

## New big-city revenue tools inevitable: economist

by Don Wall Jul 15, 2016

The days of Canada's large cities being almost wholly reliant on property taxes to pay for infrastructure and services are numbered, argues a prominent Ontario economist.



Trent University professor emeritus Harry Kitchen, who has advocated multiple times in policy papers for the introduction of new revenue tools for municipalities, said he's certain new tools such as highway tolls or municipal sales taxes, or possibly even municipal income taxes, will eventually become common policy.

"We have to start doing it, it is inevitable," said Kitchen, whose latest paper titled *More Tax Sources for Canada's Largest Cities: Why, What, and How?* was co-written with Enid Slack, the director of the Institute on Municipal Finance and Governance (IMFG) at the University of Toronto's Munk School of Global Affairs. "The government can't keep funding roads on the backs of people who don't drive on them.

"Will I see it in my lifetime? Perhaps not, I am 74. Will my kids see it? Absolutely. The younger generation by and large totally support this. It is guys my age who are critical. The ones who have had free rides in the past want to continue having free rides. That can't go on."

"Cities around the world levy a wide range of taxes, including income, sales, fuel and hotel taxes," Slack noted in a statement upon the release of the IMFG document in June. "It is time for Canadian cities to have access to some of those taxes as well."

Kitchen said public sophistication in relation to the importance of having the right revenue tools that can support the growth of public transit and shape consumer behaviour on city roadways has increased markedly since he wrote on the topics circa 2007. He was hammered for his comments at the time, he said.

By 2013, after he again advocated for such road pricing tools as fuel taxes, High Occupancy Toll (HOT) lanes and municipal sales taxes in a paper written for the **Residential and Civil Construction Alliance of Ontario**, there was a detectable shift in discourse, he said.

While politicians are reluctant to advocate for new forms of taxes and tools to raise revenues, he said — Toronto's council rejected a number of new revenue tools to fund transit in 2013, and Mayor John Tory just recently again argued against a municipal income tax — they eventually will, he said.

"Cities don't want to take that responsibility," said Kitchen. "Councillors say, we don't want to raise taxes, we'll get thrown out of office. Well that's what you're paid for. Don't go to the province with your hand out begging for more money."

Property taxes are not a bad revenue tool, Kitchen and Slack argue, and capital expenditures and services could continue to be funded substantially from that source, but the system unfairly burdens "asset rich and income poor" taxpayers, Kitchen said.

In addition, property taxes fail the test of providing a clear link between expenditure and revenue decisions. Kitchen said international research shows taxpayers tend to support new fees if they are targeted towards a related benefit, more than they do paying into a general pool of revenues.

"A direct link should result in more accountable government and in less opposition from taxpayers to paying their taxes when they know where their tax dollars are going," the paper suggests.

"We are not arguing, by the way, in this paper that cities should raise more money," said Kitchen. "We are talking about other ways they could raise more money as a substitute for the property tax."

Kitchen and Slack included a table of possible tax sources and their strengths and weaknesses in their study. Sources included personal income tax, sales tax, fuel tax, parking sales tax or levy, HOT lanes, vehicle registration levy and hotel tax. The paper argues that of these options, an income tax and a municipal sales tax are likely to generate the largest revenues.

In many cases, such as an income tax, provincial legislation would have to be enacted to give the city new taxing powers, the paper notes, and administrative efficiency is another issue that will affect decision-making.

Kitchen said Toronto transit users already pay a significant percentage of the costs of providing the service and so he looks to drivers to pay more, in part to reduce congestion.

"If you can get rid of some of the congestion then you can increase productivity and lower environmental costs," he said.

"Our argument is, that is why you charge drivers money. Because it is the drivers that are causing lost productivity and environmental degradation. Start charging them; some of them will get off the roads and start using public transit.

"And that is why you say, you also have to have a very good public transit system."

The IMFG paper was not intended for direct advocacy but Kitchen identified two favoured sources of revenues when asked.

"In the current structure in Ontario, there are two that I think make quite a bit of sense," he said. "One would be an income tax. That would take the burden off the property tax on people who are asset rich and income poor. The other I would think that makes sense is a gas tax that is earmarked for roads and transit. You can't earmark income taxes or property taxes."