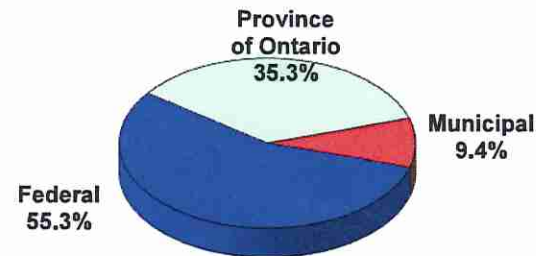


It is very important to understand this when considering increases in property taxes.

### **Taxation in Canada**

Each taxpayer in Canada pays taxes to government at three different levels— federal, provincial and municipal. Each level of government has an established set of responsibilities to deliver specific services. Within each province, there is variation as to services which are provided provincially and services which are provided at the municipal level. In some provinces education and social services are funded by the provincial government. In Ontario, a portion of the costs for education are included on the municipal property tax bill, as well as a portion of social service costs. In some provinces municipalities can collect sales taxes, however this is not allowed in Ontario. The only source of taxation revenue for municipalities in Ontario is property taxes. The following chart provides a comparison of the amount of taxes that an average Ontario resident pays to each level of government. Taxes to the senior levels of government are paid through income taxes and sales taxes. At the municipal level, taxes are raised entirely on property based on its current market value. In Ontario, Municipalities receive only 9.4 cents of every tax dollar paid.



Source: The Fraser Institute's Canadian Tax Simulator, 2010

Another major difference between taxation rules for municipalities and senior levels of Government is that municipalities must have balanced budgets. The Federal and Provincial levels of government are allowed to carry deficits. When revenues decline at Federal and Provincial levels of government due to an economic downturn, these levels of government can mitigate service impacts by carrying budget deficits until revenues recover. In contrast, municipalities, by legislation, must balance their budgets each year. While this is fiscally prudent, when municipalities are dealing with the financial strains associated with an economic downturn, they have more limited alternatives. Where possible, when demand declines for services as a consequence of an economic slowdown, municipalities reduce the direct costs to provide these services. However, fixed costs remain. The only alternatives remaining to offset the revenue lost are to cut services, finance costs from reserves, or increase property taxes.