Canadian Centre for Policy Alternatives
March 2024

A modest proposal

A plan to give municipalities access to personal income taxes

David Macdonald

www.policyalternatives.ca
RESEARCH
ANALYSIS
SOLUTIONS

CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
CENTRE CANADIEN
de POLITIQUES ALTERNATIVES

ISBN 978-1-77125-682-7

This report is available free of charge at www.policyalternatives.ca.

PLEASE MAKE A DONATION...

Help us to continue to offer our publications free online.

With your support we can continue to produce high quality research—and make sure it gets into the hands of citizens, journalists, policy makers and progressive organizations. Visit www.policyalternatives.ca or call 613-563-1341 for more information.

The CCPA is an independent policy research organization. This report has been subjected to peer review and meets the research standards of the Centre.

The opinions and recommendations in this report, and any errors, are those of the authors, and do not necessarily reflect the views of the funders of this report.

ABOUT THE AUTHOR

David Macdonald is a senior economist with the national office of the Canadian Centre for Policy Alternatives.

ACKNOWLEDGMENTS

The author would like to thank Alex Hemingway, Sheila Block, Christine Saulnier, Randy Robinson, Simon Enoch, Molly McCracken, and Matthew Pelletier for their comments on an earlier version of this report.

A modest proposal

4 **Executive summary**

6 **Introduction**

8 **Send us all a cheque**

9 Property taxes: built to stagnate

11 Moving from tax sharing to municipal autonomy

12 Municipal autonomy on consumption taxes

13 Municipal autonomy on corporate income taxes

13 Municipal autonomy on personal income taxes

16 Is any of this legal?

18 **What could cities raise?**

21 **Growth rates in tax bases**

24 **Conclusion**

25 **Appendix**

27 **Notes**

Executive summary

CANADIAN CITIES HAVE been straining under the weight of greater demand for improved and accessible public services—coupled with less support from senior levels of government and compounded by the impact of COVID-19 at the city level.

When it comes to raising revenues to pay for city services and infrastructure, cities don't have the suite of taxation powers other governments do as the provinces and territories have removed those powers. This despite seven cities having higher expenditures than the Yukon territory and the City of Toronto government being larger than seven provinces and territories.

The number one source of city revenue is one of the oldest taxes on the books: property taxes. Politically, city governments are forced into an annual artificial ritual at budget time: asking for another "tax increase". Unlike all other tax types, property taxes don't bring in more revenue as the economy grows. They are structured explicitly to provide no additional revenue to cities, even if property values rise.

Fortunately, there are ready solutions. The Canada Revenue Agency (CRA) already collects all personal income taxes for all federal, provincial and territorial governments (save the province of Quebec). The CRA should provide city governments access to this tool as well. It can and should provide them with fine-grained control over a simplified set of tax rates that can be different based on income. Then it should be city's individual choice as to how or whether it wants to use these new tools.

Most importantly, implementing a municipal personal income tax would enable cities to raise significant levels of revenue, which could immediately go towards building more social and affordable housing and child care spaces, tackle homelessness, improve and expand public transit and other infrastructure, and so much more.

This report estimates how much 34 city governments (not Census Metropolitan Areas) could raise if they changed any of the top four federal income tax brackets. For instance, if a city tacked on a one per cent tax for individuals making over $246,000:

- The City of Burnaby, B.C. could net $7.2 million in 2025 alone.
- The City of Vancouver could raise $48 million a year.
- The cities of Calgary and Edmonton could raise $67 and $42 million, respectively.
- The City of Regina could raise $6 million.
- The City of Winnipeg could raise $16 million.

If cities decided to expand the personal income tax for those making over $56,000 in 2025, they could yield even more revenue to pay for needed services.

- The City of Toronto could raise a third of a billion dollars, per point.
- Quebec City could expect $60 million, per point.
- The City of Halifax could see $45 million, per point, for changes in its second bracket.

City governments would decide whether to raise personal income tax (PIT) revenues, and for which income levels, without having to go cap-in-hand to senior levels of governments all the time.

Providing detailed access to the tax brackets would allow cities to decide how progressive they want their versions of a personal income tax to be. For taxpayers, it would open the way for a more progressive form of taxation at the municipal level, income taxes, which would also be one tool for addressing income inequality in our cities.

City governments are important economic actors in Canada, and they should be treated as such, with autonomy and responsibility for new revenues.

Introduction

CITIES ARE INCREASINGLY concerned that they don't have the revenue sources necessary to properly deliver the services that are being asked of them. Over the past three decades, senior levels of government have downloaded the cost of many public services, such as social services, onto municipalities—straining their budget. Over the past half century, there has also been a substantial shift in who owns physical infrastructure, moving away from provincial and federal government ownership (and responsibility) and moving towards the municipal levels. As well, when major new infrastructure projects are proposed, it is often expected that municipal, provincial and federal governments pitch in a third each, even though municipal governments can't run deficits, have a much smaller tax base and are much more limited in revenue sources.

Cities have long pushed for new revenue streams. The Federation of Canadian Municipalities (FCM) is calling its latest initiative the "Municipal Growth Framework" to develop those sources.

This report analyzes one such possible revenue source: allowing municipalities access to the federal personal income tax. It examines similar possibilities for both the Goods and Services Tax (GST) and corporate income taxes (CIT), although it focuses on provincial income taxes (PIT) access. Providing cities with a proportion of revenue from a particular federal or provincial tax, which is a form of "tax sharing", isn't new. However, what's being proposed in this report is a mechanism to allow cities to decide if they want to charge personal income taxes, and at what rates, across the income

spectrum. In effect, it amounts to municipal autonomy on PIT instead of more traditional tax sharing.

This modernized approach to city revenue raising would give cities discretion over its use and it would promote flexibility and political responsibility. Legal issues are examined in this report, as are the projected amounts that major Canadian cities might raise.

Send us all a cheque

The traditional approach

IT'S WORTH SAYING up front that different levels of government are always keen for other levels to send them money. The provinces are continuously asking the federal government for more health care dollars, saying that they cannot fix their systems—and rebuild them after the impact of the pandemic—without federal aid. However, the provinces, like the federal government, have direct access to corporate and personal income taxes and sales taxes. In the most recent round of health care negotiations, most of the provinces were running surpluses and, therefore, could have redirected their own funds to address health care issues without changing tax rates. Given that the provinces run the health care systems, they don't need Ottawa's permission to invest in them. Nonetheless, they successfully managed to make the case that they needed more funds.

In a strict sense, the same can be said for cities. They can increase property taxes to pay for services and infrastructure costs that have been downloaded onto them. There are few limits to how much property taxes can go up, although there are often limits to differences between business and residential rates.[1] However, the structure of property taxes makes this politically fraught. Unfortunately, economic and tax reasoning is often delinked from political feasibility.

Section 92 of the *Constitution Act, 1867* outlines the division of powers for the federal and provincial governments, granting provincial legislatures

exclusive responsibility over laws relating to municipal institutions. Thus, the revenue streams available to cities are those allowed by the provinces. Generally, the single largest revenue stream for a city is property taxes, although the proportion of a city's budget that comes from property taxes varies by jurisdiction. P.E.I. and Saskatchewan cities have roughly a third of their revenue coming from property taxes. At the other end, Quebec cities had 59 per cent of their revenue derived from property taxes in 2022, with the other big provinces in the 40 per cent range.[2] In the provinces where property taxes make up a small proportion of city budgets, it's often because the provincial property taxes are relatively higher, as is the case in P.E.I. In some cases, large cities, like Toronto, are allowed ad hoc additional revenue options. But, in the case of the *City of Toronto Act*, Toronto doesn't have the ability to levy income, wealth or sales taxes generally, although some more limited forms of sales taxes on alcohol and tobacco are permitted.[3,4]

Property taxes: built to stagnate

Property taxes are some of the oldest taxes in Canada and were an important source due to their simplicity of implementation. Interestingly, municipal income taxes were levied in Canada through the middle of the 20th century, although the provinces temporarily suspended those powers, depending on the city, at various points between 1936[5] and 1941 as a result of the war—a suspension that became permanent thereafter.[6,7] If anything, several of Canada's cities were among the first jurisdictions to levy personal income taxes.

One of the major differences between property taxes and most other major forms of revenue generation (CIT, GST and PIT) is that property taxes don't grow with economic growth. Property taxes have no automatic adjustment for inflation, nor do they go up as Canadians' incomes rise. This delinking of property taxes from economic growth due to the nature of property tax implementation creates a huge political barrier, making even regular revenue increases politically challenging. In contrast to economic analysis that ignores political realities, in the real world, the politics of taxation has tangible effects, as we'll see below.

Property taxes may look like they function like sales taxes, but there are critical differences, and a brief example might be illustrative. Table 1 shows how property taxes are calculated, by multiplying the property value—in this case, a home worth $750,000—by the property tax rate or mill rate of

TABLE 1 Property taxes as property values change

	Change from starting values	Home value	Property tax or mill rate	Property taxes owing
Starting values		*$750,000*	*0.84%*	*$6,300*
What one thinks will happen	Property values rise 10%	$750,000×10%=$825,000	0.84%	$6,930
What actually happens	Property values rise 10%	$750,000×10%=$825,000	0.76%	$6,300

Source author's calculations.

0.84 per cent (the average in the Greater Toronto and Hamilton Area in 2022)[8] to get the actual taxes owed for a year, in this case $6,300.

This is straightforward and easily understood. However, it is critical to understand what happens if property values go up by, say, 10 per cent in a year. If property taxes were like sales taxes (i.e., the GST) one might assume that if property values rose by 10 per cent, then so would taxes owing. In our example, if the home value rose to $825,000, multiplied by the tax rate of 0.84, it would mean an updated property tax bill of $6,930, or 10 per cent more than the $6,300 from the year before. But this is wrong because the property tax system operates very differently from sales tax systems like the GST.

If property values go up, on average, by 10 per cent, another change would occur: the tax rate would fall by 10 per cent to ensure that the city sees no additional revenue. In essence, there has been a tax cut in exactly the right amount to keep municipal revenue constant, although this routine operation is never characterized as a "tax cut." To even keep pace with inflationary pressures, municipalities need to slow the decrease in the tax rate as property values rise, yet this slowing of the cut is somehow characterized as a "property tax increase."[9]

In a basic sense, property taxes function like sales taxes: you multiply the price of a good by the tax rate—for example, the five per cent of the GST—and you get the sales taxes owed. What's very different between the two is what happens year to year. The GST rate stays the same, at five per cent every year, but the property tax rate falls by the same amount that house values rise. It would be as if the GST rate of five per cent fell every year by exactly the increase in the price of goods, which is inflation. So if inflation was three per cent in a year, the GST would fall from five per cent to 4.85 per cent (5% x (1-3%)) if it acted like how property taxes act. As such, the federal government would see no benefit from higher prices. If the GST

was like property taxes, just keeping the GST at five per cent, instead of dropping it to 4.85 per cent, would be described as "raising taxes by three per cent" even though the GST has continuously been at five per cent since 2008 and no one describes that as "raising taxes" every year.

This isn't how any other major tax revenues streams work. For corporate, personal and consumption taxes, the rates stay the same. The GST, for instance, stays at five per cent year after year. If there are more profits, more personal income or prices rise, then government revenues rise. This isn't considered "a tax increase" if the rates remain unchanged, even though revenues increase.

The dynamics of the property tax system ensure that it's very hard to properly fund municipal services. Every year, municipalities debate their "tax increase," which is the slowing down of how much the property tax rate is cut that year. Debating the property "tax increase" every year consumes important political energy as municipalities cannot benefit from market value increases.

Provincial and federal governments don't debate, much less change, their tax rates on personal, corporate or consumption taxes every year, if at all. Yet, as the economy grows, these revenue streams grow automatically. In fact, there were substantial revenue increases during the inflationary period, which municipalities didn't benefit from unless they explicitly "raised taxes" by those amounts.

Moving from tax sharing to municipal autonomy

While most provincial governments also charge property taxes, most federal and provincial revenue comes from other revenue sources that are not available to municipalities: corporate and personal income taxes, consumption taxes (which include sales, gas, sin, green/carbon taxes, etc.) and excise taxes.

Tax sharing is the traditional approach to funding municipalities, where a government shares a proportion of a certain tax with all municipalities on a per capita basis. This could involve simply sharing that proportion directly, without changing the actual rate, which reduces the revenue of the government implementing the transfer. Alternatively, a government could increase the rate of a particular tax and then share the new funds raised with municipalities, thereby not changing the revenue the higher-level government collected.

In terms of sharing revenue in the Canadian context, it seems that consumption taxes have the most precedent. Federally, there is the Gas Tax Fund, which nominally shares five cents per litre, starting in 2005-06, although it didn't automatically grow in value as more gasoline was sold.[10,11] More recently, the Quebec government allocated one per cent of its Quebec sales tax to cities, initially from 2020 to 2024,[12] although better codified in Bill 39, passed in 2023, to keep in place going beyond 2024.[13] Other provincial examples abound, although they generally share existing revenue rather than raising rates and sharing the difference.

Actual municipal autonomy is much rarer in Canada—where a city decides to levy a new tax on its own or is given the ability to do so. For instance, some U.S. cities, like Chicago, have city-specific sales taxes, such as the 1.25 per cent Chicago Home Rule Tax.[14] In the Canadian context, the provinces generally haven't allowed cities additional taxation powers, although cities do organize more limited consumption taxes, like having a voluntary tourism tax on hotel rooms to fund a municipal tourism authority.

But when it comes to municipal autonomy and taxes, what's feasible?

Municipal autonomy on consumption taxes

Consumption taxes initiated at the municipal level are possible and operate successfully elsewhere. For the most part, Canadian cities don't have this power, but presumably could. Consumption taxes remain some of the more popular types of municipally initiated taxes. They are likely historically easier to implement. It's fairly straightforward to have every business charge a set percentage on sales. A city needs no additional information on any person or business' income.

Consumption taxes do grow with economic activity, although it is likely more effective to levy them across the entirety of a municipal area since they are readily avoidable by driving a few more minutes down a major freeway. One can enjoy local services but avoid paying the possible consumption taxes that fund them.

Like property taxes, consumption taxes are regressive. Lower-income households spend much more of their income on goods and services, whereas higher-income households can afford to save more, thus avoiding the tax. This means that lower-income households spend more of their income on consumption taxes.

Also, consumption taxes are a flat tax, meaning that the same percentage is paid by everyone, whether you're buying track pants or a car.

Municipal autonomy on corporate income taxes

While corporate income taxes (CIT) certainly increase with economic growth, they do tend to be more volatile than other tax bases, dropping substantially during recessions, for example, compared to other tax bases.

Perhaps more critically, it would be operationally difficult to charge differential corporate income taxes in only a particular city. CIT is charged by provincial and federal governments. The key to CIT allocation by jurisdiction is a formula to allocate where profits are made and, therefore, where CIT will be paid based on different provincial rates. Otherwise, corporations would just declare all their profits in the province with the lowest CIT rate. And this does happen internationally: it's called tax shifting and it's a substantial problem. Within Canada, this isn't really possible because all provinces agree to a two-factor formula where profits are allocated based on company payrolls by province and gross revenue by province. Within that, profits are allocated by jurisdiction. Tax rates are applied, and taxes owing are calculated.

While this is theoretically possible to do at the city level, that's not currently how it's reported. So, the creation of a new reporting system would be necessary, with service delivery being tracked to the postal code level. Along with personal income taxes, municipalities used to tax corporate income in the middle of the 20th century, but cities lost these powers during the Second World War.[15]

While appealing, corporate income taxes couldn't readily be collected at the city level without additional changes in corporate disclosure to the Canada Revenue Agency (CRA). This leaves business property taxation as one of the few feasible options for getting businesses that use their infrastructure to pay for it at the city level.

Municipal autonomy on personal income taxes

It would be complex and expensive for cities to create their own personal income tax systems from scratch. Luckily, there is a single agency that already administers basically all personal income tax collection in the country, the Canada Revenue Agency (CRA). It collects both federal and provincial

TABLE 2 Federal personal income basic tax table (2025)

Bracket	Dollar range of tax rate	Tax rate for income in that range is
First	Up to $55,709	15.0%
Second	$55,709 & $111,416	20.5%
Third	$111,416 & $172,714	26.0%
Fourth	$172,714 & $246,053	29.0%
Fifth	$246,053 & Over	33.0%

Source SPSD/M 30.1.

income taxes (although not Quebec income taxes) and remits the amounts collected to the provinces.

In 2023 in the United States, local income taxes formed a significant part of revenue for cities in six states and a modest source in another 10 states.[16] Prior to the powers being removed during the Second World War, some Canadian cities did collect personal income taxes.

In previous Canadian proposals, municipal personal income taxes had been conceived as a proportion of all PIT collected in a city, say, one per cent, but more flexibility could readily be offered to cities.[17]

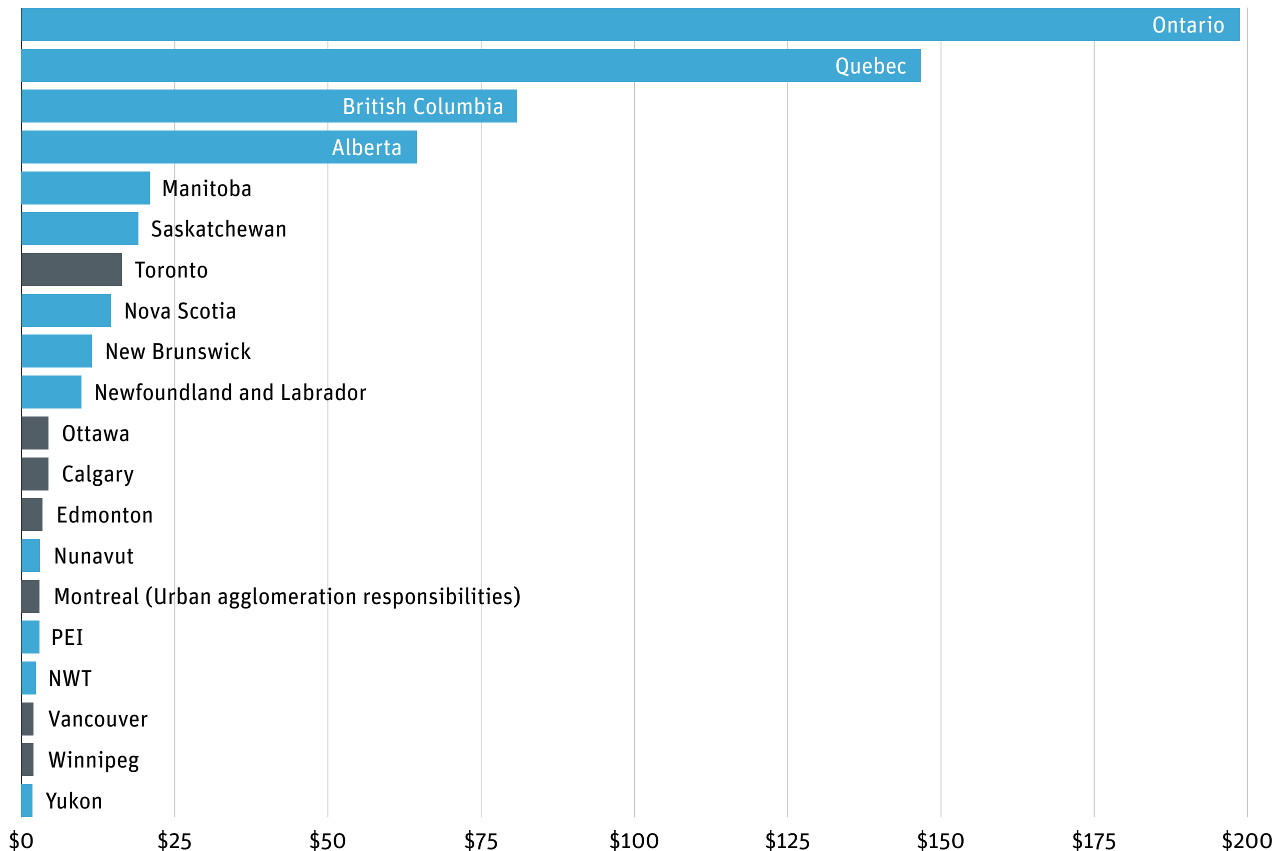
This report proposes a new system that would provide municipalities autonomous access to simplified personal income tax brackets based on existing federal PIT brackets. The CRA would put in place measures to make such access possible administratively and remit the amounts to the cities based on a tax filer's home address. Cities would have basic control over bracket rates of their choosing, but not the thresholds. Provincial agreement would likely be necessary, as we'll see below.

The federal PIT has five tax brackets, with progressively higher rates as we move up the income thresholds. To provide simplified access, the cities could impose additional percentages to the top four rates of their choosing. The lowest rate would remain locked because changing it would interfere with the non-refundable rate, substantially complicating matters.

For example, a city could decide that its residents would pay an additional one per cent in the top/fifth bracket. The CRA would collect 34 per cent instead of 33 per cent, from every individual with an income over $246,000 and remit that extra one per cent in revenue to the city. For a further discussion of the modelling, see the appendix.

Cities would then have real choices to make. They could, for example, levy new taxes on their richest residents, but because they are a smaller group,

FIGURE 1 Largest subnational governments by expenditures, $billions, 2022



Note Montreal bar represents the expenditures of the urban agglomeration responsibilities only, the local responsibilities amount to an additional $2.39 billion expenditure.
Source Fiscal reference tables, city financial statement actuals.

it would yield less revenue. Or they could increase the tax in the second bracket, which would affect many more people and raise more revenue.

One of the critical parts of this municipal autonomy would be that city governments would gain access to a new revenue stream and they'd bear responsibility for it. On the flip side, other levels of government could provide access to this new tool and avoid responsibility because it would be the city's choice. Other levels of government could avoid the political fallout from "raising taxes" or the financial cost of leaving tax rates at their current rate but transferring a proportion of existing revenue to cities. This might make this approach to more revenue sources more politically appealing.

Municipal autonomy would open several possibilities for cities. Revenues don't mean anything until put into the context of what they pay for. A city could propose a tax change to provide new services in the future or to

retroactively pay for services that it already provides but doesn't have the funding for them without ending up in a deficit.

Cities could swap tax bases, reducing property tax revenues this year by the same amount that PIT revenues are increased. In the short term, this might be revenue neutral, but this would be a savvy long-term move to generate more sustainable revenues, as we'll see below. Alternatively, a city could do nothing at all and not use this PIT access. These are decisions for city governments to make on their own.

As "creatures of the province", municipalities are often infantilized, having basic taxation powers withheld from them. Like their federal and provincial colleagues, municipal politicians also want to be re-elected. Making the case for how new revenues will be spent is old hat for municipal politicians. If anything, they're much more attuned to these arguments because they have to make them every year, whereas federal and political politicians don't because most federal and provincial tax bases simply expand automatically without debate. Also, it is not uncommon for politicians to switch levels of government over their career, adding to the knowledge of trade-offs between tax systems.

Moreover, there are seven city governments in Canada that exceed the size of the Yukon territorial government, which does have a PIT system and can manage it just fine. In 2022, the City of Toronto had $16.4 billion in expenditures,[18] which was larger than more than half of the provinces and territories, including all Atlantic provinces and the three territories.[19] Clearly, it's time for the cities to be provided access to an expanded suite of revenue options, given their existing size, complexity and expertise.

Is any of this legal?

There are two separate questions here. The first is whether the federal government can apply different tax rates depending on where a person lives (different taxes for residents of different cities) and the second is whether the federal government can remit its collected revenues to a particular city.

On the first question, the federal government has already applied tax rules differently by province, notably on carbon taxes. Some Canadians pay federal carbon taxes and others don't, depending on whether the federal government believes that the provincial carbon tax regime is adequate.

More recently, the federal government has stated its intention to have the CRA apply tax rules differently at the municipal level, starting in January 2024.

Specifically, it would deny the ability to deduct expenses incurred against short-term rental income if the municipality or province has prohibited such activities.[20] In essence, short-term landlords in those cities will end up paying more tax. It marks an interesting precedent for city-level changes in taxation. The carbon tax differences have survived in court, although there doesn't appear to presently be any test of the short-term rental tax deduction case.

The second question will likely be the more critical one, in that provinces can effectively veto federal-municipal agreements, if they wish. Until recently, any federal-municipal interactions were mediated by the provinces. The Gas Tax Fund, for example, was transferred first to the provinces, which then transferred it to the cities.

However, the recent Housing Accelerator Fund, which sends federal money to cities willing to change residential zoning, doesn't work that way. Instead, the federal government is signing deals directly with municipalities, without any provincial involvement. This is a new and very different approach to federal-municipal relations. Examining the list of successful recipients reveals that there are no Quebec cities on the list, although the province of Quebec is.[21] This is due to the Quebec law M-30, which explicitly bars municipalities from signing agreements with the federal government without explicit provincial permission.[22] No other province has such a rule, but Alberta has shown possible interest in one, forcing its municipalities to disclose the agreements they have signed with the federal government.[23] Although other provinces haven't created a Quebec-style veto, they'd be well within their power to do so.

So, while the federal government could likely collect a municipal PIT, provinces have an effective veto (if they wish to exercise it) over municipalities signing an agreement to receive that money. Therefore, what would likely need to be in place would be the administrative system at the CRA, a province's blanket agreement not to interfere and then the cities deciding individually what they wanted to do from there, if anything. This wouldn't require all provinces to sign up immediately, it could be a service the CRA provides, with provinces signing up as they wish. But it's likely wise to explicitly sign up provinces rather than betting on their inaction.

What could cities raise?

As noted above, we look at the cities being provided access to the basic federal tax table. Specifically, the cities having the choice of adding on to the federal rate in any of the four top brackets. We're excluding the lowest bracket, which interacts with non-refundable tax credits, creating more complex issues. Statistics Canada tax modelling software SPSD/M is being used, along with CRA tax filing counts, to provide projections of a one percentage point change in each of the top four brackets.[24] For example, how much could be raised if the second bracket rate rose from its present 20.5 per cent to 21.5 per cent? See Table 2 for the rates and thresholds in 2025. See the appendix for a further discussion of methodology.

Table 3 estimates the amounts raised for 34 city governments (not Census Metropolitan Areas) based on a one per cent raise for each of the top four federal brackets in 2025. These 34 cities are parts of CMAs where modelling and disaggregation is possible using SPSD/M 30.1.

For example: if the City of Burnaby, British Columbia decided to use this system and add a one per cent personal income tax on top of the fifth federal bracket, raising it from 33 per cent to 34 per cent for anyone living in the city limits of Burnaby. Such a move would net the city $7.2 million in 2025 and would apply to anyone with taxable income over $246,000. If they decided to add two percentage points instead, raising the top bracket rate from 33 per cent to 35 per cent, they'd raise twice that—$14.4 million. If Burnaby

TABLE 3 Projected revenue raised for a 1%-point increase by federal PIT bracket, $millions, 2025

City	2nd bracket	3rd bracket	4th bracket	5th bracket
British Columbia				
Burnaby	$27.3	$9.2	$4.2	$7.2
Coquitlam	$27.0	$8.8	$3.9	$6.3
Langley	$20.9	$6.9	$3.1	$5.3
North Vancouver	$27.6	$12.2	$6.4	$12.6
Richmond	$20.9	$7.1	$3.4	$6.1
Surrey	$52.2	$16.2	$7.4	$12.4
Vancouver	$105.3	$45.2	$24.1	$48.2
Alberta				
Calgary	$167.6	$62.7	$34.5	$67.1
Edmonton	$117.4	$41.6	$23.0	$42.4
Saskatchewan				
Regina	$27.8	$9.6	$4.2	$5.8
Saskatoon	$28.6	$9.4	$4.5	$5.8
Manitoba				
Winnipeg	$63.8	$16.9	$8.5	$16.3
Ontario				
Ajax	$14.2	$3.5	$1.5	$2.4
Brampton	$49.7	$10.4	$4.6	$6.9
Burlington	$33.3	$12.7	$6.7	$14.9
Hamilton	$50.8	$15.1	$7.6	$15.2
Markham	$41.3	$12.8	$6.2	$11.6
Milton	$16.4	$4.3	$1.8	$2.9
Mississauga	$82.6	$23.2	$11.3	$20.5
Oakville	$38.9	$16.1	$9.0	$19.4
Ottawa	$152.6	$53.8	$28.6	$57.1
Richmond Hill	$27.7	$9.0	$4.3	$8.1
Toronto	$340.2	$120.6	$67.3	$141.2
Vaughan	$45.3	$14.4	$7.2	$13.8
Quebec				
Island of Montreal	$189.9	$69.4	$36.1	$71.0
Laval	$40.5	$12.0	$5.6	$9.7
Levis	$18.7	$5.6	$2.6	$4.1
Longueuil	$20.3	$5.4	$2.5	$4.1
Quebec city	$59.7	$18.5	$9.2	$15.0
Terrebonne	$11.7	$3.1	$1.4	$2.2

City	2nd bracket	3rd bracket	4th bracket	5th bracket
New Brunswick				
Moncton	$11.2	$3.0	$1.5	$1.8
Saint John	$4.8	$1.2	$0.6	$0.7
Nova Scotia				
Halifax	$45.3	$13.1	$6.7	$8.9
Newfoundland and Labrador				
St. John's	$12.4	$4.4	$2.3	$3.6

Source SPSD/M 30.1, Canada Revenue Agency and author's calculations. See the appendix.

added one percentage point to the second federal bracket, moving it from 20.5 per cent to 21.5 per cent, the city would raise much more—$27.2 million in 2025, and this would affect tax filers with taxable income over $55,700.

Broadly speaking, changing the second bracket raises the most because it affects the most people. Proportionally, the change from 20.5 per cent to 21.5 per cent is larger than the change from 33 per cent to 34 per cent. Changing the third and fourth bracket raises less because they have smaller slices of population in each bracket. Changing the highest bracket raises similar amounts to targeting the third bracket, although the concentration of high earners can have a larger impact on this top bracket.

If we look at some of the larger cities and capitals, the amounts that can be raised for a single percentage point change can be substantial. The City of Vancouver (not the CMA of Metro Vancouver) could raise $48 million a year, per point, in the top bracket or $105 million, per point, for changes in the second bracket. The cities of Calgary and Edmonton could raise $168 and $117 million, respectively, for a one-point change in the second bracket or $67 and $42 million, respectively, for a point change in the top bracket. The City of Regina could raise $6 million, per point, for its richest bracket or $28 million for a change in its second bracket. The City of Winnipeg could raise $64 million, per point, for its second bracket and $16 million for its highest bracket. The City of Toronto (not the GTA) could raise a third of a billion dollars, per point, for its second bracket or $141 million, per point, if it only targeted its richest residents. Quebec City could expect $60 and $15 million, per point, for changes in its second and fifth bracket, respectively. The City of Halifax could see $45 million, per point, for changes in its second bracket or $9 million, per point, in its fifth bracket.

Growth rates in tax bases

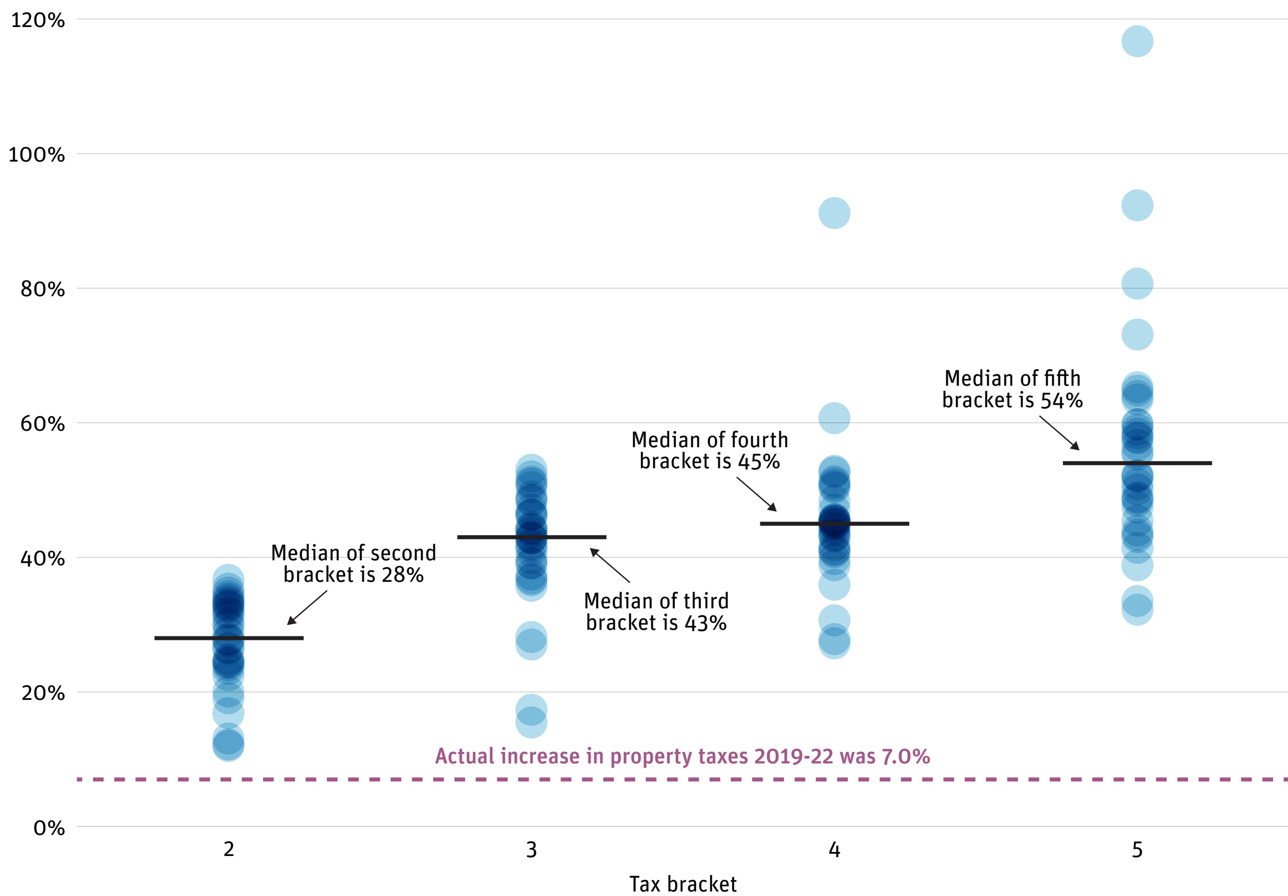
PERHAPS MORE INTERESTING than what could be raised in any given year is the difference in growth rates. If we start, pre-pandemic, in 2019 through to the most recent municipal property tax data in 2022, this was a period of particularly high inflation, which peaked at over eight per cent in June 2022. The PIT revenue projections above are for 2025, but, in this section, the revenue projections are for 2019 to 2022.

The most recent data for property taxes show aggregate Canada-wide revenue increased by seven per cent between 2019 and 2022, the most recent data.

The average seven per cent property tax revenue change includes any explicit "tax increases" even though this is just a slowing of the decline in the tax rate. The increase of seven per cent also includes the addition of new properties built over that period and now included on property rolls.

Figure 2 provides a distribution of changes for the 34 cities in Table 3 and projects the revenue change between 2019 and 2022 that would have resulted from a one per cent change in each of the tax brackets. Federal tax rates didn't change over that period, they remained the same and as presented in Table 2, although the thresholds increased by inflation. Over this period, there were no federal personal "tax increases", yet the revenue growth that could have been enjoyed by each city—no matter the bracket—are multiples of the growth in property tax revenue.

FIGURE 2 Growth in personal income taxes vs property taxes, 2019-22



Note Each dot in each bracket represents one of the 34 cities from Table 3. Actuals are for all municipal property taxes in Canada.
Source SPSD/M 30.1, Canada Revenue Agency, Statistics Canada table 10-10-0020-01 and author's calculations. See the appendix.

For a change in the fifth PIT bracket for instance, 34 Canadian cities would have seen a median increase of 54 per cent in revenue. Three quarters of those cities would have seen their PIT revenue from the fifth bracket increase by at least 47 per cent over this period.

There is some variance in terms of which bracket would have yielded the biggest revenue increase between 2019 and 2022, although the higher-income brackets grew at a faster rate over this period. But in every city and in every tax bracket, revenue growth was much higher than property tax revenue growth. In the worst cases, it was double the change in property tax revenue and at the median it was a substantial three to six times higher.

Any increases in property tax revenue would have come after protracted municipal political battles about "raising taxes"—instead, those cities could

have experienced revenue growth from personal income tax that was four to six times higher and it would have simply happened automatically, with no debate at all.

For cities, incorporating more PIT into their revenue mix is as much about better adjusting revenues to economic growth than any short-term budget fixes.

Conclusion

CITIES ARE CALLING for an expanded suite of revenue options. Of course, cities would prefer that another level of government simply transfer them new money, possibly through some form of revenue sharing. Barring this, providing municipalities access to a simplified PIT system that is facilitated by the Canada Revenue Agency could provide cities with much-needed revenue while enjoying greater autonomy and responsibility. City governments would decide how, or whether, to raise PIT revenues without having to go cap-in-hand to senior levels of governments all of the time.

Providing detailed access to the tax brackets would allow cities to decide how progressive they want their versions of PIT to be. For taxpayers, it would open the way for a more progressive form of taxation at the municipal level, income taxes, which would also be one tool for addressing income inequality in our cities.

The systems for collecting personal income taxes are already set up and are used to collect almost all federal and provincial income taxes. Only minor change would be needed to allow cities access from an administrative perspective.

With city governments now larger than many provincial and territorial governments, it's time to give them the same options these other governments already successfully and responsibly use. City governments are important economic actors in Canada, and they should be treated as such, with autonomy and responsibility for new revenues.

Appendix

Methodology

Statistics Canada's tax modelling software, the Social Policy Simulation Database and Model 30.1 (SPSD/M) is used to project changes of one point in each bracket of the top four federal tax brackets, although the bracket income thresholds remain unchanged.[25] For example, in the second bracket, SPSD/M is used to simulate going from 20.5 per cent, the present level, to 21.5 per cent. It's worth noting that as the rate itself is higher, for example the 33 per cent rate in the top bracket, a one percentage point addition is a smaller proportional addition. However, the amounts calculated should generally be scalable as needed.

SPSD/M can provide the resulting change in revenues collected from the Census Metropolitan Area (CMA) using Market Basket Measure definitions in the large CMAs. However, this doesn't provide city government level revenues.

The Canada Revenue Agency (CRA) publishes tax filer counts in 19 total income categories both for CMAs (which they call ITSAs)[26] and Forward Sortation Areas (FSAs)[27] or the first three digits of a postal code. While not perfect, FSAs can be allocated to city political boundaries, creating counts of filers by city and ratios of each of the 19 total income categories of each city to its CMA. For example, a proportion of the filers with taxable income above $250,000 (the highest income of the 19 categories) from the Vancouver CMA live within the City of Vancouver.

An identical 19 taxable income categories are created by CMA from SPSD/M. Then new revenues raised by CMA are allocated to each city, using the city to CMA ratios of filers across each total income category. The revenues across the income categories are then summed to provide the estimate of revenue generated for that city.

The most recent CRA filer counts are for the 2020 tax year (although released in 2022). Those are used to apportion the 2022 and 2025 SPSD/M revenue estimates by city. The 2019 CRA filer counts are used to apportion the SPSD/M 2019 revenue estimates. As such, the changes in revenue projected above will represent both increased taxable income and compositional changes in city filers up to 2020.

The estimates from SPSD/M assume a straight change in the federal PIT rates. This means that deductions from the basic federal tax could still apply, potentially reducing the taxes raised. It's unlikely that this is how the system would be implemented, however, it is how it was simulated. In most cases, these existing credits are evaluated at the non-refundable tax credit rate, which hasn't changed (and which is, in part, why the bottom bracket rate remains outside of possible changes that cities could make to the PIT system). Also, those paying tax will have already used all those credits and still have taxes owing; changing bracket rates won't change that. There are, however, some additional changes in the foreign tax credit and federal surtax amounts. The effect of these other tax optimizations is limited in the overall estimates and amount to 2.2 per cent less revenue in the second bracket and a 1.2 per cent lower revenue in the top bracket.

Changing the federal tax rate structure also has an impact on the Quebec tax abatement, which is a transfer of tax points—an option that only that province took up in the 1960s.[28] Essentially, the abatement reduces federal taxes payable and can be refunded if taxes are reduced to zero, although Quebec increased its own rates to compensate, effectively transferring the tax points. The abatement is calculated as a proportion of federal personal income taxes owed. In the simulations in this paper, we're assuming that the abatement doesn't apply to the new municipal income taxes, as its point is to provide support for Quebec cities not to the federal government. Although obviously this would have to be negotiated with the Government of Quebec.

Notes

1 See page 2 of Harry Kitchen, Enid Slack, and Tomas Hachard, 2019, "Property Taxes in Canada: Current Issues and Future Prospects", *IMFG Perspectives*, No 27, Institute on Municipal Finance and Governance, https://tspace.library.utoronto.ca/bitstream/1807/98034/1/Perspectives-27-Kitchen-Slack-Hachard-Property-Tax-Issues-Prospects.pdf.

2 Statistics Canada, Table 10-10-0020-01, *Canadian government finance statistics for municipalities and other local public administrations*, https://www150.statcan.gc.ca/t1/tbl1/en/cv!recreate.action?pid=1010002001&selectedNodeIds=3D1,4D3,4D5&checkedLevels=0D1,1D1&refPeriods=20220101,20220101&dimensionLayouts=layout3,layout2,layout2,layout2,layout2&vectorDisplay=false.

3 Government of Ontario, *City of Toronto Act*, 2006, https://www.ontario.ca/laws/statute/06c11.

4 See Ibid, Section 267(2) for a list of exclusions from general sales tax prohibition.

5 In the case of the City of Toronto, see: City of Toronto Finance Department, *Annual Report of the Commissioner of Finance*, 1948, pg. 23, https://archive.org/details/annualreportcomm1948toro/mode/2up.

6 As discussed in Hon. J. L. Ilsley, *The Budget: Annual financial statement of the Minister of Finance*, April 29, 1941, pg. 2,345, https://lop.parl.ca/staticfiles/ParlInfo/Documents/Budgets/En/1941-04-29.pdf.

7 For a timeline by provinces, see: H. Heward Stikeman, 1948 , "Taxation Law: 1923-1947," *Canadian Bar Review*, 26(1), pg. 318-319, https://www.canlii.org/en/commentary/doc/1948CanLIIDocs128.

8 Daniel Crook, November 2022, "Ontario cities with the highest and lowest property tax rates in 2022," *Zoocasa*, https://www.zoocasa.com/blog/ontario-property-tax-rates-2022/.

9 City of Ottawa, *Understanding Your City Budget: Tax Policy*, https://ottawa.ca/en/city-hall/budget-finance-and-corporate-planning/understanding-your-city-budget/tax-policy#section-4273e38f-6941-4bbb-acfb-ceb3489677a7.

10 Department of Finance Canada, *The Budget Plan 2005*, pg 202.

11 The relation to the gas tax was officially revoked when the fund we re-named the Canada Community-Building Fund in 2021.

12 Le Gouvernement Du Québec, *Partenariat 2020-2024: Pour Des Municipalités Et Des Régions Encore Plus Fortes*, October 2019, https://www.mamh.gouv.qc.ca/fileadmin/publications/organisation_municipale/accord_partenariat/Partenariat2020-2024_Entente.pdf.

13 *CBC* news, December 10, 2023, "Quebec passes bill to diversify revenue for municipalities," https://www.cbc.ca/news/canada/montreal/bill-39-quebec-municipal-revenue-1.7054663.

14 See: Government of Illinois, 2024, "Tax rate finder, Chicago (Cook)", https://mytax.illinois.gov/?Link=TaxRateFinder.

15 See references to this in City of Toronto Finance Department, 1948, *Annual Report of the Commissioner of Finance*, pg. 23, https://archive.org/details/annualreportcomm1948toro/mode/2up.

16 Jared Walczak, Janelle Fritts, Maxwell James, February 2023, *Local Income Taxes: A Primer*, The Tax Foundation, https://taxfoundation.org/research/all/state/local-income-taxes-2023/.

17 See, for example, KPMG, 2016, *City of Toronto: Revenue Options Study*, pg. 121, https://www.toronto.ca/legdocs/mmis/2016/ex/bgrd/backgroundfile-94513.pdf or The City of Calgary, September 2023, *Municipal Fiscal Gap: Addressing FTF Recommendations 9, 13, 21 and 22,* pg. 46, https://www.calgary.ca/content/dam/www/cfod/finance/documents/plans-budgets-and-financial-reports/Municipal-Fiscal-Gap-Report-2023.pdf or Harry Kitchen and Enid Slack, 2006(27), *More Tax Sources for Canada's Largest Cities: Why, What, and How?*, Institute on Municipal Finance and Governance, pg. 21, https://tspace.library.utoronto.ca/bitstream/1807/82858/1/imfg_perspectives_no15_newtaxsources_kitchen_slack_2016.pdf.

18 City of Toronto, 2022, *Achieving Financial Sustainability: 2022 Annual Financial Report*, https://www.toronto.ca/wp-content/uploads/2023/09/981e-2022AFRV2FINALAODAcompressedfinalversion.pdf.

19 See: Department of Finance, Government of Canada, the 2022-23 "Fiscal reference tables," https://www.canada.ca/en/department-finance/services/publications/fiscal-reference-tables.html.

20 Department of Finance Canada, Nov 21, 2023, *2023 Fall Economic Statement: Cracking Down on Non-Compliant Short-Term Rentals*, https://www.budget.canada.ca/fes-eea/2023/report-rapport/chap1-en.html#1.3.

21 Department of Finance Canada, Nov. 21, 2023, *2023 Fall Economic Statement: Housing Accelerator Fund Agreements to Date*, https://www.budget.canada.ca/fes-eea/2023/report-rapport/chap1-en.html#1.1.

22 LegisQuebec, *M-30—Act respecting the Ministère du Conseil exécutif*, Government of Quebec, https://www.legisquebec.gouv.qc.ca/en/document/cs/m-30.

23 Scott Dippel, Jan. 22, 2024, "Alberta wants list of all municipal agreements with federal government," CBC News, https://www.cbc.ca/news/canada/calgary/province-municipal-federal-agreements-1.7089777.

24 This analysis is based on Statistics Canada's Social Policy Simulation Database and Model 30.1. The assumptions and calculations underlying the simulation were prepared by David Macdonald and the responsibility for the use and interpretation of these data is entirely the author's.

25 This analysis is based on Statistics Canada's Social Policy Simulation Database and Model 30.1. The assumptions and calculations underlying the simulation were prepared by David Macdonald and the responsibility for the use and interpretation of these data is entirely that of the author's.

26 "Table 1—ITSA for all Returns Filed-2020 tax year," *Individual Tax Statistics by Area (ITSA)—2022 edition (2020 tax year)*, Canada Revenue Agency 2022, https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/income-statistics-gst-hst-statistics/individual-tax-statistics-area-itsa/individual-tax-statistics-area-itsa-2022-edition-2020-tax-year.html#toc21.

27 Canada Revenue Agency 2022, "Table 1a: FSA for All Returns—2020 tax year", Individual Tax Statistics by Forward Sortation Area (FSA) – 2022 Edition (2020 tax year), https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/income-statistics-gst-hst-statistics/individual-tax-statistics-fsa/individual-tax-statistics-fsa-2022-edition-2020-tax-year.html

28 Department of Finance, "Quebec Abatement", Government of Canada, https://www.canada.ca/en/department-finance/programs/federal-transfers/quebec-abatement.html.

CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
CENTRE CANADIEN
de POLITIQUES ALTERNATIVES