Alternative Revenue Tools for Toronto Transit

By Adam Smith

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Ever since the Toronto Region Board of Trade's 2013 report on revenue tools for the city, figuring out how to raise more money for transit in Toronto has been a contentious issue. Road tolls come with a host of issues, primarily new administration and expensive infrastructure that other solutions do not require. Also, the last 40 years in Canada has seen the tax burden shift from the bulk being on businesses to being shouldered by residents, and this imbalance is leading to increasing inequality. This report offers alternative revenue sources, most of which have not been considered:

1. **Reinstate the Vehicle Registration Tax, but based on a formula taking into account gas mileage, number of drivers, number of dependents, and number of vehicles per household**
2. **Empower TPA officers to start fining illegal vehicle idling**
3. **Reinstate the Business Occupancy Tax for financial institutions**
4. **Introduce a parking lot levy, especially for malls and office towers**
5. **Eliminate the Commercial Property Vacancy Rebate**
6. **Halt the reduction of tax rates on Commercial, Industrial, and Multi-residential property tax rates**
7. **Increase property taxes on Commercial General class buildings**
8. **Create a new class of Residential property tax for houses over $1 million**
9. **Ask the federal government to purchase our debt and fund capital projects with the Bank of Canada**

1. Reinstate the Vehicle Registration Tax based on a progressive formula

The Vehicle Registration Tax was a flat fee per vehicle conveniently collected for the city by the province when people renewed their license plates. But being a flat fee it was not progressive; also it exempted commercial, historic, and a few other classes of vehicles. In this day and age of climate change and reducing carbon emissions, a vehicle tax that funds transit is a perfect solution as a city carbon tax of sorts, shifting money from carbon intensive users to fund carbon reducing measures like public transit.

Unlike the former personal vehicle tax, this is based on a formula taking into account gas mileage, number of dependents, number of drivers, and the number of vehicles at the same address. It calculates as follows:

((1/gas mileage [miles per gallon])*1100/(# of dependents+1)/(# of drivers/# of vehicles))

See the accompanying excel sheet to put the formula in action. Under this formula a single person driving a Ferrari would pay $84.62 a year, while a parent of 3 sharing a 2015 Nissan minivan with their spouse would pay $5.73. This formula can be applied to motorcycles as is, a nominal fee could be made for electric cars, maybe $5/year. This tax should be applicable to commercial, historic, and other vehicles that were previously exempt, but perhaps under flat fees according to the class of vehicle (ie. cube van vs 18-wheeler). Not only does this open up a larger revenue base, but with more total vehicles qualifying the tax per vehicle could be reduced overall.

The only catch is verifying how many dependents, it could be that is done with trust under a penalty for false information. The only other document necessary is a list of the gas mileage of vehicles, but this information can easily be found online.

Without stats on everyone's car in the city it's impossible to tell how much revenue this would bring in, but the formula can easily be adjusted to bring in more or less. The VRT used to bring in $64 million per year, and it is easy to implement as the Province collected all the fees for the City at the time of vehicle license renewal. This is why it is favourable, as it requires little expense to implement and requires no new infrastructure or disruption of roads.

2. Empower TPA officers to start fining illegal vehicle idling

Illegal vehicle idling is rampant in this city. At any given time from 9am-9pm major avenues in any given neighbourhood have dozens of people idling in their cars while engaged in their smartphones. For years, despite a growing number of complaints to the city's idling complaint hotline, the city has chosen to take an educational approach rather than a punitive one. This has resulted in no behaviour changes. Commercial vehicles are no better, from delivery vehicles leaving the engine going while they deliver, to construction vehicles left running all day whether they are being used or not, and the worst offender: taxis waiting for their next fare. I have personally confronted many instances of illegal idling behaviour and am intimately aware of the attitudes and ignorance surrounding the issue. Many people still think the idling limit is three minutes and has temperature exemptions. In combatting climate change and reducing carbon emissions the city could reduce emissions by a few percent merely by cracking down on illegal idlers, all while bringing in new revenue that could be considered a municipal carbon fine.

This revenue would likely reduce over time, as behaviour changes, but it would be a fresh injection of money for the first few years, and more importantly, will change habits that are contributing to climate change. I've spoken to the city about what it would take to empower TPA officers to ticket for idling, but it's not yet clear how many departments would need to agree. A parked car doesn't pollute and can't hurt anyone, ticketing idling is more beneficial to public health than ticketing parked cars and TPA officers are already perfectly positioned to ticket idlers.

Adjusting Property Taxes:

All of the next options involve tweaking property tax rates for commercial properties. For the first time in 2014 Canada hit a milestone: nearly half of federal government revenue was from personal income taxes.[1] With successive corporate tax cuts by the feds and the province the tax burden has shifted onto people more than ever. Inequality is not as bad as the US, but it's rising at a faster rate.[2] This has not led to more secure jobs or increased investment, but rather a glut of billions of dollars of dead money corporations are sitting on.[3]

Considering these trends it seems counter-intuitive to be lowering commercial property tax rates, especially on larger buildings run by wealthy multinationals. The private sector has been given many breaks the last decade, and it has only starved governments of revenue while enriching corporate coffers and stunting growth. Rent-seeking and speculation in markets to find ever more elusive returns are the new focus, and the real economy is left twisting in the wind.

All this is to say that bowing to the whims of the private sector's need for profits to satisfy shareholders has not resulted in progress for residents. The scales have become imbalanced and the city can use its power to alleviate some of that imbalance. The reason for bowing to the private sector is usually because we are held hostage, that if we increase the tax burden too much they will up and take their jobs with them. While there is some truth to this, it is an overblown scare tactic. Toronto is Canada's largest city and financial center, a property tax increase on office towers for example would have to result in many hundreds of millions of dollars of extra burden before a company is willing to up and relocate to somewhere that is not Toronto, which has become harder as Mississauga and Brampton are already built up and there is nowhere else nearby that has an international airport. Our biggest businesses will always stay in Toronto because we also hold them hostage: they can't go anywhere else in Ontario that has the amenities that Toronto does.

It is time to end the neoliberal policies giving too much favour to the private sector and start looking how they can do more to support the city that makes them their profits. Small increases to non-residential property taxes spread across many sectors and industries can result in hundreds of millions of dollars that will not adversely impact these businesses.

2. Reinstate the Business Occupancy Tax for financial institutions

Before 1998 Toronto had a business occupancy tax applied to the property taxes of certain types of businesses, like banks and distilleries. Banks create the majority of our money supply (about 96%) with the click of a button when they make loans, banks are literally digital money factories.[4] And they are the most profitable and safe businesses in Canada, raking in billions in profit every year.[5]

If we need money, we should be going where money is made: the banks. They also cannot move their branches, if a local branch leaves a hole in a neighbourhood, its customers are likely to seek out another bank that is local. Competition between banks ensures they will not flee Toronto because of a small increase in property taxes.

3. Introduce a parking lot levy, especially for malls and office towers

This is not a new idea, but it still seems to be getting ignored. Adding a parking levy to malls would have two effects: bringing in more revenue, and leveling the playing field between malls and main street storefronts where customers have to pay TPA to park on the street. Malls and their customers aren't going anywhere, business is booming.

A levy based on the square footage of a parking lot could be applied to any parking lot over a certain size.

4. Eliminate the Commercial Property Vacancy Rebate

The BIAs across the city have been calling for this one for a while. Too many long-time property owners are leaving their commercial storefronts empty because there is no impetus to fill them: they have long since paid their mortgages, have rents from residential units above the storefronts giving them profits, and they get a discount on their property taxes, all while an empty storefront rots below. Commercial rents in some areas of the city are exorbitant simply because landlords can afford to gouge. If they can afford to keep it empty, they can afford to pay full property taxes on it. An even harsher suggestion is that if a landlord can't fill their commercial space but refuses to lower the rent they should be fined for the empty storefront.

5. Halt the reduction of tax rates on Commercial, Industrial, and Multi-residential property tax rates

In order to attract and retain business in an environment of competition for the lowest tax rates, the city felt it prudent to incrementally lower non-residential tax rates to a ratio of 2.5 by 2020. Other than the usual favouring of the private sector, there is little purpose changing this ratio serves except to add yet another shift of the tax burden from business onto residents. With the exception of residual commercial class spaces, all other forms of commercial, industrial, and especially multi-residential are not in distress, have plenty of money, and do not need reductions in their taxes. Industrial and multi-residential are again examples of businesses that are trapped, they can't just up and leave to take their business elsewhere. And reducing the tax rate on new multi-residential is just an incentive to build more, faster, at a cheaper rate. Developers do not need this break nor any incentive to build.

6. Increase property taxes on Commercial General class buildings

Like the banks, commercial general class buildings have the most to give. They are not struggling institutions in need of tax breaks to survive: they are multi-million dollar enterprises rolling in millions of profits. Mega malls, office towers, sports complexes, all are ripe for giving more back to the city that feeds their profits.

8. Create a new bracket of Residential property tax for houses over $1 million

Residential property taxes are not at all progressive, it is the same rate whether you own a bungalow in Etobicoke or a mansion in Forest Hill. Just as there are two tax brackets for Residual Commercial, so too should massive homes taking up large tracts of land and requiring more services be required to pay a higher rate.

9. Ask the federal government to purchase our debt and fund capital projects with the Bank of Canada

We are lucky in Canada to have a publicly owned central bank. The Bank of Canada being sovereign is what allowed us to pull ourselves out of the Great Depression, fund WWII, and build a lot of infrastructure in the 50s and 60s, like the St. Lawrence Seaway and the Trans Canada highway, that ushered Canada into its golden years.[6] It is not remotely inflationary to spend government-created money into the economy.

The federal government has full power over the Bank of Canada, and although they like to keep it arms-length, the Minister of Finance holds all the shares and if push comes to shove the Minister can order the Bank to do as the government needs (as happened in the 90's when BoC Governor John Crow's obsession with inflation and high interest rates was destroying the economy and exponentially increasing government debt).

When the federal government loans money to itself it pays interest, which goes back to itself, as opposed to selling bonds in private capital markets, where the interest goes to private investors. The federal government also gets a lower interest rate on bonds compared to provinces and municipalities. This begs the question: why can't the feds use the Bank of Canada to aid struggling municipalities and provinces with their debt load? The short answer is, they can but won't. The long answer is public money creation does little to increase private profits or give investors a safe place to park their money for a small but safe return (government bonds), and it puts them in direct competition with private banks and their money creation. It is part of the neoliberalism that infected Western governments in the 70s, the focus is on "free" markets, deregulation, and privatization, and that requires the slow and systematic starving of the government and public service. But it doesn't have to be this way.

There is a growing movement for public money creation across the world. The federal government is in the middle of a lawsuit by the Committee on Monetary and Economic Reform to reinstate the Bank of Canada to the government lending institution it once was before Pierre Trudeau dismantled that function at the behest of private central bankers at the Bank for International Settlements in 1974.[7] Councillor Wong-Tam has already called for public banking in Toronto[8], and if the city were to officially take such a stance with the feds it would go a long way to sending a strong signal that things aren't working as they should and a new way needs to be found.

Conclusions:

Quite simply, the status quo is not working and the needs of Toronto cannot be met or sustained under the current system. The private sector has been given an undue amount of tax breaks from all levels of government, and the result of this neoliberal policy is that all levels of government are now starved for revenue. As these breaks were brought in incrementally, so they can be shifted away incrementally. Canada's federal corporate tax rate used to be nearly 50%, and our businesses did just fine. It was decades in an environment of neoliberal deregulation, privatization, and downloading of services that brought us to the current crisis. Toronto has never recovered from Harris' tenure as Premier, the downloading of services created new costs faster than we could find new revenue and we've been struggling ever since.

If the city continues on the current path, inequality, poverty, congestion, a transit deficit, and approved but unfunded capital projects will only worsen. The current funding models are just not sustainable, and the private sector has been given too much power to call the shots for their own profits. It's time for the pendulum to swing the other way, in favour of the public.

Sources:

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About the author:

My name is Adam Smith, and I've been studying banking, finance, monetary theory, and revenue tools for years. When the TRBOT released their 2013 revenue tool study I immediately took an interest as I felt the options were not ideal or equitable enough. I was lucky enough to spend hours discussing some of my options with Richard Joy from the TRBOT. I even created a facebook page about the issue:

https://www.facebook.com/AlternativeRevenueToolsForMetrolinxAndTheBigMove/

I am also a part of COMER – Committee on Monetary and Economic Reform, and I was on the board of the Beach Village BIA for 6 years. Through my work with the BIA I not only know a lot about local businesses and their struggles, but I also know a lot about how the city works and funds programs.

I do not come to these conclusions lightly; they are the culmination of years of research and thought. I'm sure it's a hard sell to say we need to increase taxes on businesses, but our largest can more than afford it, and with inequality increasing the city will not be economically viable if people can't afford to be there. The city must take its own steps to rebalance the scales, the province and feds are part of the problem, they created the conditions we struggle under.

Thanks you for reading, please feel free to share this document.

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