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May 26, 2007

## Creative taxes answer to city's budget woes

I'm pleased to announce I've discovered a method of financing much of Toronto's annual budget shortfall without a suggested 0.5 per cent municipal land-transfer tax that would kill the real estate market.

The proposal was first broached in a study released by the city's corporate finance division earlier this year. Using powers granted under the new City of Toronto Act, the study estimates that a 0.5 per cent transfer tax could bring \$102.7 million into the city's coffers.

"The proposed land transfer tax will cause land and housing prices in Toronto to fall relative to land and housing prices outside of Toronto," University of Toronto economics professor Jack Carr told me this week. "It will cause bigger demand for land outside the city.

"The city is bankrupt," he says. "It's a disaster waiting to happen. It's a badly managed city with many more employees than big U.S. cities."

Instead of imposing new taxes which will cause more businesses to flee, Carr says Toronto needs to cut its spending and slow the growth rate of its bureaucracy.

In an effort to help the city find another \$100 million without killing the economic engine that drives the real estate market, I conducted a bit of historical research and revived an idea for a tax which would spread the financial burden more equitably.

Back in 1696, during the reign of William III, a tax was introduced on every window in the kingdom. The window tax was designed to pay for Britain's perpetual battles in Ireland and on the continent.

The theory was that wealthier citizens had more windows in their houses than the rest of the population, and would be better able to pay a tax on the number of windows they used.

All houses were charged a minimum window tax of two shillings. Houses with 10 to 20 windows paid four shillings, and those with more than 20 windows paid eight shillings.

Adjusted for inflation and converted to Canadian dollars, a 1696 shilling would be worth about \$11 today. In the first year, the window tax brought in 1.2 million, or the equivalent of about \$265 million today based on the retail price index.

In 1850, the year before it was finally repealed, the tax brought in 1,856,000, more than \$313 million in today's dollars.

A direct comparison with Toronto today is difficult because although the population of England in 1696 and 1851 was greater than that of Toronto in 2007, I doubt if anyone has an exact count of the number of windows commercial, industrial and residential which exist today in this city.

But we do know that in England in 1850, there were about 6,000 houses with more than 50 windows, 275,000 with 10 or more windows, and 725,000 with seven or fewer.

During the years that England had a window tax, many homeowners bricked up one or more windows in their houses to reduce or escape the tax. Offsetting this, wealthy landowners vied with each other to build mansions with an abundance of windows.

A similar doors and windows tax existed in France from 1798 to 1926. In Victor Hugo's *Les Misérables*, Madame Thénardier, the wife of the innkeeper, complains about having to pay a tax on doors and windows when she is presenting Cosette's bill to the wealthy stranger.

If Toronto is still looking for other methods to raise money aside from the window tax, history provides us with no end of oddball taxes which make more sense today than a city land-transfer tax.

Consider, for example, the beard tax imposed by England's Henry VIII in 1535. It was repealed in 1560 after the king died, but could be revived in 21st century Toronto. Of course, in today's egalitarian society, it would have to be matched by an equivalent tax on citizens of both sexes who do not have beards.

Given the popularity of recreational drugs and the proliferation of marijuana grow-ops in the city, a tax on illegal drugs could bring in untold millions. In Alabama, marijuana although illegal is taxed at \$3.50 a gram, and other illegal pharmaceuticals are zapped at multiples of the marijuana value depending on street prices.

In North Carolina, buyers of fixed quantities of illegal drugs must buy stamps from the state and attach them to the controlled substance. Of course, nobody except stamp collectors buys the stamps, but upon arrest and conviction, the stampless felons have to pay additional fines. By 2003, the state had collected \$68 million in revenue from the stamp tax.

Similar tax stamps are required in several other states.

With even the slightest bit of creativity, the city of Toronto could avoid the devastating effects of a tax on property purchases.

You read it here first.

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