Concepts in the Tax Reform Committee's Proposal

The following information helps explain the various options that exist to modify the Tax Reform Committee's proposals. It is intended to support the Tax Reform Survey that citizens have been asked to complete. The survey can be completed at public meetings, mailed in, or done on-line at www.halifax.ca/taxreform.

Information related to Tax Reform Survey questions 7. a., b. and c.

What is a Dwelling Unit Charge?

A dwelling unit tax is a fixed amount that is charged to each dwelling (household). A dwelling charge does not vary by size or value of dwelling. However, the Tax Reform proposal (March 2008) has suggested that the dwelling unit charge be lower for buildings with more than one dwelling, e.g. on apartments. For example, the local sidewalk tax would be $48 for a single-family home and $29 per apartment unit (60% of the single-family home charge). So a 3-unit apartment building would be charged $87 for local sidewalks (3 units x $29/unit = $87). Apartments tend to have smaller families and utilize less municipal services than most single-family homes.

How would this differ from the Current System?

The current system taxes households based on the assessed value of their home. A home estimated to have a higher value, is charged a higher tax. This has been considered a wealth-based tax, although today, research demonstrates that the value of a property does not necessarily reflect a person's wealth or income. For example, most homeowners have mortgages, so do not fully own their property. As well, incomes can increase or decrease over time. A municipal study, using 2001 census data, found that about 50% of those in low-value homes had medium or high incomes and that about 45% of high-value homes were owned by those with low or medium incomes. For more information on the relationship between income and home values see our handout entitled "The Current Property Tax System Must Change".

The proposed Tax Reform system would charge all single-family homes the same amount, if they were provided the same municipal services. The tax amount would change with the number of dwelling units or with services changes. The level of tax would not change because of a change in the home's value. Some might refer to this as a "flat" tax.

A dwelling unit tax may introduce greater stability and equity to the tax system.

Tax Relief for Low and Middle Income Home Owners

Past public consultations have concluded there is a need to recognize ability to pay in the property tax system. While there is currently a low income rebate the move to a series of dwelling unit taxes will increase taxes paid by many low and middle income taxpayers. To offset this, the Committee is proposing enhancing the tax rebates provided to such homeowners. These changes mean that about 60% of low income taxpayers will see their taxes decline.

To achieve this, low income families will receive a considerable increase in the amount of the municipal low income property tax rebate. A revised rebate could function similarly to the GST Credit. The rebate amount will increase to $1,000 per family plus $100 for each child or equivalent dependent (to a maximum $300). This rebate means that roughly 60% of low income individuals will pay less under tax reform.

Comparisons of Current (2007) and proposed Tax Reform Low Income Rebates

Program	***# of dependents***	***Maximum Rebate***	***Income Eligibility***
Current Program (2007)	Family size does not impact rebate	$750	Up to $28,000
Program Proposed under Tax Reform*	No Children	$1000	Up to $32,300**
	One Child/Dependent	$1100	Up to $33,700**
	Two Children/Dependents	$1200	Up to $35,100**
	Three Children/Dependents	$1300	Up to $36,600**

* *Rebate would be equal to the maximum up to family income of $18,000. Above income of $18,000, the rebate decreases, equal to:*
= Maximum Rebate - 7% x (Family Income - $18,000)

** *Rebates decreases to $0 at these income amounts.*

Administration of Rebate

It is the recommendation of the Committee that the processing of the rebate system be turned over to the Canada Revenue Agency, who could administer it more efficiently using the income tax system and the definitions used for the GST Credit. If agreement on this is reached with the Federal and Provincial Governments, the current take-up rate for the rebate program could increase substantially, benefiting many families that currently do not apply. It is estimated that about 20% of homeowners in the municipality have family incomes below $39,000. That's more than 20,000 homes.

Should even More Support be provided for Low and Middle Income taxpayers?

The low income rebate (with Tax Reform) is proposed to provide relief for single persons or couples with combined incomes up to $32,300. Families with three or more children (or dependents) would be eligible up to $36,600 in family income.

As background information, about one quarter (25%) of homeowners in the municipality have family incomes below $45,000. Approximately half of all homeowners have family incomes under $70,000.

The Committee investigated a wide variety of mechanisms and income ranges for tax relief. **Should support be provide to those with family incomes above the $32,300 (to $36,600) range? If so, to what level should support be provided?**

What is the Deed Transfer Tax?

The Deed Transfer Tax is currently charged to the purchaser of any property at a rate of 1.5% of the sale price. For example, a family buying a $200,000 home would pay a $3,000 Deed Transfer Tax at the time of purchase. This is the second largest source of revenue to the municipality, after property taxes. The Tax Reform Committee is recommending that the Deed Transfer Tax be phased out.

Why Phase out the Deed Transfer Tax?

The Tax Reform Committee considered the following issues:

1) Residents asked for a system that is primarily based on services provided combined with ability to pay.

The Deed Transfer Tax is not a service-based tax (and does not reflect ability to pay). The administrative costs that result from the transfer of title are generally minimal. So, why charge $1,000 to $5,000 (or more) per transfer?

2) The Deed Transfer Tax may make it more difficult for first time home buyers or young, growing families to purchase a home. It could also impact the sale and purchase of businesses.

The Tax Reform project has set out to support the Regional Plan and those plans related to it, such as the Economic Strategy and the Immigration Plan. Is the Deed Transfer Tax possibly reducing our economic potential by impacting the labour force and/or business activity?

What would be the impact of the Phase Out?

The Deed Transfer Tax currently provides funding of $31 million per year. The tax is used to fund municipal services, so revenue would have to be raised from other fees or taxes to make up this amount. However, it is not anticipated that the phase out would happen all at once. This would have to be decided, as part of an Implementation Plan. However, the tax could be phased out over several years.

What other options are there for reducing the Deed Transfer Tax?

Other options are:

- creating a lower rate (less than 1.5%) for lower value properties or the first $50,000 to $100,000 of a home's purchase price
- creating a lower rate (less than 1.5%) for first-time home buyers
- combining both options

This could reduce the economic impact, especially for those purchasing more modest homes. Most municipalities in other provinces with a Deed Transfer Tax have a tiered rate structure, with lower rates for lower value properties and/or for first-time home buyers.

Options to the Tax Reform Committee's Proposal

Information related to Tax Reform Survey questions 8. a.

Should Apartments and Condos be taxed at an Even Lower rate?

Multi-unit buildings such as apartments and condos are currently taxed at the residential tax rate. For apartments the tax bill is paid for by the owner of the building and is generally built into the rent paid by those who live in the building. As they are not the property owner and don't pay the tax bill directly, it is impractical to provide a low income property tax rebate to renters. Condos owners are taxed directly.

With the proposed tax model, taxes for most services are charged to apartments and condos at 60% of the rate for single-family homes. This reflects the fact that families in apartments tend to be smaller, tend to use less municipal services than do families in single family homes and are very cost efficient to provide service to. In addition, many individuals living in apartments tend to be predominantly lower income. The model taxes apartments on a comparable basis to condos. Taxation for the two will only differ by the service levels for the individual building. The largest variation in service will tend to be for solid waste.

Charges for Hydrants and Local Roads are charged just once per property. A single family home pays once as does an apartment building. Solid waste service is not provided to most apartment buildings (only those with six or fewer units).

Some related stats for the municipality:

- Average Size of a family in an Apartment (2006) -- 1.75 people
- Average Size of other families (2006) -- 2.72 people
- Average Income of families Renting (2001) -- $33,700
- Average Income of families who own a home (2001) -- $70,400

Taxing multi-unit buildings differently from single family homes supports the Regional Plan by encouraging a highly efficient form of development. Should multi-units be taxed at an even lower rate than 60%?

Options to the Tax Reform Committee's Proposal

Information related to Tax Reform Survey questions 8. c.

Should the Committee's 4% High-Income Surtax proposal be pursued?

As an alternative to its proposed tax model, the Tax Reform Committee has proposed that if in the future the municipality receives income tax powers that families with the greatest ability to pay should contribute more of the municipal tax bill. This supports the "ability to pay" concept, while the low income rebate supports the "inability to pay" issue. The municipality does not currently have the authority to implement this option. It has been advised by the Province of Nova Scotia that it will not be granted such authority.

The proposal is to create an 4% surtax on taxable income in excess of $40,000. This surtax would replace the Regional Tax Rate (of $474 per home) and is designed to raise the same amount of revenue as that tax.

For example, a two-income family with total earnings of $45,000 would no longer pay the $474 Regional Tax Rate. Instead they would pay a 4% surtax on the amount of income over $40,000. In their case the tax would apply to $5,000 ($45,000 - $40,000), resulting in a $200 surtax to offset the cost of services. This means their tax burden would decline by $274 ($475 less the new surtax of $200).

As a second example, a two-income family with each person earning $45,000 would have total family income of $90,000. They would pay a 4% surtax on the amount over $40,000. In this case the tax would apply to $50,000 ($90,000 - $40,000), resulting in $2,000 in taxes to offset the cost of services. They would also have a $474 savings from eliminating the Regional Tax Rate but their net tax bill would increase by $1,526 ($2,000 surtax less $474 Regional Tax Rate savings).

The advantage of this tax is that it taxes those with greater income and hence makes for a progressive tax system. The current assessment based system taxes those with higher value homes at a higher amount, whether they have higher incomes or not. It also taxes high income individuals who live in modest valued homes at a lower amount.

If such powers are ever provided to the municipality any surtax would have to be administered by the Canada Revenue Agency.

Options to the Tax Reform Committee's Proposal

Information related to Tax Reform Survey questions 8. d.

Should Frontage be used to tax for services?

The proposed tax system supports efficient development by recognizing the "compact" nature of apartments, and taxing them only once for services such as hydrants and local roads. This does not consider whether:

- Some houses are more or less efficient to service than other houses;
- Some apartments are more or less efficient to service than other apartments.

The Committee is not proposing a frontage charge but feels that it could be used in any revised tax system. For instance, frontage charges could further support compact development and the Regional Plan, leading to greater efficiency.

The costs of "linear" services such as pipes (including hydrants) and roads are very closely linked to the length along which these services run. The more road there is, the more expensive it is to build and maintain that road. Moreover, other services can become more expensive as the distance driven by various municipal vehicles (eg plows, garbage trucks) increases. So some services (such as hydrants and local roads) could appropriately be taxed using frontage charges. **A frontage charge is a tax based on the length of <u>road frontage</u> for a given property.** This would allow individual homes and apartments to be taxed more uniquely for their individual use of local roads and other linear services.

Frontage charges are not new to municipalities. They are used by many municipalities for capital improvement projects, such as new curbs or sidewalks. So, methods of dealing with corner lots, flag lots and other variations have been established. However, frontage charges have not often been used for other costs such as road maintenance. Frontage charges could be applied in a variety of ways, for example:

- A frontage charge could be applied to the entire road frontage of a property, or
- A frontage surcharge could be applied to larger lots only, on the amount that exceeds a standard lot width.

The addition of a frontage charge would support the Regional Plan and more closely approximate the cost to service an individual property. It would also increase the complexity of the tax system.

Options to the Tax Reform Committee's Proposal

Information related to Tax Reform Survey questions 8. e.

Should Road taxes be based on Distance Driven?

The proposed regional transportation charges – regional roads and regional transit – are based on the "number of vehicle commuter trips" per day. For example, in the Green Zone there is, on average, more than one vehicle leaving each home commuting to work each day. Compare that to an average of less than one vehicle for every two homes, in the Blue and Pink Zones. On average, people in the Green Zone take about 3 times as many commuter trips per home, as those in the Blue Zone.

Is this the most accurate reflection of how much benefit is received from the regional transportation network? The Committee has considered whether the benefit should be measured by kilometres traveled, rather than trips taken. If this were done, those in the Green Zone would be considered to benefit about twice what those in the Orange Zone do, or 10 times what those in the Pink Zone do.

The proposed tax model uses vehicle trips per day to set the tax rates for roads and transit. The number of trips per day ranges from 0.3 in the Blue Zone and 0.4 in the Pink Zone (where many people walk or use transit) to 1.1 in the Green Zone. The number of kilometers driven per day varies even more. It ranges from 2 km in the Pink Zone to 23 km in the Green Zone.

	Proposed	Alternative
	Vehicle Trips per Day	**Vehicle Km per Day**
Pink Zone	0.4	2
Orange Zone	0.8	10
Green Zone	1.1	23
Blue Zone	0.3	5

Source: StatsCan

The use of commuter data to set tax rates for transportation is an attempt to support the Regional Plan and encourage efficient growth. Does it make more sense to estimate the benefit to households by the number of trips taken or the total kilometers driven? Will this more accurately reflect the cost to provide road and transit service?

Options to the Tax Reform Committee's Proposal

Information related to Tax Reform Survey questions 8. f. and g.

Should we increase or add User Fees?

The Committee has not proposed any new of increased user fees. However, the most direct way for residents (or businesses) to pay for what they receive is through user fees. Water and sewer use is 100% paid for by user fees. Significant user fees are also collected from transit fares, "tipping fees" for commercial solid waste and recreation program fees. Development charges and parking meters are also examples of user fees. Such fees function best when they encourage individuals to use services appropriately. For instance, there is currently a fee for false alarms. The purpose of the fee is not to raise revenues but to discourage false alarms which can consume valuable police response time. Not all services work well with user fees. Most of the police and fire service could not easily be subject to user fees.

- Should a greater percentage of some services be paid for directly by users, rather than through the tax bills? If so, which services?
- Which new user fees would make sense to you, if they could lower your taxes?

Should there be a User Fee for Solid Waste?

The Committee considered using as many as 17 separate tax rates to pay for the cost of solid waste pick-up and disposal. The variations in these tax rates were minimal. Instead the Committee chose to levy a single rate for those who receive pick-up. Generally, single family homes, condos and small apartments (six and fewer units) receive pick-up as do some rural businesses. Larger apartment buildings and the majority of businesses do not get solid waste pick-up, although they currently pay for the service on their property tax bill.

In some municipalities, solid waste collection is paid by user fees. This is often referred to as a "bag tag" system. You would pay so much per bag of garbage, rather than a fixed, annual amount on your tax bill? If there were no limits on blue bags and compost, this would encourage people to recycle more and put out less trash. Those who produce more solid waste would pay higher taxes, those who compost and recycle more would pay lower taxes. This would support greater efficiency and competitiveness in the tax system.

The existing bag limit, for a single-family home, is 6 bags per pick up. This could be reduced to 4 or 3… or 0 bags, with additional bags charged a user fee.

Options to the Tax Reform Committee's Proposal

Information related to Tax Reform Survey questions 8. h., and i.

Under its draft tax model the Committee has suggested that there be a separate dwelling unit tax for hydrants. This would replace the current area rate for hydrants, which is assessment based. The Committee has noted that there are two other options for taxing hydrants.

Should people pay for Fire Hydrants on the water bill?

Fire hydrants are part of the municipal fire service. These are installed and maintained by the Halifax Regional Water Commission. The Water Commission receives funds from the municipality for this service, and it is paid for on the Tax Bill as an area rate for all those within 1,200 feet of a hydrant. The municipality also sends hydrant tax bills to provincial properties that normally do not receive a bill for other municipal services.

There could be some administrative efficiency if the Water Commission billed homeowners, businesses and provincial properties directly, rather than including hydrants on the municipality's tax bill. Does it make sense for the Water Commission to include the hydrants on the water bills? Or does it make more sense to keep this charge (part of the cost of the fire service) on the municipal tax bill?

Should everyone pay for Fire Hydrants?

In areas with piped water and sewer services, the regular "wet" fire hydrants are in place. In more rural areas, "dry" hydrants are installed on the edges of lakes and ponds near roadways. These "dry" hydrants are used for supplying water to fire trucks ("tankers") fighting fires in rural areas.

The Tax Reform Committee recognizes that "wet" hydrants may provide a higher level of service than "dry" hydrants. Therefore, a specific tax has been proposed for "wet" hydrants, and there is no specific charge for "dry" hydrants. The "dry" hydrant costs are included in the regional services tax, which includes all fire services costs except "wet" hydrants.

An alternative to this approach, is to include both the "wet" and "dry" hydrants in the regional services tax and remove the specific tax for "wet" hydrants. Does it make sense that everyone pay for all hydrants as part of regional services tax? Or does the proposed Tax Reform model make more sense with "wet" hydrants considered an additional service with its own tax rate?

Options to the Tax Reform Committee's Proposal

Information related to Tax Reform Survey questions 8. j., k., l. and m.

Should there be a Municipal Fuel Tax?

Nova Scotia municipalities do not have the authority to levy a fuel tax. The Tax Reform Committee has not included a fuel tax proposal in its model.

A municipal fuel tax could help offset the cost of roads. Those who consume more fuel are presumably driving more than others and might be expected to share a greater portion of the road costs. Such a tax could align the costs of the service with those who most benefit from the service.

Should there be a Municipal Income Tax?

Nova Scotia municipalities do not have the authority to levy an income tax. The Tax Reform Committee has not included an income tax proposal in its model.

A municipal income tax would move municipal taxation more toward the ability to pay concept of taxation and, consequently, further away from a service-based tax system.

Should there be a Relief for Homeowners on a portion of the Deed Transfer Tax?

See "What other options are there for reducing the Deed Transfer Tax?" on page 3 of this document.

Should Transit costs be spread across More Taxpayers?

In the proposed tax model, local transit costs would be paid by those who ride the buses (thru bus fares) and those who live within 1 kilometre of a bus stop (thru property tax). Several benefits of transit – such as reduced road congestion, deferred road expansion costs and reduced greenhouse gases – are broadly enjoyed by virtually all HRM residents. Should those who receive these indirect benefits contribute more toward the cost of transit services?