

## LAND VALUE TAXATION IN WESTERN CANADA

### The "Tax Arrears" and a Reply to Allegations

[We reprint by request the following article, which appeared in July (1920) LAND & LIBERTY, and have made some additions embodying later information. The original article was issued as a leaflet in our "reprint series," and has been so much in demand that the supply is exhausted. The statement as now revised and extended is available in leaflet form for distribution and for the special use of our readers who are by way of rebutting the misrepresentations so sedulously spread abroad, on the platform and by the Press, to the effect that the taxation of land values has failed in Canada. The leaflets may be had at one penny each post free; special terms for quantities.]

The critics and opponents of Land Values Taxation, in their unhappy search for something that may pass in argument, have hit upon the discovery that certain towns in Western Canada have been or are in financial trouble; that they did for a time raise all or most of their revenue from a rate on land value; that they have allowed large sums of uncollected taxes to accumulate, and that they have returned to or adopted the taxation of improvements in addition to rating the value of land. The recently issued Report of the City Treasurer of Birmingham on "Sydney Rating," and a new pamphlet by the Land Union (its first broadside in the new campaign it has undertaken), make free use of this discovery to support convenient conclusions. Edmonton in Alberta, for example, collected in 1916 only \$2,235,126 from its rate on the value of land alone. Its tax arrears at the end of 1916 were \$5,250,257. It has since begun to tax improvements. Vancouver, in British Columbia, for example, collected in 1918 by its land value rate \$3,131,557, and its tax arrears at the end of 1918 were \$5,456,453. In 1919 Vancouver taxed improvements (in addition to taxing land at 100 per cent. of its value) to the extent of 25 per cent. of their value, and the tax was increased in 1920 by assessing improvements at 50 per cent. of their value.

How easy to tear these facts away from their relation to other facts, to present only the former and deliberately conceal the latter! How easy to assert that here you have cause and effect; the Taxation of Land Values was tried—it did not produce enough revenue—and it has failed! These allegations have been made before, and it is worth while examining the case in some detail.

#### The Fruits of Land Speculation

Recent municipal finance in Western Canada is but one chapter in the history of extravagant land speculation, that began in 1910 and came to a climax in 1914, the inevitable crash being precipitated by the war. There had been a rapid growth of population, and the construction of thousands of miles of railway. Land values were "boomed" until they were on a purely fictitious basis. That inflation had certain inevitable results. Sir James Aitken, the Lieutenant-Governor of Manitoba, declared in Winnipeg, on 18th December, 1917, that there were 100,000,000 acres of good arable land in Canada in private ownership, of which only one-third was being used for productive purposes. In Western Canada, according to the Report published in 1918 by Mr. Thomas Adams, Town Planning Adviser of the Canadian Commission of Conservation, there were 30,000,000 acres of idle land, a great part contiguous to the railways, and of good quality. All this land was held out of use for a further rise in price awaiting the increased population which never came. Meanwhile, the towns and cities indulged in the gamble in urban land, and the fever overcame responsible town councils as well as private operators in the real estate market. A tremendous burden of debt was assumed by nearly all the municipalities in the constant push to raise values still higher by spending public money on extravagant and prodigal undertakings, which in turn helped to advertise the vacant lots of the land speculators.

#### Unwise Municipal Debts

If we consult the Canada Year Book for 1918, we may see how heavily mortgaged some of these mushroom towns were, and how much of the revenue, now "difficult" to collect, must be paid away in interest upon debt, contracted for unwise and wasteful expenditure. The assessed land value, where we are able to state it, may be compared with the debt and the rate-revenue; and the relation of one to the others should be borne in mind during the rest of the story we have to tell. The return to or the adoption of the taxation of improvements is not due to economic necessity, but to the political influence of the land-jobbers and to the speculative borrowing of the municipalities themselves.

	Total Liabilities.	Assessed Land Value, 1919.	Rate-Revenue, Levied, 1919.
Vancouver ..	\$41,669,196	\$132,648,415	\$3,637,863
Regina ..	11,994,992	31,180,120	1,380,675
Calgary ..	27,613,496	52,592,549	3,310,541
Edmonton (1917)	29,455,226	—	3,188,641

#### A Saskatchewan Report.

In 1917, Dr. Robert Murray Haig submitted an official Report to the Saskatchewan Government on "Taxation in the Urban Municipalities," and the following paragraphs are illuminating:—

When taxes have been in arrears six months the realty against which the taxes are charged is advertised to be sold, the sale taking place in the fall of the year. Unless redeemed within two years from the date of sale, application for title to the realty can be made by the purchasers of the tax sale certificates. The first group of tax sales under this law was held in 1915, and the second in 1916.

In the case of no city did private purchasers appear at the sale in sufficient force to absorb even as much as one-half of the offering and the large quantities of tax sale certificates which, as a result, fell into the hands of the cities, are for the most part still held by them.

Consider the changed position of a man of limited resources who had purchased a vacant lot as a speculation. Taxes, if he took them into account at all, he thought of as a bothersome but insignificant type of fee which he had to pay to the public treasury for the privilege of speculating. Receiving no returns from the land it was necessary for him, of course, to draw upon his income from other sources to pay his taxes; but the prize for which he was playing was normally so large in comparison with this fee as to render it of slight importance. Nevertheless this speculator is placed in a peculiarly weak position by the depression, for at the same time when the prize for which he is playing diminishes in value, the fee or tax for the privilege of continuing his speculation increases in amount. Moreover, it is often more difficult for him to secure the money with which to pay his fee. These factors combine in many cases to make the proposition so unattractive that the speculator abandons it as a "bad bet." This is exactly what has happened in so many cases in the municipalities of Saskatchewan. If a speculator chooses no longer to carry his land, there is no way of compelling him to do so.

There is no legal obstacle to higher tax rates, but there is an insurmountable economic obstacle, in that such a course would in all probability result in the surrender of more land for taxes, rather than in an increase of revenue. No relief, but instead sudden and complete disaster, would probably follow any attempt to realize immediately upon the lands which are being surrendered to the municipalities for taxes. To offer them in large quantities for the amount of the charges against them means that the city itself establishes a price for realty at a small fraction of the values which it seeks to maintain on its assessment rolls as true market values.

In Regina practically all its arrears, which are substantial, have been already spent, that is, loans have been secured from the

bank in anticipation of collections, and the money paid out from the treasury. The bank, therefore, is in a position to dictate to some extent the policy of the city in regard to its uncollected taxes, and to any property the city may acquire by the tax sale process.

The Saskatoon arrears appear for the most part in the form of deferred payments to sinking and depreciation funds, although a substantial sum, secured by arrears, is due to the bank. The arrears are a staggering problem in Prince Albert, where the loan from the bank approximates \$450,000, and almost a trifling one in North Battleford, where the bank debt is only about \$40,000. Swift Current, with a note at the bank of about \$150,000, secured by arrears, has a situation more urgent than several of the other cities.

It is easily understood from these statements that "tax arrears" are part of a definite policy to maintain the assessed values of land, and set them against the liabilities and the obligations of the municipalities.

### The True Cause of Arrears

The Report of the Assessment and Taxation Commission of the Province of Manitoba, published in 1919, refers repeatedly to the harm done by the speculative enterprises of municipalities in Alberta, Saskatchewan and British Columbia. The "tax arrears" were a consequence, and they accumulated owing to the forbearance and culpable weakness of the town councils to whom money was due from taxpayers. The matter is summed up in these words:—

While by statute the collector has a right of action for recovery of unpaid taxes, he may, if he deems it advisable, levy such delinquent taxes by sale of the lands. . . . It is in the discretion of the Council to extend by by-law the time for the levy of taxes by sale of the lands to the year following that in which they are due. Thus the delinquent tax vote becomes a powerful factor making for delay, through its influence at the election of councils and the intimidation of councillors; for at the intervening council election that vote is invariably cast for candidates—not infrequently themselves tax delinquents—who favour postponing tax sales to next year, or, for that matter, to the Greek Kalends.

The subordination of municipal finance to municipal politics has in this as in other respects been productive of the most serious evils.

The inevitable outcome has been an enormous accumulation of arrears of taxes. . . . This growth of arrears has been accompanied by heavy borrowing, in order to meet current expenses of administration and to finance extravagant undertakings handed on in many cases as a legacy from the period of feverish development.

It is significant that in Vancouver, where at the end of 1918, the debt was \$41,669,196 and the tax arrears were \$5,456,453, there had been no tax sales since 1909. *The Vancouver City Council apparently took no steps to collect the arrears by proceeding as it could do against the defaulters, and obliging them if they cannot pay to surrender their land.* The land value rate was not, in fact, levied in these cases. The interests of the speculators coincided with the municipal scheme of trying to finance the city through a period of depression on the basis of real estate valuations which had no existence in fact.

### Legislation to Enforce Tax Collection

Since the Report of the Manitoba Commission was published the Provincial parliaments in Alberta, Saskatchewan and British Columbia have passed legislation requiring compulsory municipal action against defaulters, and simplifying title to land purchased as the result of tax sales.

This legislation has had a good effect. The Annual Report of the Inspector of Municipalities in British Columbia for the year ended 31st December, 1920, shows that the total arrears of taxes were \$8,248,455 as compared with \$14,631,217 at the end of the year 1918, the last mentioned being the highest point on record. In Vancouver the arrears declined from \$5,456,453 in 1918 to \$3,817,632 in 1920.

It is important to notice that in British Columbia the lands held by the municipalities, which were taken over through tax sale proceedings, increased during the year 1920 from \$3,385,871 to \$5,247,788.

The Annual Report of the Department of Municipal Affairs in Alberta, for the year 1920, states that the Tax Recovery Act of 1919 became operative on 1st July, 1920, and in nearly all of the province the sale of land under that Act was carried out. The large increase in tax collections was largely due to that Act.

### The Evidence of an Ex-Mayor

Mr. Louis D. Taylor, ex-Mayor of Vancouver, gives a description of events in South Vancouver, which further disposes of the alleged "failure of the Single Tax." Writing in the LOS ANGELES TIMES of 15th January, 1920, Mr. Taylor declares:—

South Vancouver troubles started with the collapse of the real estate boom, which reached its apex in 1914. To understand the situation, one must consider that the Municipality of South Vancouver covers 14½ square miles, and being adjacent to Vancouver City to the south, it was, from 1907 to 1914, subject to the greatest land speculation ever seen in British Columbia. Before 1907 it had a very small population. The population to-day is in the neighbourhood of 25,000, and is composed mostly of the labouring class, who own their own homes. During boom days, real estate speculators brought acreage, subdivided it into mostly 25 and 33 feet lots. In order to make these lots accessible, roads had to be built, side-walks laid, water and sewer systems constructed, trunk line streets paved, and all this at the expense of the municipality. The consequence of this unreasonable real estate boom was, when it collapsed in 1914, that thousands and thousands of lots were in the hands of speculators who had made only the first or second payment. They had purchased these lots on a basis of a city with a million population, and in 1914 found that with the declaration of war and the condition of the money market, they could not sell their property or make further payments. Thus they did not attempt to pay taxes.

Again, there were mortgage companies which had advanced money to the parties who had originally subdivided large tracts. It was difficult to push foreclosure proceedings to a successful issue on account of the Moratorium Act. Therefore, taxes were allowed to accumulate. The Canadian Pacific Railway Company holds thousands of acres in the municipality. They, together with other large interests, succeeded in persuading the Commissioner to tax improvements, thus getting their assessments reduced and the rate lowered. The appointment of a Commissioner was made without the consent of the residents of South Vancouver, who had a duly elected mayor and council. It was the result of a political play by the party in power. They saw a chance of standing well with the large mortgage and loan companies by making this move, supplemented by a promise to tax improvements and lessen the assessments on ground values. Ninety per cent. of the residents of South Vancouver immediately formed themselves into a protective association, and went on record as opposed to the taxation of improvements.

Every municipality in British Columbia, together with the Provincial Government, had a falling off of its revenue from 1913 to 1918. Not every municipality exempted improvements. Those that taxed improvements were hit as hard as those that did not. Upon the signing of the Armistice in 1918 the affairs of all cities and municipalities in British Columbia began to mend, and in another year will have become normal.

The South Vancouver Protective Association, composed of residents who own their own houses, are almost to a unit in favour of the exemption of improvements from taxation, realizing, as they do, that they are now paying the piper, for the benefit of non-resident vacant lot owners, all of whom initiated the various extravagant improvements during boom days, all of whom could vote on money by-laws, and who planned the campaign in much the same manner as do political parties, having headquarters in Vancouver, with committees to see that every owner of a lot in South Vancouver was taken to the polls. It was the vote of these outsiders that legalized the money by-laws for improvement, that should not have been undertaken for years the consequence being, that when they could not dispose of their holdings, they began to campaign to place the burden of taxation on the residents of the district. Large mortgage companies loaded up with these agreements of sale, and the large holding companies devised the scheme of not paying their taxes, and thus force the municipal government to seek aid from the outside. As soon as the Commissioner began to tax improvements, these corporations began to pay up their arrears, and money began to come into the municipal coffers.

### Land Value Taxation Justified

We content ourselves with one more quotation. Lieut.-Colonel William Grassie, in a special article on the "Real Estate Situation," contributed to the MANCHESTER GUARDIAN, Canada Number, 15th June, 1920, says:—

A great wave of real estate speculation set in about 1910, which continued without interruption till the summer of 1913



when the apex was reached. . . . Even if the war had not intervened the day of financial reckoning could not have been postponed. The war merely precipitated matters and confronted Canada with realities. . . . In the spring of 1917 it was generally admitted that the zero mark had been reached, and since that date there has been steady improvement, until to-day property revenues are nearly back to their pre-war level. Holders of vacant city and town property were in an even worse position than owners of revenue-bearing properties. Taxes were high and had to be paid, and many owners of such property were forced to sacrifice their holdings. As late as the spring of 1919 one could buy for cash choice sites for as low as from one-fifth to one-tenth of the price paid in 1913. But now, surveying the situation in 1920, few can deny that the process of liquidation has not been beneficial, and that in the real estate situation there is now an inherent soundness which was hitherto absent.

The Taxation of Land Values, *where it was enforced*, effected its purpose. The speculation in land was checked, penalized and disrupted. Some municipalities did not courageously deal with those owners of vacant lots who defaulted, but they did apply the law in some degree, and with sufficient weight to make the holding of idle land a profitless business—and "few can deny that the process of liquidation has not been beneficial."

## A BRIEF REVIEW OF LAW AND PRACTICE

### HOW LOCAL TAXATION IS LEVIED

**Manitoba.** In the rural municipalities for the past twenty years or more, revenue for local purposes is derived from taxation on the value of land; improvements are exempt.

In the cities, towns and villages, land is taxed at its full market value whether it is used or not; improvements are taxed at two-thirds of their actual value; a small part of the revenues is derived from certain personal property, poll and business taxes.

In Winnipeg, the cost of the new water supply, approximately £3,350,000, is being met by a special municipal tax of 0.42 per cent (equivalent to 1d. in the £) of the selling value of the land apart from improvements.

The Provincial Government levies an annual tax of 2 per cent (say, 4½d. in the £) of the selling value of vacant lands held in large areas and capable of cultivation.

**Alberta.** Rural municipalities, now called "municipal districts," have power to levy local taxation either on land value or on an acreage basis; in 80 of these municipalities, land value is the basis; acreage is the basis in 88.

In the towns and villages, the councils have a wide option in the taxation of buildings and improvements, which may be assessed up to full value or be exempted entirely. Land must be assessed always at full value, and the tax-revenue is derived for the most part from that source. Taxes on improvements, business and personal property are occasional and small in amount.

There are six cities in the Province. In the cities, land must be taxed at full value; buildings and improvements may be taxed at any percentage of their value up to 60 per cent, but at not more than that. In the capital, Edmonton, the tax-revenue in 1921 was \$4,179,211. Of this, the sum of \$2,908,534, or 69½ per cent, was derived from the taxation of land value alone. In the six cities, including Edmonton, the total tax-revenue in 1920 was \$9,025,103, and of that sum, \$5,913,691 (being 64 per cent) was levied on land value.

The Provincial Government levies an annual tax of 1 per cent (say, 2½d. in the £) of the selling value on vacant lands held in large areas and capable of cultivation. There is also a tax of 5 per cent of the increment in the value of land (apart from improvements) when the land changes hands.

**Saskatchewan.** In the cities and towns, land, apart from improvements, is assessed at full market value. In any year the assessment of improvements may be increased above, or reduced below, the assessment of the previous year, but not by a greater amount than 15 per cent of

the actual value; the assessment of improvements for taxation may not exceed in any case 60 per cent of actual value.

In the villages, councils are required to assess land at its full market value and improvements at 60 per cent of their value.

In the rural municipalities, taxes are assessed on land value only, except that buildings erected on a parcel of land not strictly agricultural in its nature or use, must be assessed and taxed, but at not more than 60 per cent of actual value.

In addition to these taxes there are business and income taxes in the cities and towns; income (or business or stock-in-trade) and personal property taxes in the villages, and stock-in-trade taxes in "hamlets" within rural municipalities. These additional taxes are small in amount.

In Saskatchewan, as in Manitoba and Alberta, by far the greater part of the tax-revenue is derived from taxes on land value. In 1921, improvements in the seven cities were assessed at the following percentage of actual value: Regina, 30 per cent; Saskatoon, 35 per cent; Moose Jaw, 45 per cent; North Battleford, 45 per cent; Swift Current, 60 per cent; Weyburn, 30 per cent; Prince Albert, 45 per cent. Land is taxed at full market value in each case, whether it is used or not.

The Provincial Government levies an annual tax of 1 per cent (say, 2½d. in the £) of the selling value on vacant lands held in large areas and capable of cultivation.

**British Columbia.** The local governing areas are either "city municipalities" or "district municipalities." There are 33 of the former and 28 of the latter. None are permitted to assess improvements at more than 50 per cent of their value and all tax land apart from improvements at full market value. Improvements may be assessed at less than 50 per cent or exempted entirely.

The Report of the Inspector of Municipalities for the year ended 31st December, 1920, shows that 27 municipalities (including Victoria, the capital of the Province) exempted improvements entirely and taxed land value only; improvements were assessed (at 50 per cent of value) in two municipalities for school purposes only, in one municipality within the fire area only, and in another only if the improvements on the land exceeded \$8,000 in value; in six municipalities improvements were taxed at from 10 to 33½ per cent of value, and in 24 (including Vancouver) at 50 per cent of value.

In Vancouver in 1920, the total amount of taxes levied was \$5,813,543, to which the taxes on land value contributed \$4,218,137. Thus, despite the reversion to taxation on improvements, land value taxation in Vancouver still provides more than 72 per cent of the total tax-revenue.

The Provincial Government levies an annual tax named the Wild Land Tax, outside the boundaries of municipalities, at the rate of 5 per cent of the assessed selling value of land which has not improvements on it amounting to \$2.50 per acre if west of the Cascade Mountains and \$1.25 if east of the Cascades. There is also a Provincial tax of 1 per cent of selling value of land and improvements, with an exemption of improvements up to \$1,500 made on farm land.

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The Single-Taxer is abroad and "en evidence" to-day more virile than ever. His cause is good, and he will ultimately prevail, though it may be many years yet before the whole country is converted to it. This is the taxation of land values apart from buildings and improvements. Its apostles hold that the land ought to be treated as common property, and that those who hold the land should pay a rent for it to the community by means of national local taxation levied on the value of the land.—*AYRSHIRE POST*, 30th June.