

SITE TAXATION

From a brief prepared by
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To be quite frank I had no idea at the time I was requested to submit a paper on this subject that there was and still is so much controversy over site taxation. I am somewhat alarmed that because of my submission I might be mistaken for an expert. I can assure you nothing could be farther from the truth.

What I don't know about site tax would fill nearly all the tracts, pamphlets and books on the subject. I do, however, have a few observations to make culled from our past experience with site taxation. I, of course, can only speak on the situation as it would or does affect my own community.

Property Tax Systems - Defined

Single Tax is a system of taxation in which all revenue is derived from a single object (Webster).

Site Tax is a system of property taxation in which all revenue is derived from land. Under site taxation, taxes on buildings are dropped.

Ad Valorem Tax (to value) in property tax land and buildings are taxed at 100% of their assessed value.

Calgary is only one of over 4,000 local governments in Canada having the power to tax. Ninety per cent of Canada's population is represented by these local governments, thus it is hardly surprising that property tax is a popular topic. That some of our elected officials in their desperate search for amelioration and relief of taxation should look at Site Taxation is also hardly surprising.

What is the magnet that draws, the magic that spells people in Site Taxation? Site Taxers claim:-

1. Taxing buildings limits investment in them, and therefore the development of them.
2. Taxing buildings discourages replacement of old and worn out but revenue producing buildings which in their present state are lightly taxed though income producing.
3. Legislation incurs tax policies which subsidize slums by under-assessing both land and buildings because of their condition.
4. Where re-development through slum clearance is mooted, slum land owners, because of light taxes, can hold these lands while exacting a market price based on future use. The same argument is used in regard to land developers.

Indeed, many more arguments put forth by site taxers are based on the above with variations to suit local arguments and conditions. It should be obvious to all, however, that Site Taxation is no panacea. No system of taxation will reduce the monies needed for the operation of that municipality. Taxation by any name is still taxation, and from the latin word "taxare" we derive the word tax, and in latin taxare means "to touch, sharply."

Our brief history of taxation in Western Canada

followed the patterns of taxation in North America. In early colonial times, the only taxes or levies were Custom Duties. As the settlements grew, so did the inventiveness of Local Government Administrators. All forms of property became taxable. Land, buildings, livestock and crops, Jewellery, furniture and personal property, paper wealth such as stocks, bonds, mortgages, bank notes, etc. In other words, all property which included people under the poll tax or head tax.

With Confederation, the Provincial and the Federal Governments were each allotted various revenue sources under the British North America Act; and to the provinces went both Income and Property Tax.

The provinces passed on the property tax to their burgeoning municipalities as the need arose.

In the late 19th and early 20th centuries, land settlement and development was, to say the least, hectic in Western Canada. Many new and struggling towns and cities, including Edmonton and Calgary, embraced Henry George and his single tax under the then current belief that taxation of land would provide a tax base wide enough to meet local government needs and also in the belief that it would provide anti-speculation pressures of its own, thus a total exemption of buildings followed. Its inception and application coincided with the great Western Canadian land boom and the confusion and chaos following in its wake was justly or unjustly laid at the door of the Site Tax.

Its failure in the cities was a subject of study by Professor Robert Murray Haig of Columbia University, New York, who was at that time working for the Saskatchewan Government in the re-adjustment of the financial systems of its municipalities.

He noted that municipalities lost their collective heads. Anticipating the continuation of their explosive growth, municipalities extended their boundaries, constructed water systems, built schools and laid pavements and sidewalks radiating out in all directions into the surrounding prairie beyond their current development. The boom collapsed in 1913. The anticipated settlers who would pay for the over extended developments did not materialize. In 1914 thousands upon thousands of the young settlers flocked to the colors to defend the Mother country and many never returned.

Inflated land prices used as a basis of assessment collapsed, and with shrinking revenues, the over burdened municipalities, including Calgary, reverted to taxing improvements to stave off bankruptcy.

Studies by H. Bronson Cowan in 1939 on the effects of single tax in Western Canada concluded with:-

1. That had it been introduced prior to the commencement of the land boom, rather than when conditions were, to say the least, abnormal, it would have had a definite and important restraining effect upon the land speculation which was to have such disastrous and long lasting effects.
2. That the municipalities nonetheless derived more benefits than they would have by a taxation system leaning heavily on building assessment.
3. Properties with buildings would have had to bear far more burden than they did in supplying tax dollars to promote speculatively inspired developments, if those buildings had been taxable.

These pro-site tax statements reveal at the same time the inherent weakness in Site Taxation. It worked very well in Western Canada as long as there were inflated land prices and speculation. The two factors

it was supposed to inhibit. It failed completely as a tax base when land values became normal.

The Site Tax experiment in Western Canada has not been forgotten, in fact, to this day the municipalities of Alberta exempt 40% of the assessment value of buildings from taxation, and in the present reassessment currently under way this exemption of building assessments from taxation will be increased to 55%.

THUS ALBERTA TODAY HAS A PARTIAL SITE TAX.

This modified site tax has not prevented slums, it has not fostered continued development of the central core, and it has not made for more satisfied or happy taxpayers. In fact, the same situation occurs in Calgary that occurs in London, England, which is under the rates or rental value system, and which prompted Sir Winston Churchill to observe in an address to the London County Council. "A taxpayer is a person who demands better roads, bigger and more parks, finer harbours, free university education, faster more efficient public transportation and lower taxes."

Site Taxation will not lower taxes. It will narrow the tax base and it will shift the burden of those taxes.

Buildings constitute a capital investment in labor and materials from which the owners anticipate repayment. In the case of a private dwelling, the return on the owners investment may be in the form of rents he would otherwise have to pay.

The value the owner places on prestige, and his ability to pay for such results in the quality, size, style, etc., of the dwelling. Likewise with our commercial, industrial and apartment buildings, the

varying amounts of labor and capital invested in them determine their assessments. These are traditional and to a degree recognize the owner's ability to pay.

Likewise our land assessments are based on traditional factors of zoning, use, services available and distance from the central or other focus points.

Our present system of assessing derives a large measure of its equity from these building differences, but when site tax is applied, they are cancelled. Equity based on the building assessment disappears.

There would be no difficulty in applying site tax since our present land assessment is relatively pure in that land and its use only is assessed to it. The difficulty would arise later in trying to justify it to the small merchant who would complain bitterly about being on the same rate as the multi-storey department store competing with him down the block. He would naturally and justifiably feel that he was contributing to the extra fire, police and other municipal services required to service this building over and above those required to service him. Any subsequent modifications to the assessments to recognize these factors would taint the land assessment by recognizing the buildings erected thereon and therefore destroy the site taxation by assessing buildings but hiding them in the land assessment.

In Calgary, despite the 40% exemption of buildings for tax purposes, our building assessment forms 2/3 of our total taxable assessment. If this is shifted entirely to land, 2/3 of our tax base disappears. Since the revenue required through taxation would not diminish, then the mill rate would have to increase three times. The Assessor would be popular, the Tax Collector and City Council would be the villains. Totally

unseen at first by the populace would be the shift of the tax burden.

Hardest hit would be the undeveloped lands, next would be the under developed properties which would include slums, older homes, and cheaper small houses and commercials and industrials WITH LOW VALUED improvements. Also hard hit would be the high valued lands of the central core where commerce is in a desperate fight to stay alive now in competition with suburban shopping centres.

A study made in Calgary in 1962 showed that all properties whose assessment had a building ratio to land above that of the city average would have a decrease in taxes, and conversely all those properties whose assessment had a building ratio to land below that of the city average would have a tax increase under site taxation.

The report bore out in full the observation of Thomas J. Plunkett in his "Taxation and Land Development - A Look at Site Tax." in which he stated:- "properties with the most valuable improvements would pay less taxes under the site value taxation, and properties with the least valuable improvements would pay more."

In Calgary under present land assessments Site Tax would benefit those who are prepared to develop immediately a property having a building value which exceeds the land value by 3.66 times. It would not hurt the Land Developer since there is extant in Alberta, legislation giving Councils of the various municipalities the power to grant an 80% exemption to land held by bonafide land developers intended to be serviced and developed by them. Such exemption to be granted

for a period of five years and renewable thereafter at the discretion of Council for a further period if no construction has commenced thereon and there has been no change of ownership. It would hurt the land holder such as an industrial plant holding lands for future expansion.

Alberta is constantly up-dating and modifying assessment legislation. It believes that a modification of the Site Tax is better than either full property tax using 100% of the value of both buildings and of land, or of using land only as the basis for taxation. Provincial legislation using 60% of the value of buildings and 100% of the value of lands for tax purposes is being amended in the near future to 45% of the building value and 100% of the land value.

The greatest danger in Site Tax that I can see as an administrator would be its non-recognition of the extra services required by today's large highrise developments and the fact that adjoining lands would be assessed on the same basis, and with no increment of the assessment when like developments took place upon them. Any recognition of, or modifications for these developments would be recognizing the buildings, and therefore we would no longer have a site tax.

My final observation and sum-up statement would be that a modified site tax seems to offer Alberta the vehicle by which it can best suit our cloth to our own needs.

As to Site Taxation in its pure form, I have no further remarks or advice as George Bernard Shaw once said, "Advice is a drug on the market, supply exceeds demand." (+)