

# Tax Reform - Two Sample Packages

To illustrate the opportunities and risks available through reform, two examples of a revised tax system are attached. These are attached solely for illustrative purposes. There are technical issues outstanding around the costs of some features attached (eg frontage and road data, allocation of debt costs) that need to be discussed with business units. There are also numerous variants that could be developed. In some cases a simple change in the design features can cause a major shift in the tax burden. Both packages assume that the commercial sector continues to fund the same portion of general tax revenues. Both assume there would be enhanced low income relief (eg taxes would not exceed 3% of income) although the fiscal and administrative implications of this have not been factored into the analysis.

## **Package 4 - Dwelling Unit Charge for Municipal Services**

Under this scenario the HRM Tax Bill would consist of three main parts:

- (1) **A charge for provincial services.** This charge would reflect the formulas the Province uses to calculate the amount owed by HRM. This is mostly based on assessed value with a portion reflecting the number of dwelling units or accounts. The average charge in the urban area would be \$545. There would be no subsidy from the commercial tax rate to keep this amount low. Instead, any existing subsidy would be reallocated against municipal services.
- (2) **A charge for local road service.** This charge would reflect all local road costs (eg capital, operating, plowing, sidewalks, lights, etc...) It would be paid by any property on an HRM road but not a private road or Provincial road. The bill would be based on frontage. For simplicity, it is assumed that homeowners would pay a dwelling unit charge that assumes a typical lot size. Those with extra large frontages could pay a surcharge. Homeowners would pay based upon their type of local frontage. For example, rural roads would pay a lower cost per metre although they may have more metres of frontage. Some urban taxpayers a higher amount for local sidewalk plowing. Those located on arterial or trunk roads would pay the equivalent cost as if their road were built to local road standards. There are substantial data and other issues around frontage and costs that would need to be clarified. The average charge in the urban area would be \$249 and in the rural area \$462. Many rural homes, however, would not be on HRM roads.
- (3) **A Dwelling Unit charge for HRM Services.** All other HRM services would be funded through a dwelling unit charge. This would include arterial road costs, solid waste, police, fire, recreation and other services but not those currently funded through user fees (eg water, sewer). Transit would be paid for through a special dwelling unit charge on the Urban and Rural Commuter sheds. Owners of land would continue to pay for all of these services through assessment. The charge for homeowners would be \$748 with an extra \$140 for transit in the applicable areas. The second or third unit in a property would pay only 80% of this dwelling unit charge and every additional property after only 70%.

### **Package 3 - Dwelling Unit Charge for 25% of Municipal Services**

As a more modest alternative, HRM could simply shift some of the funds collected through assessment values onto a dwelling unit charge. This package would assume:

- (1) **A charge for provincial services.** This charge would be the same as in Package 4.
- (2) **Amount levied on Assessment.** HRM would levy approximately 75% of the cost currently collected from assessment of its services onto assessment. After removing Provincial Services and reallocating the subsidy, the rate for municipal services in the general tax rates would drop from 90 cents to 60 cents.
- (3) **Dwelling Unit Charge.** HRM would levy a dwelling unit charge of \$218 on every dwelling unit in the municipality. There would be an additional \$140 Dwelling Unit charge for transit in the urban and commuter shed areas.

### **The Impact of Packages 3 and 4**

As detailed in the attached tables, Package 3 and 4 both produce substantial shifts in the tax burden. The impacts for Package 4 are dramatic with declines in taxes payable for higher valued properties, condo and those not on HRM Roads. Increases will be felt in lower valued properties, apartments and those in suburban areas that reside on HRM roads. Impacts would vary dramatically by home. The average rural taxpayer would see a 10% tax drop. However, any rural home (on a Provincial road) with less than a \$95,000 value would likely see a tax increase. About 40% of rural homes and 80% of homes in District 1 fit this pattern. More work is required to see how many of these might benefit from an expanded low income relief pattern.

Under Package 3 many single unit homes will see declines whether or not they are on an HRM road. The pattern of gains and losses is similar to Package 4 but more muted.

Under both packages lowered valued homes would tend to pay more taxes. In some cases these homes would be occupied by lower income individuals who could qualify for a rebate. In others the owner may be outside the income thresholds. Some lowered valued homes are likely newer homes not yet fully assessed.

Both Packages 3 and 4 would require changes to the MGA. Currently the MGA does not appear to allow for:

- Operating Costs for Local Roads to be included on Frontage. Capital Costs are allowed under Section 81 but not all operating costs would not be permitted.
- Dwelling Units charges to be used as a replacement for the general tax rate. Nor may they be varied according to a sliding scale.

- Income Rebates determined according to the relationship between income and tax paid.

Council's request in the Fall of 2005 to Service Nova Scotia for additional tax powers would cover off both of the first two issues. There are likely other technical issues that need to be addressed following a final review by legal.

**Table 1 - Current System versus Sample Package 4**  
**Sample Package 4 Assessment (Provincial Services), Dwelling Unit/Frontage (Municipal)**

	<b>Current System (Full Assessment System)</b>	<b>Sample Package 4 Assessment (Provincial Services), Dwelling Unit/Fronta ge (Municipal</b>	<b>Variance \$</b>	<b>Variance %</b>
<b>Incidence</b>				
<b>Single Detached Homes</b>				
Urban - \$216,000	2,771	1,935	-836	-30%
Urban - \$144,400	1,852	1,682	-171	-9%
Urban - \$80,500	1,033	1,456	422	41%
Suburban - \$157,000 (on HRM Road)	1,855	1,975	120	6%
Suburban - \$157,000 (not on HRM Road)	1,855	1,477	-378	-20%
Rural - \$111,700 (on HRM Road)	1,313	1,639	326	25%
Rural - \$111,700 (not on HRM Road)	1,313	1,177	-136	-10%
<b>Home with 1 secondary Unit</b>	2,150	2,557	408	19%
<b>Apartments (25 units) - \$39k per unit</b>	499	828	330	66%
<b>Condo (20 units) - \$126k per unit</b>	1,621	1,137	-484	-30%
<b>Land (Rural) on HRM Road - \$9,700, 30 Metres of Frontage</b>	114	579	465	407%
<b>Land (Rural) not on HRM Road - \$9,700, 30 Metres of Frontage</b>	114	117	3	3%

**Table 2 - Current System versus Sample Package 3**  
**Sample Package 3 (Dwelling Unit Charge for 25% of Municipal Services)**

	<b>Current System (Full Assessment System)</b>	<b>Sample Package 3 (Dwelling Unit Charge for 25% of Municipal Services)</b>	<b>Variance \$</b>	<b>Variance %</b>
<b>Incidence</b>				
<b>Single Detached Homes</b>				
Urban - \$216,000	2,771	2,471	-300	-11%
Urban - \$144,400	1,852	1,735	-117	-6%
Urban - \$80,500	1,033	1,079	46	4%
Suburban - \$157,000 (on HRM Road)	1,855	1,746	-110	-6%
Suburban - \$157,000 (not on HRM Road)	1,855	1,746	-110	-6%
Rural - \$111,700 (on HRM Road)	1,313	1,290	-24	-2%
Rural - \$111,700 (not on HRM Road)	1,313	1,290	-24	-2%
<b>Home with 1 secondary Unit</b>	2,150	2,212	63	3%
<b>Apartments (25 units) - \$39k per unit</b>	499	639	140	28%
<b>Condo (20 units) - \$126k per unit</b>	1,621	1,550	-71	-4%
<b>Land (Rural) on HRM Road - \$9,700, 30 Metres of Frontage</b>	114	103	-12	-10%
<b>Land (Rural) not on HRM Road - \$9,700, 30 Metres of Frontage</b>	114	103	-12	-10%

### Table 3 Example of a Single Unit Dwelling

Average Urban Home - \$144,400

	Status Quo (General Tax Rate)	Package 4	Package 3
<b>Provincial Services</b>	450	545	545
<b>Municipal Services</b>			
Local Roads, Sidewalks, and Services	177	249	132
Arterial Roads	76	65	57
Transit	102	140	102
Other (Police, Fire, Library)	1,047	683	899
<b>Sub-Total</b>	<b>1,402</b>	<b>1,137</b>	<b>1,190</b>
<b>TOTAL</b>	<b>1,852</b>	<b>1,682</b>	<b>1,735</b>

**Table 4 - Current System versus Sample  
Package 4  
by Distribution of Assessment Values**

By Distribution	Current System			Sample Package 4 Assessment (Provincial Services), Dwelling Unit/Frontage (Municipal Service)				Variance	Percent Change
	Number	Avg Assessment	Current Avg Tax	Provincial Services	Dwelling Charge	Local Road Charge	Total		
Under \$1,000	1	100	1	34	888	249	1,171	1,170	91156%
\$1,000 to \$25,000	1,140	16,813	216	93	888	249	1,230	1,014	470%
\$25,000 to \$50,000	1,905	33,785	433	153	888	249	1,290	857	198%
\$50,000 to \$75,000	2,883	59,807	767	245	888	249	1,382	615	80%
\$75,000 to \$100,000	8,078	80,528	1,033	319	888	249	1,456	422	41%
\$100,000 to \$150,000	27,446	113,582	1,457	436	888	249	1,573	115	8%
\$150,000 to \$200,000	15,138	158,782	2,037	596	888	249	1,733	-305	-15%
\$200,000 to \$300,000	9,072	215,951	2,771	798	888	249	1,935	-836	-30%
\$300,000 to \$400,000	2,839	309,783	3,975	1,130	888	249	2,267	-1,707	-43%
\$400,000 to \$500,000	1,048	400,975	5,145	1,453	888	249	2,590	-2,555	-50%
\$500,000 to \$750,000	585	527,519	6,768	1,901	888	249	3,038	-3,730	-55%
\$750,000 to \$1 million	88	771,353	9,896	2,764	888	249	3,901	-5,995	-61%
\$1 million plus	69	1,228,620	15,763	4,383	888	249	5,520	-10,243	-65%
<b>Total</b>	<b>70,292</b>	<b>144,362</b>	<b>1,852</b>	<b>545</b>	<b>888</b>	<b>249</b>	<b>1,682</b>	<b>-171</b>	<b>-9%</b>

by Distribution of Assessment Growth									
By Increases/Decreases	Number	Avg Assessment	Current Avg Tax	Provincial Services	Dwelling Charge	Local Road Charge	Total	Variance	Percent Change
Under - 50%	15	1,688,887	21,668	6,012	888	249	7,149	-14,519	-67%
-50% to -25%	89	185,437	2,379	690	888	249	1,827	-552	-23%
-25% to -10%	289	179,797	2,307	670	888	249	1,807	-500	-22%
-10% to -5%	350	145,220	1,863	548	888	249	1,685	-179	-10%
-5% to -2%	399	163,853	2,102	614	888	249	1,751	-352	-17%
-2% to 0%	413	144,544	1,855	545	888	249	1,682	-172	-9%
0% to 2%	2,987	82,473	1,058	326	888	249	1,462	404	38%
2% to 5%	4,466	144,708	1,857	546	888	249	1,683	-174	-9%
5% to 10%	31,402	152,647	1,958	574	888	249	1,711	-248	-13%
10% to 25%	28,073	142,386	1,827	538	888	249	1,675	-152	-8%
25% to 50%	1,226	120,176	1,542	459	888	249	1,596	54	4%
50% plus	583	81,053	1,040	321	888	249	1,457	417	40%
<b>Total</b>	<b>70,292</b>	<b>144,362</b>	<b>1,852</b>	<b>545</b>	<b>888</b>	<b>249</b>	<b>1,682</b>	<b>-171</b>	<b>-9%</b>

**Table 5 - Current System versus Sample  
Package 3  
by Distribution of Assessment Values**

By Distribution	Current System			Sample Package 3 (Dwelling Unit Charge for 25% of Municipal Services)				Variance	Percent Change
	Number	Avg Assessment	Current Avg Tax	Provincial Services	Assessment Charge	Dwelling Charge	Total		
Under \$1,000	1	100	1	34	1	218	252	251	19570%
\$1,000 to \$25,000	1,140	16,813	216	93	113	218	424	208	97%
\$25,000 to \$50,000	1,905	33,785	433	153	228	218	599	165	38%
\$50,000 to \$75,000	2,883	59,807	767	245	403	218	866	99	13%
\$75,000 to \$100,000	8,078	80,528	1,033	319	543	218	1,079	46	4%
\$100,000 to \$150,000	27,446	113,582	1,457	436	765	218	1,419	-38	-3%
\$150,000 to \$200,000	15,138	158,782	2,037	596	1,070	218	1,883	-154	-8%
\$200,000 to \$300,000	9,072	215,951	2,771	798	1,455	218	2,471	-300	-11%
\$300,000 to \$400,000	2,839	309,783	3,975	1,130	2,087	218	3,435	-539	-14%
\$400,000 to \$500,000	1,048	400,975	5,145	1,453	2,702	218	4,373	-772	-15%
\$500,000 to \$750,000	585	527,519	6,768	1,901	3,555	218	5,673	-1,095	-16%
\$750,000 to \$1 million	88	771,353	9,896	2,764	5,198	218	8,180	-1,717	-17%
\$1 million plus	69	1,228,620	15,763	4,383	8,279	218	12,880	-2,884	-18%
<b>Total</b>	<b>70,292</b>	<b>144,362</b>	<b>1,852</b>	<b>545</b>	<b>973</b>	<b>218</b>	<b>1,735</b>	<b>-117</b>	<b>-6%</b>

by Distribution of Assessment Growth									
By Increases/Decreases	Number	Avg Assessment	Current Avg Tax	Provincial Services	Assessment Charge	Dwelling Charge	Total	Variance	Percent Change
Under - 50%	15	1,688,887	21,668	6,012	11,380	218	17,610	-4,058	-19%
-50% to -25%	89	185,437	2,379	690	1,250	218	2,157	-222	-9%
-25% to -10%	289	179,797	2,307	670	1,212	218	2,099	-207	-9%
-10% to -5%	350	145,220	1,863	548	979	218	1,744	-119	-6%
-5% to -2%	399	163,853	2,102	614	1,104	218	1,935	-167	-8%
-2% to 0%	413	144,544	1,855	545	974	218	1,737	-117	-6%
0% to 2%	2,987	82,473	1,058	326	556	218	1,099	41	4%
2% to 5%	4,466	144,708	1,857	546	975	218	1,739	-118	-6%
5% to 10%	31,402	152,647	1,958	574	1,029	218	1,820	-138	-7%
10% to 25%	28,073	142,386	1,827	538	959	218	1,715	-112	-6%
25% to 50%	1,226	120,176	1,542	459	810	218	1,487	-55	-4%
50% plus	583	81,053	1,040	321	546	218	1,084	45	4%
<b>Total</b>	<b>70,292</b>	<b>144,362</b>	<b>1,852</b>	<b>545</b>	<b>973</b>	<b>218</b>	<b>1,735</b>	<b>-117</b>	<b>-6%</b>



**Table 6 - Current System versus Sample Package 4  
Possible Changes in Low Income Rebate**

Gross Household Income	Current System (Full Assessment System)			Sample Package 4 Assessment (Provincial Services), Dwelling Unit/Frontage (Municipal Service)			
	Average Income	Current Tax Bill after Rebates	Taxes/ Income	Taxes (Assuming \$80,500 Home)	New Rebate	Final Tax Bill	Taxes/ Income
up to \$2,000	\$584	\$1,026	175.7%	1,456	1,438	\$18	3.0%
\$2,001 to \$4,000	3,054	521	17.1%	1,456	1,364	92	3.0%
\$4,001 to \$6,000	5,250	474	9.0%	1,456	1,298	158	3.0%
\$6,001 to \$8,000	6,977	593	8.5%	1,456	1,246	209	3.0%
\$8,001 to \$10,000	9,058	616	6.8%	1,456	1,184	272	3.0%
\$10,001 to \$12,000	11,307	566	5.0%	1,456	1,116	339	3.0%
\$12,001 to \$14,000	13,119	571	4.4%	1,456	1,062	394	3.0%
\$14,001 to \$16,000	14,915	694	4.7%	1,456	1,008	447	3.0%
\$16,001 to \$18,000	16,973	703	4.1%	1,456	946	509	3.0%
\$18,001 to \$20,000	18,911	879	4.6%	1,456	888	567	3.0%
\$20,001 to \$22,000	21,064	971	4.6%	1,456	824	632	3.0%
\$22,001 to \$24,000	22,903	1,001	4.4%	1,456	768	687	3.0%
\$24,001 to \$26,000	24,936	1,141	4.6%	1,456	707	748	3.0%
\$26,001 to \$28,000	26,510	1,216	4.6%	1,456	660	795	3.0%
\$28,001 to \$30,000	29,000	na	na	1,456	586	870	3.0%
\$30,001 to \$32,000	31,000	na	na	1,456	526	930	3.0%
\$32,001 to \$34,000	33,000	na	na	1,456	466	990	3.0%
\$34,001 to \$36,000	35,000	na	na	1,456	406	1,050	3.0%
\$36,001 to \$37,900	36,950	na	na	1,456	347	1,109	3.0%
<b>Overall</b>	<b>\$17,107</b>	<b>\$802</b>	<b>4.7%</b>	<b>\$1,456</b>	<b>\$942</b>	<b>\$513</b>	<b>3.0%</b>

Note: Assumes taxpayers pay 3% of income as HRM taxes including full cost of provincial services.