

Creating A Modern Property Tax System for Halifax

Report of the Tax Reform Committee
to Regional Council

March 18, 2008





Agenda

- Overview of Tax Reform
 - The current property tax system requires change.
 - A new tax system should reflect both municipal services and ability to pay and be based on solid principles.
 - HRM should work with citizens to review and improve upon the proposed tax reforms.
- Recommendation:
 - Open Houses across HRM – May 2008



Outline

- Introduction: Council's Process
- The Current Property Tax System Must Change
- Foundations and Principles
- Draft Tax Model for Discussion
 - Elements
 - Evaluation Criteria
 - Comparison to 2007
- Recommendation: Feedback



Introduction: Council's Process

- Tax Reform Committee formed in late 2006
- Consists of 6 Councilors, 7 Citizens
- Mandate from Regional Council includes overseeing:
 - The project plan and timeline
 - The development of public materials
 - A public participation and communication plan
 - To oversee and participate in the analysis and interpret results from public participation
 - Recommendations for Council
 - Advise and assist on implementation





The Current Property Tax System Requires Change

- Originally designed as a wealth tax
 - Property Values no strong link to income or services
 - Property Tax has become less and less Equitable
 - Property Tax system needs to promote Economic Competitiveness





Foundations and Principles

Tax Reform Mission Statement

- *To provide an equitable tax system based on a charge for services provided and ability to pay by:*
 - *Linking taxes and fees for services to those who derive the greatest benefit at the individual, community and regional levels, and,*
 - *Considering ability to pay.*

First Mission Statement of its kind anywhere!
Provides the logic for a new tax system.





Tax Reform Values

- *As a central and key element of municipal government, HRM strives to ensure that the tax and fee system*
 - *Encourages the economic well-being of all its taxpayers and citizens,*
 - *Recognizes that the funds raised through taxes and fees belong to the citizens of HRM and are held in trust,*
 - *Encourages fiscal prudence and an acceptable level of tax and fee burden for services, and*
 - *Recognizes that municipal services may benefit everyone and that to the extent all benefit, all should share in the cost of the service.*





Principles

- Equity
- Economic Competitiveness
- Economic Efficiency
- Respect for Other Governments
- Stability
- Simplicity
- Transparency and Accountability





Principles and Objectives

- **Equity** - *Similarly situated taxpayers should be taxed similarly.*
 - Taxed according to municipal services
 - Non-Regressive
 - Consistent
 - No Systematic Bias





Principles and Objectives

- **Economic Competitiveness** - *The Municipal Tax System should be designed to maximize the economic potential of the Region and Province.*
 - Encourage investment and business activity
 - Focus on immigration, youth, diversity
 - Encourage responsible home ownership
 - Encourage efficient growth and support the Regional Plan
 - Support business climate and international competitiveness





Principles and Objectives

- **Economic Efficiency** - *The Municipal Tax System should be designed to encourage healthy behaviours by citizens and taxpayers.*
 - Limit unintended effects on behaviour due to taxation
 - Focus on broad tax base.





Principles and Objectives

- **Respect for Other Governments** - *Recognize the links to the Federal and Provincial Governments and other Municipalities.*
 - Mutual respect for each other and taxpayers
 - Administer taxes according to Provincial law
 - Function well alongside other NS municipal tax systems





Principles and Objectives

- **Stability** - *The Tax and Fee System should be designed to discourage unintended, sudden and dramatic changes in municipal taxes.*
 - Reasonably predict future taxes
 - No sudden and dramatic changes
 - Except service changes, ability to pay
 - No sudden and dramatic changes in municipal revenues





Principles and Objectives

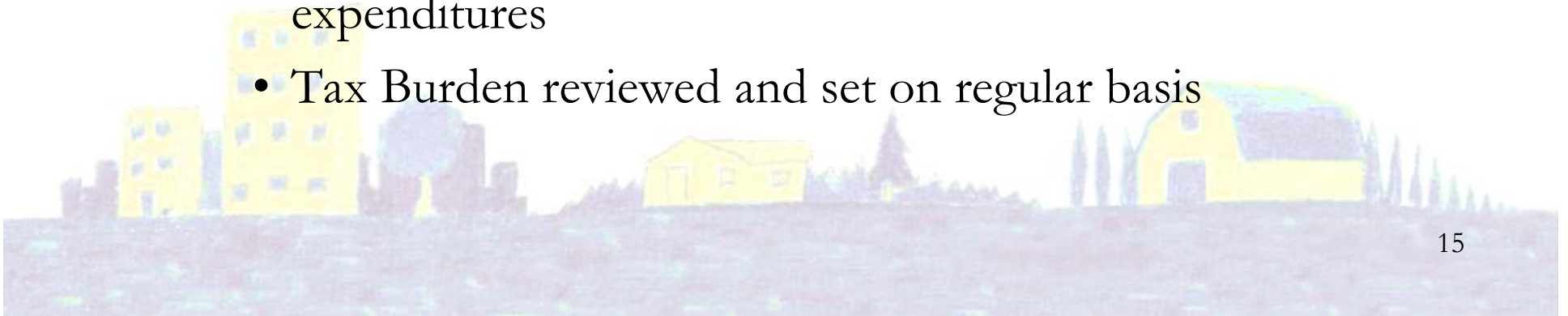
- **Simplicity** - *The Tax and Fee system should be as simple as possible to minimize compliance costs and be easily understood.*
 - Limit overall complexity
 - Additional features limited to clear and dramatic improvement
 - Number and Methods of tax limited
 - Administrative costs minimized





Principles and Objectives

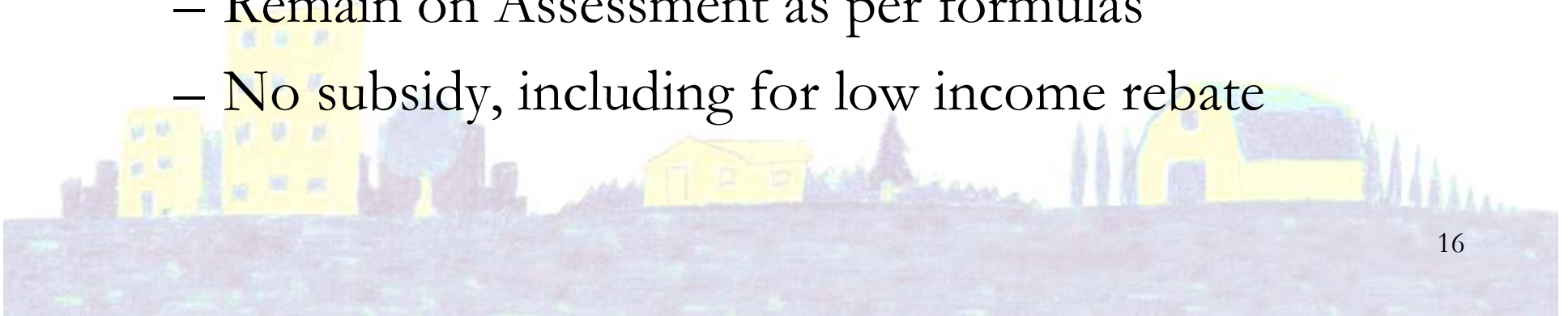
- **Transparency and Accountability** - *It should be clear how and when taxes and fees are imposed and approved.*
 - Objective and Factual
 - Reliable and Verifiable
 - Clearly documented and publicly available
 - No unintended bias towards lowering/raising taxes or expenditures
 - Tax Burden reviewed and set on regular basis





Provincial Property Taxes

- Provincial Property Taxes
 - Education, Corrections, Housing, Assessment
 - Area Rates based on Provincial formulas
 - One-third of residential property tax
- Recommend that Provincial Property Tax
 - Responsibility of Province
 - Remain on Assessment as per formulas
 - No subsidy, including for low income rebate





The Draft Tax Model

Three Key Questions

To build a tax model, reflecting principles we need to consider

- What is the service? (Nine Services)
- Who pays? (Individuals, Community, Region)
- How do they pay? (Dwelling Unit/Property, Assessment)

What * Who * How





The Types of Taxes

- Individual Charge

- We tax only the recipient

- Community Taxes

- Common Tax Rate

- One HRM-wide tax rate for those within a set distance of the service.

- Zone Tax Rate

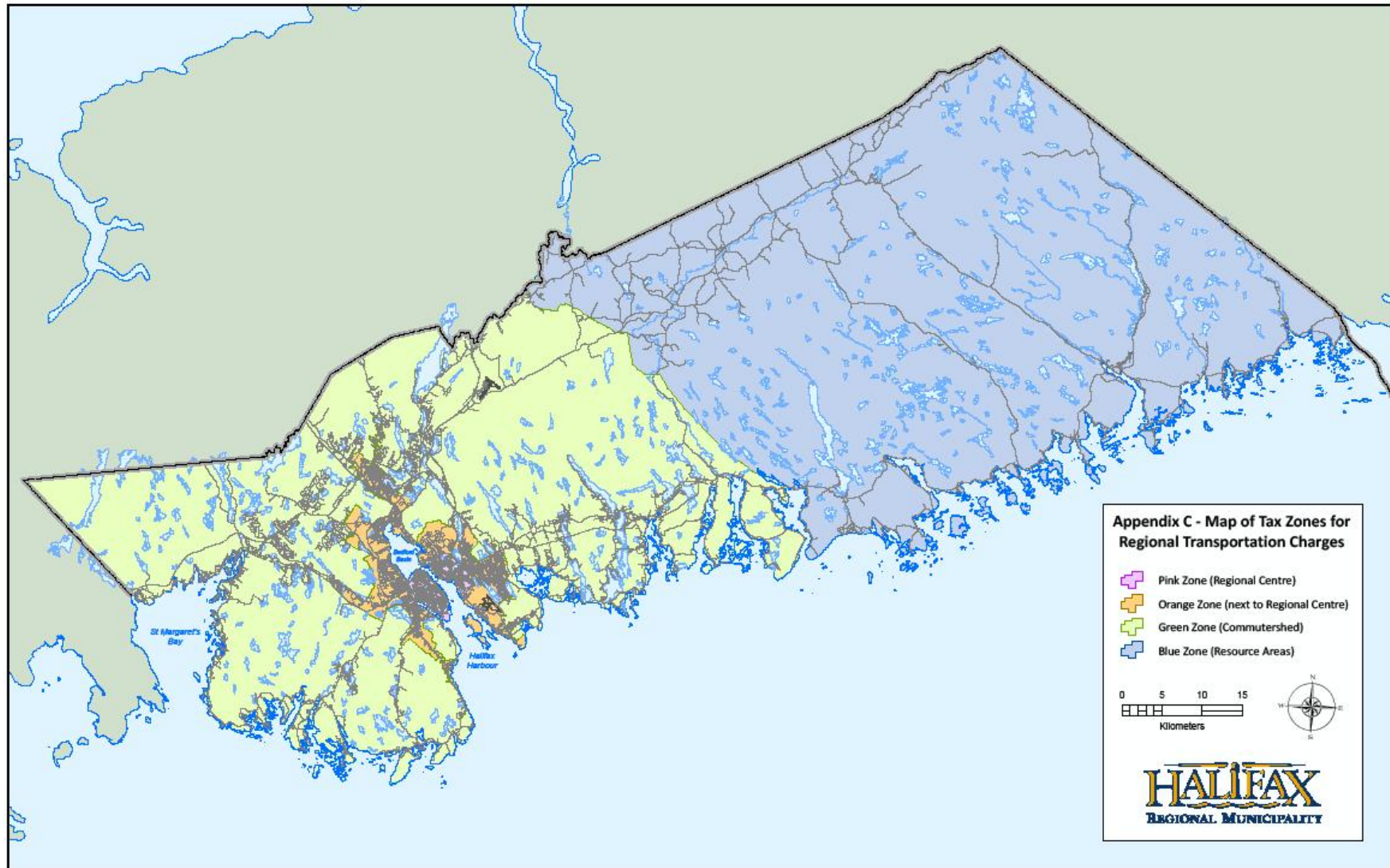
- All within a set zone benefit, and therefore pay the tax.
- Zones based on Regional Planning (GFLUM) boundaries.

- Regional Tax Rate

- All in HRM pay.



Map of Tax Zones for Regional Transportation Charges





Nine Municipal Services, Nine Municipal Tax Rates

Receive

**Access, Cause and/or
Benefit**

Benefit

Individuals

Communities

Region

Individual Charges:

- 1 Hydrants
- 2 Solid Waste
- 3 Local Roads

Common Tax Rates:

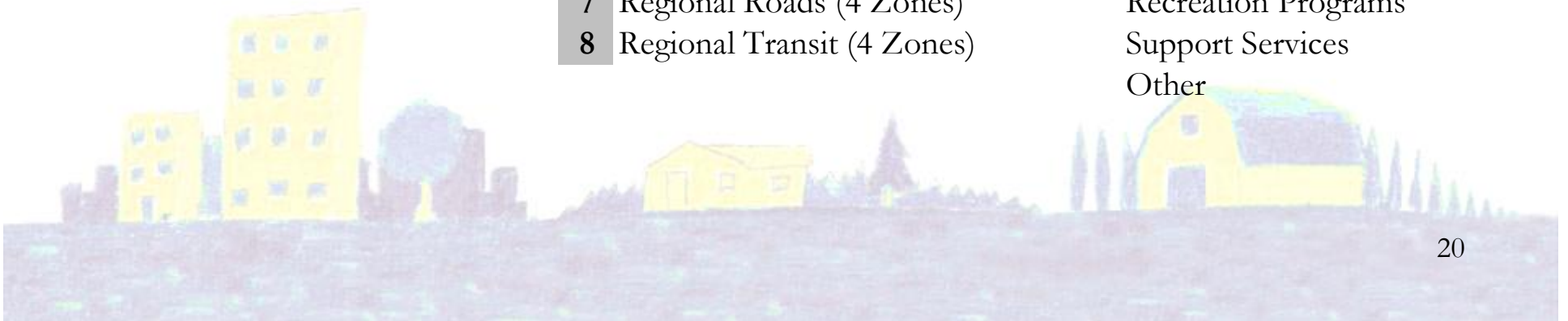
- 4 Local Recreation
- 5 Local Sidewalks
- 6 Local Transit

Zone Tax Rates:

- 7 Regional Roads (4 Zones)
- 8 Regional Transit (4 Zones)

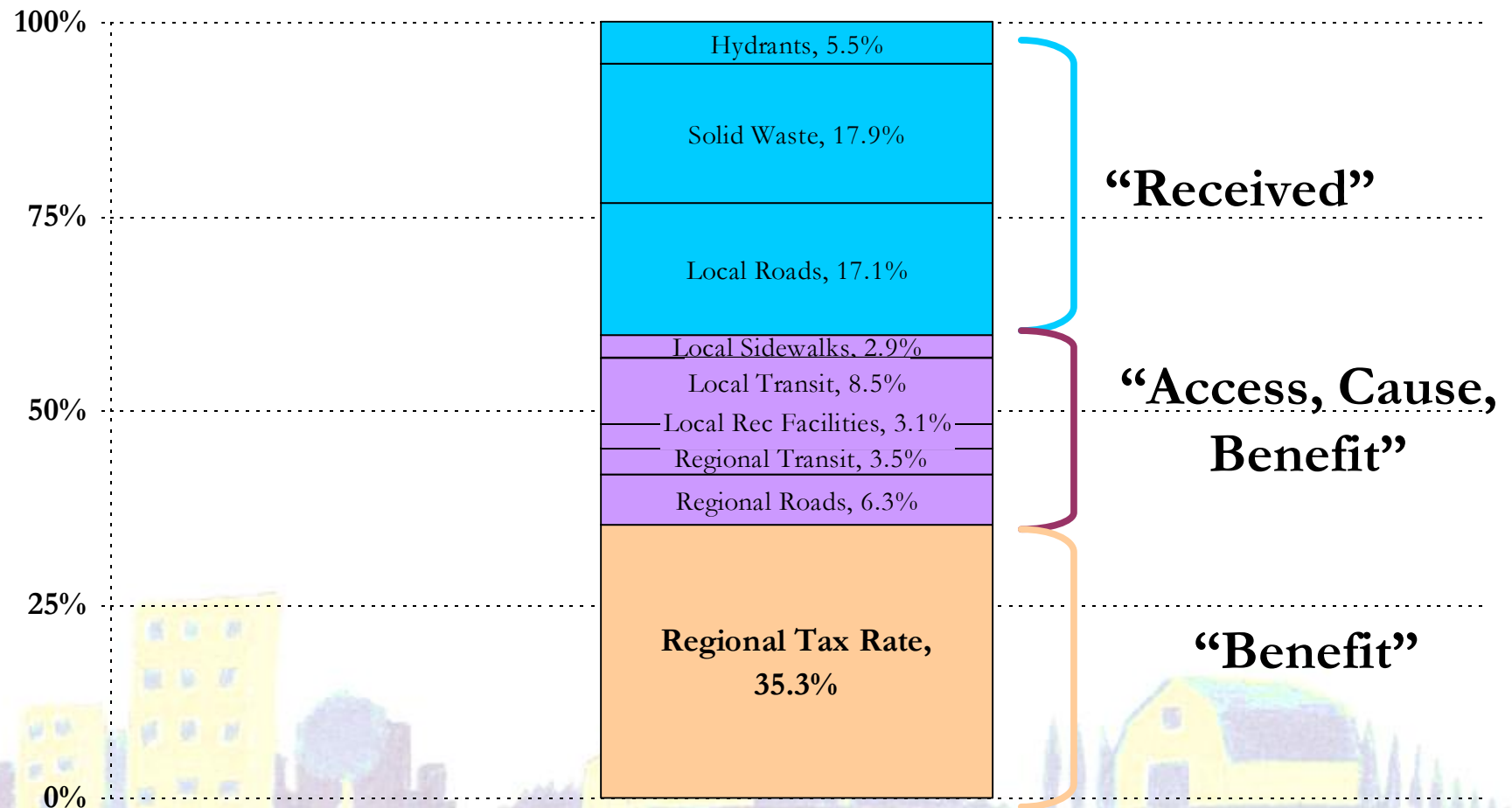
9 Regional Tax Rate:

Police
Fire
Libraries
Multi-District Facilities
Sports and Event Facilities
Recreation Programs
Support Services
Other





Example of Nine Municipal Tax Rates





Shift Away from Property Tax

- Recommendation: **Dwelling Unit Tax**
- Considerations:
 - Simple, easy to understand and administer
 - Will tax multi-unit buildings (eg Apartments, Condos) at a lower tax rate
 - Flat tax on residential vacant land.
 - Requires stronger tax relief for low income.





Hydrants – Individual Charge

- **Dwelling Unit Tax** for properties within 1,200 feet of a working hydrant
 - Simple, easy to understand and administer
 - Multi-unit buildings pay once.





Solid Waste – Individual Charge

- **Dwelling Unit Tax** for those receiving pick-up
 - Applies to those with pick-up (Homes, Condos and some Rural Business)
 - Does not apply to those without pick-up (Apartments, vacant land, most businesses)





Costing for Individual Charges

- Total Costs / Total Users
- Eg Solid Waste (Collection and Facility)
 - \$32.6m / 127,000 users
 - = \$256 per user
- Some homes have higher service levels and/or Cost more to service.



- Some get weekly green bin pick-up (8 weeks in summer)
- Some get Recycling Pick-up (Blue Bag) every two weeks





Average Property Taxes Levied for Solid Waste Costs

	Who Pays Now	Who Pays Under Tax Reform
	<i>on Assessment</i>	<i>Cost per Service</i>
<i>Tax Rates =</i>	0.062	256.37
Single Family Home		
- Urban	106	256
- Suburban	120	256
- Rural	80	256
Apartments		
- small - 2 units	130	513
- large - 38 units	1,181	-
Vacant Land - \$50,000 value	31	-
Commercial		
- Urban - \$500,000 value	1,163	-

Less than 3% of single family homes pay the full cost of solid waste!

43,000 apartments pay for the service but don't receive it.

**No Solid
Waste
Collection**



Local Roads – Individual Charge

- **Dwelling Unit Tax** for local road network.
- Considerations:
 - Levied on properties bordering on a road.
 - 75% rate for those on private roads, provincial roads.
 - Paid once by multi-unit buildings.





Local Recreation Facilities

- Common Tax Rate

- One Area Rate set for all local recreation centres (Operating and Capital). Flat rate of \$36.
 - Within 5-10 minute “Driving Distance” (7.5km) – Based on Community Facility Master Plan (CFMP).
 - Only for local facilities. Multi-District (eg pools, rinks) in Regional Tax Rate!





Local Sidewalks

– Common Tax Rate

- Local Sidewalks. Tax on those within “walking distance” (1km) of sidewalks:
 - Homes = \$48 per home
 - Apartments = \$29 (ie 60%) per Apartment
 - Commercial = 4.1 cents on assessment
- Sidewalk on arterial roads
Included in Regional
Transportation Rate





Local Transit

– Common Tax Rate

- **Dwelling Unit Tax** on any home within walking distance (1 km) of a local transit stop or park and ride.
 - All communities will have the same tax rate.
 - Excludes MetroLink, Express Rural Transit, Ferries (in Regional Transit Zone).





Regional Roads Tax Rate

- **Regional Road – Dwelling Unit Tax**
 - Pays for arterial and collector roads and sidewalks, lights, etc on those roads
- Four Zones: Pink, Orange, Green, Blue based on Regional Plan boundaries.
 - Tax rates based on Commuter trips for zone.
 - Lower rate for multi-unit buildings.
- Two Zones for Commercial
 - (1) Pink/Orange/Green and (2) Blue

\$95 per Commuter



Regional Transit Tax Rate

- **Regional Transit – Dwelling Unit Tax**
 - Pays for Metro Link, Ferries, Bus Rapid Transit
- Four Zones: Pink, Orange, Green, Blue based on Regional Plan boundaries.
 - Tax rates based on Commuter trips for zone.
 - Lower rate for multi-unit buildings.
- Two Zones for Commercial
 - (1) Pink/Orange/Green and (2) Blue

\$53 per Commuter



Regional Tax Rate

- **Dwelling Unit Tax** for services of a broad, regional benefit
 - Includes Police, Fire, Libraries, larger recreation facilities and programming, support services.
- Could use Income Tax or Surtax (if provided authority)





Deed Transfer Tax

- No Connection to either services or income.
- Concern over economic impact
 - Increases house prices
 - Cannot be mortgaged
- Recommend it be phased-out
 - Increase Regional Tax Rate for residential portion





Example of Dwelling Charge under Tax Reform

Single Family Home in Pink Zone, Full Services

	Home A	Home B	Home C
Current System:			
Value of Home	100,000	156,700	200,000
Tax Rate per \$100 of Value	0.840	0.840	0.840
Taxes	\$840	\$1,316	\$1,680

Proposed System:

Flat amount Per Services	\$1,316	\$1,316	\$1,316
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Deed Transfer Tax if sold

\$1,500

\$2,351

\$3,000



Example of Dwelling Charges under Tax Reform

Single Family Home by Zones, Selected Services

	Pink Zone (Full Services)	Orange Zone (Full Services)	Green Zone (Full Services)	Green Zone (Partial Services)	Blue Zone (Partial Services)
Paid by Most Homes:					
Regional Rate	474	474	474	474	474
Regional Roads	45	88	101	101	30
Regional Transit	25	49	57	57	17
Solid Waste	256	256	256	256	256
Local Roads*	176	176	176	132	132
	976	1,043	1,064	1,020	908
Paid by Some Homes:					
Local Transit	140	140	140	-	-
Local Sidewalks	48	48	48	-	-
Hydrants	116	116	116	-	-
Local Recreation Facilities	36	36	36	-	-
	339	339	339	-	-
Total Municipal Taxes	\$1,316	\$1,383	\$1,403	\$1,020	\$908

* Under Partial Services assumes a Private or Provincial Road at 75% of regular amount.



Example of Dwelling Charge under Tax Reform

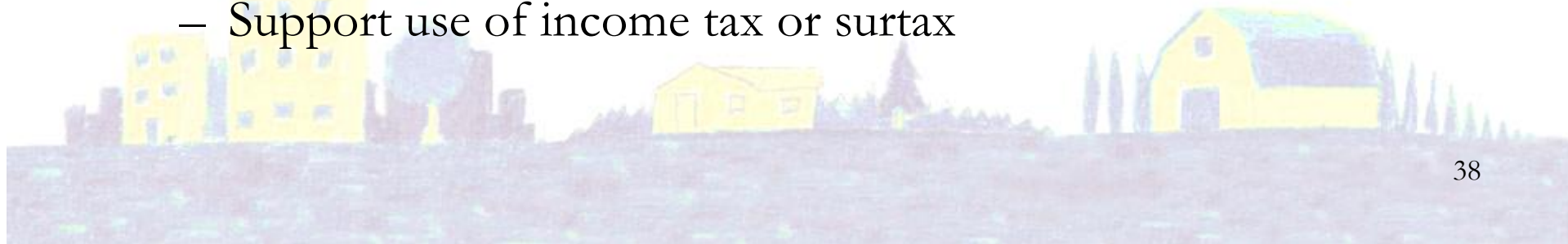
Multi-Unit Building in Pink Zone, Full Services (except Solid Waste in Large Apartments)

	Apartment (6 Units)	Condo (6 Units)	Apartment (100 Units)	Condo (100 Units)
Paid for by the Property Once:				
Hydrants	116	116	116	116
Local Roads	<u>176</u>	<u>176</u>	<u>176</u>	<u>176</u>
	292	292	292	292
By the Number of Dwellings at 60%:				
Regional Rate	1,706	1,706	28,430	28,430
Regional Roads	162	162	2,692	2,692
Regional Transit	90	90	1,504	1,504
Local Transit	503	503	8,391	8,391
Local Sidewalks	<u>172</u>	<u>172</u>	<u>2,861</u>	<u>2,861</u>
	2,633	2,633	43,878	43,878
By the Number of Dwellings at 100%:				
Local Recreation Facilities	214	214	3,568	3,568
Solid Waste	<u>1,538</u>	<u>1,538</u>	<u>0</u>	<u>25,637</u>
	1,752	1,752	3,568	29,205
Total Municipal Tax	\$4,677	\$4,677	\$47,738	\$73,375
Tax per Dwelling	780	780	477	734



Ability to Pay

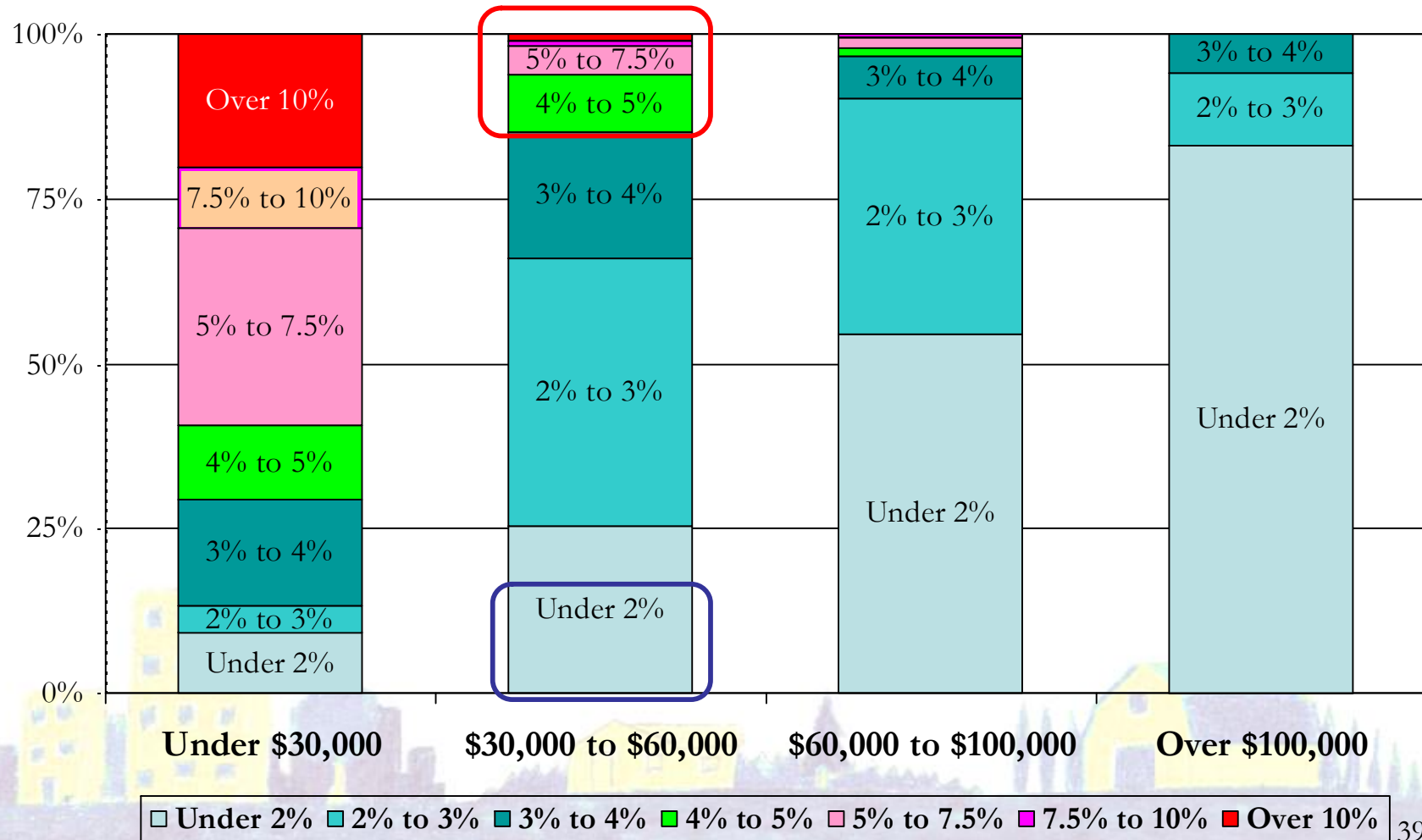
- Eliminate inaccurate proxy for ability to pay (ie assessment)
- Increased Low Income Rebate
 - \$1,000 – Reduced by 7% over \$18,000
 - Additional \$100 per child (max \$300)
 - Equivalent to Dependent
 - Phases out at \$33,700 (two children)
 - Seeking administration by CRA
- No tool to tax income at progressive rates
 - Support use of income tax or surtax





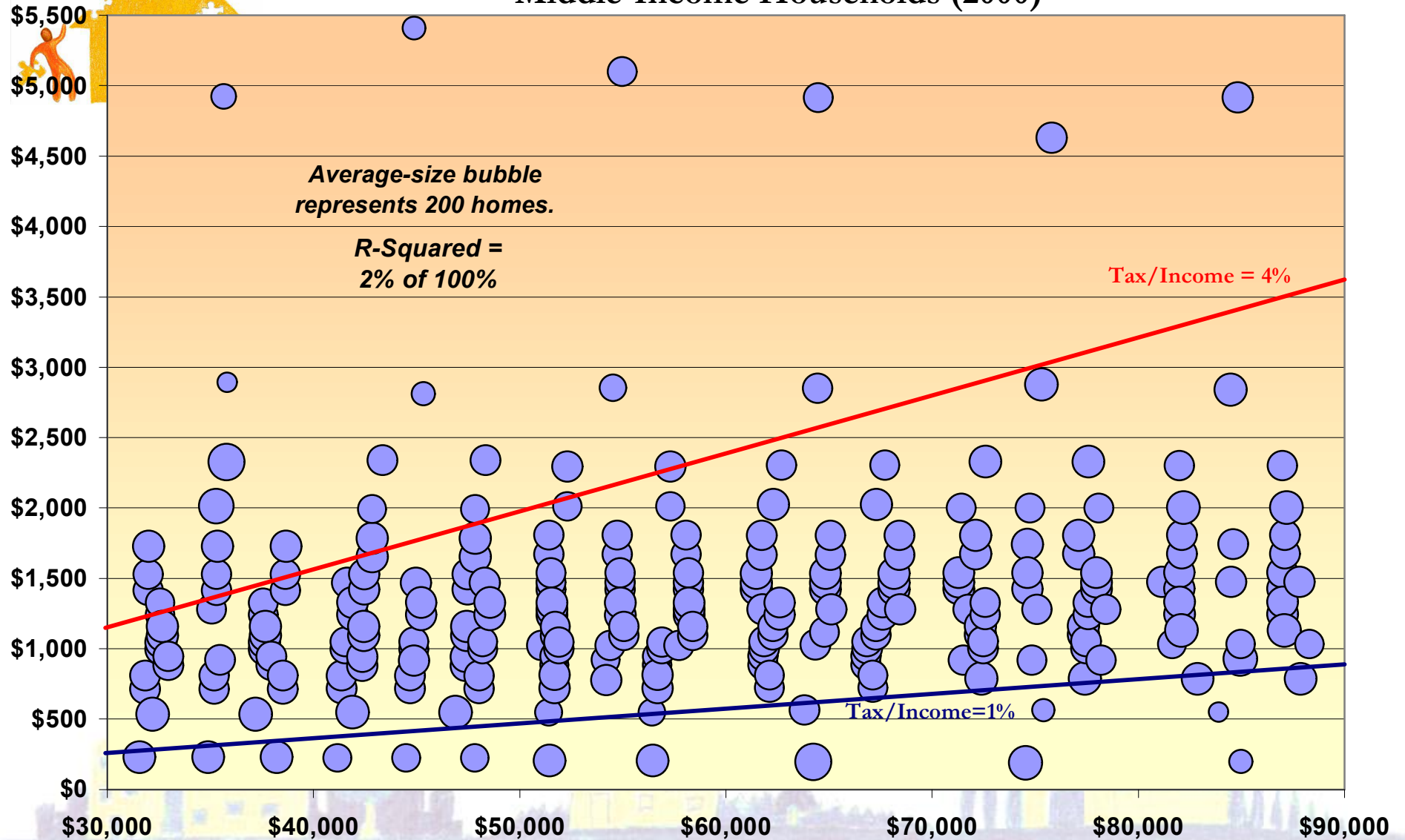
How Progressive is the Status Quo (Tax Paid as a Percent of Income)

Estimated Total Property Tax, 2000



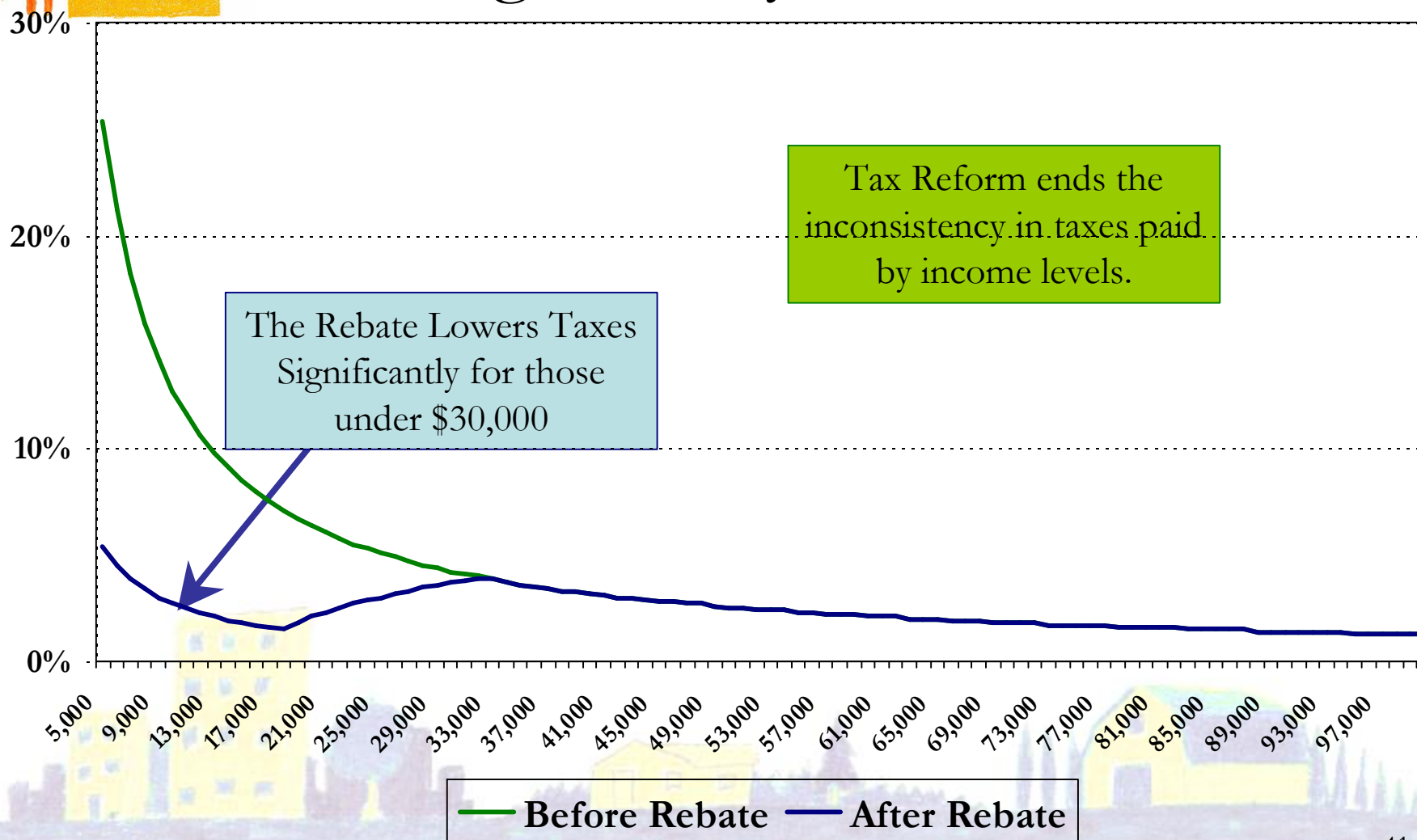
Note: before low income rebate.

Approximate Distribution of Tax Bills for Middle-Income Households (2000)

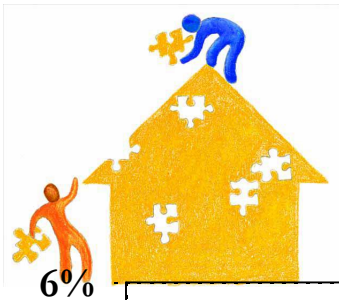




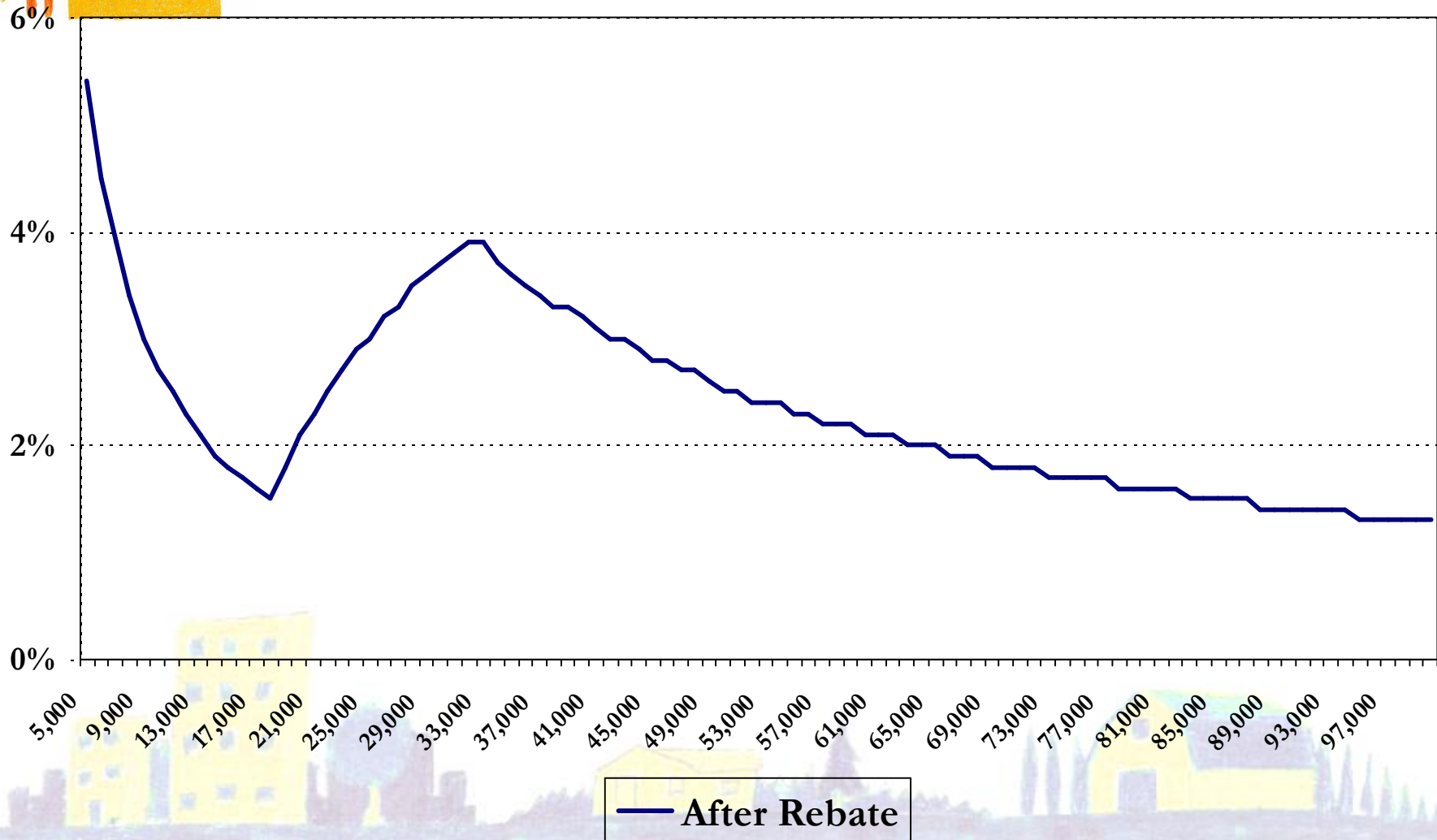
How Will Tax Reform Affect Progressivity (Tax/Income)



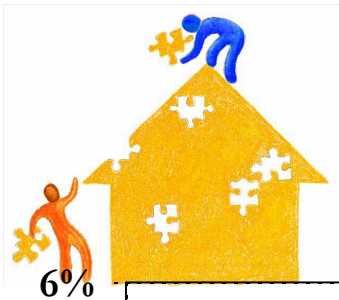
Based on typical taxes for a single family home in the Pink Zone.



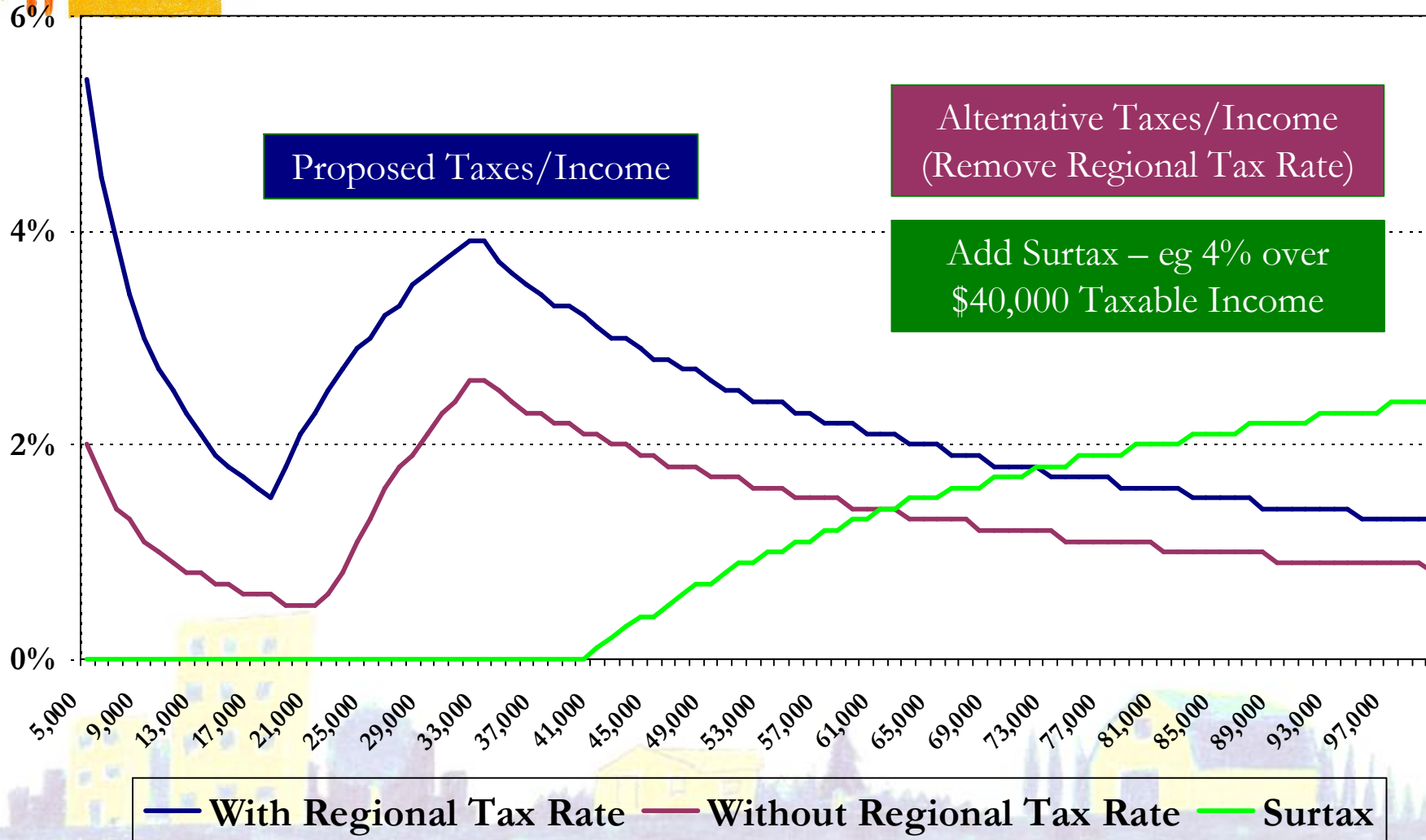
Tax Reform and Income (Tax/Income)



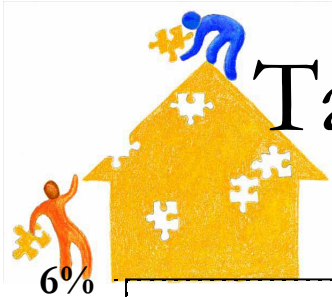
Based on typical taxes for a single family home in the Pink Zone.



Taxes/Income after Tax Reform

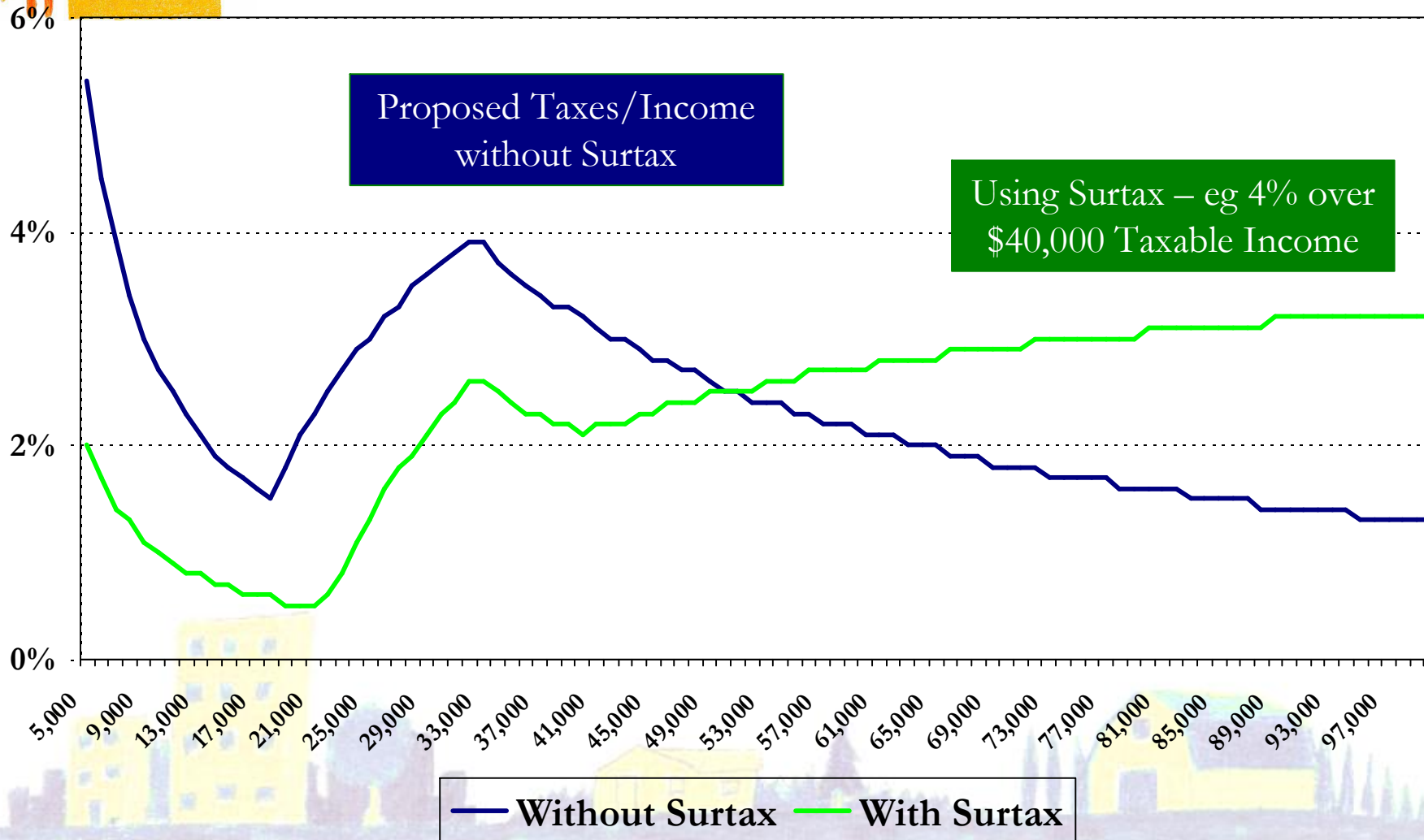


Based on typical taxes for a single family home in the Pink Zone.



Taxes/Income under Tax Reform

With and Without Surtax



Based on typical taxes for a single family home in the Pink Zone.



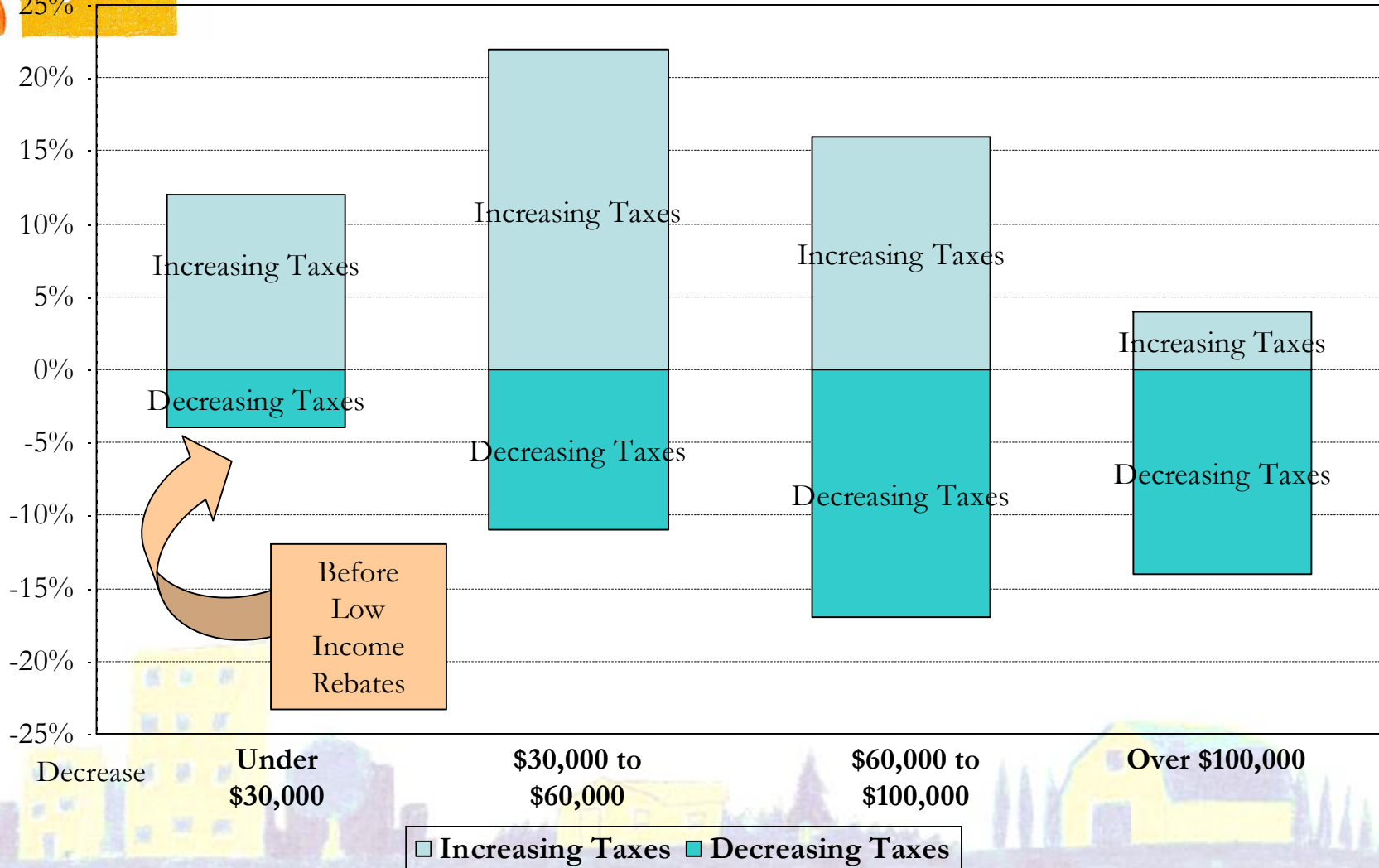
Commercial Taxation

- For now, remain on market value assessment
 - subject to feedback, research
- Commercial taxpayers pay on service basis
 - But, no shift in share of tax revenues
 - No increase to historic multiplier of 2.55
- Accelerate phase-out of Business Occupancy
- Considerable work still remains to be done by Committee.



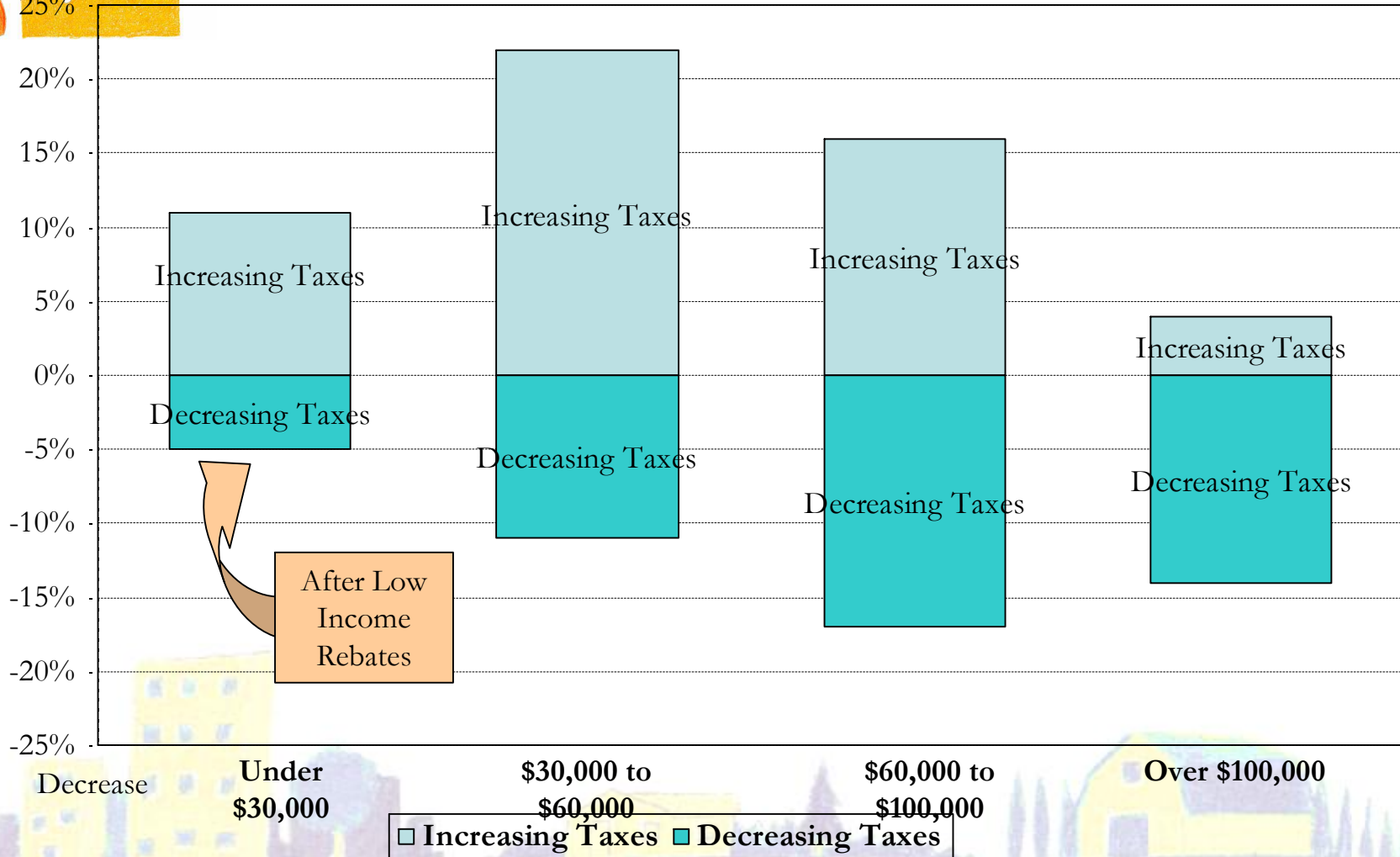
Municipal Tax Paid by Income Level After Tax Reform

2001 Census Income and Estimated 2007 Property Value



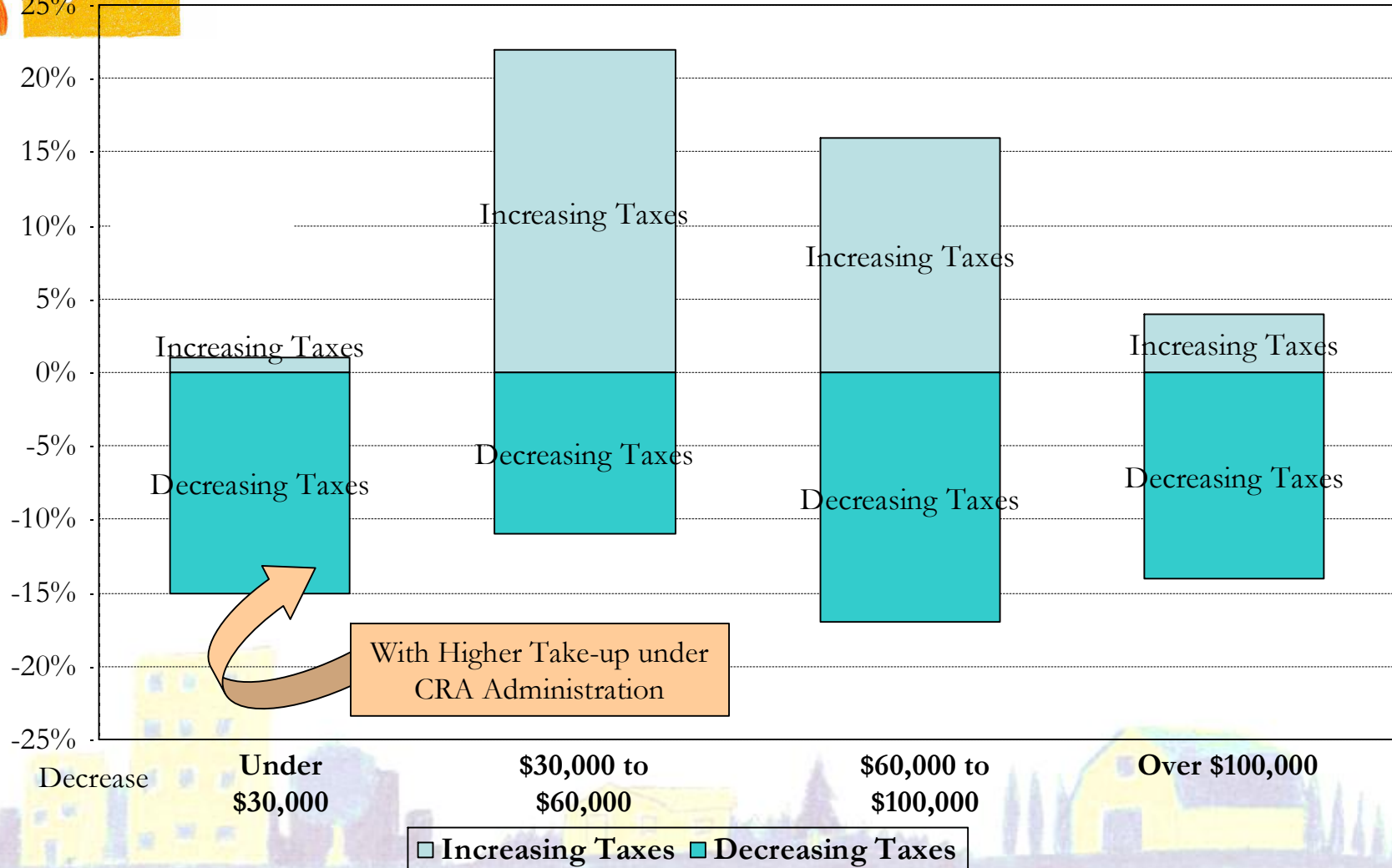
Municipal Tax Paid by Income Level After Tax Reform

2001 Census Income and Estimated 2007 Property Value



Municipal Tax Paid by Income Level After Tax Reform

2001 Census Income and Estimated 2007 Property Value





Average Municipal Property Tax before and after Tax Reform

	Dwellings	Average Property Assessment 2007 (Capped - by Dwelling)	Current Municipal Property Tax (by Dwelling)	Municipal Property Tax under Draft Tax Model (by Dwelling)	Average Change
Single Family Home	105,238	163,707	1,310	1,260	-50
Apartment (6 Units and Under)	19,245	86,706	720	854	134
Apartments (over 6 Units)	43,055	50,315	422	501	80
Pink (Regional Centre)	13,949	226,619	1,903	1,314	-589
Orange (Next to Regional Centre)	44,438	168,977	1,417	1,370	-47
Green (Commutershed)	29,503	163,613	1,178	1,098	-81
Blue (Resource)	4,742	61,273	431	928	497

Impact before Ability to Pay, Deed Transfer Tax



Average Municipal Property Tax before and after Tax Reform

Single Family Homes - by Distribution of 2007 Assessed Values

	Dwellings	Percent	Current Municipal Property Tax	Municipal Property Tax under Draft Tax Model	Average Change
Under \$75,000	12,596	12.0%	332	1,125	793
\$75,000 to \$100,000	9,303	8.8%	698	1,245	548
\$100,000 to \$150,000	33,176	31.5%	1,018	1,287	269
\$150,000 to \$200,000	25,052	23.8%	1,379	1,279	-100
\$200,000 to \$300,000	17,324	16.5%	1,890	1,276	-615
Over \$300,000	7,787	7.4%	3,361	1,284	-2,077
Total	105,238	100.0%	1,310	1,260	-51

Impact before Ability to Pay, Deed Transfer Tax



Where We've Come From

Status Quo














- Logic behind System:
 - Property Tax is based on **Wealth**. (Assumes value of property is a proxy for wealth).
- Features
 - Urban, Suburban, Rural boundaries for some services.
 - Low income rebates/ deferrals
 - Deed Transfer Tax

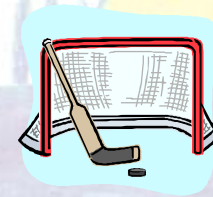
Reform

- Logic behind System
 - Mission Statement – **Service based system with recognition of ability to pay.**
 - Supported by 7 principles and 29 objectives.
- Features
 - Taxes based on level of benefit to individual, community or region.
 - Ability to Pay mechanism
 - Recognizes competitiveness



Accomplishments

- Mission Statement, Principles, Objectives 
- “How” = Shift away from Property Assessment 
- Decisions on “Who” Pays for which Municipal Services based on Benefit? 
 - Individuals, Communities, Region 
 - Nine tax rates 
 - Options available 
- Current Tax Boundaries replaced 
 - Common Tax Rates 
 - Tax Zones 
- Elimination of Deed Transfer Tax 
- More emphasis on Ability to Pay 
- Commercial Tax Improvements 
- Final Report and Public Consultations 





Draft Tax Model for Discussion

- Provincial Property Taxes remain Provincial responsibility
- Municipal Services collected through 9 tax rates
 - Flat Amounts
 - Vary for multi-unit buildings
- Enhanced Rebate for Lower Income
- Phase-out of Deed Transfer Tax
- Benefits of Economic Competitiveness belongs to residents and business. Committee's work to continue.
- Consider replacing Regional Tax Rate with income tax or surtax (if given authority).



Equity

Tax Reform Evaluation Criteria

Strengths

Weaknesses

Taxes consistent with services

Some high income will likely pay less municipal tax

Taxes consistent with income

No discrepancy in:
waterfront properties
condos vs apartments
condos vs homes

Low income protected

Economic Competitiveness

Favours compact development,
efficient delivery of services.

Uses average costs.

Easier to buy homes

Commercial competitiveness not fully addressed.

No bias against new homes,
homes for sale, Apartments



Strengths

Respect for Other Governments

Less "Blame" for assessment
versus tax rate

Most changes within
current legal powers.

Simplicity

Compliance costs, appeals
decline

Stability

Sudden and dramatic tax changes
due to house values eliminated.

Transparency and Accountability

Tax rates and burden visible

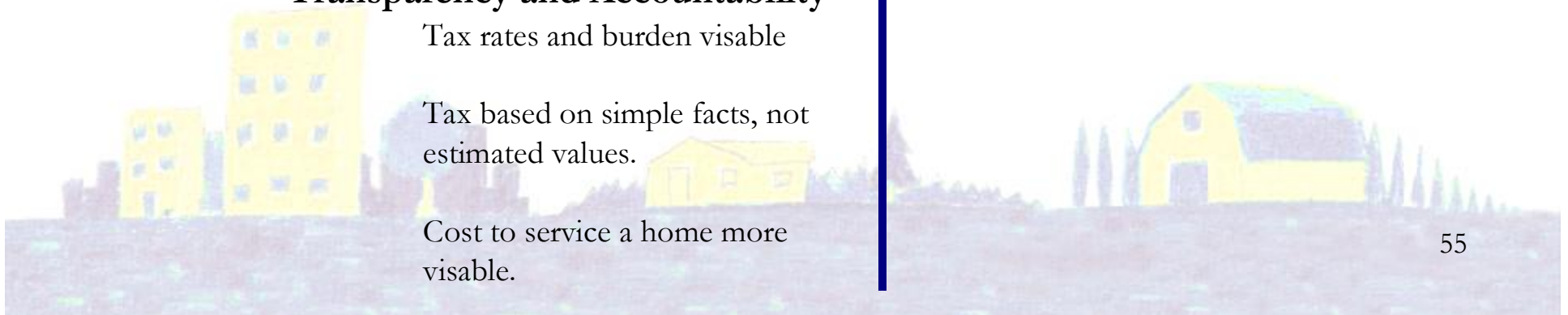
Tax based on simple facts, not
estimated values.

Cost to service a home more
visible.

Weaknesses

Low income relief means less
stability for municipality

Dependence on property tax
increases after Deed Transfer Tax.





Agenda

- Overview of Tax Reform
 - The current property tax system requires change.
 - A new tax system should reflect both municipal services and ability to pay and be based on solid principles.
 - HRM wants to work with citizens to review and improve upon the proposed tax reforms.
- Recommendation:
 - Open Houses across HRM – May 2008



Communications Plan

- Advertising
- Pamphlet to homes
- Feedback
 - Open Houses
 - Web Survey
 - Letters, Phone





Open Houses

- Middle Musquodoboit
- Sheet Harbour
- Lake Echo
- Cole Harbour
- Dartmouth
- Bedford
- Sackville
- Halifax
- Tantallon
- Fall River
- Business – Downtown
- Business – Burnside
- Halifax – Downtown daytime





Public Feedback Sought

- Accept Tax Reform Suggestions
- Modify the Suggestions
- Move in Another Direction
- Prefer the Status Quo





Recommendation

- It is recommended that
 - As previously directed by Regional Council that the Tax Reform Committee move forward towards public consultations and receive feedback on
 - The Foundations, Principles and Objectives of a new tax system
 - The Draft Tax Model
 - And that it then report back to Regional Council

