

MUNICIPAL TAXATION

IN

MANITOBA.

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partial fulfilment of the requirements
of the University of Manitoba for the
Master of Arts degree.

April 13th, 1927.

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MUNICIPAL TAXATION IN MANITOBA.

INTRODUCTION.

Within the past decade the increasing financial difficulties of municipal governments in Manitoba, as evidenced by the high rate of taxation, the rapid accumulation of tax arrears, and the threatened bankruptcy of certain municipalities, have attracted considerable attention from students of public finance, municipal officials and, in particular, the real property taxpayer. This has led to the appointment of several commissions for the purpose of investigating problems of municipal finance in this province. The reports of these investigators emphasize the narrow and inequitable basis of the existing system of municipal taxation and recommend a broadening of that basis as well as various plans for the equalization of the burden of taxation. The collapse of real property values in 1913, following the period of inflation, together with the phenomenal increase in the expensiveness of municipal services has shown some of the defects of a fiscal system, whereby the greater part of the revenue for both beneficial and onerous services is derived from a tax levied on the assessed capital value of real property. The rapid increase in the rate of taxation has been due, in part, to the lowering of the assessment of real property since 1913, in part, to the increase in price of services and of commodities other than land since the commencement of the Great War, and, in part, to the demands and needs of an increasing population.

A brief description of the form of municipal government existing in Manitoba seems essential to a clear understanding of the problems of local taxation. Municipalities are bodies incorporated in accordance with laws passed by the provincial legislature. The governing body consists of a council presided over by a mayor or reeve. The municipal government is held responsible for the performance of all the functions of local government as well as many which are of provincial and even national interest. To meet the expenses incurred the council is empowered to levy certain direct taxes. It is with this sovereign power of taxation that we shall be chiefly concerned.

The Municipal Act provides for the incorporation of four classes of municipalities, as follows:

(1) Cities- localities having over ten thousand inhabitants, occupying an area not exceeding three square miles with an increase of one hundred and sixty acres for every additional one thousand inhabitants.

(2) Towns- localities having over fifteen hundred inhabitants, occupying an area not exceeding six hundred and forty acres unless the population is over two thousand when the area may be increased one hundred and sixty acres for every additional one thousand inhabitants.

(3) Villages- localities having a population over five hundred but not extending over an area greater than six hundred and forty acres unless the population exceeds two

(3)

thousand when the area may be increased one hundred and sixty acres for every additional one thousand inhabitants.

(4) Rural Municipalities- comprising organized rural districts and including unincorporated villages. The Suburban Municipalities in the neighbourhood of the City of Winnipeg are rural municipalities having a relatively dense population.

But, as most districts, incorporated as towns or villages before the passing of the Act, have retained their original charters their populations are, in many cases, much below the above requirements. Winnipeg and some other municipalities operate under special charters.

It is to be expected that the above classes of municipalities, differing as they do in respect to density of population, commercial activities and taxable resources, will present distinct problems of taxation. Even within the same class economic conditions vary greatly, cf., the rural municipalities of Macdonald and Hillsburg. Accordingly, the expenditures and sources of revenue of cities, towns, villages and rural municipalities will be considered separately and the tax impositions of each class noted and compared. Taxes nominally the same become different in kind when levied in different localities, e. g.,-the real property tax is in cities and towns a special property tax but in rural districts it is more of the nature of a general property tax.

MUNICIPAL EXPENDITURE.

A consideration of municipal expenditure is a necessary preliminary to an investigation of local taxation since taxes are imposed to meet the obligations resulting from expenditure.

On the basis of benefit conferred upon the municipal taxpayer, expenditures for the great variety of services, for which the municipality is held responsible, may conveniently be divided into two classes, namely: beneficial and onerous. The former are expenditures for distinctly local services, such as fire protection, provision and maintenance of streets and other highways, municipally owned public services, etc., which benefit the property owners and local merchants, in particular. The latter are for the more general services, such as, general government, education, health and sanitation, protection of persons, charities, recreations, etc., which benefit the inhabitants of the district in general and are of provincial or even national interest.

"Between the two classes, it is true, no rigid line of division can be drawn. Nearly all municipal services are, in varying degree, of both local and national interest. But, bearing in mind this qualification, the distinction is both valid in theory and practically important." ¹

¹ "The Real Property Tax". Professor A. B. Clark, M. A.

An idea of the relative importance of these two classes of expenditures in the municipalities of Manitoba, may be gained by a consideration of the following statistical tables of the actual expenditures of two urban municipalities and of two rural municipalities for the year 1925.

Expenditures of the City of Winnipeg for the Year 1925 on:

General Government.....	\$ 331,873.96	3.86%
Protection of Persons.....	\$ 549,065.36	6.39%
Health and Sanitation.....	\$ 866,348.52	10.08%
Charities.....	\$ 677,576.31	7.88%
Education.....	\$3,001,986.64	34.93%
Recreations.....	\$ 253,588.57	2.95%
Municipal Commissioner's Levy..	\$ 579,989.28	6.73%
Protection of Property.....	\$1,026,584.41	11.83%
Highways and Bridges.....	\$ 561,062.75	6.54%
Undistributed Fixed Charges....	\$ 345,938.08	4.02%
Unclassified.....	\$ 403,922.31	4.69%
Total Expenditure.....	<u>\$8,597,927.19</u>	<u>100.00%</u>

Expenditures of the City of Portage la Prairie for the
Year 1925, on:

General Government.....	\$ 14,688.37	7.28%
Protection of Persons.....	\$ 7,476.76	3.70%
Health and Sanitation.....	\$ 6,944.92	3.44%
Charities.....	\$ 9,199.90	4.56%

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Education.....	\$ 79,017.70	39.17%
Recreations.....	\$ 218.90	.11%
Municipal Commissioner's Levy.	\$ 11,421.00	5.66%
Protection of Property.....	\$ 33,231.21	16.49%
Highways and Bridges.....	\$ 12,915.61	6.40%
Undistributed Fixed Charges...	\$ 25,131.57	12.45%
Unclassified.....	<u>\$ 1,492.33</u>	<u>.74%</u>
Total Expenditure.....	<u>\$201,737.27</u>	<u>100.00%</u>

Expenditures of the Rural Municipality of Portage la Prairie for the Year 1925, on:

General Government.....	\$ 18,406.13	6.94%
Protection of Persons.....	\$ 145.00	.05%
Health and Sanitation.....	\$ 539.00	.20%
Charities.....	\$ 12,400.00	4.69%
Education.....	\$ 69,472.76	26.18%
Recreations.....	\$ 655.60	.25%
Municipal Commissioner's Levy.	\$ 38,527.37	14.51%
Protection of Property.....	\$ 2,004.31	.75%
Highways, Bridges, Drainage...	\$ 95,492.36	35.98%
Undistributed Fixed Charges...	\$ 19,534.70	7.36%
Unclassified.....	<u>\$ 8,237.62</u>	<u>3.15%</u>
Total Expenditure.....	<u>\$265,254.85</u>	<u>100.00%</u>

Expenditures of the Rural Municipality of Victoria
for the Year 1925, on:

General Government.....	\$ 2,199.49	4.39%
Protection of Persons.....	\$ 140.00	.28%
Health and Sanitation.....	\$ 100.00	.20%
Charities.....	\$ 756.90	1.51%
Education.....	\$ 24,762.67	49.49%
Municipal Commissioner's Levy.	\$ 7,551.22	15.10%
Protection of Property.....	\$ 362.00	.72%
Highways and Bridges.....	\$ 13,490.30	26.96%
Undistributed Fixed Charges...	\$ 39.20	.08%
Unclassified.....	\$ 639.85	1.27%
Total Expenditure.....	<u>\$ 50,042.25</u>	<u>100.00%</u>

The above tables have been compiled from the annual financial statements of the respective municipalities.

In the City of Winnipeg, representative of a large urban municipality, the expenditures on general services exceed seventy per cent. of the total expenditure; in the City of Portage la Prairie, a smaller urban municipality, they exceed sixty per cent.; and in the Rural Municipalities of Portage la Prairie and Victoria they exceed fifty-five and seventy per cent. respectively. The expenditure of the Rural Municipality of Portage la Prairie on highways and bridges is exceptionally high due to the presence within

its boundaries of many miles of provincial highways. It seems reasonable, therefore, to conclude that, in both urban and rural municipalities by far the greater part of municipal funds are expended for the common benefit.

An analysis of the following summary of taxes imposed in all the municipalities of the Province of Manitoba strengthens the above conclusion:

Tax Imposition for the Year 1925.

Municipal Purposes.....	\$ 5,791,612.19	31.69%
School Purposes.....	\$ 7,510,255.39	41.12%
Debenture Purposes.....	\$ 1,990,983.45	10.89%
Municipal Commissioner Purposes..	\$ 1,768,912.92	9.72%
Miscellaneous Purposes.....	\$ 1,204,008.82	6.58%
Total Tax Imposed All Purposes..	<u>\$18,265,772.77</u>	<u>100.00%</u>

The taxes for school purposes and provincial purposes, alone, exceed fifty per cent. of the total tax imposed. And, of the levies for municipal and debenture purposes, a considerable portion is expended upon the onerous services of general government, police protection, etc.

The greater part of the Municipal Commissioner's Levy goes to supplement other sources of provincial revenue and is a distinct burden upon the municipal taxpayer. In 1926 the total levy was \$1,772,547.14 and of this \$1,334,214 or approximately 75% was devoted to supplementary revenue purposes. It is to be hoped that this levy is only a temporary

expedient of the legislature to balance its budget. There is reason to believe that this tax may be abolished. The 1927 levy has been reduced to \$ 833,315.90 or 37.5%.

SOURCES OF MUNICIPAL REVENUE.

The main sources of revenue available to municipal councils in Manitoba are the real property tax, the personal property tax, the business tax, the special franchise tax, and the poll tax; and, in rural municipalities, the statute labor tax. Other sources of revenue are licenses and fees, fines, profits of municipally owned public services, and, since 1925, fifty per cent. of the profits of the Liquor Control Commission. Sources of revenue other than taxation provide only a very small percentage of the receipts of all types of municipalities.

Receipts of the Cities of Manitoba for the Year 1922, from:

Taxation.....	\$19,530,902.86	94.322%
Interest on Taxes.....	\$ 95, 620.35	.947%
Licenses and Fees.....	\$ 371,526.05	3.678%
Profits of Municipal Services..	\$ 3,504.07	.035%
Sinking Funds.....	\$ 20,000.00	.199%
Fines and Forfeits.....	\$ 83,066.15	.829%
Total Receipts..;	<u>\$10,326,918.98</u>	<u>100.00%</u>

Receipts of Towns and Villages of Manitoba of 1,000
to 5,000 Population for the Year, 1922, from :

Taxation.....	\$ 564,524.74	82.73%
Interest on Taxes.....	\$ 63,596.16	9.31%
Licenses and Fees.....	\$ 7,990.62	1.17%
Fines and Forfeits.....	\$ 3,174.50	.47%
Sinking Funds.....	\$ 5,963.63	.87%
Miscellaneous.....	\$ 37,209.19	5.45%
Total Receipts.....	\$ 682,458.84	100.00%

Licenses, Fees.

A fee may be defined as "a semicompulsory levy for some benefit, undertaken primarily for ^{the} public good, which also confers some benefit on the individual who makes the payment." ¹ There are two outstanding differences between taxes and fees. A tax is a compulsory levy, while a fee is only compulsory if advantage be taken of the benefit conferred on the fee-payer. Again, taxes are levied without reference to individual benefit, whereas fees are exacted only from those who derive some special benefit or privilege. Many municipal license taxes are simply fees, and may be justified on the benefit basis.

In Manitoba license fees have been levied primarily for purposes of police regulation and the protection of the economic, physical and moral welfare of the public,

¹ "Outlines of Public Finance" - Hunter.

rather than for the production of revenue. Only in urban municipalities have they yielded an appreciable portion of municipal revenue. In cities the yield has never exceeded four per cent of the net receipts, in the larger towns and villages it has been approximately one per cent., while in rural municipalities this source of revenue has been negligible. A consideration of the powers conferred upon municipal councils by the Municipal Act,- whereby they are authorized to regulate the licensing of any trade, calling, business, or profession, or the person engaged in the same in the municipality and to fix the sum to be paid for such license,- indicates the revenue possibilities, in urban municipalities, of a system of licenses.

Fines, Forfeits, Penalties.

Fines and penalties are imposed not for the additions which they make to the revenue but for the influence which they exert against the violation of the law. They are imposed upon those who have been found guilty of the infraction of some municipal by-law. The receipts from this source, though frequently defraying a considerable portion of the cost of the administration of justice, have been so variable and so small that they have received little attention in municipal finance. In the cities of Manitoba they formed only .83%, and in the larger towns and villages only .47% of the net receipts for the year 1922.

Profits of Municipal Ownership.

The aim of municipal ownership has been to supply services at a low price rather than to provide contributions to the general funds. In the year 1922, the municipally owned public services showed a small surplus in the cities and a corresponding deficit in the towns and villages. As a source of general revenue municipal ownership has been of little importance. But it must not be assumed, however, that municipal ownership has been a failure. The services rendered may amply compensate for any deficit.

Profits of Liquor Control Commission.

Since 1925 fifty per cent. of the net profits of the Manitoba Liquor Control Commission have formed an additional source of municipal revenue. In that year \$ 461,522.64 was distributed among the municipalities of the province, thereby reducing the tax rate approximately seven-tenth mills on the dollar of equalized assessment. In the City of Winnipeg the receipts from this source were approximately two per cent. of the total receipts for 1925.

Municipal Taxation.

All other sources of municipal revenue are insignificant when compared with the yields of taxation. In urban municipalities, the receipts from tax levies, including interest and

penalties on tax arrears, exceed ninety-five per cent. of the net revenue. In rural municipalities, receipts from other sources form only a small fraction of one per cent. of the total.

The importance of taxation in the fiscal systems of all types of municipalities justifies a consideration of the various classes of taxes which the municipality is empowered to levy. The Federal Government has excluded the provinces from the right to levy any type of indirect tax, such as the excise tax and the customs tax, and has at the same time reserved the right to raise funds by any form of direct taxation. Within recent years the Dominion Government has collected considerable sums, annually, from direct taxes such as, corporation taxes, sales tax, excess profits tax, and the income tax, and has thereby reduced the taxation resources of the provinces. The receipts of the Provincial Legislature from the Dominion Subsidy, amusements tax, corporation taxes, gasoline tax, motor vehicle licenses, and succession duty taxes, have proved inadequate to the needs of the local government. Consequently, just as the Federal Government has encroached upon the field of provincial so has the Province of Manitoba, under financial pressure, encroached upon the field of taxation suitable to municipalities, e.g. the supplementary revenue tax, - (a real property tax, collected by the municipalities), and the unoccupied

lands tax. The municipalities are restricted to licenses and direct taxes levied on persons, corporations, businesses, callings, or professions, and real and personal property, for local purposes. The taxes levied by municipalities are the poll tax, the statute labor tax, the special franchise tax, the business tax, the personal property tax, and the real property tax.

PRINCIPLES OF LOCAL TAXATION.

A review of the canons of taxation, particularly those expounded by Adam Smith, is a necessary preliminary to a description or criticism of any system of taxation, whether national, provincial or municipal. These four canons have been used as the authority for so many basés of taxation that it seems advisable to quote them at length.

(1) Canon of Equality.

"The subjects of every state ought to contribute toward the support of the government, as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. The expense of management to the individuals of a great nation is like the expense of management to the joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate. In observation or neglect of this consists what is the equality of inequality of taxation."

The emphasis of parts of this canon to the exclusion of the remainder of the context has led to the formulation of several bases of so-called equitable taxation, namely; the sovereignty basis, the equality of sacrifice basis, the faculty basis, the benefit basis, the social function

theory, and the principle of formal justice. It will be necessary to consider local taxation with respect to the benefit basis and the faculty basis, and in the case of licenses the social function theory.

According to the benefit theory the taxes are considered as payments for services rendered by the state to the tax-payer. As a general principle this basis is unsound as those who receive the greatest benefit from expenditure on general services are least able to contribute to the support of the state; but, in municipal taxation, it is important in the cases in which special benefits from expenditure on local services accrue to the individual real property owner. It is only with respect to taxation for these beneficial services that there exists any relation between the amount of property held and the benefit received.

The faculty basis is usually the most satisfactory and equitable basis of taxation for general services. Tax-payers are not expected to contribute in proportion to the benefit conferred, but in accordance with their ability or earning capacity. This suggests a tax on net income or net profits of business as a more equitable form of taxation than a tax on either capital value or gross earnings.

In the case of **licenses** a heavy tax is often imposed not primarily for the purpose of raising revenue but to control and regulate certain businesses, industries or professions.

(2) Canon of Certainty.

" The tax which each individual ought to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. Where it is otherwise every person subject to the tax is put more or less in the power of the tax gatherer, who can either aggravate the tax upon any obnoxious contributor, or extort, by the terror of such aggravation, some present or perquisite to himself. The uncertainty of taxation encourages the insolence and favors the corruption of an order of men who are naturally unpopular, even where they are neither insolent nor corrupt. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance, that a very considerable degree of inequality, it appears, I believe, from the experience of all nations, is not nearly so great an evil as a very small degree of uncertainty."

(3) Canon of Convenience.

" Every tax ought to be levied at the time, or in the manner in which it is most likely to be convenient for the contributor to pay it. A tax upon the rent of land or of houses, payable at the same time at which such rents are usually paid, is levied at the time when it is most likely to be convenient for the contributor to pay, or when he is most likely to have wherewithal to pay. Taxes upon such consumable goods as are articles of luxury are all finally paid by the consumer, and generally in a manner that is very convenient for him. He pays them by little and little as he has occasion to buy the goods. As he is at liberty, too, either to buy or not to buy, as he pleases, it must be his own fault if he ever suffers any considerable inconvenience from such taxes. "

(4) Canon of Economy.

" Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state. A tax may either take out or keep out of the pockets of the people a great deal more than it brings into the public treasury, in the four following ways: First, the levying of it may require a great number of officers whose salaries may eat up the greater part of the produce of the tax, and whose prerequisites may impose another additional tax upon the people. Secondly, it may obstruct the industry of the people, and discourage them from apply-

ing a certain branch of business which might give maintenance and employment to great multitudes. While it obliges the people to pay, it may thus diminish, or perhaps destroy some of the funds which might enable them more easily to do so. Thirdly, by the forfeitures and other penalties which those unfortunate individuals incur who attempt unsuccessfully to evade the tax, it may frequently ruin them and thereby put an end to the benefit which the community might have received from the employment of their capitals Fourthly, by subjecting the people to the frequent visits and the odious examinations of the tax gatherers, it may expose them to much unnecessary trouble, vexation, and oppression; and though vexation is not, strictly speaking expense, it is certainly equivalent to the expense at which every man would be willing to redeem himself from it. It is in some one or the other of these four different ways that taxes are frequently so much more burdensome to the people, than they are beneficial to the sovereign."

"Finally, the most generally observed of all the canons of taxation is that if a tax can be evaded it ought to be evaded." - (Professor A.B.Clark.)

The chief methods of escape from taxation may be classified as follows :- shifting, capitalization, transformation, and evasion.

The shifting of a tax is the process by which the taxpayer escapes the burden of a tax by transferring it either forward or backward to some other person. To determine the ultimate incidence of municipal taxes is one of the most difficult problems in local taxation and is of the greatest importance not only in theory but in practice. The tendency for a tax to be shifted makes an income tax under the control of officials unsuitable as a source of municipal revenue. Inequalities in tax rates

and tax burdens would tend to cause capital to migrate to the more favourable municipalities with the result that the tax would be shifted in varying degree in the less favoured districts.

Capitalization is the process by which all future taxes are discounted through a reduction in capital value. The depreciation of capital value provides a fund on which the annual interest equals the amount of the tax, thus the purchaser after the imposition of the tax escapes the burden. A consideration of the possibilities of capitalization is important with respect to the real property tax.

Taxation sometimes acts as an incentive to more economical production with the result that increased profits equal or exceed the amount of the tax imposed. This method of escape may be called transformation. It is of little importance in local taxation.

Perhaps the most common method of escape from taxation is evasion. Evasion is of two kinds, legitimate and illegitimate. In legitimate evasion the taxpayer escapes the tax by refraining from consumption. This form of evasion is more important in federal than in municipal fiscal systems as municipalities are not empowered to levy indirect taxes. Owing to the lack of administrative machinery in the local unit of government the possibilities

of illegitimate evasion are many, consequently such taxes as the personal property tax and the income tax locally assessed and collected are unsuitable as forms of municipal taxation. An income tax levied for the purpose of meeting expenditures on general services should be administered by a provincial authority such as the Manitoba Tax Commission.

Nicholson enumerates the following subordinate principles of taxation :

(1) "A given amount of revenue is as a rule more conveniently raised from a small number of very productive taxes than from a larger number with smaller returns per unit." On this ground the poll tax should be abolished.

(2) "A good system of taxation ought to provide for a self-acting increase in the revenue in proportion as wealth and population and the consequent demands of governmental expenditure increase." Thus a tax on assessed capital value of land is less advantageous than one levied on the annual rental value. A municipal income tax would meet this requirement.

(3) "Those taxes are best which yield a steady calculable return."

(4) "Those taxes are to be preferred which in case of need can be most conveniently increased in amount without involving new machinery or increased expenditure in collection" e.g. the real property tax and a municipal income tax.

Some attempt will be made to discuss each tax in operation in the municipalities of Manitoba with respect to the foregoing canons and principles.

MUNICIPAL TAXES.

The Poll Tax.

The poll tax is a survival from mediaeval economy and is of little importance in modern municipal finance. In Manitoba it is a fixed tax of four dollars, which may be levied instead of statute labor on every male resident of a city, town, village, or rural municipality, who is not qualified to be placed upon the voters list as an owner, owner's son, or tenant, or who has not paid a license of not less than twenty-five dollars to the municipality in which he has been charged said tax. The tax is collected at the discretion of the Council.

Only a few municipalities attempt to collect the tax and in these the yield is small. In 1922, Brandon was the only one of the four cities of the province to levy this tax and the sum realized was less than two thousand dollars out of a total revenue from taxation of approximately five hundred thousand dollars, i.e., less than four-tenths of one per cent. In six out of ten of the larger towns, having a tax revenue of nearly three hundred thousand dollars

approximately three thousand dollars was collected, i.e. approximately one-tenth of one per cent. In rural municipalities the yield is even smaller.

Objections to the principles of the tax have led to recommendations for its abolition. It has been approved by some on the ground that it compels everyone to make some contribution towards municipal revenue but a tax of fixed amount may bear no relation either to the benefit received by the taxpayer or to his ability to pay. Again, it is an unproductive tax; in most cases the cost of collection is relatively high and the net yield does not compensate for unnecessary vexation.

The tax cannot be shifted, except in the case of the laborer receiving a subsistence wage. In Manitoba, the tax being relatively small it is improbable that it is ever shifted.

The Statute Labor Tax.

The statute labor tax still exists in many rural municipalities though it is fast disappearing. Every person assessed upon the assessment roll of a rural or village municipality not exempt from taxation, shall be liable to statute labor according to the amount of such assessment, as follows, for each property - if assessed for a sum not exceeding two hundred dollars, one day's statute labor; and one day for every additional five

hundred dollars or fraction thereof. The council may reduce the number of day's labor or may dispense with statute labor in the municipality and may levy, in lieu thereof, a general tax not exceeding eight mills on the dollar of the last revised assessment of the municipality for expenditures on road improvements; or, the council may by-law provide, instead of statute labor, a money tax not exceeding two dollars for every day on statute labor otherwise enforceable. Statute labor shall, if required by the party obliged to perform it, be commuted at the rate of two dollars for each day's labor. Thus, the statute labor tax is a tax levied on the assessed value of real property payable in personal services instead of in money.

Although the statute labor tax has been defended on the ground that it lowers the general rate of taxation and on the benefit basis, since it is expended upon purely local services which directly benefit the real property owner, there are, however, important objections to the principles of the tax and its abolition in the near future seems certain. This tax is a survival from primitive economy, in which the compulsory contributions to the state were largely personal services, e.g. the early "trinoda necessitas", viz., military service, and the up-keep of forts and of bridges, consequently it is ill-adapted to a system of money economy. Again, it is both uneconomical from the standpoint of the

municipality and inconvenient to the taxpayer. It is an additional tax levied on the same base as the real property tax and might more conveniently and economically be included in the municipal levy.

The Special Franchise Tax.

The municipal council may by by-laws grant franchises, rights or privileges to any company or corporation, for the operation of street railways, or for the supplying of light heat, water or power, for any term or period not exceeding thirty years. A council may grant exclusive privileges in any ferry vested in the municipality, other than any ferry operating along any international or provincial boundary.

The income derived from the taxation of special franchises has been greatly restricted owing to the extension of municipal ownership of public industries and utilities and to the consequent limitation in the development of large privately owned corporations. The City of Winnipeg, however, receives considerable revenue from the tax paid by the Winnipeg Electric Company. In 1925, the tax amounted to approximately one hundred and fifty four thousand dollars or two per cent. of the total tax imposition, and equalled nearly one-third of the total business taxes paid in that year. In the period of fifteen years from 1901 to 1925 inclusive the company has contributed two million three hundred thousand dollars to the city treasury. A tax of twenty

dollars per car is levied on each car used by the company in addition to a tax of five per cent. of gross earnings. Since municipally owned utilities, in most cases, exclude privately owned companies, the price charged for the use of or product of such utility should be such as will cover its proportion of municipal taxation.

The greater part of the tax paid by the Winnipeg Electric Company is the tax on gross earnings, only four per cent. being a tax on the number of cars. The chief theoretical objection to a tax on gross earnings is that, in general, such receipts do not represent earning capacity or ability to pay. But usually the special franchise charters issued by municipal councils specify that regulations as to rates and services are to be under the control of public service commissions who are expected to secure justice between the utility and the public. Such a tax on gross earnings for municipal purposes is a relatively equitable tax since the benefit derived from expenditures on beneficial services is roughly proportional to the extent of business transacted and ability to pay may be roughly measured by these earnings. The tax is borne by the corporation of the returns on net earnings are below the average return for that class of investment, but usually the rates are regulated to include taxation as an item of expense and consequently the incidence is upon the consumer.

There are many practical advantages in the use of gross earnings as a base of taxation. Gross earnings can easily be determined so that the tax is certain and cannot be easily evaded. Expenses of assessment and collection are a minimum so that it is an economical system. Though the tax fluctuates with the fund out of which it is to be paid the yield is relatively stable and calculable in advance.

The Personal Property Tax.

Personal property is assessed at its actual cash value and is taxed on this assessment at the same rate as real property. In assessing stock-in-trade the assessor may assess a person, firm or corporation doing business for the amount of the average stock-in-trade kept on hand during the twelve months immediately prior to the time of assessment. Personal property includes all goods and chattels and all plant and machinery of any nature or kind whatever and also buildings when the same are not affixed to the property of some person having an interest greater than that of a mere occupant in the land on which the same are situated.

All personal property, i.e. all goods and chattels, and shares or stocks of incorporated companies, is liable to municipal taxation subject to the following ~~exceptions~~ exemptions:

- (1) all agricultural stock and produce;
- (2) all live stock and farming implements and machinery used by farmers in the ordinary occupation of farming;
- (3) household effects and furniture, books and wearing apparel of any kind whatever, in use by the person assessed or his family.

The personal property tax is gradually being replaced, in the urban municipalities of Manitoba, by the business tax. The City of Winnipeg does not levy any tax on personal property and in the three remaining cities of the province the personal property assessment was, in 1925, only one per cent. of the total assessment. Nine of the towns of the province have entirely abandoned taxation of personal property; nine levy both a tax on personal property and a business tax, and twelve a tax on personal property only. The personal property assessment in those towns levying this tax is approximately fourteen per cent. of the total assessment. In the villages levying the tax the assessment is sixteen per cent. of the total. Three villages levy a business tax only; one taxes both businesses and personal property, and seventeen personal property only. In rural municipalities the personal property assessment is only one and two-thirds of the total assessment. One rural municipality levies a business tax only; one

hundred and ten levy a personal property tax only ; and
ten neither a business nor a personal property tax.

Summary of Levies on Personal Property for the Year 1925;-

Cities:--- Levying a Personal Property Tax Only.

Levy..... \$16,788.00 or .95% of Total Levy.

Suburban:- Levying a Personal Property Tax Only.

Levy..... \$16,237.92 or .79% of Total Levy.

Towns:---- Levying a Personal Property Tax Only.

Levy..... \$44,977.63 or 7.95% of Total Levy.

Levying a Personal Property Tax and a Business Tax.

Levy..... \$1,471.41 or .63% of Total Levy.

Villages:- Levying a Personal Property Tax Only.

Levy..... \$32,374.61 or 17.24% of Total Levy.

Levying a Personal Property and a Business Tax.

Levy..... \$ 51.15 or 1.36% of Total Levy.

Rural:---- Levying a Personal Property Tax Only.

Levy..... \$148,512.06 or 2.33% of Total Levy.

The above table was compiled from the personal property assessments and average rates of taxation given in the Municipal Commissioner's Report,- "Statistical Information respecting the Municipalities of Manitoba for the Year 1925." In a number of cases manifest errors in ~~the~~ classification of property occur in this report, e.g. the personal property

assessment for the town of Transcona is given as \$1,031,360.00 and the business tax assessment as \$47,700.00. On investigation it was found that the former was the assessment of buildings and the latter the personal property assessment. Similar errors^{occur} in the tabulation of the assessments of the towns of Gladstone and Stonewall, the village of Elkhorn and the rural municipalities of Cartier and Roland. These errors have been corrected from information received from the municipal clerks of the respective municipalities.

In the municipalities in which a business tax is levied the levy on personal property is relatively small, being approximately one and one-third per cent. in villages, three-fifths of one per cent. in the towns and one per cent. in cities. In the urban municipalities in which no business tax is levied the returns from the taxation of personal property are more important, amounting to approximately seventeen per cent. in villages, and eight per cent. in town.

The personal property tax is perhaps, the least equitable of the taxes levied by the municipalities of Manitoba. Its first defect is that of lack of uniformity. The assessor is confronted with the impossible task of accurately assessing all types of tangible personal property. It is also defective with respect to universality. Under the municipal system of this province many forms of tangible

personal property such as household effects, farm machinery stock, and farm buildings, as well as all classes of intangible personal property are exempt from taxation.

The tax discriminates between classes since many having much personal property escape taxation, while others possessing little bear a proportionately heavy tax burden. In particular the stock-in-trade of the merchant bears more than its fair share. In the smaller villages, both incorporated and unincorporated, the levy on personal property is much greater than the corresponding levy in other districts. The possession of personal property is not even a rough measure of tax-paying capacity. Hence any tax levied on this base to provide for expenditure on general services is inequitable.

From the standpoint of practical expediency also, the tax is defective. The possibilities of evasion are numerous and the incentive to dishonesty is strong; consequently the tax falls most heavily on the ignorant and the honest. Such a tax is apt to degrade the morals of the tax-paying class.

The Business Tax.

The defects of the personal property tax have led to its abandonment, in most of the larger urban municipalities of Manitoba and have occasioned the substitution of a

business tax. Prior to 1926, the four cities of the province had, by special charter, been empowered to levy business taxes. In 1906, this privilege was extended to incorporated towns and villages when the Provincial Legislature assented to the "Act Respecting the Taxation of Personal Property".

This Act provides that any urban municipality, so desiring, may substitute its provisions for the assessment and taxation of personal property, in lieu of the provisions of "The Assessment Act". In such town or village the council must levy a tax to be called the "business tax" on all trades, manufactures, financial or commercial institutions, premises occupied as warehouses or storehouses, occupations, professions, or means of profit or livelihood carried on by any person or persons. Such business tax must not exceed 15 per cent. of the assessed annual rental value of the premises occupied. A tax graded according to annual rental value is imposed upon hotels, social and political clubs. A special tax may be levied on the assessed value of horses, vehicles and cattle not kept for business purposes at the same rate as the tax levied on real property. This Act is applicable to the assessment and taxation of personal property in rural municipalities if so determined by municipal by-law.

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The following table is given to indicate the relative importance of the business tax in the various types of municipalities of the province.

Business Tax Levies for the Year 1925.

<u>City.</u>	<u>Business Tax Levied.</u>	<u>Per Cent. of Total Tax Levied.</u>
Brandon.....	\$ 38,252.90	6.82%
Portage la Prairie.....	\$ 13,326.60	6.95%
St. Boniface.....	\$ 19,106.00	1.99%
Winnipeg.....	<u>\$ 490,000.00</u>	<u>6.83%</u>
Total.....	<u>\$ 560,684.90</u>	<u>6.31%</u>

<u>Town.</u>	<u>Business Tax Levied.</u>	<u>Per Cent. of Total Tax Levied.</u>
Beausejour.....	\$ 1,120.00	10.66%
Birtle.....	\$ 1,918.75	17.93%
Boissevain.....	\$ 2,085.00	11.98%
Dauphin.....	\$ 11,324.00	9.30%
Deloraine.....	\$ 1,864.00	12.32%
Emerson.....	\$ 2,121.15	9.59%
Gladstone.....	\$ 1,428.00	10.51%
Hartney.....	\$ 2,976.00	26.34%
Melita.....	\$ 3,249.00	21.61%

<u>Town.</u>	<u>Business Tax Levied.</u>	<u>Per Cent. of Total Tax Levied.</u>
Minnedosa.....	\$ 3,648.00	7.80%
Morris.....	\$ 1,125.00	6.90%
Neepawa.....	\$ 5,453.40	12.54%
Oak Lake.....	\$ 9,970.00	11.82%
Rivers.....	\$ 2,004.45	8.76%
Souris.....	\$ 4,348.50	8.21%
Swan Lake.....	\$ 945.00	4.66%
The Pas.....	\$ 9,535.50	25.62%
Virden.....	\$ 2,793.60	7.35%
Total.....	\$ 58,909.35	10.23%

<u>Village.</u>	<u>Business Tax Levied.</u>	<u>Per Cent. of Total Tax Levied.</u>
Elkhorn.....	\$ 1,161.00	10.95%
Gretna.....	\$ 655.00	7.62%
Manitou.....	\$ 2,158.75	15.88%
Ste. Rose du Lac.....	\$ 1,206.00	17.48%
Total.....	\$ 5,129.75	12.89%

<u>Rural Municipality.</u>	<u>Business Tax Levied.</u>	<u>Per Cent. of Total Tax Levied.</u>
Pembina.....	\$ 1,269.00	1.64%

In all the cities except St. Boniface the business tax provides approximately seven per cent. of the total tax levy. In towns this levy ranges from five per cent. to twenty-six per cent. of total taxes imposed; in

villages from eight to seventeen per cent.

The municipality provides fire protection, police protection and other distinctly local services which greatly enhance the ability of business organizations to meet the cost of such expenditures. Beneficial expenditures do indirectly benefit every inhabitant of the municipality, nevertheless, the "business" man and the real property owner receive distinct benefits and should bear the greater part of their cost. Many tax impositions may be regarded as insurance premiums, others as the taxpayer's share of the commercial undertakings of the municipality, consequently, taxes for beneficial purposes are more of the nature of prices or fees than of burdensome contributions. The measurement of this benefit by a uniform percentage tax is, however, only a rough approximation.

When we consider the tax impositions, levied on assessed rental value at a uniform rate, for the more general or onerous services, the defects of such a system become more apparent. Assessed rental value is no criterion of ability to pay, hence any tax levied on this base is necessarily inequitable. Rental values are regulated by the laws of supply and demand rather than by the averages, profits of trades, or the exceptional profits of individuals, though it must be remembered that rate of profits does exert an influence upon demand and supply.

The most serious defect of this tax is its lack of uniformity. It acts inequitably between various classes of businesses and even between members of the same class. Retail businesses require more advantageous sites than do wholesale concerns, hence a tax at a uniform rate acts in favor of the wholesale dealer. The rates of profit vary greatly between trades and professions and usually bear little relation to the rental value of the premises occupied. The tax falls alike upon decaying and expanding businesses.

The tax is comparatively unproductive, the yield in 1925 being only six and one-third per cent. of the total tax imposed in cities, - ten and one-quarter per cent. in towns, and thirteen per cent. in villages in which the tax was in operation. Since most municipalities are now levying either the maximum or close to the maximum legal rate of 15%, the revenue cannot be greatly increased in case of need. If in 1925 all the towns had imposed the maximum the yield would have been increased only \$ 10,133.85 i.e. less than one-half of one per cent. of the total levy. This tax cannot be varied as profits of business vary, except in so far as such variation causes rental values to fluctuate.

In spite of the fact that the imposition of a definite per cent. upon known rental values is a simple

and precise method of taxation, suitable for local administration and is a distinct improvement on the personal property tax, its defects with respect to equity and productivity have led to recommendations to the provincial legislature for its abolition. The National Tax Association approves of a business tax levied on net profits. Such a tax should be administered by a provincial tax commission.

The Real Property Tax.

The municipalities of Manitoba, like local governments everywhere, have been and still are chiefly dependent upon the revenue derived from the taxation of real property. In 1925, the levy on real property was \$17,379,367.91 out of a total of \$18,265,772.77 - i.e. approximately ninety-five per cent.

The following table of statistics summarized from the detailed Report of the Municipal Commissioner for 1925 indicates the relative importance of the real property tax in the fiscal systems of the various types of municipalities.

Municipal Tax Levies for The Year 1925.-

	<u>Levy on Real Property.</u>	<u>Per Cent. of Total.</u>	<u>Total Levy.</u>
Cities	\$ 8,307,840.06	93.50%	\$ 8,885,312.96
Towns	\$ 987,081.61	90.36%	\$ 1,092,439.00
Villages	\$ 189,851.52	84.45%	\$ 227,307.11
Suburban	\$ 1,213,410.54	99.21%	\$ 1,229,648.46
Rural	\$ 6,681,184.18	97.87%	\$ 6,831,065.24
Total	<u>\$17,379,367.91</u>	<u>95.15%</u>	<u>\$ 18,265,772.77</u>

In rural municipalities, taxation is almost entirely restricted to levies on real property. It is only in the included unincorporated villages that this levy is supplemented by levies on other types of property. In the suburban municipalities owing to the relatively high assessment of residential property and unoccupied land the levy upon real property is higher than in any other type of municipality. In the cities of the province the taxes imposed upon real property form all but six and one-half per cent. of the funds raised by taxation. In the incorporated towns and villages the tax burden borne by the real property owner though heavy is relatively lighter than in other types of municipalities. viz. 90.36 per cent. and 84.45 per cent. respectively.

The importance of this source of revenue is sufficient justification for a rather detailed description of the assessment and taxation of real property and for a consideration of the equity and expediency of such a tax. In Manitoba the real property tax is an annual tax on the assessed capital of land and, in urban municipalities and unincorporated towns, of buildings.

Although all property within the municipality is assessed there are certain kinds of real property exempt from taxation, as follows;

- (1) all lands owned by the Dominion or Province.

- (2) all lands owned by the municipality.
- (3) all lands held in trust for the Indians.
- (4) public schools and grounds to the extent of ten acres.
- (5) educational institutions preparing for the University of Manitoba entrance examinations, Old Folks Homes and hospitals.
- (6) colleges and seminaries if authorized by municipal by-laws.
- (7) property of agricultural societies.
- (8) cemeteries not exceeding 20 acres.
- (9) all lands legally exempted from taxation by a by-law of the municipality.
- (10) churches, erected and used for places of worship of any religious denomination.
- (11) railway property exempted under "The Railway Taxation Act".
- (12) all lands and buildings of the Veterans and Returned Soldier's Associations in use for the purpose of such associations.
- (13) farm buildings including house, barns, etc. in rural municipalities.

Schools, except those used for public school purposes, colleges, hospitals and churches are not exempt from local improvement taxes.

In 1925 the assessed value of exemption was \$ 135,430,071.00 or 22.76% of \$ 594,994,624.00, the assessed value of taxable property.

All lands in rural municipalities improved for farming, stock-raising or market gardening purposes, shall be assessed at their full value. All lands in rural municipalities improved for other than farming, stock-raising or market gardening purposes shall be assessed at their full value, and the buildings at two-thirds of their value. All other lands shall be assessed at their full value. The ordinary farm residence and buildings upon any parcel of land in rural municipalities improved for farming, stock-raising or market gardening purposes, shall not be assessed for the purposes of taxation, but shall nevertheless be assessed by the assessor at two-thirds of their value. In order to exempt any building for the purposes of taxation it shall be necessary in the case of a farm that the area comprised be at least forty acres, in the case of land used for stock-raising eighty acres, and in the case of land devoted to market gardening purposes of at least four acres, provided that the income from such lands is the owner's or tenant's chief source of income.

In cities, towns and villages, lands shall be assessed at their full value and buildings at two-thirds of their full value.

Since municipal expenditures on distinctly local services such as drainage, construction and maintenance of highways etc. enhance the value of real property taxation of such property to meet these expenditures is in theory equitable. Though every inhabitant of the municipality indirectly receives some benefit from these expenditures, the benefits accrue in the main, to the owner of real property, in the form of increased capital value, consequently he should bear the expenses involved. The tax is no real burden to him and might better be described as a price or a fee.

The equity of the benefit basis of taxation for local services is recognized in the "Municipal Act" in the provision for special assessments. Special assessments are definite levies based entirely on the individual benefit derived from improvements to property, e.g. construction of sidewalks and drains, etc. In urban municipalities the tax is levied at a given rate per foot frontage. Properties in the neighborhood of a local improvement, if it is believed that they receive a special benefit from such improvement are assessed a proportionate share. Also, when an improvement benefits the municipality at large up to four-sevenths of the total cost may be raised by a ~~general~~ levy. Local improvements and special assessments in the city of Winnipeg for the year 1925 amounted to \$1,180,639.27

or 17.67 per cent. of the general property tax.

Since values of buildings and other improvements increase with the development of the locality, these forms of real property should not be exempt from taxation for beneficial services. This principle is recognized in the liability of private schools, colleges, hospitals and churches to local improvement taxes, though they are exempt from the general tax.

From the standpoint of practical expediency the real property tax is especially suitable as a form of municipal taxation. It cannot be evaded as real property is immovable and cannot be concealed. It is thus possible for widely different rates of taxation to exist in adjacent municipalities. The yield can be conveniently adjusted to meet special requirements.

Persons other than owners of real property undoubtedly benefit from expenditures on local services, but it is as equally true that they contribute in proportion to the benefit received. Through the process of shifting the cost of the benefit received by the tenant, is transferred to him, but is no real burden, being merely a price for a service rendered. It is only when the owner is also an occupant that he bears the tax. In so far as a beneficial levy is a tax on site value it increases the economic

rent and is shifted to the occupier. A tax on building value is a tax on a special form of profits, hence it is shifted to the occupier.

Before discussing the equity of a tax on real property to meet expenditures on general services it seems advisable to compare the assessments on land and buildings respectively.

Assessments of Taxable Real Property for the Year 1925.

<u>City.</u>	<u>Assessment of Land.</u>	<u>Per Cent.</u>	<u>Assessment of Buildings.</u>	<u>Per Cent.</u>
Brandon	\$ 7,038,000	51.8%	\$ 6,537,000	48.2%
P.la Prairie	\$ 3,452,000	49.6%	\$ 3,503,000	50.4%
St. Boniface	\$ 9,526,000	72.2%	\$ 3,670,000	27.8%
Winnipeg	<u>\$132,998,000</u>	<u>56.6%</u>	<u>\$101,496,000</u>	<u>43.4%</u>
Total	<u>\$153,014,000</u>	<u>57.0%</u>	<u>\$115,206,000</u>	<u>43.0%</u>

<u>Town.</u>	<u>Assessment of Land.</u>	<u>Per Cent.</u>	<u>Assessment of Buildings.</u>	<u>Per Cent.</u>
Beausejour	\$ 127,000	41.3%	\$ 178,000	58.7%
Boissevain	\$ 73,000	20.0%	\$ 292,000	80.0%
Carberry	\$ 147,500	28.3%	\$ 474,000	71.7%
Carman	\$ 179,000	21.6%	\$ 668,000	78.4%
Dauphin	\$ 1,121,000	49.0%	\$ 1,165,000	51.0%
Deloraine	\$ 74,000	22.8%	\$ 251,000	77.2%
Gladstone	\$ 110,000	27.4%	\$ 295,000	72.6%
Hartney	\$ 63,000	23.3%	\$ 207,000	76.7%

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Minnedosa	\$ 483,000	43.9%	\$ 620,000	56.1%
Neepawa	\$ 333,500	30.1%	\$ 774,500	69.9%
Selkirk	\$ 1,089,000	50.9%	\$ 1,048,000	49.1%
Souris	\$ 278,000	28.9%	\$ 648,000	71.1%
Stonewall	\$ 271,000	50.6%	\$ 264,000	49.4%
Swan River	\$ 157,000	30.9%	\$ 350,000	61.1%
Virden	<u>\$ 426,000</u>	<u>44.3%</u>	<u>\$ 535,000</u>	<u>55.7%</u>
Total	<u>\$ 4,932,000</u>	<u>38.8%</u>	<u>\$ 7,769,500</u>	<u>61.2%</u>

<u>Village.</u>	<u>Assessment of Land.</u>	<u>Per Cent.</u>	<u>Assessment of Buildings.</u>	<u>Per Cent.</u>
Elkhorn	\$ 84,000	31.9%	\$ 198,000	68.1%
Gimli	\$ 92,000	46.9%	\$ 104,000	53.1%
Roblin	\$ 99,000	30.5%	\$ 226,000	69.5%
Rosburn	\$ 42,000	28.6%	\$ 163,000	71.4%
Shoal Lake	<u>\$ 92,000</u>	<u>24.2%</u>	<u>\$ 288,000</u>	<u>75.8%</u>
Total	<u>\$ 409,000</u>	<u>30.8%</u>	<u>\$ 919,000</u>	<u>69.2%</u>

<u>Suburb.</u>	<u>Assessment of Land.</u>	<u>Per Cent.</u>	<u>Assessment of Buildings.</u>	<u>Per Cent.</u>
Fort Garry	\$ 2,859,000	77.4%	\$ 833,000	22.6%
Kildonan,E	\$ 2,185,000	57.3%	\$ 1,627,000	42.7%
Kildonan,W	\$2,821, 000	74.0%	\$ 992,000	26.0%
St. James	\$ 5,208,000	63.8%	\$ 2,949,000	36.2%
St. Vital	<u>\$ 4,018,000</u>	<u>74.9%</u>	<u>\$ 1,351,000</u>	<u>25.1%</u>
Total	<u>\$17,091,000</u>	<u>68.8%</u>	<u>\$ 7,752,000</u>	<u>31.2%</u>

Unincorporated Villages in Rural Municipalities.

	<u>Assessment</u> <u>of Land.</u>	<u>Per Cent.</u>	<u>Assessment</u> <u>of Buildings.</u>	<u>Per Cent.</u>
Arthur	\$ 7,900	23.9%	\$ 25,1000	76.1%
Cameron	\$ 10,500	13.9%	\$ 65,300	86.1%
Macdonald	\$ 42,000	27.6%	\$ 110,000	72.4%
Minto	\$ 15,500	14.7%	\$ 89,600	85.3%
Morton	\$ 2,000	14.1%	\$ 12,200	85.9%
P. La Prairie	\$ 27,400	21.5%	\$ 99,800	78.5%
Roland	\$ 44,800	16.8%	\$ 222,200	83.2%
Shoal Lake	\$ 26,100	19.6%	\$ 107,000	80.4%
Victoria	\$ 40,300	18.4%	\$ 179,200	81.6%
Westbourne	\$ 7,600	10.9%	\$ 62,400	89.1%
Winchester	\$ 2,000	10.5%	\$ 17,000	89.5%
Total	<u>\$226,100</u>	<u>18.6%</u>	<u>\$ 989,000</u>	<u>81.4%</u>

The foregoing tables have been compiled from figures furnished by the clerks of the respective municipalities.

In cities, the assessed value of land is slightly greater than that of buildings. This is due to the scarcity value of land occasioned by the demand for business and residential sites. In towns, the assessments on land are relatively lower, ranging from twenty per cent. of the value of all taxable real property, in the smaller towns to approximately fifty per cent. in the larger towns such as Dauphin, Stonewall and Selkirk. The assessment on buildings in

incorporated villages is at least double the assessment on land and in many cases even three times as great. In unincorporated villages of rural municipalities land has little scarcity value, consequently its assessed value is often only ten per cent. of the total assessed value of real property in the village and rarely exceeds twenty-five per cent. of the total. The suburban municipalities have relatively large areas, this together with their proximity to the city of Winnipeg accounts for the fact that the assessed value of land is more than double that on buildings. In rural districts land only is assessed for taxation.

It is when we consider municipal expenditure on onerous services that the inequity of a tax levied on the assessed capital value of real property becomes apparent. Such expenditures do not enhance the value of the real property hence cannot be defended on the benefit basis. Neither does the possession of real property measure ability to pay, - the recognized basis of taxation for general services. It has been shown above that the real property tax is the most important source of municipal revenue and that the greater part of this revenue is expended upon onerous services, hence it follows that an excessive portion of the burden of such expenditure is imposed upon the owner of real property.

Evasion is impossible , neither can the owner escape the burden to any extent through the process of shifting. To the annual burden is added the loss in capital value resulting from the capitalization of any more or less permanent increase in the tax rate. The owner at the time the increase was imposed bears all the discounted future tax additions. It is only the purchaser after the imposition of the tax who escapes the burden.

In rural municipalities the burden imposed is proportionately heavier than in other classes of municipalities. For this there are two reasons: (1) the real property tax is not supplemented by other forms of taxation nor are sources of revenue other than taxation available to such districts, and (2) land forms a much greater proportion of the capital of the agricultural class than it does of the other classes. The tax cannot be shifted to the consumer since the price of agricultural produce in a grain exporting country is controlled by foreign competition and demand rather than by local conditions . The comparative immobility of capital invested in agricultural land and of the labor of the owner acts against the process of shifting. It may also be noted that any tax on capital value, in so far as it is a tax on economic rent cannot be shifted. The foregoing considerations show that the owner of real property bears more than his equitable share of the tax burden.

In urban municipalities it might appear that the greater part of the real property tax burden is shifted. Theoretically a tax on buildings and improvements is a tax on a special form of profits and as such is, in the long run, shifted. But in the small urban municipalities where investment is largely local and where a surplus of buildings often exists, it is probable that only a small part of the onerous tax will be shifted from the owner to the occupant. But in the larger towns and cities where the mobility of capital is greater, the possibility of shifting the tax to the tenant is increased, especially in periods of expansion.

A tax on capital value is inequitable even between owners of real property. All owners are taxed at a given rate on a fixed assessment without regard to differences of profits between classes or between individuals. A tax on capital value does not fluctuate with the successes and reverses of the individual. A real property tax levied on rental value would be more equitable.

From the standpoint of productivity the present form of real property tax is defective. As an evidence of this, the rapid accumulation of tax arrears may be noted. In several municipalities of the province more than two years tax levies were in arrear Dec. 1925,- namely, the Rural Municipalities of Armstrong, Chatfield, Ericksdale, Glenella, Lawrence, McCreary, Mossey River, Siglunes, St.Laurent,

Ste. Rose, and Woodlea and the Towns of Transcona and Tuxedo; in many others the arrears exceeded one years levy. The very high tax rate imposed in several municipalities indicates the effort required to produce sufficient funds for onerous expenditures. It is principally in those municipalities having inadequate resources that the defects of the present taxation system with respect to equity and productivity become most apparent. Necessary expenditure on onerous services such as education bears no simple relation to the resources of the municipality.

CONCLUSION.

From the standpoint both of equity and of expediency some broadening of the basis of municipal taxation seems necessary.

The Educational Commission, appointed in 1923, reported the inequalities of the present system and for the support of education recommended an equalized levy throughout the rural municipalities of the province, similar to the Municipal Commissioner's levy. The effect of this however would be to distribute the burden more equitably among the rural real property owners. The levy would still be inequitable since it is imposed on property, not on ability to pay. It might here be observed that such equalization might act as a bounty on inefficiency and unwise expenditure.

The true path of reform seems to be in the adoption of a municipal income tax as a supplement to a tax for beneficial services levied on property and on businesses. This tax should be levied and collected by some provincial authority such as the Manitoba Tax Commission.

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