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**Tax Reform Committee**  
**July 12, 2007**

**TO:** David Grace and Members of HRM's Tax Reform Committee

**SUBMITTED BY:** \_\_\_\_\_  
Cathie O'Toole, Acting Director of Finance

**DATE:** July 6, 2007

**SUBJECT:** Tax Reform - Foundations and Principles

### **ORIGIN**

As part of its terms of reference, the Tax Reform Committee (TRC) must work towards "the development of recommendations for COW and Regional Council concerning tax reform". Following the completion of its initial round of public consultations, the Committee needs to make a decision on the direction of ongoing tax research.

### **RECOMMENDATIONS**

It is recommended that the Tax Reform Committee:

1. move forward to develop tax reform packages with the Foundations based upon a combination of ability to pay and services;
2. consider stronger definitions for the principles of the municipal tax system;
3. Based upon the Foundations and Principles chosen, develop evaluation criteria to analyze the pros and cons of various tax packages; and,
4. continue to discuss and consult with the public on the Foundations, Principles and other aspects of the Tax System before making a final recommendation to Regional Council on possible Tax Reform Packages.

## **BACKGROUND**

The spring consultation phase resulted in feedback from approximately 175 people from across HRM; 145 attended a Tax Reform workshop, while over 30 written submissions were received. The consultations were not fully representative of all at HRM. Most participants were male, over 55 years of age and owners of single family homes/duplexes or condos. There was limited representation from low income individuals, renters and those with below average tax bills. The goal of the spring consultations was to probe the public on the foundations and principles for a strong municipal tax system.

When asked what foundation the tax system should be based on, services, ability to pay, or a combination of both, the resulting discussion revealed mixed results. Some individuals clearly favoured an ability to pay tax system while others leaned towards a service-based system. While there was no clear consensus on what a tax system in HRM should be based on, 42.2% indicated on the exit survey that the tax system should be based on a combination of services and ability to pay. A service based tax system was supported by 26% of respondents while ability to pay was favoured by roughly 10%.

When asked to indicate which principles were most important, “equity”, “transparency”, “stability”, “adequacy”, “simplicity”, “broad based”, “balance” and “economic competitiveness” were chosen most frequently.

## **DISCUSSION**

Deciding on the foundations and principles for the municipal tax system will be an important decision making step in the Tax Reform process. Until a preliminary decision is made on the Foundations of the tax system, work cannot proceed on the development of “packages” of tax options.

Public consultation is an important part of that decision. Much of the discussion at the Spring consultations focussed on the lack of connection between the taxes people pay and the services they receive. Some discussion surrounded identifying a core level of services in HRM that everyone should share in funding. In addition, there were also considerable support for a tax system based on ability to pay. While results from the public were mixed, feedback indicates that many individuals wish to see a service based system but also wish the tax system to include an element of ability to pay. As the tax reform packages are developed, the level of emphasis given to either services or ability to pay may vary from one option to another. Different tax tools or mechanisms could be combined to achieve these objectives.

These consultation results may not be definitive. Not everyone area or group within HRM was well-represented through the consultations. Moreover, some may have found the terminology difficult or vague. Hence, it is important for the TRC to continue to consult on the Foundations

and Principles and to return to those at the consultations and those groups that were under-represented with more information and more dialogue.

A decision such as this is not yet final. One of the next steps to occur will be the development of “evaluation criteria” that will allow any proposed tax packages to be analysed. The development of that criteria will allow the TRC to explore in more detail the practical elements of the Foundations and Principles. For instance, it became clear at the consultations that there were many possible interpretations of various principles. Equity, for example, is obviously an important principle to most individuals and needs to be a critical component of any revised tax system. There is, however, no accepted definition for equity. Some principles tended to counteract each other and may have to be balanced off. None of the principles were unimportant. There may be some value in emphasizing certain key principles as paramount while others may form a less critical role or are evaluated using a Pass/Fail grade. Together the Foundation, Principles and evaluation criteria should lead into the development of a Mission Statement(s) for the tax system with accompanying values and goals. This will allow for the development of several packages of tax reform options that can be presented to Regional Council in the Fall and used for additional public consultation.

Consultations need to continue on Tax Reform. The TRC needs to continue to encourage ongoing feedback and dialogue on the Foundations and the Principles as well as many other aspects of taxation. Tax systems are inherently complex and it is important that the final system reflect the needs of HRM society. These needs may be expressed in different ways as more dialogue continues and as packages are developed. Hence the TRC needs to remain flexible and open to new ways of viewing issues.

## **FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN**

This report complies with the Municipality’s Multi-Year Financial Strategy, the approved Operating, Capital, and Reserve budgets, policies and procedure regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

## **ALTERNATIVES**

N/A

## **ATTACHMENTS**

- A - Consultation Report - Feedback Form Results
- B - Consultation Report - Principles chosen by Participants

A copy of this report can be obtained online at <http://www.halifax.ca/commcoun/cc.html> then choose the appropriate Community Council and meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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### Council Report Sign-Off Sheet

**Subject:** Tax Reform - Foundations & Principles

Meeting Date: July 12, 2007     Regular Council     COW     In Camera     Information Report  
 Community Council

Prepared by:                      Shannon Bennett, Fiscal & Tax Policy  
Name & Business Unit

July 6, 2007  
Date

**First Draft for Information Only**     **Consultation**     **Approval**

/	Stakeholder -Internal	Approved By	Date & Time	Time spent on report (min)	Revised Date	Initial
	Not Required (unique to originating Business Unit)					
	By-Law Rationalization					
	BPIM					
	CD					
	EMS					
	Finance - FinTrack - Accounts - Financial Consultants - Procurement - Manager					
	Fire					
	H R					
	Legal					
	Police					
	TPW					
	Library					
	RCMP					
	Water Commission					
	Councillor (s)					
	Stakeholder - External					