

Re: 4



Rebuilding the Municipal Tax System in HRM

Regional Council's Tax Reform Initiative
Committee of the Whole, August 8, 2006

Outline

- Background and Issues
- What is the Philosophy for the Tax System?
- What do other Cities do?
- What Can We Conclude?
- Approaches to Tax Reform

Background

- First proposed in 2004 by Council
- Reviewed in 2005 and COW Focus Areas
- Progress:
 - Discussions undertaken with Province
 - Regional Plan complete
 - Extensive Research includes
 - Survey
 - Comparative information from other cities
 - Preparation for Consultations
- Key Decision Point on how to proceed

Issues with the Tax System

- Rapidly rising market values, unrelated to municipal services or income levels
- Resources shifted to fund mandatory education
- Issues surrounding urban, suburban and rural taxation and services (eg boundaries)
- Need to encourage growth and development
 - Stronger connection to the Regional Plan
- Unclear philosophy/ long term objectives
 - Limited sensitivity to ability to pay
 - Weak connection between taxes and services
 - Requirement for a competitive taxation regime

What is our Philosophy for the Tax System?

- Based on Ability to Pay
- Based on Services
 - Level of Services
 - Cost to Provide Services
 - Does everyone share in all costs, or do Households pay for only their own services
- Combination of the above
 - What is the right balance?
- Other

What is the Philosophy?

Tax by Type of Property

Distribution of Residential Taxpayers by Size of Tax Bill and Type of Property

Distribution	Single Unit (Excluding Condos)	Condos	Two to Three Units	Apartments	Land
Under \$1,000	16,652	1,863	348	26	11,887
\$1,000 to \$2,000	50,239	4,284	3,353	257	526
\$2,000 to \$3,000	20,157	1,455	2,138	373	104
\$3,000 to \$6,000	8,310	562	1,153	549	93
Over \$6,000	909	33	85	818	74
Total	96,267	8,197	7,078	2,023	12,758
Average Tax per Dwelling Unit	\$1,804	\$1,640	\$1,057	\$576	na
Average Tax per Property	\$1,804	\$1,640	\$2,256	\$13,674	\$430

What is the Philosophy?

Tax by Area

Distribution of Residential Taxpayers by Size of Tax Bill and Land Planning Area (All Properties)

Distribution	Urban and Harbour	Rural Commuter Shed	Resource and Agriculture
Under \$1,000	2,954	5,437	4,517
\$1,000 to \$2,000	37,482	14,229	1,634
\$2,000 to \$3,000	16,249	5,697	278
\$3,000 to \$6,000	7,909	1,899	78
Over \$6,000	1,629	143	6
Total	66,224	27,405	6,513
Average Tax per Dwelling Unit	\$1,355	\$1,648	\$829
Average Tax per Property	\$2,421	\$1,710	\$858

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Note: Totals includes accounts that could not be allocated by area.

What is the Philosophy?

Tax by total Household Income (2000 Census)

	Income under \$47,000	Middle Income	High Income (over \$77,400)
Low Tax Bill (under \$1,100)	15,200	9,900	4,100
Medium Tax Bill (\$1,100-\$1,600)	9,500	12,800	10,200
High Tax Bill (over \$1,600)	5,000	7,000	15,400

Weak Correlation between Income and Assessment! (R^2 of 27%.)

What is the Philosophy?

- Survey results show that
 - 77% of respondents support a system based on "Services"
 - 59% support a system based on "Ability to Pay"
- Residents surveyed felt:
 - all should share in the cost of municipal services but
 - those who receive more services should pay more

What do other Cities do?

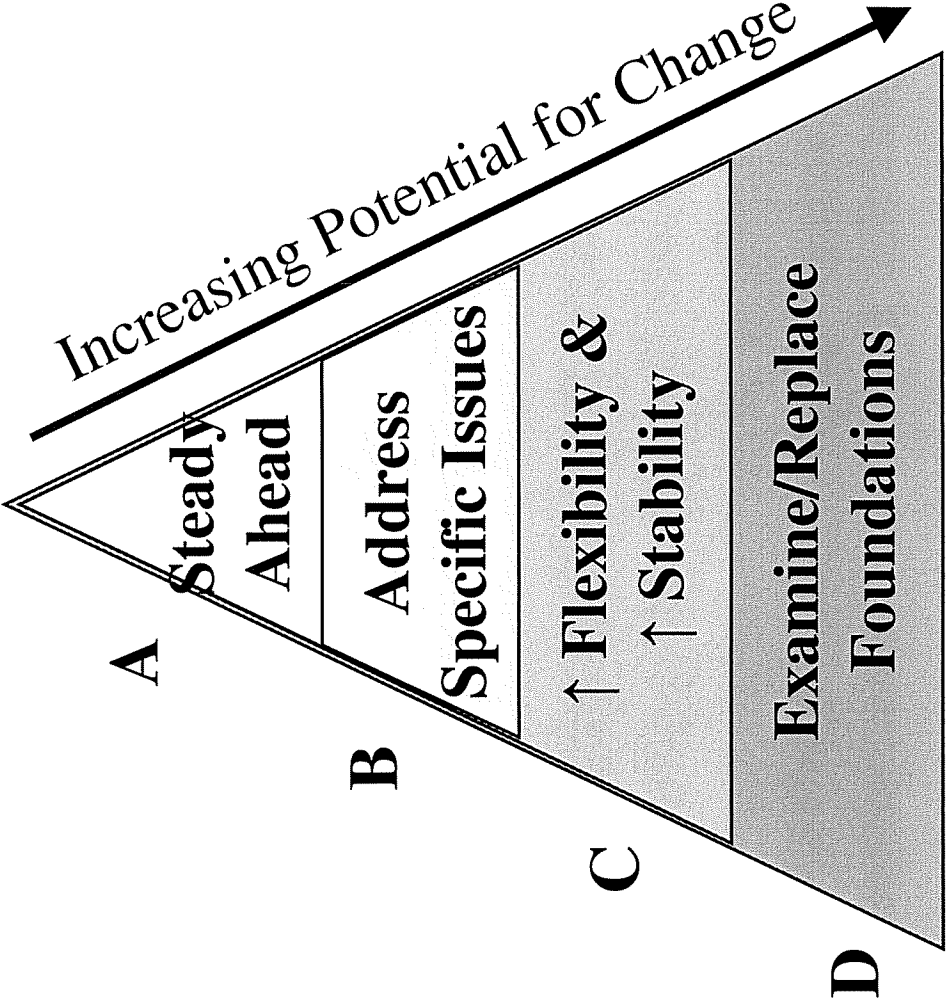
- Canada
 - Market Value Assessment
- United States
 - Market Value or Acquisition Value
 - Income and Sales Tax
- Europe
 - Market Value Assessment
 - Income, Wealth, Capital Gains
- Australia, New Zealand
 - Property Taxes
 - Gas Tax, User Fees

There is no “Off the Shelf” solution

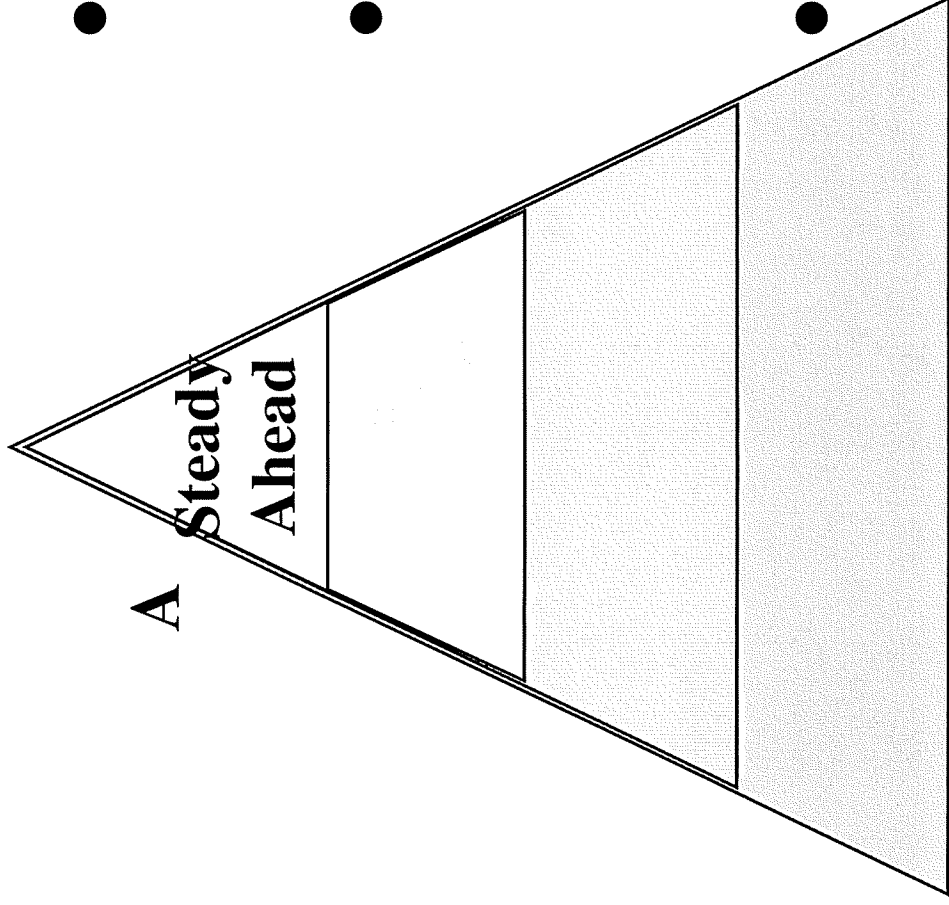
What Can We Conclude?

- Staff have identified 25 different types of tools/taxes. Includes:
 - Frontage
 - Dwelling Unit Charges
 - Property/Lot Charges
 - User Fees
 - Low/middle Income Rebates, credits etc....
- The greater the reform:
 - The more wide-reaching the impact on taxpayers.
 - Some taxpayers will pay more!
 - The greater the need for consultations and Council involvement early on.

Approaches to Tax Reform

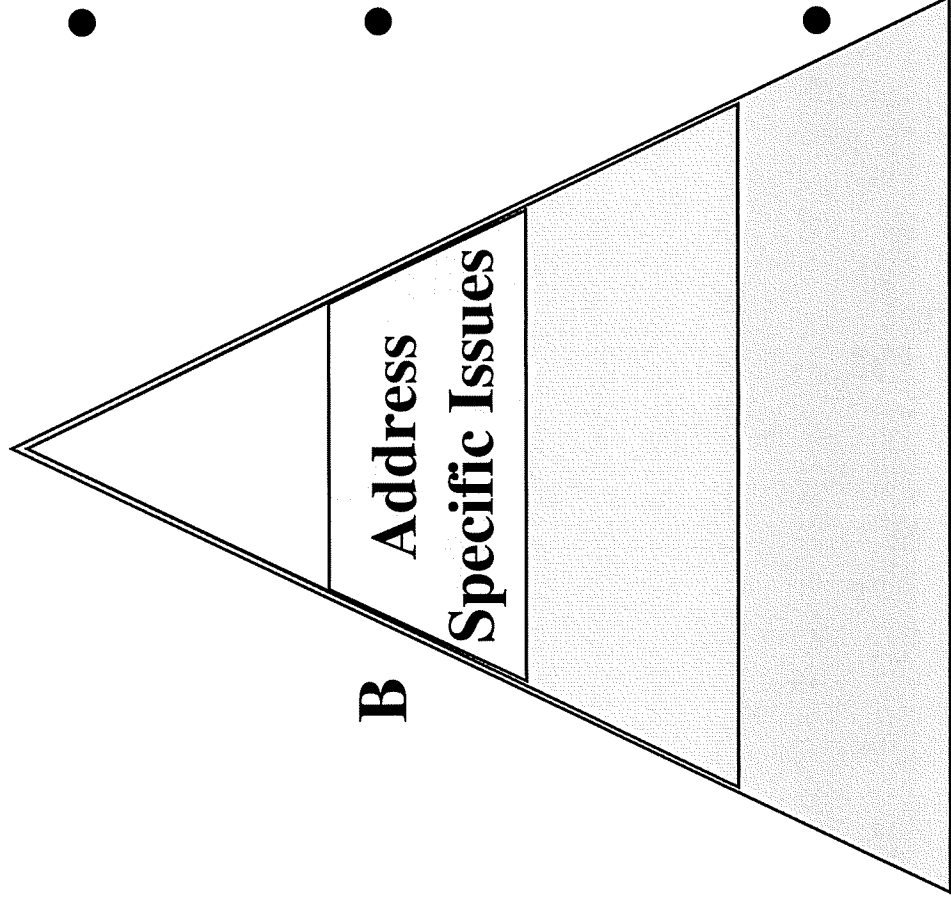


Level A - Steady Ahead



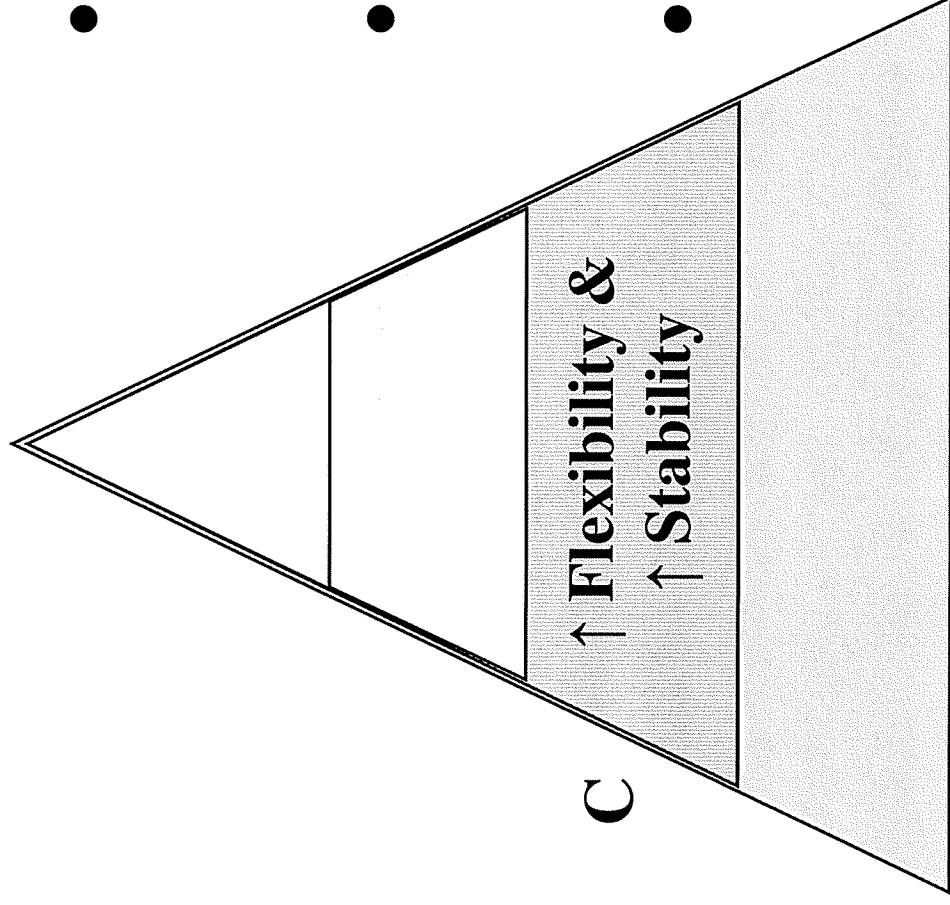
- Scope
 - No changes to tax structure
- Impact
 - Current tax issues remain
 - Market value impacts limited only by provincial assessment cap
- Process
 - Annual review of tax rates

Level B – Address Today’s Issues



- **Scope**
 - Review boundaries and tax rates for transit/roads, sidewalks and recreation.
- **Impact**
 - May change how specific services are taxed;
 - Could create modest shifts in taxes of residents who receive or benefit from these services.
- **Process**
 - Staff Working Group develops options for Council review.

Level C – Long Term Stability

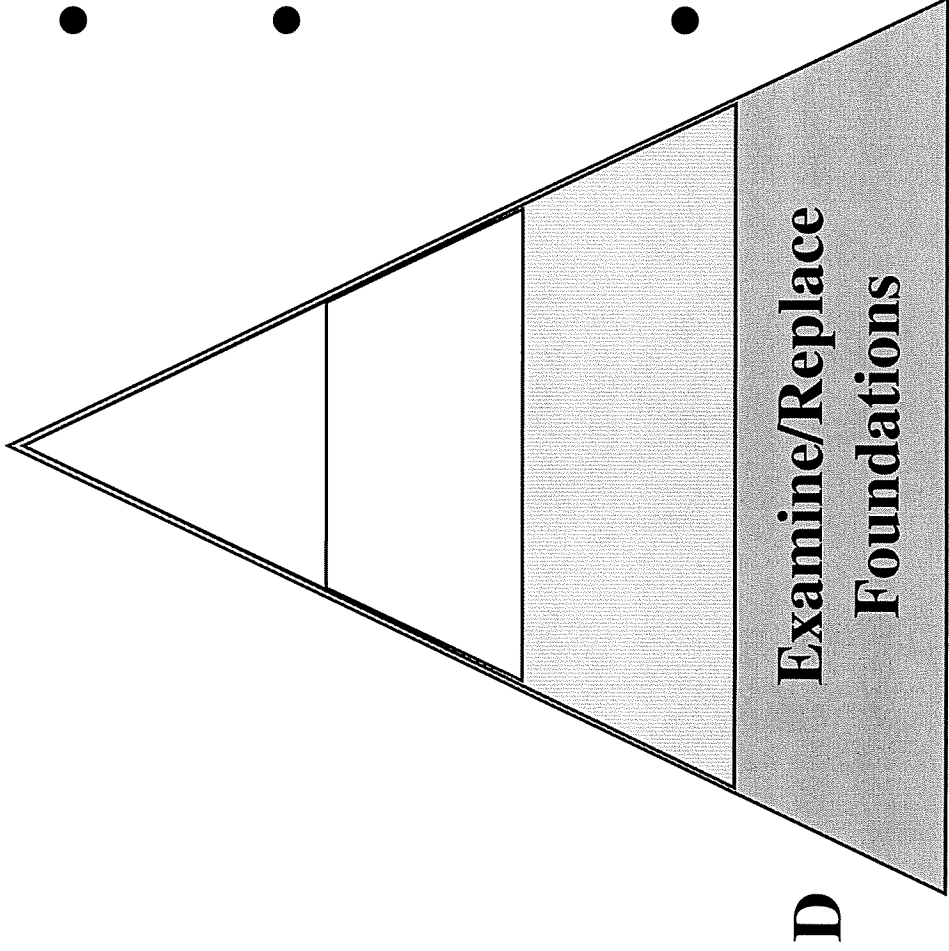


- **Scope**
 - Identify options to reduce reliance on market value assessment.
- **Impact**
 - Would affect majority of taxpayers; a minority could see significant changes, up or down.
- **Process**
 - Advisory Committee works with staff to develop options;
 - Significant public consultations at some point.

Example of Flexibility and Sustainability

- **Current System:**
 - General Tax Rate of \$1.228.
- **Reformed System:**
 - 10% of services recovered from Dwelling Unit and Property charge
 - Other 90% of services recovered through assessment system

Level D – Rebuild Foundations



- **Scope**
 - Redesign the tax system, so that it will do what we want it to do.
- **Impact**
 - HRM will understand “why” we are taxing as we do;
 - All taxpayers could be affected, depending on public and Council desire for alternatives/change.
- **Process**
 - Steering Committee directs staff on project and community consultation strategy;
 - Significant public involvement.

Example of Rebuilding Foundations

- Current System:
 - General Tax Rate of \$1.228.
- Reformed System:
 - Provincial Services (24%) - Tax Rate on Assessment
 - Local Road Services (10%) - Frontage
 - Other Municipal Services (66%) - Dwelling Unit and Property charge
 - Enhanced Tax Rebates (Low/Middle Income)

Approaches to Reform

Level	Scope	Impact	Process
Steady Ahead	Move forward, adjusting rates, much as we have over past few years.	Current tax issues remain; no change to tax system.	No new process; rates are reviewed during budget cycle.
Address Specific Issues	Review boundaries and taxes for transit, roads, sidewalks and recreation.	Modest swings for some residents; no change to market value assessment.	Staff Working Group would take specific options to Council.
↑ Flexibility & ↑ Stability	Identify ways to reduce dependence on market value assessment.	Noticeable changes for many taxpayers; a minority may see significant shifts.	Advisory Committee works with staff to create options for public consultation.
Rebuild Tax Foundations	Redesign the tax system, so it may accomplish what we want it to do.	All taxpayers likely affected; new purpose or direction for tax system may result.	Council Steering Committee advises staff on direction and community consultation strategy.

Recommendations

- Rebuild Tax Foundations
 - Approach consistent with COW Focus Areas, Regional Plan
 - Appoint Councillors to Steering Committee
 - Council Steering Committee to
 - Provide direction to project
 - Review public consultations plan