

# CHAPTER X V

## PROVINCIAL REVENUE REQUIREMENTS AND THE NEW TAX STRUCTURE

### I. *Scope of Chapter*

1. In earlier chapters we recommended that full responsibility for public education, social welfare and the operation of hospitals throughout the province should be transferred to administrative commissions appointed by the provincial government. We recommend further that the operation of the gaols and all matters relating to justice should be assumed by the Department of the Attorney-General, that the Department of Health should assume full responsibility for public health except nursing services and dental clinics operated by cities, towns and metropolitan councils, and that the province should take over the municipalities' share of the cost of civil defence. The new Municipal Affairs Commission would also become responsible for certain functions such as assessing of property and collection of property taxes formerly performed by the municipalities.

2. The revenue requirements of the provincial government and the municipalities combined would not be changed by the mere act of transferring responsibility from one level to another. Almost at once, however, changes would occur which would decrease some costs and increase others. First, we have recommended that the expenditure for education, welfare and justice be increased. Second, some economies would be realized very quickly, the largest resulting from termination of the present form of county government. It is the purpose of this chapter to trace out as many of these expenditure changes as we can identify, on a 1961 basis. All of our calculations have been made with reference to the same year, of course, since revenues and expenditures change from year to year. 1961 is the latest year for which reasonably complete statistics were available at the time of writing. It is somewhat awkward that 1961 refers to the calendar year for the municipalities and the year ended March 31, 1962 for the provincial government, but statistics are not available on any other basis. It is suggested that the totals be regarded as annual rates of expenditure at the 1961 level.

3. A further explanation is required concerning the meaning of the words "on a 1961 basis?". No one can forecast how quickly standards of services could be raised, or how soon economies could be fully realized. Indeed, it cannot be forecast how quickly our recommended new arrangements could be brought into effect. Consequently, we have made the assumption that all of our recommendations had been implemented

and, further, that all the consequences flowing from their implementation had been fully felt. In other words, in order to trace through the net expenditure changes, we have imagined that the new arrangements had been put into effect a few years prior to 1961 so that, by that year, the new order of things was fully operative and all the financial consequences were fully realized.

4. It appears that the weight of municipal taxes has increased since 1961 and that the financial responsibilities of the provincial government have increased more rapidly than its revenues. In recognition of these trends, the ideal way for us to test the adequacy of our financial recommendations would be to extrapolate expenditures on the new basis to a future year, say 1965, and to compare them with the projected revenues from the new tax structure which we propose, for the same year. We have not done so because the great amount of detailed information required to project expenditures into the future was not available to us. The exercise would have deteriorated into little better than guesswork. We have accordingly done the next best thing. In recognition that expenditures have been rising more rapidly than the revenue from a stable set of tax rates, a provision for contingencies has been entered as a revenue requirement of the 1961 base year.

5. Once we had traced out all the expenditure consequences of our recommendations, on a 1961 basis, the next task was to decide the best methods of raising the required revenue. We did not wish to emulate the proverbial member of congress who was reputed to have voted for every increase in expenditures but never for a corresponding increase in taxes. Rather than simply make our recommendations for tax changes, however, we will also discuss some of the alternatives which were available. This procedure provides an opportunity to indicate our reasons for selecting the particular set of tax changes which we are proposing.

6; Before tracing through the various changes in expenditures, it is convenient to summarize the estimated over-all change in the revenue requirements of the provincial and municipal governments combined. This is done in Table 15: 1. The revenue requirements of the provincial government, including those of the new public schools, welfare and hospitals commissions, rose from \$103,519,000 to \$141,359,000 — an increase of \$37,840,000. However, almost two-thirds of this increase in provincial requirements is offset by a decrease in the revenues required by municipal

governments. In other words, municipal expenditures, net of grants and certain other non-tax revenue, would have dropped from \$31,927,000 to \$7,700,000. This decrease amounts to \$24,227,000. The net increase in funds to be raised by taxation by the two levels of government combined, therefore, is \$13,613,000 on the 1961 basis.

7. Only *one-half* of this increase in new tax revenue requirement would be due to the net increase in expenditures. This is shown in the lower half of Table 15: 1. The increased expenditures to raise the standards of education, welfare and justice to recommended levels would have amounted to \$5,366,000. To this we have added

a cautious contingency provision for other expenditure changes which cannot be foreseen and in recognition of the fact that the gap between expenditures and the yield of the 1961 tax rates has widened since 1961.

8. The general government expenditures of the counties were \$1,241,000 in 1961. These would be terminated and, after making an allowance for the costs which the province would bear in performing some of the tasks which the counties now perform — notably assessing and collecting taxes — there is an estimated net decrease in expenditures of \$758,000. Our recommendation that municipal utilities should not be

Table 15: 1

REVENUE REQUIREMENTS OF THE PROVINCIAL AND MUNICIPAL GOVERNMENTS  
ACTUAL 1961 AND ACCORDING TO THE COMMISSION'S RECOMMENDATIONS  
(IN THOUSANDS OF DOLLARS)

*Actual 1961 Expenditures:*

Provincial government .....		103,519	
Municipal expenditures .....	47,070		
Deduct: Provincial contributions .....	15,143	31,927	135,446
		<hr/>	

*Net Revenue Requirements, Per Recommendations:*

Provincial government .....		141,359	
Municipal expenditures .....	15,413		
Deduct: Provincial contributions .....	7,713	7,700	149,059
		<hr/>	

*Net Increase* .....

13,613

*Components of the Net Increase:*

1. Increased expenditures:			
Education .....	3,500		
Social Welfare .....	1,500		
Justice and detentions .....	366		
Contingency provision .....	2,255		
<b>Sub-total</b> .....	<hr/>	7,621	
2. Deduct: Reduction of general government expenditures of counties in excess of the costs of services taken <b>over by the Municipal Affairs Commission</b> .....	758		
<b>Sub-total</b> .....	<hr/>	6,863	
3. Deduct: Utility deficits .....		164	
Sub-total .....		<hr/>	6,699
4. Financial changes:			
Provincial net <b>borrowing</b> .....		7,669	
Deduct: Reduction in municipal debt amortization . . . .		755	6,914
		<hr/>	<hr/>

Total increase in combined provincial and municipal revenue requirements .....

**13,613**

permitted to run deficits would, in 1961, have reduced tax revenue requirements by a further \$164,000. Putting all of these items together yields a net increase in expenditures of \$6,699,000 — an amount which would have achieved a revolutionary improvement in the standards of assessing, in the quality of instruction available in most rural schools, and in the administration of justice and social welfare. The sum is very small indeed in relation to the monies now being wastefully spent upon programmes which do not achieve their objectives.

9. The increase in the tax revenue requirements on a 1961 basis is about doubled by our endeavour to find funds to reduce provincial

borrowing for capital projects. The province's deficit in its capital budget plus the small deficit in the current budget was \$7,669,000. From this we have deducted \$755,000, attributable to our recommendation for a decrease in the rate of amortization for municipal debt. The over-all, net result is an increase of \$13,613,000 in the combined tax revenue requirements of the provincial and municipal governments.

## II. Provincial Revenue Requirements

10. Table 15: 2 summarizes the financial consequences of our recommendations for the provincial government. It will be noted that, if

Table 15:2

### SUMMARY OF EFFECTS WHICH COMMISSION REVENUE AND EXPENDITURE RECOMMENDATIONS WOULD HAVE ON PROVINCIAL GOVERNMENT FINANCES, 1961 BASIS

<i>Expenditures by Commissions:</i>	<b>\$000</b>
Item 1. Actual 1961 expenditures by urban municipalities and counties (inclusive of contributions received from provincial government)	
Education .....	25,795
Hospitals and public health .....	1,685
Social welfare .....	3,383
Law enforcement and corrections .....	550
Civil defence .....	59
	+31,472
2. Administration of unincorporated territory and property tax assessments and collection .....	682
3. County debt charges .....	451
	+ 1,133
4. Deduct: Decrease in Provincial contributions to municipalities and school boards <sup>a</sup> .....	-10,055
5. Sub-total .....	+22,550
6. Add: Estimated costs of raising standards:	
Education .....	3,500
Social welfare .....	1,500
Law enforcement and detentions .....	366
	+ 5,366
7. Add: Provision for reduction of the increase in provincial net debt .....	7,669
8. Provision for increased revenue requirements which cannot be estimated .....	2,255
	9,924
9. Total increase in provincial government revenue requirements . .	37,840
<i>Increase in provincial revenues:</i>	
10. Public schools tax on real property assessments, at 1½% (including the business tax and special tax on large timberlands) . .	22,370
11. Automotive vehicles taxes .....	7,500
12. Increased yield of sales tax .....	7,970
	37,840
13. TOTAL increase in provincial revenue .....	37,840

(<sup>a</sup>) Includes deduction of public works provided by the Department of Public Works for local improvement districts and unincorporated communities.

we had been content only with recommendations which would impose some order and equity upon municipal taxation and nothing more, the yield of the reconstituted real property taxes would almost have produced sufficient revenue for the purpose (compare item 5 with item 10). If we had been content with this objective alone, however, we would have recommended that the taxes on timberlands be reduced by more than we have actually recommended? with the loss of revenue being made good by quite modest taxes on automotive vehicles. But such recommendations would have ignored a substantial part of the problems which were assigned to us. They would have ignored the instruction given to us to examine fiscal policy. They would also have meant leaving the responsibilities for education, welfare, hospitals and justice with governmental bodies not equipped to discharge them adequately and continuing the false economies of underspending for these vital services so that full value was not obtained for the funds expended. In such circumstances it would be a reasonable expectation that, after a short time, the financial resources of the municipalities, especially the counties, would again be severely strained by the rising costs of education *even though thousands of children continued to be deprived of adequate instruction.*

11. We have not been content to so confine our recommendations that the full fruits of reform could not be harvested. We have not been content to be concerned about the raising of revenue only? turning a blind eye to the equally great defects of expenditure programmes and the structure of municipal government. Consequently we have frankly indicated, indeed insisted, that proper reforms require a total increase of \$5,366,000 in the appropriations for education (\$3.5 million), social welfare (\$1.5 million) and justice (\$366,000), on a 1961 basis. In addition, we would expect that the reallocation of responsibilities for public health services would result in an improvement in the standard of these services and that there would be other unforeseeable but minor increases in provincial expenditures.

12. On the other hand, substantial economies and savings would result from our recommendations. By far the most important part of these economies would take the form of obtaining more per dollar of expenditure. It is of course, not possible for us to attach any precise figure to such improvements in performance, but this does not mean that we consider them any the less important. In addition, we can see almost \$1 million of reductions in costs; these are described in the following paragraphs. It should be noted by those who are not sanguine about these economies being realized that our financial proposals do not depend upon them. Provision has been made for unforeseen expenditure increases, unrealized economies, and for the widening of the gap

between expenditures and revenues in the years since 1961 by entering a contingency sum of \$2,255,000.

13. Item 1 of the Table 15·2 is self-explanatory. The amount of \$31,472,000 is the net total of municipal expenditures (after casting out double counting in the form of payments by one unit of municipal government to another) which were made during 1961 for education, hospitals (mostly debt charges), public health, social welfare, law enforcement and corrections, and civil defence. Item 2 is our estimate of \$682,000 for the costs to be incurred by the Municipal Affairs Commission, by its office charged with the administration of the new local service districts and by its assessments and collections office which would perform the work of assessing for the entire province and would send out bills and effect collections of the taxes on real property on behalf of the municipalities and the Public Schools Commission. The components of this estimate are (1) an actual expenditure of \$32,000 by the counties for "other protection" during 1961 which we assume will be continued to be spent by the Municipal Affairs Commission for services in the unorganized districts, and (2) an estimate of \$650,000 for (a) the cost of the work of assessing and collecting the property tax, once the office of the Municipal Affairs Commission has raised the level of efficiency of these activities, and (b) the Commission's costs of administration in excess of amounts charged to the local service districts.

14. Item 3 is our estimate of \$451,000 for the carrying charges of the county debt to be assumed by the provincial government on the termination of the county councils. The actual 1961 debt carrying charges of the counties, exclusive of school debt, was \$563,000. These carrying costs included an amortization charge of about five per cent per year. It is assumed that the provincial government would reduce the amortization to three per cent, the rate which is used for its own existing debt. This would reduce cash requirements by \$112,000.

15. Item 4, amounting to \$10,055,000, is the net decrease in the province's contribution to municipalities, including school boards, according to our calculations. The calculation is explained by Table 15:3.

16. Item 6 of Table 15 : 2 is self-explanatory, as are also Items 7 and 8. The net total of all of the Items 1 to 8 produces an increase in the revenue requirements of the provincial government, including the new public schools, hospitals, and social welfare commissions, of \$37,840,000.

17. All of these expenditure charges are set out in one large table, Table 15: 4, which we had prepared for our reference and which we found to be self-explanatory when it is studied in combination with the explanations given above. The table traces the changes in revenue requirements

Table 15:3

CALCULATION OF THE DECREASE IN NET PROVINCIAL CONTRIBUTIONS  
TO MUNICIPALITIES AND SCHOOL BOARDS IN ACCORDANCE WITH  
COMMISSION RECOMMENDATIONS — ON 1961 BASIS

*Actual Grants — 1961:*

1.	Total to school boards <sup>(a)</sup> .....	\$ 6,384,200	
2.	Total to municipalities <sup>(b)</sup> .....	8,751,400	
3.	Subsidy payments to rural commissions <sup>(c)</sup> .....	7,500	
4.	TOTAL of 1961 grants and contributions .....	15,143,100	

*Grants — 1961 — According to our Recommendations:*

5.	Equalizing unconditional grants (including the "flat rate" element) .....	\$6,400,000	
6.	Winter works and miscellaneous grants now paid and to be retained by municipalities under the new scheme .....	135,000	6,535,000
	Reduction in cash grants — sub-total .....		\$ 8,608,100
7.	<i>Add:</i> Taxes to be paid to province on municipal property .....	125,000	
8.	<i>Add:</i> Reduction in value of public works installed by Department of Public Works in counties and local improvement districts .....	2,500,000	2,625,000
			\$11,233,100
9.	<i>Deduct:</i> Taxes to be paid to municipalities on provincial property including schools and hospitals ....	1,178,000	— 1,178,000
	Net reduction in provincial contributions .....		\$10,055,100

(a) *1961 Annual Report of Municipal Statistics*, p. 104.

(b) Excludes \$30,000 refunded to Saint John County re: cost of provincial laboratory. *Municipal Statistics*, p. 56.

(c) *Municipal Statistics*, p. XIV.

through six steps, as indicated at the top of the columns. Step I lists the actual 1961 expenditures in relevant detail. Step II allocates these actual expenditures to the municipalities, the new provincial administrative commissions and provincial government departments in accordance with our recommendations. Two items may be puzzling. The first item in Column 8, \$1,408,000, is the cost of county general government (\$1,241,000 plus the estimated cost of assessing and collecting taxes of the cities and towns, \$167,000). The \$2,510,000 entered for the cost of public works in the local service districts in Column 7 represents a transfer of \$10,000 from the counties and a transfer of \$2,500,000 from the Department of Public Works. There is a corresponding reduction of \$2,500,000 in Column 8 at line 22.

18. Step III records the estimated changes in expenditures which we expect to follow from our recommendations and which have just been described. The first figure in Column II may be obscure; it is the difference between the costs of municipal functions taken over by the Municipal Affairs Commission and our estimate of the net

operating costs of the Commission. The latter is set at \$650,000 (see the first item in Column 14). The cost of municipal functions taken over are set at \$1,408,000. It is the sum of county general government costs of \$1,241,000, and city and town assessing and tax collection costs of \$167,000.

19. Step IV records the new totals of municipal and provincial expenditures, after the changes recorded in Step III were made to the totals shown in Step II. The item of \$6,535,000 in Column 14, line 23 is the total of the \$135,000 of the winter works and miscellaneous grants paid by the province to the municipalities during 1961 which we assume will be continued, plus the estimated amount of the new equalizing, unconditional grants which were recommended in Chapter 14, \$6,400,000.

20. Step V adds in two items. The first allows for a reduction of the increase in provincial net debt (the actual increase in 1961 was \$7,669,000). The second addition is our provision for contingencies. This provision is intended to recognize that there would and should be some increases in expenditures which cannot be estimated. It is

Table 15:4

ESTIMATED REVENUE REQUIREMENTS IN \$'000 OF THE PROVINCE AND MUNICIPALITIES  
(EXCLUDING OROMOCTO), 1961, ON THE ASSUMPTION THAT ALL RECOMMENDED  
CHANGES WERE THEN IN FULL EFFECT

## STEP I

FUNCTION	ACTUAL 1961 EXPENDITURES				
	15 Counties	6 Cities, 19 Towns & Port Elgin	51 L.I.D.s	10 Commis- sions	Prov- ince
A. Expenditures Now Made by Municipalities (including Provincial Gov't Contributions)					
I. Local Municipal Services:	(1)	(2)	(3)	(4)	(5)
1. General Government (incl. tax ass'ng) . . . . .	1241	1642	32		
2. Fire Protection .....	151	1637	35		
3. Police .....	—	1677	—		
4. Street Lighting .....	21	321	45		
5. Other Protection .....	32	98	—		
6. Public Works .....	133	2635	1		
7. Sanitation and Waste Removal .....	19	690	24		
8. Community Services and Recreation .....	145	763	—		
9. Medical and Dental Services .....	50	56	—		
10. Utility Deficits .....	33	103	28		
11. Debt Charges (non-school) .....	563	3130	83		
12. Miscellaneous & Unallocated to Functions . . . .		117	47	46	
13. Taxes Paid to Province on Municipal Buildings .....		—	—		
II. Education, Health, Welfare, Justice and Civil Defence:					
14. Public Schools .....	25,795				
15. Public Health .....	194				
16. Hospitals and Other Health .....	1,491				
17. Social Welfare .....	3,383				
18. Law Enforcement and Corrections .....	550				
19. Civil Defence .....	59				
20. Sub-Total (Items I-19) .....	46,729		295	46	
B. Provincial Expenditures					
21. Taxes Paid to Municipalities on Provincial Buildings .....	—		—	—	—
22. Department of Public Works .....	—		—	—	17,520
23. Provincial Government Contributions to Municipalities .....	—		—	—	15,143
24. All Other Provincial Government Expenditures .....	—		—	—	70,856
25. Sub-Total (Items 21-24) .....	—		—	—	103,519
26. Total (Items 20 + 25) .....	46,729		295	46	103,519
27. Increase in Net Debt .....	—		—	—	—
28. Provision For Unforeseen Costs of Expend- iture Recommendations and In Recognition of the Increased Disparity Between the Tax Base and the Level of Expenditures which Occurred Between 1961 and 1964.....	—		—	—	—
29. Total Revenue Requirements .....	—		—	—	—

Table 15:4

ESTIMATED REVENUE REQUIREMENTS IN \$'000 OF THE PROVINCE AND MUNICIPALITIES  
(EXCLUDING OROMOCTO), 1961, ON THE ASSUMPTION THAT ALL RECOMMENDED  
CHANGES WERE THEN IN FULL EFFECT (continued)

FUNCTION	STEP II		
	ACTUAL 1961	EXPENDITURES ALLOCATED	PER RECOMMENDATIONS
A. Expenditures Now Made by Municipalities (including Provincial Gov't Contributions)	Cities Towns + Villages	Local Service Districts	Province
I. Local Municipal Services:	(6)	(7)	(8)
1. General Gov't (incl. tax assessing) .....	1,507	—	1,408
2. Fire Protection .....	1,672	151	—
3. Police .....	1,677	—	—
4. Street Lighting .....	379	8	—
5. Other Protection .....	98	—	32
6. Public Works .....	2,759	2,510	—
7. Sanitation and Waste Removal .....	733	—	—
8. Community Services and Recreation .....	874	34	—
9. Medical and Dental Services .....	106	—	—
10. Utility Deficits .....	164	—	—
11. Debt Charges (Non-school) .....	3,213	—	563
12. Miscellaneous and Unallocated 'to' Functions .....	164	46	—
13. Taxes Paid to Province on Municipal Buildings .....	—	—	—
II. Education, Health, Welfare, Justice and Civil Defence:			
14. Public Schools .....	—	—	25,795
15. Public Health .....	—	—	194
16. Hospitals and Other Health .....	—	—	1,491
17. Social Welfare .....	—	—	3,383
18. Law Enforcement and Corrections .....	—	—	550
19. Civil Defence .....	—	—	59
20: Sub-Total (Items 1-19) .....	13,346	2,749	33,475
B. <i>Provincial Expenditures</i>			
21. Taxes Paid to Municipalities on Provincial Buildings .....	—	—	—
22. Department of Public Works .....	—	—	15,020
23. Provincial Government Contributions to Municipalities .....	—	—	15,143
24. All Other Provincial Government Expenditures .....	—	—	70,856
25. Sub-Total (Items 21-24) .....	—	—	101,019
26: Total (Items 20-t-25) .....	13,346	2,749	134,494
27. Increase in Net Debt .....	—	—	—
28. Provision for Unforseen Costs of Expenditure Recommendations And In Recognition of the Increased Disparity Between the Tax Base and the Level of Expenditures which occurred between 1961 and 1964 .....	—	—	—
2 9. Total Revenue Requirements .....	—	—	—

**Table 15:4**

**ESTIMATED REVENUE REQUIREMENTS IN \$'000 OF THE PROVINCE AND MUNICIPALITIES  
(EXCLUDING OROMOCTO), 1961, ON THE ASSUMPTION THAT ALL RECOMMENDED  
CHANGES WERE THEN IN FULL EFFECT (continued)**

**S T E P I I I**

**FUNCTION**

**ESTIMATED CHANGES IN EXPENDITURES  
FROM REALIZING ECONOMIES & RAISING  
STANDARDS OF SERVICES**

A. Expenditures Now Made by Municipalities (including Provincial Gov't Contributions)	(Cities, Towns & Villages	Local Service Districts	Province
	(9)	(10)	(11)
<b>I. Local Municipal Services:</b>			
1. General Gov't (incl. tax assessing) .....	—	—	— <b>758</b>
2. Fire Protection .....	—	—	—
3. Police .....	—	—	—
4. Street Lighting .....	—	—	—
5. Other Protection .....	—	—	—
6. Public Works .....	—	—	—
7. Sanitation and Waste Removal .....	—	—	—
8. Community Services and Recreation .....	—	—	—
9. Medical and Dental Services .....	—	—	—
10. Utility Deficits .....	—164	—	—
11. Debt Charges (non-school) .....	<b>- 643</b>	—	— 112
12. Miscellaneous and Unallocated to Functions . .	—	—	—
13. Taxes Paid to Province on Municipal Buildings .....	+125	—	—
<b>II. Education, Health, Welfare, Justice and Civil Defence:</b>			
14. Public Schools .....	—	—	+3,500
15. Public Health .....	—	—	—
16. Hospitals and Other Health .....	—	—	—
17. Social Welfare .....	—	—	+1,500
18. Law Enforcement and Corrections .....	—	—	+ <b>366</b>
19. Civil Defence .....	—	—	—
20. Sub-Total (Items I-I 9) .....	—682	—	+4,496
<b>B. Provincial Expenditures</b>			
21. Taxes Paid to Municipalities on Provincial Buildings .....	—	—	+1,178
22. Department of Public Works .....	—	—	—
23. Provincial Government Contributions to Municipalities .....	—	—	—8,608
24. All Other Provincial Government Expenditures .....	—	—	—
25. Sub-total (Items 21-24) .....	—	—	—7,430
26. Total (Items 20 + 25) .....	—682	—	—2,934
27. Increase in Net Debt .....	—	—	—
28. Provision For Unforeseen Costs of Expend- iture Recommendations and in Recognition of the Increased Disparity Between the Tax Base and the Level of Expenditures which Occurred Between 1961 and 1964 .....	—	—	—
29. Total Revenue Requirements .....	—	—	—



Table 15:4

ESTIMATED REVENUE REQUIREMENTS IN \$'000 OF THE PROVINCE AND MUNICIPALITIES  
(EXCLUDING OROMOCTO), 1961, ON THE ASSUMPTION THAT ALL RECOMMENDED  
CHANGES WERE THEN IN FULL EFFECT (continued)

FUNCTION	STEP I V			STEP V
	ESTIMATED EXPENDITURES FROM REALIZING ECONOMIES & RAISING STANDARDS OF SERVICE			ADD REVENUE REQUIRED FOR CONTINGENCIES AND TO REDUCE BORROWING
A. Expenditures Now Made by Municipalities (including Provincial Gov't Contributions)	Cities, Towns & Villages	Local Service Districts	Province	
I. Local Municipal Services:	(12)	(13)	(14)	(15)
1. General Gov't (incl. tax assessing) . .	<b>1,507</b>	—	650	
2. Fire Protection .....	<b>1,672</b>	<b>151</b>	—	
3. Police .....	<b>1,677</b>	—	—	
4. Street Lighting .....	379	<b>8</b>	—	
5. Other Protection .....	98	—	32	
6. Public Works .....	2,759	2,510	—	
7. Sanitation and Waste Removal . . . . .	<b>733</b>	—	—	
8. Community Services and Recreation..	<b>874</b>	<b>34</b>	—	
9. Medical and Dental Services .....	<b>106</b>	—	—	
10. Utility Deficits .....	—	—	—	
11. Debt Charges (non-school) .....	2,570	—	451	
12. Miscellaneous and Unallocated to Functions .....	<b>164</b>	<b>46</b>	—	
13. Taxes Paid to Province on Municipal Buildings .....	125	—	—	
II. Education, Health, Welfare, Justice and Civil Defence:				
14. Public Schools .....	—	—	29,295	
15. Public Health .....	—	—	194	
16. Hospitals and Other Health .....	—	—	1,491	
17. Social Welfare .....	—	—	<b>4,883</b>	
18. Law Enforcement and Corrections . . . .	—	—	916	
19. Civil Defence .....	—	—	59	
20. Sub-Total (Items 1-19) .....	12,664	2,749	37,971	
B. Provincial Expenditures				
21. Taxes Paid to Municipalities on Provincial Buildings .....	—	—	<b>1,178</b>	
22. Department of Public Works .....	—	—	<b>15,020</b>	
23. Provincial Government Contributions to Municipalities .....	—	—	6,535	
24. All Other Provincial Government Expenditures .....	—	—	<b>70,856</b>	
25. Sub-total (Items 21-24) .....	—	—	93,589	
26. Total (Items 20 + 25) .....	12,664	2,749	<b>131,560</b>	
27. Increase in Net Debt .....				7,669
28. Provision for Unforeseen Costs of Expenditure Recommendations and in Recognition of the Increased Disparity Between the Tax Base and the Level of Expenditures which Occurred Between 1961 and 1964 .....	—	—	—	2,255
29. Total Revenue Requirements .....	—	—	—	—

Table 15:4

ESTIMATED REVENUE REQUIREMENTS IN \$'000 OF THE PROVINCE AND MUNICIPALITIES  
(EXCLUDING OROMOCTO), 1961, ON THE ASSUMPTION THAT ALL RECOMMENDED  
CHANGES WERE THEN IN FULL EFFECT (concluded)

FUNCTION	STEP VI		
	TOTAL REVENUE REQUIREMENTS		
A. Expenditures Now Made by Municipalities (including Provincial Gov't Contributions)	Municipalities + Local Service Districts	Province	Summary Totals
I. Local Municipal Services:	(16)	(17)	(18)
1. General Gov't (incl. tax assessing) .....	1,507	650	2,157
2. Fire Protection .....	1,823	—	1,823
3. Police .....	1,677	—	1,677
4. Street Lighting .....	387	—	387
5. Other Protection .....	98	32	130
6. Public Works .....	5,269	—	5,269
7. Sanitation and Waste Removal .....	733	—	733
8. Community Services and Recreation .....	908	—	908
9. Medical and Dental Services .....	106	—	106
10. Utility Deficits .....	—	—	—
11. Debt Charges (non-school) .....	2,570	451	3,021
12. Miscellaneous and Unallocated to Functions . .	210	—	210
13. Taxes Paid to Province on Municipal Buildings .....	125	— 125	—
II. Education, Health, Welfare, Justice and Civil Defence:			
14. Public Schools .....	—	29,295	29,295
15. Public Health .....	—	194	194
16. Hospitals and Other Health .....	—	1,491	1,491
17. Social Welfare .....	—	4,883	4,883
18. Law Enforcement and Corrections .....	—	916	916
19. Civil Defence .....	—	59	59
20. Sub-Total (Items I-19) .....	15,413	3 7,846	53,259
B. Provincial Expenditures			
21. Taxes paid to Municipalities on Provincial Buildings .....	— 1,178	1,178	—
22. Department of Public Works .....	—	15,020	15,020
23. Provincial Government Contributions to Municipalities .....	— 6,535	6,535	—
24. All Other Provincial Government Expendi- tures .....	—	70,856	70,856
25. Sub-total (Items 21-24) .....	— 7,713	93,589	85,876
26. Total (Items 20 + 25) .....	7,700	131,435	139,135
27. Increase in Net Debt .....	—	7,669	7,669
28. Provision For Unforeseen Costs of Expendi- ture Recommendations and in Recognition of the Increased Disparity Between the Tax Base and the Level of Expenditures which Occurred Between 1961 and 1964 .....	—	2,255	2,255
29. Total Revenue Requirements .....	7,700	141,359	149,059

also in recognition of the fact that the gap between combined provincial-municipal expenditures and the yield of the tax rates in effect during 1961 would have widened -during the intervening years.

21. Step VI shows the ends to which we were working — the revenue requirements of the province and the municipalities under the system which we recommend. Column 17 shows the total estimated revenue requirements of the province, \$141,359,000, an increase of \$37,840,000 over the actual total of \$103,519,000 for 1961 shown in Column 5. Column 16 is not so complete, however, owing to the limitations of data available to us. It shows the estimated revenue requirements of the cities, towns, new villages and the local service districts under our recommendations. The items of expenditure of the cities and towns are complete. They are the actual amounts expended in 1961 after excluding the actual expenditures which were entered in the provincial column. The expenditures entered for the new villages and the local service districts are similarly transfers from Columns 1, 3 and 4 of the actual 1961 expenditures reported by the local improvement districts and the ten rural commissions plus the minor expenditures of the counties which we assume would become the responsibility of the local service districts. The \$2,500,000 reduction in costs of the Department of Public Works is also entered as an expenditure for the local service districts. Since the 1961 expenditures of local improvement districts were incompletely reported to the Department of Municipal Affairs, however, our totals for the new municipal expenditures cannot be made complete.

### III. *The New Tax Structure*

22. The calculations summarized in Table 15: 4 provided us with an estimate of the additional sums of tax money which the new commissions and the departments of the provincial government would have required if our programmes had been in full effect in 1961. The amount is \$37,840,000. It should be remembered that two-thirds of this increase is due to the transfer of functions from municipalities to agencies of the provincial government and that two-thirds of the increase in provincial taxes would therefore be offset by a reduction in municipal taxes. As shown in Table 15: 1, the net increase in revenue requirements of the provincial and municipal governments combined would be \$13,613,000, according to our calculations on a 1961 basis.

23. One of our major tax recommendations has been mentioned several times. This is that a substantial proportion — actually more than two-thirds on a 1961 basis — of the revenues required for education should be raised by a uniform, province-wide tax on real property at a rate of \$1.50 per \$100 of assessment at market value. In

Chapter 14 we discussed at length the desirability of avoiding the necessity of imposing a total real property tax much greater than 2 per cent of market value. On a 1961 basis, the arrangements which were recommended in that chapter would have resulted in a total real property tax in the cities and towns ranging from \$1.66 to \$2.37 per \$100 of assessment at market value.

24. Having met the municipalities' revenue requirements, we now turn to those of the province and of the new administrative commissions. The recommendations we shall make have been alluded to earlier where it facilitated the exposition of other matters and they were included in Table 15: 2 above. We considered all the likely new sources of revenue before deciding upon our recommendations, and the following comments upon each of these possible additional taxes provide our reasons for coming to the conclusions which we did.

25. In the previous chapter, we mentioned the desirability of repeated reference to guiding criteria so that the least undesirable combination of taxes is used. The criteria which we proposed were: (a) the incidence of total federal, provincial and municipal taxes on differently situated groups of taxpayers, particularly rural as compared to urban residents and to families which consume a great deal of certain goods or services compared to those who do not; (b) the weight of tax on families with the lowest incomes; (c) the practicability and costs of collection and compliance; (d) the minimizing of inducements to avoidance and evasion; and (e) the need to minimize the retarding effects of taxation upon the economic growth of the province. We should like to make some comments upon the last point before turning to a discussion of each form of taxation.

26. On balance, the evidence supports the view that comparable changes in operating costs or in the costs of new investment projects, and changes in demand, have more pronounced effects upon the flow of investment than changes in the rate of tax on profits. For example, it is considered that the raising of a given sum of money by increasing the sales tax on machinery and equipment would reduce investment more than raising the same sum by imposing a higher rate of tax on corporation income. This is partly because, in the first instance, the entire tax increase would be borne by new industrial investment, while in the latter instance most of the increase in tax would be borne by profits resulting from past investment decisions. This condition does not hold with respect to an increase in taxes on raw materials or other costs of production as compared to an equal increase in tax revenue drawn from a higher profits tax. Nevertheless, the limited amount of evidence available supports the view that the tax on costs would have the greater deterrent effect on investment in a particular

province. Similarly, a given increase in tax revenue drawn from higher taxes on the real property of industrial and commercial enterprises is thought to be a greater deterrent for new investment than an equal increase in revenue from higher taxes on profits, because the property taxes become part of the firm's fixed costs.

27. For the country as a whole and in certain circumstances, an increase in the general retail sales tax might reduce investment more than an equivalent increase in taxes which enter the costs of production and distribution. For a province the size of New Brunswick, however, where the volume of trade with other provinces and countries is large in relation to total production, it is unlikely that an increase in the retail sales tax would have an impact on investment nearly so great as that of an equivalent increase in taxes which become part of the costs of doing business.

28. The upshot of all this is that the objective of avoiding a tax-induced decrease in investment is served best by having recourse to taxes on final consumers and taxes on profits, rather than to taxes which become fixed or variable costs of production and distribution.

29. A more decisive distinction can be made between groups of taxes according to the magnitude of the deterrent effects which they have upon investment, but it has limited significance for policy decisions concerning relative use of broad groups of taxes. This distinction is between taxes which become costs of production of commodities and services for the local market and those which affect the costs of production for outside markets. Many industries must be located close to the markets they serve: these include most of the service industries and those which produce perishable goods, bakeries for example. Provided that an increase in consumption occurs, additional investment will sooner or later be induced despite increases in profits taxes or costs of production of the magnitude usually experienced. Investment undertaken to serve outside markets possesses no comparable invulnerability. We shall return to this consideration in Chapter 17.

#### I V . *The Real Property Tax*

30. Our reasons for recommending a public schools tax of  $1\frac{1}{2}$  per cent on the market value of taxable real property stem from the considerations discussed in Chapter 14. We considered that it was undesirable that the total property tax should much exceed 2 per cent of market value. But we were not prepared to recommend that it should be much less than that level in the cities and towns. Briefly put, our reasoning was that, defective as even a well administered real property tax is on several counts, all of the alternatives repelled us more. It would require a very sub-

stantial alternative tax to provide funds in the order of \$30 million.

31. Having decided upon the desirable average level of the tax in the cities and towns, we found that the only way of achieving it which was acceptable in all respects was by the recommended combination of a schools tax of  $1\frac{1}{2}$  per cent and a local services tax in the cities and towns of about  $\frac{1}{2}$  per cent.

32. A third reason for our decision is that we consider that a property tax of  $1\frac{1}{2}$  per cent in what are now the counties, which would become unorganized territory under our recommendations, is an eminently fair and reasonable contribution to ask the residents of rural areas to make toward the cost of the many services provided by the province. The foremost of these would be the public schools; but highways, police protection, local access roads joining the highways, the county roads, and the maintenance of them and snow removal, bridges and culverts, social welfare services, the hospitals, the administration of justice and the many other activities of the provincial government make important contributions to the life of the rural resident.

33. A tax rate of  $1\frac{1}{2}$  per cent would represent a decrease of about 40 per cent in the *average* level of real property taxes in the counties and would mean a reduction to one-half or less of the existing level in some. In addition, farmers would be among the groups which would gain most relief from the repeal of the taxes on personal property, which we recommended in Chapter 13. In most cases existing taxes on their personal property greatly exceed the amounts of their tax liability for the new taxes on automotive vehicles which we recommend below.

34. As a final consideration, the real property, gasoline, tobacco and sales taxes, the tax on automotive vehicles and imposts on alcoholic beverages would be the only major tax contributions which the rural resident would make to all levels of government. Very few farmers in New Brunswick are liable for personal income tax — only 208 in 1959 and 282 in 1960. (The average tax payments of these farmers were \$236 and \$457 respectively.) All things considered, we are of the view that a tax of  $1\frac{1}{2}$  per cent on the market value of real property would place the contributions made by rural residents to all governments at a reasonable and equitable level in relation to all other groups of taxpayers in the province.

35. The yield of \$22,370,000 from a  $1\frac{1}{2}$  per cent tax, including the proceeds from the business tax assessments and the timberlands tax on large timber holdings described in Chapter 13, may strike one as being impressively large. After all, it is almost equal to the estimated \$22,572,000 revenues received by all municipalities and school boards from real property taxes in 1961. In other words, our recommendations call for a public

schools tax with a yield almost as great as the total of all real property taxes in 1961, and we anticipate an additional \$8 million or so will be provided by real property taxes for the support of local municipal services. Yet we claim that the rates payable in the counties will, on average, be about 40 per cent lower than they were in 1961 and that the rates in most of the cities and towns would also be reduced. The explanation of this paradox is that, under our recommendations, *the tax base would be greatly enlarged*. It is not a matter of raising assessments to market value because, when we speak of the old and new rates, we are referring to the same basis of full market value. Comparisons would be meaningless otherwise. In fact, the actual value of property subject to tax would be substantially increased. This is so because the tax agreements are to be rescinded, because business property is to be assessed to the occupant as well as to the owner, and because property owned by municipalities and provincial government agencies would pay full taxes.

36. The province-wide public schools tax should be imposed by the Public Schools Commission as a levy on the school board of each district. The District in turn would impose the real property tax within its boundaries for collection by the Municipal Affairs Commission and crediting to the accounts of the Public Schools Commission. We propose that legal imposition of the tax be by a municipal body so that payment of the federal grants in lieu of municipal property taxes on federal government property will not be discontinued.

#### V. *Application of the Tax to Business Properties*

37. The discussion of property taxes in Chapter 13 contains our recommendation that all real property owned by business concerns, whether commercial or industrial, should bear an assessed value equal to market value for tax payable by the owner and should bear an equal assessment for tax payable by the occupant. The occupant's assessment falls into the group of taxes usually referred to as business taxes. In the light of the comments just made about taxes which become business costs, some discussion of this recommendation is warranted.

38. A business tax additional to the regular real property tax payable by industrial and commercial concerns is a prevalent practice of Canadian municipalities. In several provinces, with the notable exception of Ontario, the tax is a percentage of the rental value of the premises occupied. In Ontario the general rate of the property tax is applied to a percentage of the real property assessment, the use of various percentages for different industries is the prevalent practice. In principle, this can be superior to the use of a uniform percentage of the real property assessment

but, in practice, the percentages allotted to different industries seems to be selected without rhyme or reason.

39. The point which concerns us at the moment is whether a business tax of the weight recommended is so inimical to new investment that greater use should be made of other sources of additional revenue. There is little worry concerning commercial property as a class for it is mainly associated with firms which cater to the local market, and they have to be located near it. In any event, such a business tax would impose a smaller dollar amount of tax upon many firms, especially retail stores, than the existing taxes upon their personal property. For these firms, the sum total of our tax proposals would reduce tax payments compared to existing taxes. It is the industrial property which could be cause for concern. Only the skimpiest of information is available about the weight of property taxes paid by businesses in the various provinces. One of the few points anyone is sure about is that the weight varies considerably from one city or town to another in each province. It was simply not possible for us, therefore, to assemble information which would enable us to make a comparison of the weight of the combined tax on the owner and the occupier which we propose, with the weight of taxes on business properties in other provinces. From the very limited information which is available, however, it appears that it would not be among the lowest in force. In 1960, the Canadian Tax Foundation published a table of the estimated total local taxation on manufacturer's real property valued at market prices in 1959.<sup>1</sup> The totals included the regular real property taxes, business taxes, taxes on personal property and miscellaneous fees levied on manufacturers. Fourteen municipalities were included in the survey and the rates were: Sherbrooke 2.31%, Edmonton 2.36%, Brandon 2.52%, Calgary 2.88%, Kitchener 3.07%, Regina 3.07%, Victoria 3.26%, Winnipeg 3.56%, Brantford 3.74%, Vancouver 3.79%, Toronto 4.01%, Montreal 4.15% plus a flat fee of \$27, Halifax 6.06% and Saint John 6.83%.

40. Offsetting the apparent effect of our recommendation to impose a tax rate on industrial concerns higher than most of the 1959 rates in the sample, would be the narrower tax base which we are recommending. (The tax base is the value to which the tax rate is applied.) For industrial concerns, we propose a definition of real property for tax purposes which excludes *all* machinery, equipment, and structures which are not buildings. Only the land and the bare shell of the buildings (floors, walls and roof) and heating, air conditioning, elevators and similar service equipment would be taxable. It is our information that the

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<sup>1</sup> *Tax Memo* No. 24, October, 1960.

definition of real property used for tax purposes by the other provinces is not quite so restricted, since certain productive equipment permanently affixed to land or buildings is taxable. According to our definition, the value of taxable property of some industries would be perhaps as little as one-fifth of the value of the real and personal property which is now taxable in the absence of a tax agreement.

41. As a further offset to whatever tendency our recommendation may have to tax manufacturers more heavily than in most of the municipalities included in the Tax Foundation's sample, there would be the advantages of a considerable degree of uniformity throughout the province and stability, and hence predictability. We recommend in the next section that the new municipalities act include a mandatory provision that all cities and towns (but not the villages and local service districts) impose a *standard* rate of  $\frac{1}{2}$  per cent on all assessments of business property — on both the owner's and the occupier's assessment. For business property located in the new villages and local service districts, we recommend a *maximum* local rate of  $\frac{1}{2}$  per cent. Property is to be revalued every fifth year. All companies would therefore have the assurance that their expectations about future tax costs would not be likely to be upset by a gradual, seemingly inevitable rise in property taxes. They would also be protected from heavy tax burdens resulting from actions taken by the municipalities in which they are situated and which are beyond their control. Finally, the introduction of the taxation we recommend would substantially reduce the taxes of a considerable number of industrial companies which do not possess the protection of tax agreements. The recommended basis of taxation would reduce the taxes even of some companies which do possess tax agreements, because the value of their taxable machinery and equipment is so large in relation to the value of their real property. In view of the great pressure for revenue, this is as far as we felt we could go in our recommendations designed to shield industry within the province from the deterrent effects of taxation.

## VI. *The Tax Agreements*

42. We must now consider further the status of the agreements relating to property taxes made by companies with municipalities and enacted by the provincial government. (This matter is also discussed in Chapter 13.) Appendix N lists all of the known tax agreements of this nature.

43. The status of these agreements would be effected by a number of our recommendations. For one thing, new government entities would appear and old ones disappear. Among the latter will be many of the government units which are parties to the tax agreements. With some excep-

tions, the cities, towns and counties now levy taxes on behalf of school districts. Since they would cease to do so, the existing tax agreements would have no relevance for the new  $1\frac{1}{2}$  per cent public schools tax to be imposed in all school districts.

44. If no statutory provision for these tax agreements is made, therefore, the properties covered by them would be subject to the  $1\frac{1}{2}$  per cent schools tax plus the full amount of the municipal tax provided for in the agreements. For some business properties, taxation on this basis would exceed the tax they would pay without an agreement and the firm would doubtlessly be glad to terminate the agreement. For many other business properties, the tax they would pay on this new basis would still be less than the amount payable if the agreement were terminated. To decide what disposition should be made of these agreements, we must recall the circumstances and reasons for the large number of agreements which have been granted. The annual authorization of special agreements amounts to taxation by special legislative acts and the results cannot be other than chaotic.

45. There is only one justification for the granting of a tax concession, which is in the nature of a subsidy, to a private business concern, and that is that the concession is in the public interest. All other arguments, which one frequently hears, are beside the point. It is sometimes said, for example, that a business concern is entitled to a tax reduction because it consumes less than some average share of government services to which each taxpayer is notionally entitled. This argument is irrelevant since the value of services consumed is not the basis of taxation. If that were the intention, taxes would be replaced by fee-for-service charges; that is, by prices. The justification for the existence of those tax agreements, in New Brunswick which are, in fact, justifiable can be found only on the ground that, without them, business firms would be appreciably handicapped in their competition with out-of-the province companies and new investment projects would be diverted to other provinces or countries.

46. No doubt the primary reason for the willingness of a municipality to grant a tax concession is the fear that a firm might otherwise be induced to go elsewhere or to curtail its employment. But competition among the localities of a province is a crude device for achieving this objective. Yet, as matters stand, there is no alternative course open to the municipalities. This point was forcefully argued by nearly all of the municipalities who appeared before us at public hearings. In fact, these municipalities were crying out for relief from the uncoordinated and undirected proliferation of private acts dealing with local tax concessions. Time and time again it was argued that measures taken to attract industry to locate in the province and to hold

industry already here should be reserved to the province alone. This is also the conclusion to be drawn from all of the fairly numerous studies of municipal tax concessions to business which have been undertaken in recent years. All provinces west of Quebec have eliminated or are eliminating municipal tax concessions or greatly restricting them; and Quebec is moving in that direction. In addition, the undeveloped state of municipalities in Newfoundland and Prince Edward Island makes the matter hardly relevant in those provinces, and all the effective attractions to industry are undertaken by the provincial governments there. The active and successful programme for the attraction of industry to Nova Scotia, referred to in Chapter 17 below, is a function of the provincial government.

47. It should be remembered that it is not the *average* weight of tax on *real property* which is the cause for alarm. It is the combined real and personal property taxes coupled with the practice of setting assessed values in a manner which can only be described as erratic and haphazard, which causes the present weight of tax to fall with crushing force upon certain properties and certain classes of business. It is the existence of these "horrible examples" of the inequality of taxes which has given rise to the widespread impression that real property taxes are extremely high in New Brunswick and which is the justification for special dispensations in the form of tax agreements. Without their agreements, many industrial concerns would join those taxpayers, many of whom are farmers, who bear taxes which are unequal, inequitable and so high as to be economically foolish.

48. When considering the weight and effects of the business taxes proposed by this Commission, it should be remembered that the elimination of taxes on personal property will provide considerable relief for industrial as well as commercial property. Most of the municipal property taxes fall upon machinery and equipment, trucks, inventories, store fixtures and, in several municipalities upon a percentage of turnover in lieu of stock-in-trade. For some industrial properties, the assessed value of machinery and equipment alone greatly exceeds that of real property.

49. This Commission's recommendations would sweep away all justification for any agreements. Before proceeding further, however, we wish to enter a recommendation designed to ensure that commercial and industrial property will not in the future become subject to unduly heavy property taxation. It is recommended that the new municipalities act provide that the municipal rate of tax for all business properties situated in the cities and towns should be  $\frac{1}{2}$  per cent with the assessed value as described in Chapter 13, namely, commercial and industrial property to be assessed to the occupier as well as to the owner. For

business property situated in the new villages and local service districts, the rate payable by both the owner and by the occupier should be the regular rate struck on the total assessment, to a maximum of  $\frac{1}{2}$  per cent. Whatever business property may be located outside the boundaries of the cities, towns, villages and local service districts should pay only the public schools tax. The assessment for public schools tax throughout the entire province would include the regular assessment to the owner of the business property and the 'business tax' portion or occupier's assessment. Accordingly, all business property throughout the province would bear a standard public schools tax of  $1\frac{1}{2}$  per cent on double the market value of the real property.

50. Uniform taxation would end, once and for all, the unhealthy competition among cities and towns 'in offering greater and greater tax concessions to prospective new industry and so far as sites within cities and towns are concerned it would end the interference of tax considerations with business judgement in the important decision of selecting the most efficient and economical location *within the province*. It is surely vital to the economic growth of the province that all new industry be located where it can compete most effectively.

51. Equally important, these recommendations would effectively shield businesses from any tendency for the local property taxes to become unduly <sup>\*</sup>heavy. A provision of this nature is especially required for the communities which contain one, two or three business properties which constitute a large proportion of their total assessed value. The fixing of the rate would forestall any tendency on the part of a council to be extravagant in the provision of local improvements and services because 'much of the cost falls upon politically powerless taxpayers.

52. We recognize that use of a tax on real property is an inherently defective way of taxing business because the persons who finally bear the tax burden (employees, owners and customers) vary according to the circumstances and these circumstances are in constant flux. Retention of this form of taxation is advocated because there is no alternative tax available to municipalities which is less unattractive.

53. Finally, a uniform rate would be in keeping with contemporary thinking and developments concerning property taxes paid by businesses. It is generally accepted that the connection between the level of services consumed by a business firm on the one hand, and the amount of property tax paid by the firm on the other hand, is indirect. There is therefore no rationale to support a variation in the taxes paid by business concerns according to the level of local services chosen by the municipal council. Indeed there are two reasons, not yet mentioned, why they should

not so vary. It is the residents in their capacity as individuals and families who are most concerned whether optional services and improvements be provided — playgrounds, sidewalks and the like. Not many municipalities are disposed to allow their industry and commerce to be handicapped for want of services such as the maintenance of through roads, and when they do it is a clear indication of deficient local government of one form or another. There is a core of local services, which the substantial majority of residents consider to be essential, indeed indispensable. It seems only sensible that the persons most eager to have services beyond that level — the optional services — should pay for them. Such an arrangement should reduce the conflicts and divisions among different groups of taxpayers within municipalities. It is not contended that a business firm receives no indirect benefits from the provision of such facilities as playgrounds in a town. Clearly, it does. The point is that the benefit is indirect and is often not considered to be commensurate with the resulting increase in the taxes which the firm must pay.

54. The other reason why it is desirable that the property taxes paid by business should not vary according to the level of local services deemed desirable by the majority of residents is that businessmen are sometimes placed in the invidious position of having to oppose even what we have called essential services. They are faced with the alternative of opposing expenditures to reduce traffic congestion, for example, or having their ability to meet outside competition handicapped by heavy taxation. A fixed uniform tax rate would provide the protection which would enable business taxpayers to join the advocates of an adequate level of essential services.

55. The way has now been cleared for the reiteration of the recommendation which we made in Chapter 13 with respect to the property tax agreements. We recommend that they all be terminated by provincial statute. In the light of the discussion just completed we believe that this would be the sensible and equitable course. However, if it is considered that this would impose too abrupt an adjustment on some business firms, we suggest that statutory provision be made for a five-year transition to the new tax basis. For the first year in which the new municipal act is in force, the tax on business firms with unexpired agreements might be the sum of: (i) the  $1\frac{1}{2}$  per cent schools tax as uniformly calculated throughout the province, (assessed to the owner and also to the occupier), (ii) the amount of tax payable to the city, town, village or local improvement district under the terms of the agreement; and (iii) one-sixth of the difference between the sum of these two amounts and the full amount of school and municipal taxes payable in the absence of the agreement. For the second year of the transition

period, item (iii) might be two-sixths of the difference; for the third year, three-sixths; and so on. Effective in the sixth year, the agreement would have no force.

## VII. *The Assessment of Personal Property*

56. The taxes on personal property have already been discussed in Chapter 13. For the most part, so far as individuals and families are concerned automotive vehicles are the only substantial type of personal property which is taxed at the present time. The inequity of treatment of this group of taxpayers is consequently not extreme, though the assessors do not possess the information required for an accurate evaluation of automobiles and the cost of accurate valuation would run high. The exception to this statement is to be found in municipalities which apportion a percentage of the warrant to personal property and strike different rates for real and personal property. In a few extreme instances, the tax falling upon personal property is unconscionable.

57. The most shocking inequities of the personal property tax result from the assessing of certain livestock and machinery of farmers, the stock-in-trade or a percentage of the turnover of merchants, and the machinery and equipment of industrial companies which do not possess tax agreements. We have included an Agricultural Survey as Appendix G to our report, where the burden of property taxes on farmers is examined in detail. The personal property tax compounds the farmers' problems in two ways: on the average it accounts for over a quarter of his property tax bill; and it is a major constituent of some of the highest tax burdens found in our survey. The weight of tax paid by most farmers of commercial size in the more prosperous counties is not occasion for alarm. In Gloucester, however, the median tax paid by farmers in our sample was 17 per cent of gross revenue; and in Kent 12 per cent. We discovered extreme instances of property taxes exceeding 40 per cent of the value of farm produce sold. We also discovered a real property tax of \$67 per acre and a personal property tax (of a different farm) of \$21 per acre. In Gloucester the median combined real and personal property tax in our sample was \$7.80 an acre — on farms with a value of cultivated land of little more than \$10 to \$20 an acre. Clearly, the unequal weights of taxes among municipalities and haphazard assessing practices are the main causes of these extreme inequities but the personal property tax aggravates them.

58. Limitations of staff and time prevented us from conducting a thorough field investigation of the incidence of tax on merchants and industrial concerns. From the information available, however, we were confirmed in our first impression that the incidence of tax resulting from the assess-



ment of stock-in-trade, a proportion of turnover, and industrial machinery and equipment, is extremely uneven and, in many instances, beyond all reason.

59. We recommend that both the taxes imposed by the municipalities for local services and the public schools tax be confined to real property. The new municipalities act should contain an explicit provision prohibiting the imposition of tax on any form of personal property.

### VIII. *The New Tax on Automotive Vehicles*

60. If it were financially possible, we should have liked to recommend that no impost be put in the place of the repealed taxes on personal property. The existing registration fees and gasoline taxes are a large percentage of the total-cost of automobile transportation consumed by families. The present fees, in combination with the new tax we are about to recommend would constitute a large amount of tax to impose upon those members; of the very poor for whom automobile transportation is a necessity. But a continuation of this revenue source appears unavoidable in the sense that any alternative is even less attractive. The new tax would possess the weak defence that it is a tax to which the public has been long accustomed. It would also have the important advantage of uniformity and would, therefore, be much more equitable than the existing personal property taxes.

61. It is recommended that the new tax be imposed by the province and collected along with the present registration fees as a condition for the licensing of vehicles. The proposed rates for passenger vehicles are \$30, \$46 and \$50 per automobile according to the three categories established for the existing graduated provincial motor vehicle licence fees. For commercial vehicles we recommend taxes, to be established by the provincial government on the advice of their officials in the motor vehicle licensing branch, the average weight of which should be \$100. That is, the yield of the tax should be \$100 times the number of taxed commercial vehicles; the dollar amount of tax imposed on each class of commercial vehicle should be calculated to produce this result.

62. It is estimated that, if the proposed tax had been in effect in 1961, it would have produced a revenue of \$7,500,000.

### IX. *The Retail Sales Tax and Taxes on Miscellaneous Services*

63. As the third new source of additional revenue, we recommend that the rate of the general retail sales tax be increased from 3 to 5 per cent, and that the tax be made to apply to a number of items now exempt. These new items are: footwear and skates; domestic and commercial

electrical power; hotel, motel and equivalent accommodation; all medicaments except those purchased under prescription; and goods purchased by the New Brunswick Electric Power Corporation except those used directly in the production process.

64. This recommendation completes our proposals concerning the sources of the revenue required by the provincial government and the new commissions to cover the expenditures assigned to them by our programme. It has already been indicated by Table 15: 2 that the estimated yield of these new sources would more than compensate for the loss of revenue from the termination of the personal property and poll taxes. Sufficient revenue would also be provided to cover the increased expenditures on education, welfare, justice and detentions which we recommend and smaller increases in expenditures which cannot be estimated; and also provide funds almost sufficient to have covered the province's increase in net debt in 1961.

65. In the remainder of this chapter, we give our reasons for recommending the increased use of the sales tax and explain why we have not recommended greater resort to the other two possible sources of more revenue: the personal and the corporation income taxes.

66. The yield of the sales tax in 1961 was only 1.5 per cent of total personal income in the province, while the yield of the gasoline tax was 2.4 per cent; additions to the selling price of alcoholic beverages amounted to 1.5 per cent; and real property taxes absorbed 3.3 per cent of the total income of persons resident in the province. Less than one-half of the average urban family's purchases of goods and services attracts sales tax, and those which do are taxed at only 3 per cent on their market value. In contrast, the average urban family's expenditures on housing accommodation — which is another way of referring to the rental value of the residence they occupy — bears tax at a rate of about 17 per cent. These comparisons by themselves provide considerable reason for an increase in the use of the sales tax in relation to the use made of other forms of taxation. Attention should not, of course, be confined to the taxes employed by the provincial and municipal levels of government only. It is only common sense to add together federal, provincial and municipal taxes when considering whether some forms of taxation are being used too much and others too little. Using this approach, we still came to the conclusion that the sales tax was being underutilized. The federal sales tax of 11 per cent on the manufacturer's price corresponds to a rate of about 7½ per cent on the retail price. Allowance should also be made for the inclusion of most of the sales tax paid by companies in the selling price of the commodities they produce. An additional 1½ per cent would be more than ample allowance for

such shifting forward of taxes on producers' goods. Adding all these components together produces a rate of 14 per cent on the selling prices of most commodities subject to the province's retail sales tax. This is less than the rate of 17 per cent on the net rental value of housing (the value before addition of the real property tax) which we recommend as the rate of tax on residential property in most cities and towns. We see no reason for taxing housing accommodation more heavily than other services and commodities consumed by the average family, exclusive of food, fuel, medicines purchased under prescription and the like. On the contrary, since the proportion of income spent on housing accommodation is higher for the lowest income families than it is for the higher income families, we feel that, if anything, the total weight of taxation on the range of commodities subject to the retail sales tax should be higher than the weight of tax on the rental value of housing.

67. It is generally accepted that the fairest sales tax is the one with the broadcast coverage of services as well as commodities consumed by the general public, with the exception of exemptions expressly provided either to reduce the amount of tax paid by the lowest income families or because the commodity or service is subject to a tax of its own. In practice, many miscellaneous services escape taxation on the single ground of alleged difficulties of administration. This is not an objection to which a province in great need of revenue can afford to give much weight. We therefore do not hesitate to recommend that the sales tax be extended to apply to hotel, motel and equivalent accommodation and to domestic and commercial electric power. Actually, imposition of tax on the latter item, and the greater part of the former, would pose few administrative difficulties and it is something of a puzzle that they should so generally escape taxation.

68. The only valid objection to the proposed taxation of miscellaneous services is that they are purchased by companies as well as the general public. In general, it is desirable to exclude the costs of production of commodities which are either exported or are themselves taxed. It is proposed therefore that the tax on electric power should not apply to industrial users. But an endeavour to exempt business purchases of lodgings accommodation would create an excessive complexity of administration. Neither is it considered that the case for the exclusion of business local telephone calls, which are at present subject to tax, or of electricity used by commercial enterprises is compelling in New Brunswick's circumstances. It is considered that the exemptions of raw materials, component parts, containers, fuel and power, most materials used up in the process of production though not becoming a component of the end product, and the machinery and equipment used directly in production are sufficient to avoid an

undue "double taxation" of commodities which are themselves subject to tax. These are the items which comprise a substantial part of the cost of manufacturing of many products. The tax component of production costs introduced by the taxation of the miscellaneous services under discussion is too small to be of much consequence to the firm or industry.

69. The retention of the exemption of machinery and equipment used directly in production is strongly recommended because a tax upon them adds significantly to the cost of new investment and therefore is a serious deterrent to investment. The New Brunswick exemption was modelled on the former federal exemption, the repeal of which was announced in the 1963 budget. Owing to its great need for new investment, New Brunswick cannot afford to copy the federal resort to this source of revenue.

70. We consider that the base of the sales tax in New Brunswick has been unduly eroded. In 1953 exemptions were granted to all goods purchased by the New Brunswick Electric Power Commission and to all medicaments. Medicaments had previously been exempt only if purchased under a doctor's prescription and we recommend the return to that provision. It is difficult to understand why the generation of electric power should be accorded a more general exemption than the manufacturing and promotion industries in general, and we recommend that the 1953 amendment be rescinded so that the New Brunswick Electric Power Commission be on the same basis as other industry in the province.

71. In 1960, a blanket exemption was extended to boots, shoes, slippers and skates. The reason for this exemption is not known. One might have supposed that the difficulty of drawing a line between children's footwear, which was exempt in 1953, and other footwear might have caused some dissatisfaction and that this might have prompted extension of the exemption. But we understand that this was not the cause of the 1960 amendment. Also, so many items fall under the head of medicaments not purchased under prescription that much revenue is lost in the pursuit of a doubtful objective. Presumably the thought behind the 1953 amendment was that some non-prescription medicaments amount to a large item in the total expenditures of some families. Whenever a family faces a large expenditure for medicines, however, even for such things as aspirin, it would be well advised to obtain a covering, renewable prescription from the family physician.

72. All these three exemptions are good examples of the erosion of tax bases against which governments must be constantly on guard. If the sound and equitable forms of taxation are progressively eroded for extraneous or *ad hoc* reasons, it becomes necessary to resort to less desirable and

less equitable taxes. This has happened in New Brunswick.

73. The view appears to be held by some groups in the province that taxpayers resistance to a higher sales tax is greater than to more defective and less equitable forms of taxation such as the poll taxes and taxes on personal property. For unknown reasons peculiar to the Maritime Provinces this view may be correct with respect to the poll taxes — which are not notable for a high degree of taxpayer compliance. It is the Commission's opinion, however, that the view is mistaken with respect to the taxes on personal property. These are unpopular in the extreme and their capricious incidence is generally acknowledged. On the other hand it was assumed in Ontario prior to the reluctant adoption of its sales tax that there would be a violent public outcry against the levy. In fact, the public reaction was just the opposite. In British Columbia, when the hospital premiums were discontinued and the revenue loss recovered by raising the rate of the sales tax from 3 to 5 per cent, the change was favourably received by the public. This Commission has failed to discern any characteristic unique to New Brunswick which would lead it to expect any different reaction here. We have in fact received numerous representations in favour of making more intensive use of the sales tax in preference to some other possible techniques for raising necessary additional revenue.

74. The present rate of the sales tax in New Brunswick is 3 per cent. When the tax was first imposed in 1950 the rate was 4 per cent. It was reduced to 3 per cent in 1954. In the other provinces the present rates are: Newfoundland 5 per cent, Prince Edward Island 5 per cent, Nova Scotia 5 per cent, Quebec 4 to 6 per cent, Ontario 3 per cent, Saskatchewan 5 per cent, and British Columbia 5 per cent. It follows that equity in the over-all tax structure, even in comparison with other provinces, would not be adversely affected by raising the rate of the sales tax in New Brunswick to 5 per cent.

75. Every effort should also be made to keep evasion of the sales tax to a bare minimum. It is often alleged that taxable sales made through certain channels are not reported or are under-reported. We have no way of knowing whether these claims are true. In the circumstances, we can only urge that the tightest possible collection and enforcement procedures be followed, and that proven cases of evasion be met by the full force of the law.

## X. *The Individual Income Tax*

76. Under the existing arrangements for joint federal-provincial use of the individual income tax, which came into effect in 1962, the provinces regained some controlover the rates of

income taxes levied for provincial purposes. The federal government is prepared to administer and collect a provincial income tax, along with its own, provided the calculation of taxable income conforms to the provisions of the federal Income Tax Act. There is, however, a restriction that the amount of tax may not be directly related to the taxable income of individuals; it must be expressed as a percentage of the amount of federal income tax payable.

77. The "abatement" of the federal tax on individuals (the percentage reduction in the amount of federal tax payable) to make room for provincial taxes was 16 per cent for 1962 and is to increase by 1 per cent per year to 20 per cent for the 1966 taxation year. Two provinces, Saskatchewan and Manitoba, took advantage of the new arrangements by raising their taxes to 22 per cent of the amount of federal tax payable before deduction of the abatement. The amount of tax payable on the incomes of individuals originating in these provinces was during 1962 therefore 6 per cent higher than in other provinces except Quebec, and this margin is to be maintained during the life of the present agreement. Quebec is the only province which administers and collects its own personal income tax. Since it uses its own rate schedule, a comparison of tax levels in Quebec with other provinces is a more complex matter.

78. The undesirable feature of having New Brunswick resort to a higher personal income tax is a consequence of the federal requirement that if the federal government is to collect the provincial tax at no charge to the province, the provincial tax must be expressed as a percentage of the amount of federal tax. This arrangement means that raising the New Brunswick tax would push the highest marginal rates of tax even higher. As it is, hardly anyone cares to defend the present levies on an *increase* in earnings. To meet this difficulty the provincial tax could be calculated as 16 to 20 per cent of the amount of federal tax plus 6 per cent of the same amount to a maximum of a stated number of dollars. The cost of having New Brunswick administer and collect its own income tax would be very high in relation to the additional revenue which could be expected.

79. Additional revenue could be obtained if New Brunswick followed the example set by Manitoba and Saskatchewan. For the fiscal year 1962-63, the estimated revenue accruing to New Brunswick as its 16 per cent share of the federal tax payable on income earned by individuals in the province is \$4.7 million. An additional 6 per cent of the federal tax payable would have yielded \$1,762,500.

## XI. *The Corporation Income Tax*

80. Under present arrangements, the federal government will administer and collect a provin-

cial tax on corporation profits earned within the province provided that taxable income is calculated as prescribed by the federal Income Tax Act. The province may determine its own tax rate. The effective rates of the combined federal and provincial taxes on profits in excess of \$35,000 are 52 per cent in Ontario and Quebec, 51 per cent in Manitoba and Saskatchewan and 50 per cent in the other six provinces. Another way of looking at the matter is that the rate is 52 per cent for almost two-thirds of the country by population, 51 per cent for about one-tenth and 50 per cent for the remaining one-quarter of the country.

81. An increase of 1 per cent in the rate of the New Brunswick tax on corporation profits would have produced an estimated increase in revenue of \$650,000 in the fiscal year 1962-63. Equality with the rate in force in Ontario and Quebec would therefore have produced an additional \$1,300,000. There would be no change in the costs of administration or compliance consequent to an increase in the rate of the corporation income tax.

82. The important consideration in deciding whether resort should be made to this source of additional revenue is whether investment in the province would be appreciably affected. Would an increase of 2 per cent in the tax rate on corporation profits earned in New Brunswick reduce investment more than minutely? Put another way, will holding the combined rate at 50 per cent attract an appreciable volume of investment to New Brunswick or prevent the diversion of an appreciable amount of investment to other provinces? The members of our Commission are sufficiently uncertain on this point that we have not recommended an increase in the New Brunswick tax on corporation income, although this would have made it possible to rely less heavily upon other forms of taxation on business — such as the real property tax on timberlands and the land and buildings of industrial enterprises.

## XII. *Summary of Recommendations Made in the Chapter*

83. We recommend that:

(1) A substantial proportion of the revenues required for education should be raised by a uniform, province-wide levy on taxable real property, at a rate of \$1.50 per \$100 of assessments at market value. This "education tax" is to be a component of the business tax as well as of the regular real property tax; that is, in the case of business property the 1½ per cent rate should be payable by the occupier as well as by the owner.

(2) The public school tax should be imposed by the Public Schools Commission as a levy on the school board of each school

district. The board of each school district should, in turn, impose the tax on all taxable real property in its district, to be collected by the Municipal Affairs Commission on behalf of the boards, who will transfer the amounts collected to the Public Schools Commission. This procedure should be followed so that the tax will retain its status as a local tax and federal grants in lieu of taxes on crown-federal property will continue to be paid in respect of the education portion as well as the local services portion of the property tax.

(3) Within the cities and towns the municipal rate of tax payable in respect of real property used for business purposes should be a uniform 50c per \$100 of assessed value. This rate should be payable by the owner and also (as part of a 'business-tax') by the occupier. All taxable business property situated in the cities and towns would, therefore, bear a uniform combined schools and local tax of 2 per cent payable by the owner and 2 per cent payable by the occupier, on the market value of assessable property.

(4) The local rate of tax payable (by the owner and also by the occupier) on business property situated in the new villages and local service districts should be the uniform rate struck on the total assessment to a maximum of 50c per \$100 of assessed value at market value.

(5) A new tax on automotive vehicles should be imposed by the province and collected along with the present registration fee, as a condition of the licensing of vehicles. The proposed taxes payable on passenger automobiles are \$30, \$40 and \$50 according to the three categories established for the existing graduated provincial motor vehicle licence fees. The amount of tax imposed on each class of commercial vehicle should be so devised that the average tax per vehicle is \$100.

(6) The rate of the general, retail sales tax (Social Services and Education Tax) should be raised from 3 to 5 per cent.

(7) The sales tax (Social Services and Education Tax) should be made payable on sales of the following goods and services:

- a) footwear and skates ;
- b) medicaments, except those purchased under prescription;
- c) goods purchased by the New Brunswick Electric Power Corporation, except those used directly in the production process;
- d) domestic and commercial electrical power; and
- e) hotel, motel and equivalent accommodation.