

# Economic Analysis of the Proposed Taxation of Billboards by the City of Toronto

Independent Real Estate Intelligence

May 20, 2009



# **Economic Analysis of the Proposed Taxation of Billboards by the City of Toronto**

Prepared for:

**Out-of-Home Marketing Association of Canada  
(OMAC)**

Prepared by:

**Altus Group Economic Consulting**

1580 Kingston Road, Toronto Ontario M1N 1S2

Phone: (416) 699-5645 Fax: (416) 699-2252

[economics@altusgroup.com](mailto:economics@altusgroup.com)

[altusgroup.com](http://altusgroup.com)

May 20, 2009

## **EXECUTIVE SUMMARY**

---

The Out-of-Home Marketing Association of Canada (OMAC) retained Altus Group Economic Consulting to examine the attributes of the out-of-home advertising industry within the City of Toronto and to analyze the economic consequences of a new tax the City is proposing to levy on selected out-of-home advertising within its boundaries.

### **OMAC'S CONCERNS**

A tax on billboards, which until now has not been singled out for municipal taxation separately from the property tax, is a concern in itself to OMAC members, especially since street furniture advertising on City properties, TTC vehicles, and other private, out-of-home advertising media are to be exempt. A harsh tax of the levels being suggested by City Staff is downright scary in terms of its negative ramifications for the billboard advertising industry, property owners, business advertisers, consumers, and the Toronto economy at large.

This paper does not address concerns about the legality of the proposed billboard tax.

### **ANY BILLBOARD TAX MUST BE BASED UPON A KNOWLEDGE OF THE OUTDOOR ADVERTISING MARKETPLACE**

- Billboards are part of out-of-home advertising which in turn is a very small piece of a much larger and very competitive advertising marketplace;
- Billboards and street furniture (outdoor advertising) make up the bulk of out-of-home advertising – thus, billboards on private property face considerable competition from street furniture advertising on City of Toronto property, TTC advertising, and also non-billboard private, out-of-home advertising;
- There are an estimated 4,100 billboards in the City of Toronto;
- The primary type of billboard is 10' x 20' in size and generates an average annual gross advertising revenue of \$9,950;
- Including billboard signs of all types and sizes, and with various attributes, the average annual gross advertising revenue is \$17,300;

- Some billboards typically are located on third party properties – property owners receive an annual average of \$6,838 typically under a 10-year term agreement;
- Billboards are already taxed under the property tax;
- In 2008, OMAC members provided some \$6 million in free space to over 95 organizations in support of charities, local service announcements, and community events; and
- Another \$2.2 million in free space was provided to the City of Toronto for their programs.

### **THE IMPRACTICALITY OF THE TAX RATES BEING SUGGESTED BY CITY STAFF**

- The Hemson Report, based upon comparisons with U.S. jurisdictions, proposed tax rates that equate to 4% to 5% of the gross income from the rental of billboard space - Hemson recognized that a billboard tax has small revenue generating capacity;
- The tax options in the City Staff Presentation would result in much higher tax rates being applied to the gross rental income (before expenses) of advertising companies from billboards – 23.5% to 29.3% - assuming the tax is imposed on the advertising companies;
- The City has indicated an interest in adopting a standard 10' by 20' billboard size - the tax rate for a standard 10' by 20' billboard would increase substantially to 42%, resulting from lower generated incomes;
- If the tax is imposed on the third party owners of properties accommodating billboards, as the Hemson Report suggest, the taxes in the Staff Presentation would be in the range of 60% of the total rental income for these owners, which would approach or exceed entire rental incomes received by some owners;
- The tax rates being proposed by City Staff are discriminatory and generally confiscatory and lack any sense of reality; and
- The Staff Presentation ignores entirely the billboard tax scheme developed in the Hemson Report.

## **THE PROPOSED BILLBOARD TAX CONFLICTS WITH WELL ACCEPTED PRINCIPLES OF TAXATION**

The principles addressed are from the Hemson Report. The principles contained in the Staff Presentation differ from Hemson's and are biased in favour of the City over the interests of the taxpayer.

- The taxation proposals fail to take into consideration taxes already paid from some billboards under the City's property tax – taxation fairness requires a consideration of the entire City tax imposition;
- The tax proposals apply only to billboards and no other advertising medium – this reduces the cost competitiveness of billboard advertising making other media more attractive to advertisers;
- In particular, the taxes as proposed would exempt advertising on municipal street furniture, TTC vehicles, and other non-billboard private, out-of-home advertising media, major competitors of billboard advertising, which would have the opportunity to capture more advertising business at the expense of billboards – this conflicts with the impact on business taxation principle;
- It is not evident who would bear the burden of the tax – the billboard advertising industry or the owners of properties accommodating billboards – it is very unlikely that the tax could be shifted forward to advertisers because competitive media are not taxed – this uncertainty conflicts with the taxation fairness and impact on business principles;
- Billboard tax revenues would be expected to come at the expense of donated space since billboard owners would have little incentive to pay the tax and donate billboard space. The value of donated space is much greater than the revenues the Hemson Report estimates that a billboard tax would generate; and
- To the extent a billboard tax shifts advertising dollars to other advertising mediums, this decreases advertising effectiveness for both businesses doing the advertising and consumers looking at the advertising and is negative for the efficiency of the overall economy.

## CONCLUSIONS

- As the Hemson Report states: “a billboard tax would be very narrow in scope and accordingly its revenue generating capacity is very small”. Given this, one has to question why the City is devoting resources to the study of this tax at this time;
- Other tax sources offer much greater potential for generating revenues for the City. If the City wants to impose new taxes to generate more revenues, taxes other than a billboard tax would represent more logical targets. Higher residential property taxes are also warranted from a public economics perspective;
- The high tax rates on billboards discussed in the City Staff Presentation are discriminating and generally confiscating and lack any sense of reality;
- These tax rates amount to more than 20% of the annual gross rental revenue per billboard in the City of Toronto and some 60% in relation to the revenues received by property owners as payment for accommodating billboards on their property;
- These taxes also conflict with the Hemson’s tax principles of fairness and avoiding undue impact on businesses; and
- If the City intends to pursue the implementation of a billboard tax, it should be based on the analytical work done in the Hemson Report with its more acceptable rate level in order to avoid excessive adverse economic consequences.

---

## TABLE OF CONTENTS

---

	Page
<b>EXECUTIVE SUMMARY .....</b>	<b>i</b>
<b>1 INTRODUCTION .....</b>	<b>1</b>
1.1 Out-Of-Home Advertising .....	1
1.2 The Out-of-Home Marketing Association of Canada (OMAC).....	1
1.3 Altus Group Economic Consulting .....	2
1.4 The City's Proposed Taxation of Billboards .....	2
<b>2 SOME RELEVANT CHARACTERISTICS OF THE OUT-OF-HOME ADVERTISING INDUSTRY.....</b>	<b>5</b>
2.1 Out-of-Home Advertising Is a Piece of a Much Larger and Very Competitive Advertising Marketplace .....	5
2.2 Outdoor Advertising (Billboards and Street Furniture) Make Up the Bulk of Out-of-Home Advertising.....	6
2.3 There Are Over 4,100 Billboards in the City of Toronto .....	7
2.4 Billboards in the City of Toronto Generate About \$72 Million in Gross Rental Revenue Annually.....	7
2.5 Estimated Average Rental Revenue of \$17,300 per Billboard in the City.....	7
2.6 Billboards Typically Are Located on Third Party Properties .....	8
2.7 Some Billboards are Already Taxed under the Property Tax.....	8
2.8 The City of Toronto Receives Over \$36 Million Annually in Revenue from OMAC Members .....	8
2.9 OMAC Members Provide Some \$8 Million in Free Space to Charitable and Non-Profit Organizations and the City of Toronto .....	9
<b>3 COMMENTS ON PROPOSALS FOR A BILLBOARD TAX IN THE CITY OF TORONTO .....</b>	<b>10</b>
3.1 Extraordinary Gap Between Tax Proposals in Hemson Report and the Staff Presentation.....	10
3.2 The Impracticality of the Tax Rates Used in the Staff Presentation .....	12
3.3 There Are Significant Differences in the Guiding Principles Used to Evaluate Tax Measures between the Hemson Report and the Staff Presentation.....	13

---

## TABLE OF CONTENTS (CONT'D)

---

	<b>Page</b>
<b>4 EVALUATION OF A BILLBOARD TAX AGAINST THE TAX PRINCIPLES OF THE HEMSON REPORT .....</b>	<b>14</b>
4.1 Simple and Understandable.....	14
4.2 Fairness .....	14
4.3 Impact on Business.....	15
4.4 Stability .....	16
4.5 Administrative Efficiency.....	16
<b>5 CONCLUSIONS .....</b>	<b>17</b>

---

# 1 INTRODUCTION

---

The Out-of-Home Marketing Association of Canada (OMAC) retained Altus Group Economic Consulting to examine the attributes of the out-of-home advertising industry within the City of Toronto and to analyze the economic consequence of a new tax the City is proposing to levy on selected out-of-home advertising within its boundaries.

## 1.1 OUT-OF-HOME ADVERTISING

**Out-of-home advertising** consists of all outdoor media intended to reach consumers outside the home. Out-of-home advertising generally encompasses third-party advertising and excludes signs advertising a business on its own premise.

It can conveniently be divided into three types:

- Billboards – posters, superboards, murals, and outdoor digital displays;
- Street furniture – transit shelters, phone kiosks, media columns and street posters; and
- Indoor media – posters in shopping malls, elevators, waiting rooms, wash rooms. etc.

**Outdoor advertising** refers to the combination of billboards and street furniture. **Billboards** are predominantly on private properties while **street furniture** is mostly in the public realm, i.e., on City of Toronto properties. Indoor media is not addressed in this paper.

## 1.2 THE OUT-OF-HOME MARKETING ASSOCIATION OF CANADA (OMAC)

Five out-of-home advertising companies created the Out-of-Home Marketing Association of Canada (OMAC) in September 2005: Astral Media Outdoor, NEWAD, Pattison Outdoor, CBS Outdoor, and Zoom Media. The founding companies represent over 80% of Canada's out-of-home media inventory. In the City of Toronto, OMAC members represent over 90% of outdoor advertising revenues<sup>1</sup>.

<sup>1</sup> Information from the OMAC web page and provided by Rosanne Caron, President, OMAC.

OMAC serves as the united voice of the industry through involvement in issues that represent the interest of its members. The billboards tax being proposed by the City of Toronto is one such issue.

OMAC's member companies employ 344 people in the City of Toronto with another 460 employees working for their suppliers and contractors.<sup>2</sup>

### **1.3 ALTUS GROUP ECONOMIC CONSULTING**

Altus Group Economic Consulting (formerly Clayton Research Associates Ltd.) is a long-established Toronto-based economic consulting firm providing urban, real estate and taxation analysis and advice to private and public clients across Canada. Since February 2007, it has been part of Altus Group, Canada's leading multidisciplinary provider of independent real estate consulting and professional advisory services.

Dr. Frank A. Clayton, Executive Vice President and author of this paper, has more than 40 years of urban, real estate and taxation consulting experience and has been located in the City of Toronto for more than 35 years. He is the past President of the Ontario Expropriation Association and the past President of the Toronto Chapter of Lambda Alpha International honorary land economics society. He is Treasurer of the Land Economics Foundation, which provides funding for research in the area of land economics. He is also Economic Advisor to the Building Industry and Urban Development Association (BILD).

### **1.4 THE CITY'S PROPOSED TAXATION OF BILLBOARDS**

The new *City of Toronto Act, 2006* accords the City some tax options it previously did not have. The City commissioned Hemson Consulting Ltd. to conduct an assessment of potential new taxes including a tax on billboards (hereafter called the Hemson Report)<sup>3</sup>. As a follow up, the City is now studying the merits of introducing a tax on billboards and the attributes of such a tax.

The Hemson Report refers to the tax it assesses as a billboard (outdoor advertising) tax. It is essentially a billboard tax because the report excludes

---

<sup>2</sup> Information provided by Rosanne Caron, President, OMAC.

<sup>3</sup> Hemson Consulting Ltd., *Assessment of Potential New Tax Measures Under the City of Toronto Act, 2006*, March 2007.

street furniture advertising, TTC advertising, and other private, out-of-home advertising from its analysis.

#### **1.4.1 City Toronto Act, 2006**

There is no explicit mention of a tax on outdoor advertising generally or billboards specifically in the new *City of Toronto Act, 2006*. Section 267 permits the City to impose taxes that are direct taxes subject to a list of taxes the City is not authorized to impose.

It is not clear that the City has the power to impose a specific tax on outside advertising or even just on billboards. The Hemson Report states: “. . . there is no clear legislative authority to apply a billboard tax” (p. 115).

Legal issues are not addressed here. This paper is premised on the presumption that the City has the legal authority to impose a tax on outdoor advertising.

#### **1.4.2 The Hemson Report**

Hemson formulated a tax rate on billboards that equates to about 4% to 5% of the rental revenue from billboards for advertising companies. Since the City of Toronto is unable to impose a tax on rental revenue, Hemson converts this tax rate to a tax rate per square foot of sign space ranging from \$3.00 per sq. ft. for posters (by far the most common form of billboards), to \$10 per sq. ft. for outdoor television. Hemson estimates an average sized poster would generate about \$600 annually (roughly 4% of a poster’s average rental revenue).

The Hemson Report estimates that a tax on billboards could generate some \$2.8 million in gross annual revenues to the City (\$2.7 million after allowing for negative repercussions of the tax).<sup>4</sup> The average gross tax revenue is estimated at \$684 per billboard of all types.

#### **1.4.3 The City’s Most Recent Proposal**

In a recent PowerPoint presentation entitled *Third Party Sign Charge: Proposals and Ideas*<sup>5</sup>, the City Sign By-Law project team prepared options for the

<sup>4</sup> The tax on billboards produces by a wide margin the lowest revenues of any of the tax options considered by Hemson.

<sup>5</sup> Presented on March 5, 2009.

taxation of billboards. Oddly, the tax proposal developed in the Hemson Report is not one of the options considered.

What is striking when comparing the City's Staff Presentation with the Hemson Report is the wide discrepancy between the levels of taxes being contemplated:

- As noted, the Hemson Report's tax model results in a tax estimate of some \$684 for an average-sized billboard (all types).
- In comparison, the Staff Presentation cites much higher taxes:
  - Flat rate per sign of \$4,000 per year under its Option 1 – Simple Charge per Sign, or 485% more than in the Hemson Report; and
  - Rates of \$4,000 and \$8,000 per sign per year under its Option 2 – Charge Based on Location, or up to 11.7 times the average tax in the Hemson Report.
- The annual total tax revenues being contemplated (\$16+ million under Option 1 of the Staff Presentation) are 5.7 times the \$2.8 million gross tax estimate in the Hemson Report.

#### **1.4.4 Basis of OMAC's Concerns**

A tax on billboards, which until now has not been singled out for municipal taxation separately from the property tax, is a concern in itself to OMAC members, especially since street furniture advertising on City-owned assets, TTC vehicles, and other private out-of-home advertising media are to be exempt. A harsh tax of the levels being suggested in the Staff Presentation is downright scary in terms of its negative ramifications for the billboard advertising industry, property owners, business advertisers, consumers, and the Toronto economy at large.

## 2 SOME RELEVANT CHARACTERISTICS OF THE OUT-OF-HOME ADVERTISING INDUSTRY

This section provides a brief description of the out-of-home advertising market generally and the billboard market in the City of Toronto.

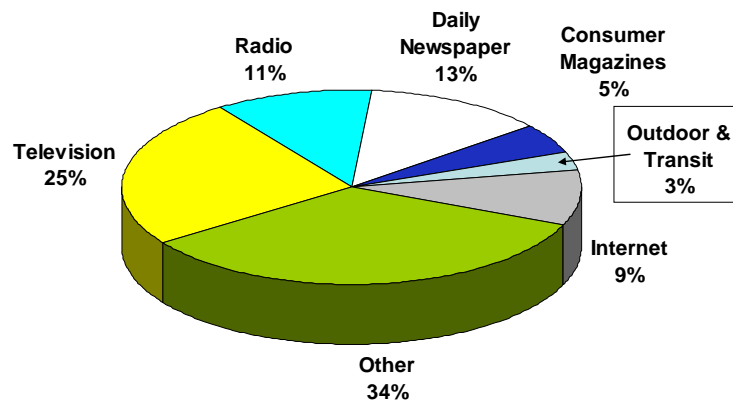
### 2.1 OUT-OF-HOME ADVERTISING IS A PIECE OF A MUCH LARGER AND VERY COMPETITIVE ADVERTISING MARKETPLACE

Out-of-home advertising represents a small niche of the total advertising dollar. Outdoor & Transit venues (which include indoor media venues as well) account for just 3% of total net advertising revenue across Canada, a share that has remained constant over several years. Net revenues for Outdoor & Transit advertising across Canada total some \$422 million.

Figure 1

#### Components of Net Advertising Revenue by Medium in Canada

*As % of Net Advertising Revenue in 2007*



Source: Altus Group Economic Consulting based on data from Canadian Media Directors' Council Media Digest 08/09, TVB

The favourable cost effectiveness of out-of-home advertising is a key factor behind this niche achieving a 3% market share. However, externally-imposed costs like the proposed new tax in the City of Toronto, threaten its competitive cost advantage. A comparable tax would not be imposed on its advertising competitors in indoor media like TV and radio and, as we shall

see, in outdoor advertising too since the tax is not intended to apply to street furniture advertising.

Because of this competitive environment, it is not anticipated that outdoor advertisers would be in a position to shift a billboard tax forward to companies purchasing advertising space.

## 2.2 OUTDOOR ADVERTISING (BILLBOARDS AND STREET FURNITURE) MAKE UP THE BULK OF OUT-OF-HOME ADVERTISING

The out-of-home advertising industry consists of both outdoor venues and indoor venues. Approximately half the advertising faces (sign surfaces) within the City of Toronto are classed as Indoor Media (Figure 2).

With indoor faces being proposed for exemption by the City of Toronto from its proposed tax, this advertising medium will become more attractive relative to outdoor advertisements. A City tax on outdoor advertising works in the direction of making indoor advertisements more cost competitive.

Figure 2

### Number of Out-of-Home Advertising Faces, City of Toronto, April 2009

Type of Out-of-Home Media	Media Inventory	Total Media % Share
Billboards	4,153	24%
Posters	3,955	
Superboards	160	
Mural Ads.	32	
Outdoor Digitals	6	
Street Furniture	4,423	25%
Bus Shelters	3,738	
Media Column	562	
Street Posters	123	
Indoor Media	8,914	51%
Mall Posters	266	
Other	8,648	
<b>Total</b>	<b>17,490</b>	<b>100%</b>

Source: Altus Group Economic Consulting based on COMB Marketing Data Report April 2009

In terms of the number of faces, street furniture is slightly more prevalent than billboards as an outdoor advertising vehicle in the City of Toronto, 4,423 versus 4,153. Billboards have more advertising surface space, though, since the average billboard size is larger than the average street furniture face.

As with indoor signage, the City is not proposing to tax the sizeable number of street furniture faces. **A tax on billboards alone will bend the competitive pendulum in favour of the tax free street furniture advertising, TTC advertising, and other exempt private, out-of-home advertising.**

### **2.3 THERE ARE OVER 4,100 BILLBOARDS IN THE CITY OF TORONTO**

The Hemson Report estimated that there were some 4,034 billboards in the City in 2006. Information provided by OMAC indicates a somewhat higher number in 2009– 4,153. Although billboard signs vary widely by type and size, the primary type of billboard in the City of Toronto is 10' x 20' in size.

### **2.4 BILLBOARDS IN THE CITY OF TORONTO GENERATE ABOUT \$72 MILLION IN GROSS RENTAL REVENUE ANNUALLY**

According to OMAC, its members generate approximately \$64.8 million in gross rental revenue from billboards located within the City of Toronto. Inflating this revenue to account for billboards not owned by OMAC members (assumed to be 10% of the total) brings total industry revenues to an estimated \$72 million. Earnings before interest and taxes for OMAC members amounted to approximately \$8 million in 2008.<sup>6</sup>

### **2.5 ESTIMATED AVERAGE RENTAL REVENUE OF \$17,300 PER BILLBOARD IN THE CITY**

Dividing estimated total gross revenues of \$72 million by the estimated 4,153 billboards produces an average gross revenue (before expenses) of about \$17,300 per billboard, with wide discrepancies billboard by billboard. 10' by 20' billboards in Toronto generate an average annual gross advertising revenue of \$9,950.

<sup>6</sup> Based on information provided by Rosanne Caron, President, OMAC and is reflective of earnings posted by OMAC members only.

## **2.6 BILLBOARDS TYPICALLY ARE LOCATED ON THIRD PARTY PROPERTIES**

Companies marketing billboard space for the most part reach agreements with property owners to install a billboard on their property in exchange for a negotiated rent. Rental agreements typically extend for a 10 year term.

OMAC members pay about \$28.4 million annually to several thousand third party property owners to rent locations for their billboards. This is equivalent to \$6,838 on average per billboard.

Inflating the OMAC rent payments to cover the entire industry produces annual rental income to third party property owners of \$31.6 million.

There is a high likelihood that these property owners would bear the burden of a new billboard tax under the terms of their rental agreements if the City levies the tax as a surcharge on their property bills, as the Hemson Report suggests.

## **2.7 SOME BILLBOARDS ARE ALREADY TAXED UNDER THE PROPERTY TAX**

The Hemson Report notes that a tax on billboards “could in theory affect the assessment of properties if income paid to owners declines” (p. 114). For this to happen, the rental income from billboards would have to be a factor in establishing assessed values for property taxation.

Billboards are a type of property identified by MPAC, the agency that assesses all properties in the province. Advice from the Altus Group Tax Consulting Group indicates that billboards not on income-producing properties, like commercial buildings, are not always taxed.

## **2.8 THE CITY OF TORONTO RECEIVES OVER \$36 MILLION ANNUALLY IN REVENUE FROM OMAC MEMBERS**

The City of Toronto is the biggest landlord of billboard space. At present, OMAC’s out-of-home advertising members already contribute an annual average of \$36.8 million in revenue to the City through advertising agreements on street furniture, TTC vehicles, and other municipal assets.<sup>7</sup>

<sup>7</sup> Information provided by Rosanne Caron, President, OMAC.

## **2.9 OMAC MEMBERS PROVIDE SOME \$8 MILLION IN FREE SPACE TO CHARITABLE AND NON-PROFIT ORGANIZATIONS AND THE CITY OF TORONTO**

The outdoor advertising industry makes a significant contribution to the public good through the donation of billboard space to charitable and non-profit organizations in the City of Toronto with a value of about \$6 million in 2008. It also donates space to the City of Toronto for its programs, e.g., recycling, with a value of over \$2 million. The total value of donated space thus exceeds \$8 million.<sup>8</sup>

Any proposed tax on billboards should be cognizant of the result it can be expected to have on the willingness of outdoor advertising companies to continue with these generous donations of space. If companies cut their donated space by the amount of their tax payments, or even more, there would be no net gain to the City or its residents.

<sup>8</sup> Information provided by Rosanne Caron, President, OMAC.

---

### **3 COMMENTS ON PROPOSALS FOR A BILLBOARD TAX IN THE CITY OF TORONTO**

---

This section reviews the tax proposals in the Hemson Report and the Staff Presentation and provides a critique of the Staff Presentation proposals.

#### **3.1 EXTRAORDINARY GAP BETWEEN TAX PROPOSALS IN HEMSON REPORT AND THE STAFF PRESENTATION**

##### **3.1.1 The Hemson Tax Proposals**

The Hemson Report, based on a comprehensive review and analysis, develops a billboard tax proposal with the following characteristics:

- A tax on only the billboard portion of outside advertising which consisted of an estimated 4,034 billboards at the time – street furniture advertising is excluded from the tax.

“Street level advertising was not included in the revenue analysis since the City has contracts with advertising companies as part of its street furniture program” (p. 109)
- An illustrative tax rate varying from \$3.00 to \$5.00 per sq. ft. of space for all types of billboards except Outdoor Television at \$10 per sq. ft. Taxes of these magnitudes approximate about 4% to 5% of rental revenues according to Hemson, which is the rate of tax “as indicated by data from various U.S. jurisdictions” (p. 109).
- The total revenue from the tax is estimated at \$2.8 million annually before allowing for negative economic impacts (\$2.7 million allowing for negative impacts).
- The average revenue per billboard is an estimated \$19,200.
- A billboard tax could be collected as part of the property tax process “by being added to the property tax bills of the properties on which the billboards are located” (p. 112).
- Recognition that property owners have long term commitments and may not be able to recoup the taxes paid from the advertising company – thus Hemson states the City may want to implement the tax over several years (p. 113).

### 3.1.2 The Staff Presentation Proposals

The recent Staff Presentation is a high level document with options presented but no reasoning behind them. It is surprising that City staff are not building on the work already done by Hemson. The Staff Presentation puts forth several options, none of which is the Hemson proposal:

- Starting points for all options include: third-party billboards, advertising space more than 2.5 sq m (27 sq. ft.), legal signs only, and signs may be eligible for rebates.

- Option 1 – Simple Charge Per Sign – flat rate of \$4,000 per sign.

No information is provided on the number of billboards to be taxed or the basis for the \$4,000.

- Option 2 – Distinctions Based on Location – with a higher rate in a Defined Area than outside the Defined Area – \$8,000 for signs within the Defined Area and \$4,000 outside the Defined Area.

Again, no information is provided on the number of billboards or the basis for the \$8,000.

- Option 3 – Distinctions Based on Technology – higher rates on signs using mixed or multiple technologies than static signs – rates varying from \$3,000 for static signs to \$15,000 for digital video signs.

Again, no information is provided on the basis for the tax rates chosen.

- Option 4 – Combination Charge – a combination of Options 2 and 3 with rates varying from \$4,000 to \$20,000 in Defined Areas and \$2,000 to \$10,000 outside Defined Areas.

- Rebates would be available for every sign to achieve City objectives including energy efficiency, lighting and donation of sign to City.

No indication is provided of the amount of rebates being considered or the extent to which the tax is intended to provide revenue versus the helping in achievement of non-revenue goals.

- Suggests the tax could be paid by the owner of the property where the sign is located.

There is no discussion of the legality and practicality of levying the tax on the property owner versus the sign owner.

## 3.2 THE IMPRACTICALITY OF THE TAX RATES USED IN THE STAFF PRESENTATION

### 3.2.1 Taxes as a Percent of Advertising Company Gross Rental Revenue

The Hemson Report developed a billboard tax with a rate equivalent to 4% to 5% of total rental revenues of the advertising companies. Using the estimated average tax revenue of Hemson's \$684 per billboard, the range of average rental revenue per billboard can be calculated:

- \$684 divided by 4% = \$17,000
- \$684 divided by 5% = \$13,680

Under the Option 1 proposal in the Staff Presentation (\$4,000 per billboard, the tax rate on advertisers' gross income would range from 23.5% to 29.3%<sup>9</sup>:

- \$4,000 divided by \$17,000 = 23.5%
- \$4,000 divided by \$13,680 = 29.3%

Under Option 2 the average tax rate would be considerable higher since some billboards would be taxed at \$4,000 and some at \$8,000.

The City has also indicated an interest in adopting a standard 10' by 20' billboard size. With annual average rental revenue of \$9,950 for each billboard of this size, the City's imposed tax payment of \$4,000 would increase the tax rate to 42 percent as a result of lower generated incomes.

The tax rates in the Staff Presentation are discriminatory and generally confiscatory. They lack any sense of reality.

### 3.2.2 Taxes as a Percent of the Rental Revenue of Property Owners

As noted, the average rental payment per billboard to owners of properties accommodating billboards by OMAC members in the City is \$6,838. Relating the Hemson Report average tax to this rent results in a tax rate of 10.0%.

For the \$4,000 tax payment from the Staff Presentation, the tax rate would be a startling 58.5%.

<sup>9</sup> The tax rate would only be slightly less under my 2009 estimate of average revenue of \$19,200 per billboard – 20.8%.

### **3.3 THERE ARE SIGNIFICANT DIFFERENCES IN THE GUIDING PRINCIPLES USED TO EVALUATE TAX MEASURES BETWEEN THE HEMSON REPORT AND THE STAFF PRESENTATION**

The Hemson Report provides what it calls five widely accepted principles upon which to evaluate tax measures (p. 5):

- 1) Simple and understandable
- 2) Fairness
- 3) Impact on businesses
- 4) Stability
- 5) Administrative efficiency

The Staff Presentation has proposed guiding principles that are biased in favour of the City of Toronto without sufficient consideration of the implications for the parties to be subjected to the tax (or “charge” as it calls a tax), whether the property owner or the sign owner or the Toronto economy.

These are:

- 1) Charge must be easy to calculate
- 2) Charge must be easy to collect and enforce
- 3) Charge must be fair
- 4) Charge must generate sufficient revenue

The main differences between the two lists are:

- The staff has dropped “impact on businesses”;
- The staff has replaced “stability” of revenue with “charge must generate sufficient revenue”; and
- The staff has replaced “simple and understandable” with “easy to calculate”.

It is difficult to understand why staff would utilize different guiding taxation principles than the principles used by Hemson in its much more comprehensive examination of taxation options for the City of Toronto. In my view, the Hemson principles should take precedence.

---

## 4 EVALUATION OF A BILLBOARD TAX AGAINST THE TAX PRINCIPLES OF THE HEMSON REPORT

---

In this section I provide my assessment of the proposals for a billboard tax contained in the Staff Presentation against the five widely accepted principles upon which to evaluate tax measures cited in the Hemson Report:

### 4.1 SIMPLE AND UNDERSTANDABLE

**“Taxpayers and remitters should be able to understand the tax structure and the policy rationale behind it”**

The tax parameter proposed by Hemson is simple and understandable. It believes that a tax on rental income from each sign is preferable but apparently the City cannot levy a tax in this form. So Hemson proposed that the tax be levied on the sign type and the size in a way that is a proxy for a tax on rents. It does mention the tax could also take into consideration location.

In my opinion, the Hemson tax proposal has the advantage of simplicity. Any attempt to incorporate more variables like the Staff Presentation does in its options moves away from this principle by adding more arbitrariness and makes the policy rationale less understandable.

### 4.2 FAIRNESS

**“A tax should be balanced so as to not affect one group in an overwhelmingly disproportionate manner”**

In my opinion, to judge whether a tax on billboards is fair, one needs to determine the extent billboards may be already subject to tax under the property tax. Any property tax revenues now received by the City should be offset against a new tax on billboards.

More importantly, a tax on billboards only is extremely unfair to outdoor advertising companies and the owners of the properties which accommodate billboards. While all billboards are to be taxed, thousands of street furniture signs are to remain free of tax. The principle of fairness dictates that all outdoor signs, not just signs on private property, be taxed.

The Hemson Report and the Staff Presentation conveniently overlook the two distinct roles played by the City in the signage business:

- The City is a major property owner benefitting from the rental income the advertisers pay it for street furniture advertising, TTC advertising, other exempt private, out-of-home advertising; and
- The City is a taxing authority desiring to raise revenues from outdoor advertising.

The failure of the City to tax itself gives it an unfair advantage over the private outdoor advertising industry in attracting advertising dollars.

Another element of fairness is the determination of who is likely to pay the tax – the owner of the property which accommodates the sign, the outdoor advertising company, or the businesses advertising their products.

### 4.3 IMPACT ON BUSINESS

**“A tax should not create a large competitive disadvantage either for a particular sector or for Toronto businesses in general”**

The tax rates utilized in the Hemson Report, varying from an average of \$600 for posters to \$6,700 for outside television, were chosen because this equates with the taxable rates in U.S. jurisdictions. Another reason is the finding that a small tax is likely to cause a slight reduction in the amount of billboard space. The implication that follows from this is the danger that a large tax increase could cause a larger reduction in the amount of billboard space, thereby reducing the revenue receipts to the City from the tax, and creating undesirable economic consequences.

Something that is important, which Hemson did not consider, is a shift from advertising on billboards to advertisements on municipal street furniture, TTC vehicles, and other exempt private, out-of-home advertising media caused by a tax on billboards alone. Such a shift is negative for property owners and the outdoor advertising industry which directly or indirectly employs several hundred employees

Any consideration of a larger tax than the one formulated in the Hemson Report, especially of the magnitude contemplated in the Staff Presentation, must be approached with utmost caution because of adverse consequences for businesses in the billboard sector and businesses at large. These impacts include:

- Sizeable economic dislocation for parties part of the billboard business

A tax rate in the range of more than 20% of annual gross rental revenues (before expenses) will unduly reduce incomes of the owners of properties with billboards and outdoor advertising companies. Because of competitive forces, it is very unlikely that businesses doing the advertising will share much, if any, of the tax burden.

- Adverse for both consumers and businesses at large

Billboards currently represent a cost competitive alternative for businesses to put their messages before the consumer. If the size of this advertising medium is reduced because of inappropriate taxes, this is negative for both businesses and consumers since alternative advertising vehicles are not as cost effective.

#### 4.4 STABILITY

**“From the City’s perspective, tax revenue should be predictable and as stable as possible so that programs relying on the revenue can be planned with certainty”**

Revenues from billboard rentals have been relatively stable in recent years but are not isolated from the vicissitudes of the economic cycle. Moreover, rental revenues would be expected to decline if the City were to implement a badly framed tax on billboards.

It should be observed that the Hemson Report does not forecast a significant amount of revenue from a tax on billboards (p. 115).

Moreover, there is a danger that the revenue produced by a billboard tax could be more than offset by a redirection in the amount of space now donated by outdoor advertising companies which would be counterproductive to the City and to charitable and non-profit organizations operating in the City.

#### 4.5 ADMINISTRATIVE EFFICIENCY

**“Taxes should be designed so that the costs of administration are low both for those remitting and for government”**

The Hemson Report states, for practical reasons, the tax could be collected as part of the property tax process, with little added administration costs to the City.

## 5 CONCLUSIONS

---

- As the Hemson Report states: “a billboard tax would be very narrow in scope and accordingly its revenue generating capacity is very small”. Given this, one has to question why the City is devoting resources to the study of this tax at this time;
- Other tax sources offer much greater potential for generating revenues for the City. If the City wants to impose new taxes to generate more revenues, taxes other than a billboard tax would represent more logical targets. Higher residential property taxes are also warranted from a public economics perspective;
- The high tax rates on billboards discussed in the City Staff Presentation are discriminating and generally confiscating and lack any sense of reality;
- These tax rates amount to more than 20% of the annual gross rental revenue (before expenses) per billboard in the City of Toronto and some 60% in relation to the revenues received by property owners as payment for accommodating billboards on their property;
- These taxes also conflict with the Hemson tax principles of fairness and avoiding undue impact on businesses; and
- If the City intends to pursue the implementation of a billboard tax, it should be based on the analytical work done in the Hemson Report with its more acceptable rate level in order to avoid excessive adverse economic consequences.