municipalities. I suggest to you that by creating these stronger "city state" type governments, the urban areas will be in a much better position to continue to attract industrial development and the rest of rural Ontario will continue to stagnate.

Now let us look at the rest of this map of southern Ontario and we find that immediately adjacent to Toronto, Oshawa and Hamilton three other areas have been created called "urbanizing regions". The reason given for creating these regions is that co-operative devices may be insufficient to encompass the particular problems that beset areas directly beyond a metropolitan region. Once again, I contend this is simply a device to separate the urban from the rural. While these areas cannot now be called strictly urban, they are being set aside so that, as development takes place, they too can become part of the "city state" area.

We now find the 38 counties in the rest of Ontario reduced to 12. I realize there are portions of these counties that have been added to the metropolitan regions: Lincoln and Welland have been excluded to form the Niagara Region; other portions have been used to form the urbanizing regions; and part of eastern Ontario has no regional organization whatever. Broadly speaking, the counties have been reduced to one-third in number.

The County Regions

We will now look at some of these proposed county regions; the one most familiar to me, of course, would be Quinte, and here it is proposed that all of Northumberland, part of Durham, all of Prince Edward, most of Hastings and Lennox and Addington would become one county region. At the present time, these counties have 106 representatives on county council. It is said that parts of these counties are not included in the region so let us reduce that number of 106 to 85. To those 85 representatives, however, must be added the representation from the separated cities and towns in the area, which are not now represented. At the very least, therefore, if we are to have any semblance of representation by population, we would have a council of over 100 persons.

Now I don't for a moment think that a regional council of this number is proposed and I hope it would be agreed that the optimum size of such a council should be more in the nature of from 15 to 20 persons. So here we have an area with representation, under the present system, in excess of 100 persons and this is going to be reduced to 15 or 20. This same situation is repeated in other county regions. What then happens to the lower-tier of municipalities?

The Smith Committee has seen fit to dismiss this question very briefly in two short paragraphs, 155 and 156. It states that in many instances these smaller governments lack the strength to fulfil important responsibilities. Let me suggest to you that if such a recommendation should ever come to pass and these large county regions, 2½ to 3 times larger than now exist, should be formed, the future of the small municipality is doomed. The 900 and some-odd municipalities we have today will be reduced to something like one-third of that number. Where then has that great bulwark of local government gone—that requisite given prime consideration by this Smith Committee—the principle of access? I suggest to you once again than under the cloak of efficiency, there would be little access to local government. Rather, we would have a state of autocratic bureaucracy. You may question my choice of the word "bureaucracy", but I suggest that what is proposed will emerge as a bureaucracy or we will have created a third level of professional politician.

While dealing with this word "access" let us take a look at another avenue that seems to have been completely ignored by the *Report* of the Smith Committee. What about the people that are elected to represent us in the provincial Legislature? By and large, our provincial representatives are elected on county boundaries—and we have just had a review of electoral boundaries. Speaking from experience in our own county, the county councillors and myself are in touch with our representative several times weekly. He is our avenue, our access to the various provincial departments. I fully realize that one can simply pick up the phone and contact supervisors, directors, and so on throughout the various departments of government, but speaking from experience—and including myself as well—I know that appointed people, dedicated as they may be, soon tend to lose touch with the outside environment unless reminded of some of the facts of life by elected representatives.

Contract Regions

I think we must also take a look at that large area in north-eastern Ontario which is loosely termed a "contract region", but which has no regional government whatever. Already this area is described as being a slow growth, depressed, underdeveloped region. What then, are its chances for the future? Let me suggest to you that unless it is attached to some of these more progressive regions, with their broader and richer tax base, this area will continue to stagnate and be underdeveloped. Surely it could be one of the richest vacation lands in Canada?

The *Report* states that there are approximately 30,000 permanent residents in this vast area, but I suggest that if there are 30,000 permanent residents, there would be ten times that number of part-time residents. As I have said, this can be the richest vacation land in Canada. Have we no interest in it? Are we not interested in preventing the pollution of its sparkling lakes? In the public health of both the permanent and summer residents? Does this area not have to be assessed? Are we not interested in the recreational facilities to be provided? In the parks and in the beaches? Why then, should it not become part of any proposed scheme of regional government? The Smith Committee asserts that this region should have more provincial assistance, but with only 30,000 permanent residents and therefore little representation to our provincial government, I suggest that succeeding governments will have a definite tendency to overlook this all important area.

Recommendations

It is very easy to be critical; but one must also be constructive. What, then, do I propose, and what does the Association of Ontario Counties, which I represent, propose? First of all, let me ask a few questions.

1. At what point does local government lose contact with its people so that the word "local" no longer has any meaning?

2. Are the changes proposed by the various commissions studying local government reform in Ontario simply structural in nature, or are they functional?

3. Do we require new forms of government or do we require new allocation of responsibilities?

4. What is a region?

5. Is a region to be defined for sewers, water, conservation, a high school district, a health district, a tourist area, an economic council, or a community college area? Is there any agreement on regional boundaries?

6. Finally, how can we get modernization of local government without crisis?

In considering an effective approach to regional government in Ontario, this province is probably more fortunate than most others in that it already has an established form of regional government in the county system. I am sure you are all aware that counties were originally designed and established for the purposes of Parliamentary representation and militia organization. Nevertheless, I would say that that same county, in less than a decade, has emerged as a federation of local municipalities performing area functions with recognizable economy.

To me, this complicated question of the region must be approached in terms of the possibility of achieving a workable and practical form of a regional government capable of dealing with a multiplicity of purposes and functions. The region is not just a problem in planning, industrial development, economic theory, or any other specific regional service. The boundaries to be determined will have to represent the best compromise of all factors which are relevant. All of the matters which I have indicated as being of regional concern, and there are many more, require for their solution the institutional arrangements of a government possessing the capacity to legislate and administer in these areas. The type of government envisaged is not a collection of boards, commissions, agencies and other special purpose authorities, with overlapping jurisdictions and varying boundaries. Rather,

it is a multi-purpose government with the responsibility for dealing with a maximum number of activities which are area-wide or regional in character. Equally important is the fact that such a form of government must be responsible, responsive, and amenable to the maximum degree of popular control and participation.

The counties as they now exist are functioning governments and they have displayed a vitality which is somewhat astonishing. Moreover, there are indications that in recent years the counties have sought a new sense of purpose and a desire to reach an accommodation with the vastly more complex environment in which they must operate. To this end, counties have assumed new functions and have sought to revitalize their relationships with their constituent municipalities.

It would seem to me to be basic that by establishing regional government through the reorganization of the county, we could provide the machinery whereby variations could be recognized in the level of services to be obtained in any particular area. For example, only those services and responsibilities which are vital to the whole county and which have county-wide application would be a charge against the county assessment. In urban, semi-urban and rural areas, very different levels of service, suitable to the needs of such areas, could be provided with appropriate variations in the tax rates.

The inclusion of the cities and separated towns in the county system would create a strong nucleus and give added vitality to the whole. The larger county areas would also give greater scope to planning through the natural extension and co-ordination of existing facilities and would eliminate the constant threat and fear of annexation or amalgamation.

Undoubtedly when the cities and separated towns are brought into the county system, there may have to be some revamping of county boundaries and it will be necessary to consolidate some of the smaller constituent municipal units. The extent, however, to which such revamping and consolidation may be necessary can only be determined by a thorough study of each county. It is doubtful indeed if a uniform principle can be followed to determine the extent to which smaller local government units must be consolidated.

I suggest to you today that we do not need any drastic revolutionary change in our municipal structure. We need only to recognize a few basic but pertinent facts and to reinforce the framework at the points of stress and strain. It is my opinion that we cannot have and we must not allow this suggested separation of urban and rural and the creation of a "city state" government. Further, the counties must be given the tools to do the job. By this I mean that legislation must be permissive, to allow the county to assume any function now performed by a local municipality.

Today the winds of change are blowing but I suggest that they have not nearly reached hurricane proportions. In my opinion, we are faced with two choices.

1. We can have smaller units of government, revitalized and revamped to some extent, locally responsible, symbolizing respectable self-government from below, democratic, and performing their functions with recognizable economy.

2. We can have the larger units with their greater resources, probably more efficient, but remote, centralized, autocratic, and neither responsive nor responsible.

I only pray we still have a choice.

Speaker: **W. A. Taylor**
Reeve, Township of Osgoode

How Great is the Need for Reform?

Does local government in Ontario need reform? Is a form of government which was introduced decades ago a satisfactory method of serving the public needs of the people today? Is regional government a necessity in the province of Ontario?

The answers to the foregoing questions are relatively easy, and could very well be "Yes", "No", or "Perhaps", depending almost entirely on the area in which you live in this province.

There is not any doubt in a province as large as Ontario, with such great and wide diversification of needs and living habits, the present forms of local government are serving some areas quite satisfactorily, and in their present form can continue to serve for several years. These areas are for the most part predominantly rural in character and are desirous of remaining rural. For these areas, local government reorganization is not urgent.

However, for the counties which have an urban or semi-urban population, the answer is "Yes, there is definitely a need for government reform".

Local government in all its forms is a creation of the province. Provincial authorities have long recognized that certain changes were and are desirable, and to this end have appointed several commissions to make a thorough review of local government in certain areas and to bring in recommendations for its improvement.

Findings of Various Commissions

The fact that not one Commissioner who has completed his report is satisfied with the present form of local government is, I think, quite significant. All are in agreement that changes are desirable and necessary but, to confuse the picture, there is no uniform recommendation as to what form or structure that change should take.

These reviews were undertaken in areas where it was considered that reorganization of local government was most urgent. Had they been conducted on a province-wide basis, the results and recommendations may very well have been quite different.

Among municipal organizations which have called for the examination of government structure and functions in recent years are: The Ontario Municipal Association which has asked the Ontario government to "consolidate local government units"; The Select Committee on the Municipal and Related Acts, who has asked for the formation of larger units of local government; and, very recently, the Smith Committee *Report on Taxation* suggests that local government reform is an absolute necessity if tax reform, as they outline it in their *Report,* is to become effective.

The *Report of the Ontario Committee on Taxation* (Smith *Report*) in Chapter 23 gives an excellent background of local government as it exists today, and goes on to make far-reaching recommendations for its reorganization.

In October of last year the Association of Ontario Counties brought before their Annual Meeting a "Blueprint for Local Government Reorganization".

The government has now so much evidence before it for reform that I am convinced that the time is short, indeed, before regional government becomes a reality in certain areas of this province.

Suggestions for Changes in Local Government

Having convinced myself that changes are going to be made, and that the "fuse" may be ignited at any time by the authorities in the provincial government, it is my intention on this panel to give you some of my personal views on this important subject as it will affect local municipalities.

An improved form of local government is coming to Ontario—all indications point to this fact. There are problems which must be faced and solutions which must be found.

It is not my intention to pretend that I am an authority on the subject; indeed my knowledge is quite limited, and comes to me not by a scientific and thorough study of the subject matter, but rather by experience which I have gained as head (Reeve) of a municipality which is large in area but rather small in population and assessment and predominantly rural in character. Osgoode Township, of which I have been Reeve for more than 13 years, is situated in eastern Ontario in the County of Carleton. I served as Warden of Carleton County in the year 1950 and again in 1965. The latter year happens to coincide with the date that Mr. Murray Jones, a member of this panel, brought in his recommendations for the Ottawa, Eastview and Carleton County Local Government Review Area.

With this limited background, and with my limited knowledge, here are some of my views on the subject of local government—today and tomorrow.

I respectfully suggest that when the institution of local government is being revised, it cannot be done properly unless it is accomplished in a climate of general acceptability by those who must live with it from day to day, that is, our citizens. It cannot be done, in my opinion, by any proposals which scrap all that has gone before and which advocate the violence of revolution and great disruption—with loud noises, with mighty upheaval, with the "clear the decks and let's have a new ship" attitude.

I believe the Select Committee of the legislature was very correct when it stated in its *Report* that, in its view, "the tradition of caution in implementing changes has evolved over the years and that this tradition should not be lightly disregarded or put aside".

Let us proceed then, but let us proceed cautiously!

Local government in Ontario should continue on the two-tier system; and furthermore, in my opinion, the representatives of the second-tier should be the same persons who are elected to the lower-tier. It is absolutely essential that a close liaison exist between the two tiers and there is no better way of achieving this goal than by having the same representatives on both local and regional or county government. This plan, of course, would not allow for the direct election of representatives to the second-tier. This, I feel, is sound practice because in reality there is only the one government, which has been divided into two sections—one for local purposes and the other for county purposes.

It is my considered opinion that the existing county with its territorial boundaries intact should be the territory recognized for the new enlarged unit of government. In this way there would be a minimum amount of confusion and fewer readjustments to be made. The whole purpose behind the move towards regional government is to bring the existing separated cities and towns back into the county

for administrative purposes, and also to prevent new cities and towns which may be created in the future from separating from the county. It is important to note that while cities and towns have long been separated from the county for administrative purposes, they have remained in the county for legal purposes; for example, the city of Ottawa in the county of Carleton, the city of Belleville in the county of Hastings, and so on right across the province, for legal and judicial purposes.

This all brings me to the conclusion that the new unit of regional government should continue to be called "county government" and that, at the outset, the present county boundaries be used as the territorial boundary for the region.

As a basic start, all existing towns, cities, townships and counties would retain their present boundaries and, what perhaps is just as important, a change of names for local or regional government would not be necessary. This would be a step towards avoiding confusion and unnecessary change. The present unit of government known as police village should be abolished.

When the new county—with the same name but with an area increased in size by the inclusion of the cities and towns within its borders—is formed, the question of representation on the enlarged county council immediately comes into focus, and this is one of the most difficult problems with which we must contend. Regardless of the population of any municipality within the county, it is imperative that no one municipality have a majority vote on the council. If it is desirable that a city, for example, be given the majority of representatives on the county council, then some safeguard must be written into the legislation or agreement which sets up the area, to provide that that city does not have the majority vote—or, if you like, the balance of power.

To explain this point further, as an alternative to the recommendation of the Jones *Report* for the Ottawa, Eastview and Carleton County Area, the Minister of Municipal Affairs suggested a council of 27 members for the area, 16 of whom were to be representatives from the city of Ottawa. Such a plan was not acceptable to the county of Carleton or the city of Eastview for such a representation amounts to no representation at all. Furthermore, it would be tantamount to the city of Ottawa, for administrative purposes, annexing the county, or it would be annexation without a hearing. It is obvious to me that regional government, to be acceptable to the people, must provide that no one municipality have a majority of representatives on the council or, alternatively, that the votes of any one participating municipality will not constitute a majority.

The chairman and the vice-chairman of the enlarged county council should be elected by the members of the council from among their number at the first meeting, and should hold office for a period to be agreed upon by the council, or as permitted by the legislation creating the county.

Because the enlarged county would include both urban and rural areas, as well as present cities and towns and present county, provision for the adjustment of assets and liabilities should be made by agreement before the implementation of legislation providing for the new area government. As well, because of the increased area and the very great differences in the needs of the people within the area, provision for a differential tax rate must be made. People who do not benefit from or who do not need certain services should not be asked to help pay for those services.

The agricultural economy of this province cannot afford to pay for some of the necessities and niceties enjoyed by our urban populations; I am suggesting that common sense dictates that farming areas be relieved of this responsibility.

As is well known, there are certain fundamental areas of responsibility which have traditionally been the function of the county level of government; there are certain additional areas which are being brought into, or which are considered as being capable of inclusion within, its responsibility by virtue of certain new departures in provincial legislation and in current municipal thinking. It can, I feel, be assumed that at least one of the reasons for these new developments in county government—and in the philosophy surrounding county government—is that higher government authorities and experts in the field can see certain virtues in the county form of government. The functions of the county government will vary from county to county and provision should be made for adding to and deleting from this list of functions by a majority vote of council—and with the approval of the Minister of Municipal Affairs.

Of course, as in the case now, all borrowing for capital expenditures and long-term improvements must be approved by the Ontario Municipal Board. All forms of local government are creatures of the province. The provincial government has the authority and the responsibility for local government reform, and indeed, theirs is the only authority. The function of government at all levels is to serve the people under its jurisdiction in as democratic, as efficient and as economical a manner as possible. Efficiency and economic stability are—or should be—the first consideration of all governments. If the provincial government can justify the creation of larger units of local government for economic reasons alone, then I feel that action to this end should commence; if larger units are more economically efficient there should be little delay, because I believe the taxpayer is at the limit of his resources to pay for public services.

One word of caution. Experience has shown that bigness and economic efficiency are not the same thing and, in fact, we have examples where bigness has not increased efficiency but has increased administrative costs.

In conclusion, I wish to point out to you that, although there has been a great deal of comment on "Local Government Reform" in the press, on the radio and in publications dealing with municipal affairs in this province, the concept of regional government is not new in Ontario. I urge the responsible authority to examine the usefulness of existing forms of government to ascertain whether methods and procedures can be found to adapt these existing forms of government to meet the new problems which have arisen, and thereby avoid great disruption and change.

County government as it exists today is really a form of regional government for the area under its jurisdiction. I submit that within the framework of the county can be found the basic machinery for conducting the administrative tasks within a given area, and that county government is the vehicle by which those functions of local government may be best carried to a satisfactory and successful conclusion.

Speaker: **Donald C. Rowat**
Department of Political Science, Carleton University, Ottawa

A Defence of the Smith Committee's Proposal for Regional Government

I intend to defend the Smith Committee's proposal for regional government. This is not surprising because I made basically the same proposal in a paper I presented last spring, which will appear this September in my forthcoming book of essays on local government, to be published by McClelland and Stewart. But I will

defend the Committee's proposal in a peculiar way—by criticizing its *Report*. I will criticize not only the logic of some of its arguments but also the weakness of the case it presented. I am very much in favour of the Committee's main proposal—that there should be a second-tier of regional governments in Ontario, with separate ones for metropolitan areas. But I am less enthusiastic about the large size of the so-called "county" regions proposed for southern Ontario.

The Two-Tier Idea

Let's look first at the main two-tier idea. The Committee based its case on the two primary values of *access* and *service*—easy access to government by the citizens and efficient governmental services. Its main argument is that a second-tier of regional government would give a better balance between access and service than does a single-tier of local governments and the use of a separate *ad hoc* authority for each service that requires a large area for efficient administration. But the values of access and service make a weak defence for regional government. Regionally administered services would obviously be more efficient than locally administered ones, but regional governments would be further from the citizens and access would be more difficult. Thus, the argument seems to give more weight to technical efficiency than to access and participation by the citizens.

Also, the case against "ad hockery" — the creation of numerous *ad hoc* authorities—was an easy one for the Committee to make. But to my mind, the important alternatives are not regional government versus *ad hoc* authorities, but regional versus provincial administration. The real point is that the administration of local services under Ontario's existing system of municipal government is so unsatisfactory that many services are performed either badly or not at all. There is therefore an increasing tendency for them to be taken over and administered directly by the provincial government. Annexation by the urban municipalities can never be a complete solution because of the division between urban and rural municipalities in Ontario. A great many local services require much larger areas for efficient administration, yet *ad hoc* authorities have been created for only a very small number of them and often for an area that is too small. If too many *ad hoc* authorities are organized, the result is confusion for the citizens, as the Smith Committee has pointed out. For all of these reasons, the citizens become dissatisfied with local administration and demand direct provincial administration and control. The result is centralization at the provincial level. We have seen this happen recently in New Brunswick, where the centralization was so drastic that not only were many important local services taken over by the province but also all of the rural municipalities were abolished.

In short, an important democratic value was ignored by the Smith Committee: the value of decentralization. A system of locally elected regional governments is necessary in order to keep the political system decentralized. It would preserve the existing local governments and at the same time the number and strength of the points at which political decisions are made in our society.

Another criterion missing from the Smith Committee's argument is the ease with which one level of government can deal with another in a multi-level system. The government of Ontario has nearly one thousand municipalities with which to contend. A second-tier of regional government, which dealt with the municipalities beneath it, would reduce to manageable proportions the number of units of government with which the province would be required to communicate. Yet this could be done without abolishing the existing municipalities. Under the new system one could expect a great improvement in intergovernmental communications.

An important recent development that the Committee failed to mention has been the creation of regional government in British Columbia. In 1965 the province of British Columbia initiated a plan for second-tier regional districts with governing boards representative of the member municipalities. Like the Committee's proposal for Ontario, these districts include cities. The plan is for 27 such districts, which will cover almost the whole of the province, including municipally unorganized areas. By the end of 1967, 25 of these districts had been incorporated. All of the regional governments began with the power to finance regional hospitals. They can be given added powers upon local request, and by now 13 have additional functions, one of the most important being regional planning. It is expected that in many regions, especially urban ones such as Vancouver and Victoria, their powers will expand rapidly. Because of the similarity of this system to the Smith Committee's proposal, one would have expected the Committee to discuss it fully.

Aside from these serious omissions in presenting its case for regional government, I don't think that the Committee presented a positive enough statement of the arguments in favour of its proposal. As I tried to show in my report for the government of Nova Scotia many years ago, much larger and more populous areas of local government could give many obvious advantages. The most important of these would be the ability to provide many services of greater-than-local concern which are now either being provided inadequately at the local level or are being administered by the provincial government because no regional unit at present exists which could take them on. Another great advantage would be a tremendous improvement in the efficiency with which many municipal services are administered. Large regional governments would enjoy the benefits of large-scale organization and specialization of equipment and personnel. The vast majority of our existing municipalities are too small and financially too weak to provide with reasonable efficiency the battery of services now expected of modern government. Regional government would combine strong municipalities with weak ones, large ones with small ones, and urban with rural ones. This would shore up the services of greater-than-local concern in the weak, the small and the rural municipalities. The automatic pooling of property tax revenues and of administrative talent and equipment would result in a spectacular improvement in the standard of such services in these municipalities.

In the realm of taxation and finance, giving the regional governments control over the assessment of property would result in a uniform and equitable standard of assessment within and among municipalities. This would make it unnecessary for the province to assume the assessment function directly, as some other provinces have been forced to do. The strong financial position of regional governments would also enable them to float loans for their member municipalities at low rates of interest; and the timing of local capital expenditures could be more easily controlled to tie in with a national fiscal policy to control economic inflation or recession.

The County Region

Let me now move on to the Committee's proposal for twelve "county" regions outside the metropolitan areas. Again, my position is that I don't think the Committee justified this proposal sufficiently. In particular, it didn't explain fully enough why it thought these regions should not be smaller or larger. All but one of the five criteria presented in support of the detailed proposal would equally as well justify regions of a much greater population and area. For instance, larger regions could easily be made to contain a balance of diverse interests (the balance criterion), would achieve tax equalization (the financial criterion), would provide

services with great efficiency (the functional criterion), and could just as easily co-operate with one another (the co-operation criterion).

So the only one we are left with is the community criterion—that the region must possess some sense of community. It must also show promise of developing that sense further after the creation of the region. But how can anyone tell beforehand whether an area "shows promise" of developing a community sense after the creation of a region? Anyway, there is no doubt that the counties possess a sense of community because of their long history of local government. Some of them even have a *strong* sense of community. So this criterion in itself may be enough to justify county-based regional government. For this reason I think the Committee's regions should have coincided more with county boundaries and should have been smaller. They are actually more than double the area of counties. And the Committee has led us astray by calling them "county" regions. They don't even fit the Committee's own criterion of having a sense of community. On the other hand, it is clear that some of the counties are too small and should be joined together. In my own proposal I suggested about 25 county regions (versus the Committee's 12, and the 38 existing counties), plus about 10 metropolitan regions.

It can be argued that the creation of a government for any area can also *create* a sense of community. If this is true, wouldn't even larger regions than the Committee proposed be better? If regional governments were created for them, wouldn't they *develop* a strong sense of community?

The Committee should have addressed itself directly to these questions because 10 economic regions already exist in Ontario for purposes of statistical analysis and economic planning. People are bound to ask: "Why shouldn't there be a regional government of this size, in order to coincide with the economic regions?" The Smith Committee deals with this question, but only indirectly and almost incidentally by including a two-paragraph section at the end of its proposal, in which it explains the unsuitability of the boundaries of the economic regions for governmental purposes. But it doesn't dwell upon the artificiality of these regions as communities. Nor does it mention that the reason there are 10 regions rather than some other number is that they seem to be based upon the set of 68 economic regions for Canada chosen some years ago by a team of economic geographers, Pierre Camu, Zenon Sametz and Earnest Weeks. They chose 10 regions for Ontario and 10 for Quebec to fit in with their coding system for automatic data processing. They wanted only ten integers between 39 and 50 for Ontario and between 49 and 60 for Quebec. In other words, the size of these regions was determined by the need to satisfy the whims of the computer. There is therefore no reason to believe that there is any natural community of feeling among the people of these regions.

Another argument against regions of this size as a basis for regional government is that they would be too large and populous, containing an average population of over 600,000. Their governments would be too distant from their inhabitants. In other words, they would not meet the Committee's "access", or citizen participation, criterion nearly as well as county-size units. In my view they would also be too close to the provincial level of government. Since they would be entirely new, they would have no previous history of independence. The province might also fear the political power of such large units. For these reasons it would be tempted to create weak, provincially-controlled governments. I believe that county-based units would have much more independence. And I don't think county-size regions would be too small because they would include all towns and cities. So they would contain over twice the population and wealth of our existing county governments.

Let me sum up by saying that I agree heartily with the Smith Committe proposal for a second-tier of regional government, but I feel that, generally spe ing, it should be based on the existing counties. And I don't think that Committee presented as strong a case for its proposals as it could have, should have.

I also agree with the proposal that the provincial government should proce at once to prepare and implement a comprehensive system of regional governme within five years. Its present policy of financing separate studies of urban regio as defined by local request is costly and time-consuming. It may also result in set of uncoordinated regions. Although the principle of local variations to fit loc needs is persuasive, equally persuasive is the principle that too much variation fo no good reason leads to confusion. A two-tier system is complex enough witho having a different one for each region. A reasonably uniform system throughou the province would be not only more efficient, but also more comprehensible to th average citizen.

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SPECIAL TAX CONFERENCE — TORONTO

REPORT OF THE ONTARIO COMMITTEE ON TAXATION

January 12th & 13th, 1968

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Caldwell, T. R.	Falconbridge Nickel Mines Ltd.	Toronto
Callow, W. R.	City of Toronto Solicitor	Toronto
Cameron, D. M.	Ontario Institute for Studies in Education	Toronto
Cameron, G. M.	City Treasurer, City of Sarnia	Sarnia
Cameron, J. Douglas	Assistant City Solicitor, City of Sault Ste. Marie	Sault Ste. Marie
Campbell, A. M.	Mayor, Borough of Scarborough	Scarborough
Campbell, George C.	Metropolitan Life Insurance Co.	New York
Campbell, J. F.	Mayor, Town of Fergus	Fergus
Campbell, Mrs. Margaret	Vice-Chairman, Board of Control	Toronto
Campbell, W. M.	Treasurer, City of Toronto	Toronto
Canie, R. W.	Treasurer, Town of Timmins	Timmins
Caplin, Stanley H.	Touche, Ross, Bailey & Smart	Toronto
Caron, H. Marcel	Clarkson, Gordon & Co.	Montreal
Carrick, William D.	Business Administrator, Brampton Separate School Board	Brampton
Carson, Richard	Price Waterhouse & Co.	Toronto
Cassels, Walter G.	Ferguson, Montgomery, Cassels & Mitchell	Toronto
Caunt, Robert D.	Lever Brothers Ltd.	Toronto
Chapman, S. L. G.	York Central District H.S. Board	Richmond Hill
Chaston, G.	Treasury Department, Ontario	Toronto
Chesney, C. M.	Treasury Department, Ontario	Toronto
Christie, Edwin A.	Robertson, Lane, Perrett & Co.	Toronto
Clark, Douglas H.	Department of Finance	Ottawa
Clark, E. F.	Building Owners' & Managers' Association	Toronto
Clark, Philip T.	Consultant	Toronto
Clark, Robert M.	University of British Columbia	Vancouver
Clarke, George H.	Scarborough Board of Education	Scarborough
Clarkson, Guy C.	Ontario Department of Health	Toronto
Clarry, John H. C.	McCarthy & McCarthy	Toronto
Clayden, J.	Treasury Department, Ontario	Toronto
Clayton, Frank A.	Central Mortgage & Housing Corporation	Winnipeg
Clifford, C. Thomas	Toronto Board of Education	Toronto
Coles, Harry F.	Toronto Board of Education	Toronto
Collings, G. L.	Clerk-Treasurer, Twp. of Tisdale	Tisdale
Collins, J. A.	Ontario Chamber of Commerce	Toronto
Collinson, J. L.	City Clerk, City of Niagara Falls	Niagara Falls
Colter, E. Royden	City Manager, City of Windsor	Windsor
Comay, Eli	Eli Comay Planning Consultants Ltd.	Toronto
Connor, J. F.	City Auditor, City of Toronto	Toronto
Coome, A. W.	Falconbridge Nickel Mines Ltd.	Toronto
Cooper, B.	Treasury Department, Ontario	Toronto

Cooper, Gordon	Clerk-Treasurer, Twp. of Waterloo	Waterloo
Cooper, Rodger	Hamilton Chamber of Commerce	Hamilton
Corbett, K. C. B.	Corbett-Cowley Ltd.	Toronto
Corner, George A.	Administrator-Treasurer, Town of Dundas	Dundas
Cornish, D. P.	Senior Auditor, City of Toronto	Toronto
Costello, J. R.	Assessment Commissioner, City of Owen Sound	Owen Sound
Couch, H. J.	City Solicitor, City of Oshawa	Oshawa
Cousens, B. G.	Treasurer, City of Kingston	Kingston
Cowle, Ralph	Touche, Ross, Bailey & Smart	London
Cowley, R. D.	Metro Toronto & Region Transportation Study	Toronto
Cox, Clarence L.	Tax Collector, City of Oshawa	Oshawa
Craig, D. B.	International Nickel Co. of Canada Ltd.	Toronto
Craig, Robert H.	Province of New Brunswick	Fredericton
Crawford, H. Purdy	Osler, Hoskin & Harcourt	Toronto
Crawford, R. W.	Touche, Ross, Bailey & Smart	Toronto
Crome, F. E.	Commissioner of Works, City of Oshawa	Oshawa
Cronkwright, G. E.	Clarkson, Gordon & Co.	Toronto
Crosbie, D. A.	Ontario Dept. of Highways	Toronto
Cross, R. W.	National Trust Company	Toronto
Cruden, Joseph	Trustee, Etobicoke Board of Education	Etobicoke
Cunningham, B. N.	Deputy Reeve, Town of Fergus	Fergus
Curtis, Mrs. Marie	Association of Ontario Mayors and Reeves	Toronto
Cuthbert, R. O.	Ontario Dept. of Economics & Development	Toronto
Cuthbertson, G.	Auditor, Metro Toronto	Toronto
Cutmore, R. H.	Algoma Steel Corporation	Sault Ste. Marie
Dafoe, E. M.	Clerk-Treasurer, Township of Thurlow	Cannifton
Dale-Harris, R. B.	McDonald, Currie & Co.	Toronto
Dalgleish, R. W.	Clerk-Administrator, Twp. of Sandwich West	Sandwich West
Dalingwater, C.	Ontario Department of Municipal Affairs	Toronto
Damon, P. J.	Douglas Engineering Co.	Toronto
Dauncey, R. A.	Cornwall Public School Board	Cornwall
Daverne, Richard	Assessor, County of Frontenac	Kingston
Davidson, Miss True	Mayor, Borough of East York	East York
Davie, Robert H.	Treasurer, Borough of North York	North York
Davis, Lloyd C.	Reeve, Village of Iroquois	Iroquois
Davison, D. J.	Supertest Petroleum Corporation Ltd.	London
Davison, Ralph	Councillor, Township of Maidstone	Maidstone
Dawson, R. J. P.	Thorne, Gunn, Helliwell & Christenson	Montreal
Deacon, D. M.	M.P.P., Ontario	York Centre
Deacon, Fraser	Canada Life Assurance Company	Toronto
Deacon, Murray	Clerk-Treasurer, Township of Whitney	Whitney

Deacon, P. K.	Commissioner of Works, Township of Tisdale	Tisdale
Dean, J.	Ontario Hydro-Electric Power Commission	Toronto
De Gagne, Alcide	Accountant, City of Oshawa	Oshawa
De Hart, John	Alderman, City of Oshawa	Oshawa
DelGuidice, Dominic	Bureau of Municipal Research	Toronto
Demore, Gordon	Warden, County of Prince Edward	Picton
Denny, W. K.	Reeve, Town of Fergus	Fergus
Deudney, S. J.	Treasury Department, Ontario	Toronto
Dick, Clifford J.	Thorne, Gunn, Helliwell & Christenson	Toronto
Dickie, R. W.	Douglas Engineering Co.	Toronto
Dickson, H.	City Treasurer, City of Niagara Falls	Niagara Falls
DiGuilo, Leonard	Border Brokers Ltd.	Toronto
Dix, W. B.	McIntyre Porcupine Mines Ltd.	Toronto
Dixon, A. R.	Dominion Stores Ltd.	Toronto
Dobush, Peter	Dobush, Stewart, Bourke & Co.	Montreal
Doig, W. G.	Banghart, Kelly	St. Thomas
Donohue, William	Assessment Comm., City of Galt	Galt
Dooley, J. L.	Texaco Canada Ltd.	Montreal
Down, Wesley C.	East Northumberland District H.S. Board	Hilton
Dowson, C. G.	York County Planning Office	Newmarket
Draffin, J. S.	British American Oil Co.	Toronto
Duby, L. A.	Mayor, Town of Acton	Acton
Duchesne, David	Councillor, Town of Port Hope	Port Hope
Duff, G. L.	Costain Estates Ltd.	Toronto
Duffie, J.	Marathon Realty Company	Toronto
Dulmage, R. O.	Business Administrator, Bay of Quinte District High School Board	Belleville
Dunbar, MacDonald	Ontario Municipal Association	Toronto
Dunlop, Edward A.	M.P.P., Ontario	York-Forest Hill
Dupré, J. S.	University of Toronto	Toronto
Eakin, J. S.	Comm. of Finance and Treasurer, Metro Toronto	Metro Toronto
Eakins, John F.	Mayor, Town of Lindsay	Lindsay
Early, A. A.	Consumers' Gas Company	Toronto
Eby, R. V.	City Treasurer, City of Kitchener	Kitchener
Edmonstone, Neil	Steep Rock Iron Mines Limited	Steep Rock Lake
Edwards, Harold F.	Clerk-Administrator, Township of Thorold	Thorold
Edwards, Stanley E.	Fraser Beatty & Co.	Toronto
Edwards, W. Bruce	Board of Education, Town of Burlington	Burlington
Eiler, D. A.	Clerk-Treasurer, Village of Crystal Beach	Crystal Beach
Elford, Grant W.	Budget Control Officer, City of Oshawa	Oshawa
Elliott, D. E.	County Assessor, County of Welland	Welland
Emeron, Lloyd W.	Warden, County of Welland	Wainfleet
Engels, M. C.	Deputy City Manager, City of Sarnia	Sarnia
Eustace, Mrs. Anne	Councillor, Town of Fort Frances	Fort Frances

Evans, Donald R.	City Administrator, City of Sault Ste. Marie	Sault Ste. Marie
Evans, J. J.	Mayor, Town of Timmins	Timmins
Fabro, Joseph	Mayor, City of Sudbury	Sudbury
Farmer, Donald	Treasurer, Town of Burlington	Burlington
Farr, James E.	W. H. Bosley & Co.	Toronto
Farrow, Ron	Local Government Studies	Galt
Fay, Maurice	District Assessor, District of Timiskaming	Kirkland Lake
Feldman, L. D.	T. J. Plunkett Associates Ltd.	Toronto
Fennell, Stanley E.	Fennell, Rudden, Campbell & Co.	Cornwall
Fenny, G.	Ontario Dept. of Lands and Forests	Toronto
Ferguson, Grant H.	Ontario Dept. of Lands and Forests	Toronto
Ferriss, Ira	Clerk, Township of Colchester South	Harrow
Fetterly, John L.	Councillor, Village of Iroquois	Iroquois
Fettes, Donald M.	Commercial Credit Corporation Ltd.	Toronto
Filer, S. N.	Day, Wilson, Campbell & Martin	Toronto
Finnis, F. H.	Canadian Tax Foundation	Toronto
Flanigan, K. A.	Sands & Flanigan	Kingston
Fleming, Alex G.	Canadian Wholesale Council	Toronto
Fleming, B. D.	Mississauga Hydro Electric Commission	Cooksville
Fleming, E. M.	Ontario Dept. of Municipal Affairs	Toronto
Fleming, J. D.	Ontario Municipal Electric Assoc.	Toronto
Fliess, Henry	Henry Fliess, Architect	Toronto
Foley, W. A.	Finance Co-ordinator, North York Public Library	North York
Ford, J. Eric	Clarkson, Gordon & Co.	Toronto
Forget, Claude E.	University of Montreal	Montreal
Forsyth, J.	Treasury Department, Ontario	Toronto
Foster, D. A.	Noranda Mines Limited	Toronto
Foster, George	Reeve, Township of Sophiasburgh	Picton
Foulds, K. A.	Arnup, Foulds, Weir & Co.	Toronto
Fram, Michael E.	Corporation Counsel, City of Toronto	Toronto
Franklin, I. R.	Peat, Marwick, Mitchell & Co.	Toronto
Fraser, Mrs. W. P.	Galt Board of Education	Galt
Fray, R. A.	Mayor, City of Kingston	Kingston
Frost, G.	Gray, Butcher, Frost & Co.	Toronto
Fuke, J. M.	Osler, Hoskin & Harcourt	Toronto
Fyfe, Stewart	Comm., Waterloo Area Local Government Review, Queen's University	Kingston
Gabrielle, L. M.	Ontario Housing Corporation	Toronto
Galbraith, Fred A.	Manager, Employee Practices, Ontario Hydro	Toronto
Gallagher, F. B.	S. S. Kresge Co. Ltd.	Toronto
Garland, M. L.	General Bakeries Ltd.	Toronto
Garland, S.	Treasury Department, Ontario	Toronto
Gauthier, Denis	Steinberg's Limited	Montreal
Gibbons, Alan O.	Reeve, Rockcliffe Park	Rockcliffe Park

Gibson, J. Kerr	Clarkson, Gordon & Co.	Toronto
Gilbertson, D. A.	Clerk & Treasurer, Town of Simcoe	Simcoe
Gilmer, Harry A.	Counciller, Village of Iroquois	Iroquois
Gilmour, David	Chief Assessor, Twp. of Bertie	Bertie
Given, R. G.	City Manager, City of Sarnia	Sarnia
Glendinning, John W.	Glendenning, Jarrett, Gould & Co.	Toronto
Goddard, A. C.	Ontario Dept. of Education	Toronto
Godfrey, John M.	Campbell, Godfrey & Lewtas	Toronto
Goldie, M. William	Clerk, Twp. of East Whitby	East Whitby
Gomme, E. A.	Ontario Department of Municipal Affairs	Toronto
Goodwin, J. G.	Osler, Hoskin & Harcourt	Toronto
Gould, H. G.	Brockville District High School Board	Brockville
Gow, Wayne W.	Ontario Department of Municipal Affairs	Toronto
Grader, David	Treasury Department, Ontario	Toronto
Graham, David E.	McDonald, Currie & Co.	Toronto
Graham, J. B.	McDonald, Currie & Co.	Toronto
Graham, John W.	Payton, Biggs & Graham	Toronto
Grant, Carl T.	Zimmerman and Winters	Toronto
Grant, Milton H.	Wilson, Barnes, Walker & Co.	Windsor
Grasberger, Fritz	Rochester Bureau of Municipal Research	Rochester
Greenspan, Stephen	Rochester Bureau of Municipal Research	Rochester
Greensword, Lewis	Assessment Comm., Metro Toronto	Toronto
Greenwood, W.	Ontario Municipal Board	Toronto
Greggain, T. H.	Assessor, Town of Fort Erie	Fort Erie
Griffith, Earl	Councillor, Township of Chatham	Chatham
Groh, Richard I.	Clerk-Treasurer, Twp. of Innisfil	Stroud
Groombridge, Lloyd	Treasurer, City of Chatham	Chatham
Grossberg, Mrs. Elise H.	Toronto Board of Education	Toronto
Grover, John C.	Treasury Department, Ontario	Toronto
Guest, W. G.	The Robert Simpson Co. Ltd.	Toronto
Gueuremont, M.	Secretary-Treasurer, Separate School for the Improvement District of Red Rock	Red Rock
Hackett, Lloyd	T. Eaton Company	Toronto
Haddad, W. J.	Ontario Department of Tourism & Information	Toronto
Hadfield, Jack	Chairman, Newmarket Public School Board	Newmarket
Haldane, John S.	Councillor, Village of Iroquois	Iroquois
Hall, E. F.	County Assessment Comm., County of Victoria	Lindsay
Hall, G. E.	The Robert Simpon Co. Ltd.	Toronto
Hall, J. A.	Peat, Marwick, Mitchell & Co.	Windsor
Hall, T. G.	Treasury Department, Ontario	Toronto
Hallborg, Leonard	Assessor, Township of Humberstone	Port Colborne

Hamer, John	Etobicoke Board of Education	Etobicoke
Hamill, F. J.	Blake, Cassels & Graydon	Toronto
Hamilton, R. J.	City Treasurer, City of Cornwall	Cornwall
Hancey, Mrs. Lois	Councillor, Town of Richmond Hill	Richmond Hill
Hanson, Hugh R.	Ontario Prime Minister's Office	Toronto
Haram, Gordon E.	Secretary, Ottawa Public School Board	Ottawa
Hardacre, W. O.	Ontario Mining Association	Toronto
Hardy, Eric	Eric Hardy Consulting Limited	Toronto
Harrington, George	Mayor, Town of Burlington	Burlington
Harris, A. H. L.	London Life Insurance Co.	Toronto
Harris, H. M.	Eddis & Associates	Toronto
Harris, R. E.	Treasurer, St. Thomas School Board	St. Thomas
Harrison, Brian G.	Controller, Borough of Scarborough	Scarborough
Harry, A. C.	Mayor, City of Sault Ste. Marie	Sault Ste. Marie
Harry, K. J.	Consumers' Gas Co.	Toronto
Haslett, E. A.	Ontario Department of Agriculture & Food	Toronto
Hastie, D. W.	Metropolitan Life Insurance Co.	Ottawa
Hausman, J. S.	Blake, Cassels & Graydon	Toronto
Hayden, R. A.	Shell Canada Ltd.	Toronto
Haydy, Steve	Deputy Reeve, Township of Thorold	Welland
Heath, L. B.	Davies, Ward & Beck	Toronto
Hedges, Miss Marion	Ass't Tax Collector, City of Galt	Galt
Hedmann, R. E.	Treasury Department, Ontario	Toronto
Heller, L.	Treasury Department, Ontario	Toronto
Henderson, M. D.	Manager, Town of Mississauga	Mississauga
Hendry, Mrs. H. H.	Galt Board of Education	Galt
Henry, Jacques	University of Ottawa	Ottawa
Hepburn, Bernard C.	Reeve, Town of Picton	Picton
Hepditch, G. D.	Assessment Comm., County of Ontario	Whitby
Herrmann, Mrs. R.	Kennecott Canada Ltd.	Toronto
Hewitt, Alan H.	Lawrence Construction Co. Ltd.	Toronto
Heyding, L. F.	Peat, Marwick, Mitchell & Co.	Toronto
Heyes, Harry	Clarkson, Gordon & Co.	Windsor
Hickey, E. D.	McBride, Hickey, Green & Co.	Hamilton
Hickey, Paul	Assistant Deputy Minister, Ontario Dept. of Municipal Affairs	Toronto
Hirsch, M. P.	Peat, Marwick, Mitchell & Co.	Toronto
Hocking, G.	Treasury Department, Ontario	Toronto
Hodgson, E. C.	Dept. of Energy, Mines & Resources	Ottawa
Hodgson, John M.	Blake, Cassels & Graydon	Toronto
Hogarth, Bruce A.	Clerk-Treasurer, Village of Pickering	Pickering
Holland, John W.	Ontario Institute for Studies in Education	Toronto
Holmes, Robert S.	Clerk, Twp. of Chinguacousy	Snelgrove
Hope, Ying L. K.	Toronto Board of Education	Toronto
Horton, E. A.	Mayor, Borough of Etobicoke	Etobicoke
Hossé, Dr. H. A.	University of Western Ontario	London
Howard, C. P.	Ontario Dept. of Lands & Forests	Toronto
Howie, Ian	Hiram Walker & Sons Ltd.	Walkerville
Hudak, J. T.	Sarnia Board of Education	Sarnia
Humber, A. J.	Ontario Dept. of Municipal Affairs	Toronto

Hunter, Ralph	Association of Ontario Counties	Alliston
Hunter, T. M.	Continental Can Company of Canada	Toronto
Hunter, William F.	Warden, County of Halton	Georgetown
Hurst, F. Warren	Consumers' Gas Company	Toronto
Huskilson, W. E.	Councillor, Town of Cobourg	Cobourg
Hutchinson, James F.	Mayor, City of Woodstock	Woodstock
Hutton, Robert B.	Beament, Fyfe, Hutton & Wilson	Ottawa
Hyatt, Albert V.	Assessment Comm., County of Lambton	Sarnia
Hynes, Berkeley	Canada Permanent Companies	Toronto
Iannotti, Lawrence P.	Kennecott Copper Corporation	New York
Innes, James S.	Touche, Ross, Bailey & Smart	Toronto
Ion, Mrs. Caroline	Association of Ontario Counties	Orillia
Ismail, F.	Ontario Dept. of Economics & Development	Toronto
Isley, Theodore	Reeve, Township of Waterloo	Waterloo
Jackman, H. N. R.	Debenture & Securities Corp. of Canada	Toronto
Jaggard, J. C.	Treasurer, City of Hamilton	Hamilton
James, Arthur	Reeve, Township of Whitney	Whitney
James, W. L. G.	York Board of Education	York
Jamieson, Jack M.	Ontario Hydro-Electric Power Commission	Toronto
Jamieson, Wm. H.	The Steel Company of Canada	Hamilton
Jarrett, D. R.	Glendinning, Jarrett, Gould & Co.	Toronto
Jarrett, E. A.	Glendinning, Jarrett, Gould & Co.	Toronto
Jarrett, Robert F. S.	Bank of Canada	Ottawa
Jarvis, E. G.	Chairman, Improvement District of Onaping	Onaping
Jarvis, Robert E.	Thomson, Rogers	Toronto
Jenkins, W. F.	Assessor, Town of Ingersoll	Ingersoll
Johnson, A. J. F.	Davis & Company	Vancouver
Johnson, Michael J.	Deputy Clerk Treasurer, County of Renfrew	Pembroke
Johnson, W. G.	Supervisor of Benefits Services, Ontario Hydro	Toronto
Johnston, J.	Fraser, Beatty, Tucker & Co.	Toronto
Jolley, John B.	Anthes Imperial Limited	Toronto
Jones, Ernest	Toronto Board of Education	Toronto
Jones, H. E.	Treasurer, Township of Mersea	Leamington
Jones, H. W.	Drug Trading Company Ltd.	Toronto
Jones, Leo	Reeve, United Townships of Neelon-Garson	Garson
Jones, Murray V.	Murray V. Jones and Associates	Toronto
Jones, Ralph	Controller, City of Oshawa	Oshawa
Jones, R. V. A.	T. Eaton Company	Toronto
Jones, W. E.	Clerk-Treasurer, Town of Wallaceburg	Wallaceburg
Jordan, A. D.	Clerk-Treasurer, Town of Leamington	Leamington
Joscelyn, S. S.	Joscelyn, Laughlin, Franklin & Co.	Richmond Hill
Joy, A. P. G.	Solicitor, Metro Toronto	Toronto
Judd, A. W.	Mayor, Town of Simcoe	Simcoe

Kamula, Margaret	Clerk-Treasurer, United Townships of Neelon-Garson	Garson
Kaplan, Robert P.	Runnymede Investment Corporation	Toronto
Karosser, Wm. F.	Independent Order of Foresters	Toronto
Keating, R. R.	Litton Systems (Canada) Ltd.	Toronto
Kelley, D. G.	City of Ottawa Public School Board	Ottawa
Kells, Ernest	Reeve, Township of Sidney	Sidney
Kelly, D.	Councillor, Town of Timmins	Timmins
Kelly, H. M.	Richard Costain (Canada) Limited	Toronto
Kelsey, W. G.	Canadian National Railways	Montreal
Kennedy, Harold	Councillor, Town of Mississauga	Port Credit
Kennedy, R. D.	M.P.P., Ontario	Peel South
Kenny, J. D.	Canadian Pacific Railway Company	Montreal
Kent, J. Palmer	Association of Ontario Mayors & Reeves	Toronto
Kerr, Anthony G.	Dominion Bureau of Statistics	Ottawa
Kidd, F. J.	Ontario Department of Municipal Affairs	Toronto
Killaby, Mrs. Caye	Councillor, Town of Mississauga	Cooksville
Kilner, A. T.	Shell Canada Ltd.	Toronto
King, Raymond	Treasurer, Township of Chinguacousy	Snelgrove
Kingerski, N. S.	Clerk-Treasurer, Town of Fort Frances	Fort Frances
Kinsey, P.	Thorne, Gunn, Helliwell & Christenson	Toronto
Kinsman, Eric B.	Richard DeBoo Limited	Toronto
Kirk, Edward A.	S. B. McLaughlin Associates Ltd.	Port Credit
Kirk, J. W.	CCH Canadian Ltd.	Toronto
Knechtel, Dan	T. Eaton Company	Toronto
Knighton, Robert A.	Canada Trust Company	London
Kogan, Oscar	York Board of Education	York
Krane, J. D.	Falconbridge Nickel Mines Ltd.	Toronto
Laberge, Roger	Steinberg's Ltd.	Montreal
Lacey, G. L.	Minnesota Mining & Manufacturing of Canada	London
Lackey, R. B.	Clerk-Treasurer, Town of Orangeville	Orangeville
Laing, A. D.	Dominion Foundries and Steel Ltd.	Hamilton
Lambert, Clarence	Reeve, Township of Wainfleet	Wellandport
Lang, William	Toronto Board of Education	Toronto
Langley, Arthur J.	A. E. LePage Ltd.	Toronto
Laprade, Edgar	Alderman, City of Port Arthur	Port Arthur
Larry, O. W.	Clerk-Comptroller, Town of Trenton	Trenton
Laskin, Saul	Mayor, City of Port Arthur	Port Arthur
Latendresse, Jean-Paul	Latendresse & Latendresse	Ottawa
Lawrence, A. B. R.	M.P.P., Ontario	Carleton East
Lawrence, G.	Clerk, Township of North Grimsby	North Grimsby
Leavers, F.	Deputy Reeve, Town of Port Credit	Port Credit
Lee, B. C.	Ontario Department of Mines	Toronto
Lee, John H.	John Labatt Ltd.	London
Lemon, H. T.	Metro Toronto Board of Trade	Toronto
Lennie, George D.	Firestone Tire & Rubber Company of Canada	Hamilton
Leonard, George A.	Consumers' Gas Company	Toronto

Levi, John A.	Deputy Reeve, Township of Clinton	Beamsville
Lewsey, R. A.	Control Data Canada Limited	Toronto
Lindsay, H. D.	Clerk-Treasurer, Township of Clinton	Beamsville
Linklater, J. B.	Ontario Chamber of Commerce	Toronto
Lister, C. Leigh	Touche, Ross, Bailey & Smart	Toronto
Little, Duncan C.	Treasurer, Borough of East York	East York
Lloyd, Fred T.	Clerk-Treasurer, Village of Iroquois	Iroquois
Logan, C. O.	Finance Comm., City of London	London
Londry, M. A.	Councillor, Town of South Porcupine	South Porcupine
Lorenzen, F.	Lorenzen Associates	Windsor
Love, Peter D.	Hedlin Menzies Associates	Toronto
Low, D. J.	Clerk-Treasurer, Town of Fergus	Fergus
Lowes, Barry G.	Toronto Board of Education	Toronto
Lowes, G. F.	Trustee, Woodstock Board of Education	Woodstock
Lowther, J. H.	Treasurer, City of Ottawa	Ottawa
Lush, Cameron	Warden, County of Wellington	Guelph
Lush, Peter G.	Peter G. Lush & Associates Ltd.	Burlington
Lynett, Robert E.	Imperial Oil Limited	Toronto
Lyons, Ernest	Secretary-Treasurer, Improvement District of Manitouwadge	Manitouwadge
Macaskill, D. B.	Molson's Brewery (Ontario) Limited	Toronto
MacDonald, Don	Business Administrator, Port Colborne Board of Education	Port Colborne
Macdonald, H. I.	Ontario Deputy Provincial Treasurer	Toronto
MacDonald, Mrs. Hazel C.	Toronto Board of Education	Toronto
MacDonald, J. A.	Assessment Comm., Metro Corporation of Greater Winnipeg	Winnipeg
MacDonald, John A.	Controller, City of Hamilton	Hamilton
Macdonald, W. A.	McMillan, Binch, Stuart, Berry, Dunn, Corrigan & Howland	Toronto
MacDougall, G. A.	Riddell, Stead, Graham & Hutchison	London
MacEachern, Neil A.	Trustee, Waterloo Public School Board	Waterloo
MacGillivray, James D.	Imperial Oil Limited	Toronto
MacGregor, Donald C.	University of Toronto	Toronto
MacKay, A. N.	Ontario Dept. of Munipal Affairs	Toronto
MacKinnon, J. W.	Metropolitan Life Insurance Co.	Ottawa
MacLeod, J. M.	Algoma Steel Corporation	Sault Ste. Marie
MacLeod, J. M.	Canadian Tax Foundation	Toronto
MacNaughton, Hon. Chas. S.	Treasurer of the Province of Ontario	Huron
MacOdrum, Mrs. Frances	Alderman, City of Brockville	Brockville
MacPherson, D. G.	Deputy Treasurer, Borough of North York	North York
Madgett, Carl J.	Assessment Comm., County of Peel	Brampton
Manahan, J. W.	Ontario Hydro-Electric Power Commission	Toronto
Manley, S. G.	Assessment Comm., County of Prince Edward	Picton

Mann, Donald M.	McBride, Hickey, Green & Co.	Hamilton
Marchetti, Alexander C.	Alderman, Borough of Etobicoke	Etobicoke
Marks, Ernest	Mayor, City of Oshawa	Oshawa
Marks, Mrs. June	Controller, City of Toronto	Toronto
Markson, I. F.	Treasurer, City of Oshawa	Oshawa
Marshall, C. E.	Brockville District High School Board	Brockville
Marshall, James	Reeve, Township of Sarnia	Sarnia
Martin, Alan G.	Trans-Canada Pipe Lines Limited	Toronto
Martin, Dr. G. K.	Ontario Department of Public Health	Toronto
Martini, Malcolm	Proctor & Redfern	Toronto
Matheson, David	McMillan, Binch, Stuart, Berry, Dunn Corrigan & Howland	Toronto
Matthews, Robert G.	Firestone Tire & Rubber Company of Canada	Hamilton
Matthews, W. C.	Canadian Imperial Bank of Commerce	Toronto
Matuszak, E.	Ontario Treasury Department	Toronto
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