The Right Tax for the Job: The Role of Property Taxes in Funding Cities

Bev Dahlby and Melville McMillan
**About IMFG**

The Institute on Municipal Finance and Governance (IMFG) is an academic research hub and non-partisan think tank based in the Munk School of Global Affairs & Public Policy at the University of Toronto.

IMFG focuses on the fiscal health and governance challenges facing large cities and city-regions. Its objective is to spark and inform public debate, and to engage the academic and policy communities around important issues of municipal finance and governance.

The Institute conducts original research on issues facing cities in Canada and around the world; promotes high-level discussion among Canada’s government, academic, corporate, and community leaders through conferences and roundtables; and supports graduate and post-graduate students to build Canada’s cadre of municipal finance and governance experts. It is the only institute in Canada that focuses solely on municipal finance issues in large cities and city-regions.

IMFG is funded by the Province of Ontario, the City of Toronto, Avana Capital Corporation, and Maytree.

**Authors**

Bev Dahlby is Distinguished Fellow and research director at the School of Public Policy, University of Calgary.

Melville McMillan is a Professor Emeritus at the Department of Economics, University of Alberta.

**Acknowledgements**

A version of this paper was presented at a symposium co-sponsored by the Canadian Tax Foundation and the Institute on Municipal Finance and Governance at the Munk School of Global Affairs and Public Policy in February 2018. The authors thank Ben Dachis (conference discussant) and other conference participants for their comments on this chapter. We also thank the editors of this volume for their valuable suggestions. A previous version of this paper was published by the Canadian Tax Foundation in Enid Slack, Lisa Philips, Lindsay M. Tedds, and Heather L. Evans, eds., *Funding the Canadian City* (Toronto: Canadian Tax Foundation, 2019).
Executive Summary

The property tax generates a significant proportion of municipal revenues in Canada and has done so since Confederation. This paper makes the case that the property tax is a good tax for funding local (especially general-purpose) governments for several reasons: the base of the tax is immovable; the tax can generate reliable and sufficient revenues and make local governments independent from other orders of government; many of the core goods and services provided by local governments directly benefit property owners; the tax is visible to property owners; and the tax is easy to administer.

The paper also counters many criticisms levelled at the property tax, including that it is inelastic, unresponsive, and regressive, and that it limits growth. The authors conclude that the property tax is an adequate but underused source of revenues for Canadian municipalities and make a strong argument for lowering the taxation of business properties by eliminating provincial school property taxes on both business and residential property. The result of such a reform, which would leave the property tax solely a municipal tax, would better meet tax criteria for revenue and expenditure assignment.

“Property Taxation in Canada: Past, Present, and Future”

This is the first paper in the IMFG series, “Property Taxation in Canada: Past, Present, and Future.”

The property tax has a long history in Canada. It predates Confederation and has long been the country’s central source for municipal revenues. In recent years, governments have also implemented further taxes on property, including foreign buyers’ taxes and vacancy taxes, to address new policy concerns.

“Property Taxation in Canada: Past, Present, and Future” focuses on property taxation in Canada and whether changes are necessary to ensure municipalities can meet 21st-century challenges. Papers by experts from across the country will look at topics that include the role of the property tax in Canadian municipal finance, recent developments in property tax policy, and new challenges that governments face in administering the property tax.
The Right Tax for the Job: The Role of Property Taxes in Funding Cities

Introduction

The property tax plays an important role in Canadian public finances.\(^1\) Property taxes in this country predate Confederation; by 1876, they were fully developed and extensively used. As Slack and Bird show, property taxes have been and continue to be the primary source of taxes for local governments, particularly municipal governments.\(^2\)

A tax that has such a long history and has proved so resilient amid changing circumstances must have merit. This paper reviews and assesses property-related taxes in the Canadian context. While some observers suggest that municipalities in Canada need expanded revenue authorities,\(^3\) we consider the property tax an adequate if underused source of tax revenues for these municipalities.

In this paper, we define the property tax and explain why it is ideal for local (especially general-purpose) governments. We respond to criticisms that have been levelled at the use of property taxes as a main source of revenue for Canadian municipalities and make the case for property tax as a good tax for funding local governments.

The Property Tax

Today, the property tax generates as much revenue for Canadian governments as the corporate income tax – that is, about 9.5 percent of government revenue and 12.3 percent of tax revenue.\(^4\) Only the personal income tax and general sales taxes contribute more. In 1913, property taxes on real property amounted to 4 percent of gross domestic product (GDP) and 39.4 percent of all taxes.\(^5\) Today, property taxes are 3.3 percent of GDP.

Local governments (that is, municipalities and school boards)\(^6\) have grown in importance, with their expenditures now amounting to 7.5 percent of GDP compared with 4.3 percent in 1913. Nevertheless, the relative contribution of property taxes as local governments’ main “own source” of revenue has declined, mainly because provincial governments have come to fund a much larger share of school boards’ expenditures. Currently, municipalities receive about 71 percent of the property taxes collected by Canadian governments and 82 percent of those collected.
by municipalities and school boards. Provinces receive the remaining 18 percent.

In the following section, we provide a brief overview of the merits of the property tax and evaluate the major criticisms of it. To illustrate our discussion, we refer to Ontario and Toronto, for which detailed historical data are available.

Why the Property Tax for Local Governments?

Despite its major role and long history, the property tax has been subject to considerable criticism and is less popular than other taxes. At the same time, it is also acknowledged that the property tax is a good tax for local governments. Among the many reasons to give the property tax a positive evaluation, one is that the tax base (that is, real property – land and structures affixed to the land) is immobile and cannot be hidden; local authorities can identify the base and tax it without concerns about its relocating. Another is that the property tax can provide substantial funding for a local government, affording it considerable independence from senior levels of government.

Another positive feature of property taxes is that they fund services that directly benefit property owners, such as roads and local amenities. They provide local taxpayers with a direct link between benefits received and taxes paid, and, more generally, they contribute to local residents’ payment for the local services they receive. (The importance of a link between benefits received and taxes paid has been stressed by Enid Slack and Richard Bird.)

The property tax can be considered a relatively fair mechanism for distributing the costs of local services.

The property tax can provide local governments with a relatively predictable source of revenue (compared with intergovernmental transfers, for example), particularly when local authorities set their own tax rates. Two other positive features of the property tax are its administrative ease and its efficiency.

Common criticisms of the property tax are that it has become inadequate as a revenue source (especially for large cities), that it is unresponsive to growth, that it is regressive, and that it impedes growth and development.

Response to Major Criticisms

Adequacy

Despite the criticisms, the property tax is in our view a relatively good tax for local governments, particularly local governments that provide core local services. Core local services are those commonly provided by local “general-purpose” governments (municipalities, generally speaking) in most countries – primarily, transportation (roads, streets, and public transportation in urban areas); garbage collection and disposal; water and sanitation; public order and safety (policing and fire protection); recreation; and cultural services. Core local services are distinguished from schooling, health, and social protection services, for which local responsibilities differ substantially from country to country.

Local school boards in Canada are responsible for schooling, and they have relied, to varying degrees, on property taxes for financing. In assessing the adequacy of the property tax, it is important to distinguish between the two types of local authorities – school boards and municipal governments – and to consider the suitability of the property tax for the funding of each, as well as the role of the provincial government and its transfers. Basic questions relating to adequacy are (1) whether the property tax has become more onerous, and (2) whether the expenditure responsibilities of municipal governments have expanded and diverged from those suited to municipal governments’ revenue sources. In considering these questions, we use examples from Ontario.

Revenues and expenditures of local governments in Ontario

Figure 1 shows municipal property taxes, school property taxes, and total property taxes as a percentage of household income since 1950. Household income is selected as a comparator for three reasons: (1) we are interested in the burden of the property tax; (2) real incomes have grown substantially since 1950 (for example, by 41 percent since 1979); and (3) household incomes are more stable than GDP.

Total property taxes as a percentage of household income vary considerably over the years. The figure was 2.9 percent in 1950 and rose to 4.8 percent in the late 1960s, declined (owing to increases in provincial grants to municipalities and school boards) to less than 4 percent for most of the 1970s.
and 1980s, increased again to 4.8 percent by 1994, and gradually declined to 4.1 percent in 2015.

Municipal property taxes and school property taxes as percentages of household income are also rather uneven. The most significant change occurred in 1998, when, as part of the Conservative government’s “Common Sense Revolution,” provincial grants to school boards were increased, the school property tax was reduced, boards’ authority to set tax rates was removed, and provincial school tax rates were imposed instead. Simultaneously, the province realigned municipal and provincial responsibilities (and funding).

The result of this realignment was that municipal property taxes increased even as the school property tax decreased, leaving taxpayers in roughly the same position as before. Since then, municipal property taxes have remained stable relative to household incomes, at about 3.1 percent. School property taxes, however, have continued to decline as a percentage of household income (to about 1 percent in 2015), leading to an easing of the total property tax burden since 1998.

The total property tax burden has been declining for most of the past two decades (while the municipal burden has remained constant). But from 1950 to 1970, Ontario taxpayers endured a high and rapidly increasing property tax burden, imposed to meet the demands – in schooling, municipal services, and infrastructure – of a rapidly growing population with rising incomes.

The situation regarding own-source and total revenues for municipalities is different. Although municipal property taxes have been a constant percentage of household income since 1998, the total own-source revenue of municipalities continued to increase until 2008 (see Figure 2). Other own-source revenues, in particular sales and charges (such as user fees), have grown in importance since 1965. Meanwhile, following the responsibility realignment in Ontario in 1998, grants to municipal governments have become a smaller share of municipal revenues. Thus, over the past 20 years, municipal governments have become less reliant on property taxes and more reliant on other own-source revenues; total revenues, while fluctuating somewhat, appear to have stabilized.

What about expenditures? Table 1 shows local government expenditures as a percentage of household income for selected years from 1952 to 2016. The most dramatic change occurred between 1952 and 1965, when total local expenditures more than doubled as a percentage of household income, increasing from 5.23 to 11.74 percent. Since then there has been limited change.
The percentages of municipal expenditures and local school expenditures relative to household income have changed, however. Local school expenditures were 5.2 percent of household income in 1965, but they have been on a downward trend since 1995 – to a low of 3.6 percent in 2016. In contrast, although municipal total expenditures almost doubled between 1952 and 1965, they have remained relatively constant ever since, at about 6.7 percent of household incomes.

The composition of municipal expenditures has changed, but such changes have been limited. Notably, the expenditure realignment of the 1990s saw an increase in expenditures for social services and housing. Ontario is unique among the provinces in that social services and housing expenditures represent so significant an element in municipal budgets. Recently, however, provincial grants have funded a large share of those outlays. Despite some shifts in relative magnitudes among functions (for example, protection has become larger; transportation was large, declined, and increased again; and debt charges have diminished), municipal expenditures relative to household incomes appear stable since new levels were established in the 1960s.

Revenues and expenditures of the City of Toronto
Much of the concern about municipal finances centres on cities, especially large cities like the City of Toronto. The trend, since 2001, in the City of Toronto’s revenues as a

\[
\text{Figure 2: Ontario Municipal Government (Major) Revenues as a Percentage of Household Incomes, 1950–2015}
\]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total municipal</td>
<td>3.35</td>
<td>6.55</td>
<td>6.67</td>
<td>5.87</td>
<td>6.64</td>
<td>6.70</td>
<td>6.73</td>
</tr>
<tr>
<td>Education/school</td>
<td>1.88</td>
<td>5.19</td>
<td>4.70</td>
<td>4.27</td>
<td>5.03</td>
<td>4.47</td>
<td>3.59</td>
</tr>
<tr>
<td>Total local government</td>
<td>5.23</td>
<td>11.74</td>
<td>11.37</td>
<td>10.14</td>
<td>11.68</td>
<td>11.17</td>
<td>10.32</td>
</tr>
</tbody>
</table>

Source: Data are from Statistics Canada (see endnote 4) except for 2016, which come from Ontario, Ministry of Municipal Affairs, “View FIR Data – Provincial Summaries by Schedule” and, specifically, “FIR2016: Provincial Summary, Schedule 4, Expenses” (https://efis.fma.csc.gov.on.ca/fir/).
percentage of family incomes is similar to the trends for Ontario municipalities as a whole. That is, total revenues and own-source revenues, although they have increased, have been relatively stable since 2009; property taxes have been quite uniform; and other revenues (particularly other own-source revenues) have increased. The result has been a decline in the reliance on property taxes, which went from 47 to 33 percent of the city’s revenues between 2001 and 2016.

Toronto’s revenues exceed the provincial average, as is typical for large cities. In 2001, per-capita revenues in Toronto were 19 percent higher than the provincial average ($2,296 compared with $1,931); in 2015, per-capita revenues in Toronto were 33 percent higher than the provincial average ($4,258 compared with $3,198). Although total revenues relative to incomes are about 25 percent higher in Toronto, property taxes are only about 6 percent higher than the Ontario average.

Toronto’s property taxes are comparable with those of other cities, such as Vancouver, Calgary, Edmonton, Winnipeg, Ottawa, and Halifax. None of the following were highest in Toronto: (1) per-capita total property taxes ($2,126 in 2016), (2) total residential or non-residential property taxes, or (3) total municipal or total school property taxes. Only per-capita non-residential school property taxes in Toronto exceeded those in the other cities for which there were data.

School property taxes are determined by the provincial government. The share of Toronto’s property taxes dedicated to education has declined from 40 percent in 2001 to 33 percent in 2016. Most of that reduction can be attributed to non-residential property.

The non-residential portion of municipal property taxes in Toronto has been declining for some years, owing to a 2006 policy to reduce the ratio of the non-residential property tax rate to the residential property tax rate from 4 to 2.5. The policy was instituted to make Toronto’s rates more comparable with those in neighbouring jurisdictions. As a result, the non-residential share of property taxes as a percentage of incomes has declined from 1.5 percent to 1.24 percent, while the residential tax has been relatively stable, averaging 1.95 percent of incomes. Since 2001, the residential share of the municipal property tax has increased from 55 to 61 percent.

The distribution of City of Toronto expenditures appears in Table 2, including comparisons with all Ontario municipalities and with municipalities in other provinces.

Municipal expenditures in Ontario differ from those in other provinces, however, because Ontario municipalities have spending responsibilities for health and social services (together, about one-quarter of their expenditures) – expenditures not found in the other provinces – and Ontario municipalities spend more on social housing. Although those functions are largely financed by provincial grants, they are an additional burden on municipal governments.

**Responsiveness**

A supposed failure of the property tax is that it is not “elastic” – that is, not sufficiently responsive to changes in growth and prices to meet the demands that those changes place on municipal services. Casey Vander Ploeg argues, for example, ”The property tax carries numerous inherent disadvantages, such as a tax base that tends to expand slowly and revenue that fails to keep pace with economic conditions and population growth.” Our evidence and analysis suggest

### Table 2. Distribution of Expenditures: All Ontario Municipalities, City of Toronto, and Municipalities in Other Provinces (Average 2000–2016 for Ontario Municipalities and 2008 for Other Provinces)

<table>
<thead>
<tr>
<th></th>
<th>General govt</th>
<th>Protection of persons &amp; property</th>
<th>Transportation</th>
<th>Environment</th>
<th>Health and emergency services</th>
<th>Social and family services</th>
<th>Social housing</th>
<th>Recreation and cultural services</th>
<th>Planning and development</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontario</td>
<td>6.9</td>
<td>16.7</td>
<td>19.9</td>
<td>14.6</td>
<td>5.0</td>
<td>19.6</td>
<td>5.6</td>
<td>9.1</td>
<td>2.1</td>
<td>0.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Toronto</td>
<td>5.4</td>
<td>16.6</td>
<td>24.3</td>
<td>11.6</td>
<td>4.2</td>
<td>21.4</td>
<td>6.6</td>
<td>8.9</td>
<td>1.1</td>
<td>0.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Other provinces</td>
<td>11.2</td>
<td>15.9</td>
<td>24.7</td>
<td>19.7</td>
<td>0.9</td>
<td>0.7</td>
<td>2.2</td>
<td>14.7</td>
<td>2.5</td>
<td>7.2</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Other* is not itemized separately for Toronto. Includes debt charges, resource conservation, and education for the nine provinces excluding Ontario.

**Source:** Ontario Financial Information Returns.

---

"Other" is not itemized separately for Toronto. Includes debt charges, resource conservation, and education for the nine provinces excluding Ontario.

b 2008 is the last year for which Statistics Canada provides a similar categorization of expenditures to those used in Ontario. These data are calculated from data in CANSIM table 3850024.

Source: Ontario Financial Information Returns.
otherwise – that the property tax is not unresponsive to population growth and economic development.

First, the data provided above indicate that the property tax has kept up very well with population growth and economic development. The (perhaps remarkable) consistency of the municipal property tax as a percentage of incomes in Ontario (especially since 1998 – see Figure 1) and Toronto demonstrates that property taxes have grown in parallel with the economy.

One may also consider the trend in the property tax base (rather than revenues). Since 2002, the financial information reports of the Ministry of Municipal Affairs have included current-value taxable assessments. As shown in Figure 3, the property tax base has increased relative to incomes. By 2016, the ratio in Ontario of property tax base to income had increased from 1.0 to 1.53, and the Toronto base ratio had increased to 1.76. Hence, the property tax base grew faster than the economy.

Perhaps the 2002 to 2016 period is not representative, but a similar trend has been observed in Calgary and Edmonton, two cities that experienced both substantial growth and economic fluctuations during this period. Overall, the property tax bases of Calgary and Edmonton have more than kept up with the growth of the economy; they grew rapidly when the economy surged, and they kept pace in other years.

The perceived “inelasticity” of the property tax can be attributed to the annual rate-setting exercise. Any setting of tax rates is challenging and subject to much scrutiny, and thus politically unpleasant.

Municipal property taxes grow with the economy. Municipal property tax revenues in Ontario have been a notably stable share of incomes for most of the past two decades. That stability, and the fact that the property tax base has (at least during the past 15 years) grown faster than the economy, indicates that the property tax is responsive.

Regressivity and property tax relief

From the perspective of most local citizens, the property tax appears regressive. Certainly, the prospect of a low-income household facing a comparatively large property tax bill
causes concern. Although municipal governments are not well suited to engage in significant relief programs, many provide some property tax relief to the needy. Toronto offers low-income seniors and disabled persons a program for cancelling property tax increases and, to a somewhat broader group of low-income homeowners, a program for deferring such increases. Provincial governments also commonly provide some property tax relief. Ontario offers qualifying low-income households an energy and property tax credit and a senior homeowners’ property tax grant (up to $500).

An impediment to growth?

The impact of the property tax on economic growth and development is a complicated and much-debated issue. Only one aspect of this issue is considered here: the extraordinary share of property tax paid by business to both municipal and provincial governments – extraordinary, that is, compared with business’s share of property assessments. In 2016, non-residential property taxes in Toronto generated 38.4 percent of municipal taxes while accounting for 20 percent of assessments; province-wide, non-residential property taxes generated 26.5 percent of municipal taxes from 16.5 percent of assessments.

The municipal tax rates that apply to business property in Ontario are, on average, about 1.8 times those levied on residential property. Such rates, given the cost of servicing businesses and the benefits that businesses realize from municipal services, are often seen as over-taxation and as an impediment to growth and investment. At the provincial level, non-residential property contributes about 55 percent of Ontario’s education property tax and pays 6.3 times the residential rate.

Property taxes, like other taxes, involve some economic costs. Adam Found has estimated the long-run impact of business property taxes in Ontario. He estimates an overall tax elasticity of 0.82 (that is, a 10 percent increase in the tax rate results in an 8.2 percent reduction in the tax base). Found’s elasticity estimate is similar to those reported by Almos Tassonyi et al. for Toronto and some other GTA regions for all property taxes (both business and residential). Municipal property taxes fund municipal services that benefit residential and business properties.

Although business property pays a disproportionate share of these taxes, intermunicipal competition constrains exploitation. Michael Smart’s analysis of reductions in intermunicipal business tax differentials indicates that business location was not particularly affected and that the productivity gains from tax reductions were comparatively small.

The economic costs of the province-wide education tax on business may be greater. The effective tax rate on business is high, and there are no offsetting benefits in local services. The provincial business property tax is a cost to property ownership and discourages business investment. We are unaware of any study that estimates or isolates the cost of variations in province-wide property taxes, which cannot be estimated from regressions based on intermunicipal differences. Nonetheless, an effective tax rate of 1 percent on business property investment is significant relative to the returns on property investment. Eliminating that tax – the most distorting property tax – would substantially reduce the marginal cost of public funds and promote business investment.

Conclusion and Suggestions

Arguments are sometimes made that the property tax is an insufficient source of tax revenue for Canadian local governments, especially those of large cities. In our view, the information we have presented in this paper casts doubt on those arguments and suggests solutions to the property tax “problem” that are better than an expansion of the taxation powers of municipal governments.

The property tax has long proved to be a powerful revenue generator for funding municipal and school services. Growing demands for local services – particularly schooling and infrastructure – saw the property tax in Ontario climb sharply, to almost 5 percent of household incomes, in the 1960s. Today, after trending downward over the past 25 years, property taxes are 4 percent of incomes. Thus, the property tax burden in Ontario today is comparatively light.

It is important to distinguish between municipal property taxes and finances and school property taxes and finances and to recognize that large cities may be different from other cities in this regard. Since 1950, Ontario municipalities’ own revenues have increased as a percentage of their total revenues, while the municipal property tax has been relatively stable, despite a shift upward in 1998 owing to the province’s realignment of local responsibility. Municipalities, in what many regard as a positive move, have come to rely more on alternative sources of revenue – user fees, for the most part. On the basis of data from 2001 alone, the City of Toronto appears to be in step with other Ontario municipalities. Thus, since the responsibility realignment, the property tax burden
The Right Tax for the Job: The Role of Property Taxes in Funding Cities

has been stable in Toronto and in Ontario municipalities overall. Also, despite the responsibility realignment, property taxes in Toronto are similar to those in several other Canadian cities.

It is sometimes argued that municipalities, especially large cities, have taken on or are expected to meet a wider range of responsibilities than previously and that this development has rendered the use of the property tax inappropriate. The available evidence offers little support for that argument. First, apart from the realignment of local responsibility (which notably increased social services and housing outlays by Ontario municipalities), relatively little has changed, and municipal expenditures have been essentially constant as a percentage of incomes since 1965. Second, the post-2001 data on Toronto suggest that the functional distribution of expenditures in the city closely matches the provincial pattern. Thus, it is not obvious what new or expanded responsibilities are supposed to make the property tax inappropriate.

That said, Ontario is an oddity among the provinces in that it makes social services (mainly social assistance and housing) a municipal responsibility. Those costs, even if covered largely by provincial transfers, are nonetheless a greater burden on municipalities in Ontario than on municipalities in other provinces. Shifting those responsibilities to the province, as has happened elsewhere in Canada, would provide some relief to Ontario’s municipal taxpayers.

Schooling is a large social program, and school property taxes are a major part of the property tax collected. Social programs aimed at redistribution and equality of opportunity are best financed by non-local (that is, provincial and federal) income and sales taxes. School property taxes are a relic of the distant past, when general sales taxes and income taxes did not exist and property taxes were the dominant tax source. Although the growth of provincial funding has diminished the role of (now provincial) school property taxes (and divorced local school finances from local school taxes paid), school property taxes are still substantial; they account for about one-quarter of property taxes in Ontario and for more than one-third of property taxes collected in Toronto.

A reform of school financing seems the most logical way to address concerns about property taxes overall and about the adequacy of property taxes as a source of municipal tax revenue. Conceptually, the provincial government could eliminate school property taxes and replace them with provincial revenues, and the effect would be tax-neutral to the average Ontario taxpayer. (Of course, the distribution among taxpayers would change somewhat, but a gradual phasing-in of the change could lessen such concerns.) The property tax would then become a purely municipal tax, and with the property tax burden much reduced, a substantial amount of (at least perceived) property tax room would be opened up for municipalities if the municipal taxpayers chose to use it. In addition, a reduction of the effective tax rate on business property would promote business investment and improve productivity. The elimination of provincial school property taxes, although it would involve a major overhaul and rationalization of school financing, appears an appropriate approach to resolving problems with the municipal property tax.

In our view, the property tax is an adequate but underused source of tax revenues for municipalities in Canada. The property tax is a good source of revenue for local governments, particularly “general-purpose” governments—that is (for the most part), municipalities. It can fund services, such as roads and local amenities, that directly benefit property owners. Property taxes afford a municipal government considerable independence from senior levels of government, promoting local responsiveness to local concerns and conditions. We are therefore sceptical about the need to reduce the reliance on municipal property taxes or to expand the taxation powers of municipal governments.

Endnotes


2 Enid Slack and Richard Bird, “Municipal taxation in Canada’s federal system: Linking taxes and expenditures,” in Enid Slack, Lisa
Philipps, Lindsay M. Tedds, and Heather L. Evans (eds.), *Funding the Canadian City* (Toronto: Canadian Tax Foundation, 2019).


See Kitchen and McMillan, note 1.

Local government in Canada is typically considered to include the general-purpose local authorities (primarily municipalities, but also other local and regional public administrations) and local school authorities (school boards).


A more fully documented version of this section, with a more extended discussion, is available from the authors.


Local government data for Ontario since 1950, on which this figure is based, were obtained by combining various sources: (1) Statistics Canada data from “Financial Statistics of Municipal Governments in Canada” (1950 to 1966); (2) “Local Government Finance” (1967 to 1987); (3) CANSIM’s Financial Management Series (1988 to 2007; for example, table 3850024); and, most recently, (4) “Canadian Government Finance Statistics” (2008 to 2016; for example, table 3850037). Certain years were unavailable from our sources. Household income data come from linking Statistics Canada’s personal income (to 1980 from CANSIM table 3840035) and household income (CANSIM table 3840040) series.


See note 12 for the source of the data on which this figure is based.

The fiscal data used for this analysis come from the financial information returns of the City of Toronto. The financial information returns for Ontario municipalities are provided by the Ontario Ministry of Municipal Affairs. See Ontario, Ministry of Municipal Affairs, “View FIR2016 Data – By Municipality” (efer. fma.csc.gov.on.ca/firf).

Ottawa data come from the financial information reports for the city. Data for the other cities come from city annual reports for 2016, supplemented by provincially collected municipal data.

Since taking over school property taxes in 1998, the province has pursued a policy of reducing the levels of and differentials in business property taxes, although, in practice, the implementation of this policy has been intermittent. For an overview, see Adam Found, *Flying Below the Radar: The Harmful Impact of Ontario’s Business Property Tax*, E-Brief (Toronto: C.D. Howe Institute, November 2, 2017).


One implication is that if uniform local tax rates had been maintained on property, sales, and personal incomes, property tax revenues would have increased faster than local sales or local income tax revenues.

See McMillan and Dahlby, “Do local governments need alternate sources of tax revenue?” note 8.

Other approaches to assessing the incidence of the property tax yield different results. See Melville McMillan and Bev Dahlby, “Do local governments need alternate sources of tax revenue?” note 8, for a brief overview.

For a review of provincial programs, see Karin Treff and Deborah Ort, Finances of the Nation 2012 (Toronto: Canadian Tax Foundation, 2013).

Amounts are calculated from data in the financial information returns for the City of Toronto; see note 12.

See Kitchen and Tassonyi, “Municipal taxes and user fees,” note 7; and Found, note 15.

Found, note 16. The associated marginal cost of public funds is $5.56. That is, an additional dollar of business property tax is estimated to cost the economy $5.56.

Ibid.; see also Almos Tassonyi, Richard M. Bird, and Enid Slack, Can GTA Municipalities Raise Property Taxes? An Analysis of Tax Competition and Revenue Hills, University of Toronto, Munk School of Global Affairs, IMFG Papers on Municipal Finance and Governance no. 20 (Toronto: Institute on Municipal Finance and Governance, 2015), Table 2.