

TORONTO STAR

A provincial property tax hike is an elegant solution to a messy housing affordability problem

By Brad Neilson / 5 April, 2021

Political economist, Henry George, observed in 1800s San Francisco and New York City that despite technological advances and increasing prosperity of cities, the working class was actually worse off in the booming cities than it was in smaller rural areas.

He noted that landowners passively capture a sizable portion of the additional wealth generated in society through increased land values and rents, while the productive activities of businesses and workers, who created this wealth, are taxed. He explored these relationships in his seminal work "Progress and Poverty" and proposed a tax on the "raw" or undeveloped land value as a way to promote more efficient land use, curb passive land speculation and fund social services.

We have seen this same theme unfold in the GTA over the past 10 years. The TRREB MLS Home Price Index has appreciated from \$400,000 in 2011 to over \$900,000 in 2020, equivalent to 9 per cent annual compounded growth.

In 2018, the median after-tax household income in Ontario was \$62,000, so this appreciation effectively doubles the income of GTA homeowners families. Those who are not so fortunate to own property would have seen their rent increase by 1.9 per cent per year, according to the Ontario rent increase guideline; if you move to a new residence, you could be subject to an even bigger jump in housing cost.

Both renters and homeowners have contributed to the economic and cultural vibrancy of our province's cities, but a disproportionate amount of the benefits have accrued to landowners. Rising home prices have been supported by decades of policies encouraging and rewarding home ownership; however, we know that universal home ownership is not feasible due to various financial reasons or life circumstances. And as prices grow out of reach for entry buyers, the pillar of home ownership is becoming a widening wedge in the income and wealth inequality debate occurring at all levels of government.

A simple measure to begin to address this inequality is to increase annual property tax rates at the provincial level. Since tax increases are invariably unpalatable, it could be offset by a universal housing credit to Ontario residents, similar to the carbon tax credit. This helps to address housing affordability by discouraging land speculation and providing support for the cost of shelter for residents. Moreover, a property tax that places a higher rate on the land versus the building would encourage more efficient land use and densification, which aligns well with climate goals.

Many proposals for general wealth taxes have potential issues such as aggressive tax planning and avoidance, capital flight and the difficulty of accurately measuring wealth. Land, being notoriously difficult to move or hide, does not suffer from these issues when used as a base for taxation.

The Municipal Property Assessment Corporation already provides accepted valuations on real estate in Ontario.

Toronto's city tax rate for 2020 was 0.45 per cent plus 0.15 per cent of provincial tax for education. In 2011, the city rate was 0.56 per cent with 0.23 per cent of provincial tax for education. So as home prices have doubled, the city and province have taken measures to ensure those that benefited the most from that appreciation would pay less tax as a per cent of their assets.

This drive to keep property taxes low is also contributing to underinvestment in the services that made our cities desirable in the first place, such as public transit, road maintenance and social housing. Similar to large initiation fees at private golf clubs, policies like the land transfer tax and high development fees are entry barriers supported by existing homeowners to overcome this revenue shortfall.

At a time when home prices are spiralling upwards, wealth and income inequality are growing, urban sprawl continues unabated and Ontario has the largest subsovereign debt in the world, it would seem that we should consider such an elegant tool as the property tax.