

Non-Profit Tax Relief

Grants Committee

June 9, 2014



Outline

- **Background**
- **Discussion**
 - Current way we tax
 - Program categories
 - Formulas and options for rates
- **Recommendation**
- **Next Steps**



Background

- **Status Quo not sustainable:**
 - Substantial equity issues.
Comparable types of non-profits pay very different taxes.
 - Confusion as to how best to administer and interpret tax relief options.
 - Frustration amongst non-profits.



Background

- **March 3rd Grants Committee Motion, staff to provide:**
 - a) The recommended Program Categories and any alternatives;
 - b) The formulas used for non-profit taxation;
 - c) Options for the specific tax rates and their impacts on non-profit sectors;
 - d) The impact on additional non-profits applying to the program;
 - e) The role of the Grants Committee in any future program;
 - f) Transition issues; and,
 - g) Public consultations.



Discussion – The Way we Tax

- **Taxation in Halifax involves two key components:**
 - The value of the property
 - The tax rate



Example of Taxes on a Home



- Value of property is \$300,000
- Times Tax Rate of \$1.211
- So, Tax is \$3,633.



Example of Taxes on a Business



- Value of property is \$300,000
- Times Tax Rate of \$3.402
- So, Tax is \$10,200.



Example of Taxes on a Non-Profit

- Value of property is \$300,000
- Times Tax Rate of \$3.402
- So, Tax is \$10,200.
- Then Tax Relief of residential tax rate less 50%;
so $300,000 * 1.211$, less 50%
 - \$8,400 in tax relief,
 - \$1,800 owed in tax.





Issues with this Approach

- **Too many steps. Not easy to explain or understand**
- **Many types of non-profits**
 - range of services, property values
- **Non-Profits taxed at Commercial Tax Rate but are not businesses**
 - Tax Relief compensates but through five categories
 - Inconsistently applied
 - Feelings of unfairness



How to Alter

- Value of property is \$300,000
- Times Non-Profit Tax Rate of, say, \$0.60 to a maximum of \$20,000
- So, Tax is \$1,800.





Comparison of the Example

Current System

- Value of property is \$300,000
- Times Tax Rate of \$3.402
- So, Tax is \$10,200.
- Plus Tax Relief of residential tax rate less 50%, so 300,000 * 1.211 less 50%
 - \$8,400 in tax relief,
 - \$1,800 owed in tax.

Alternative System

- Value of property is \$300,000
- Times Non-Profit Tax Rate of, say, \$0.60 to a maximum of \$20,000
- So, Tax is \$1,800.





Benefits and Cautions



- **Brings simplicity and consistency but....**
- **Devil is in the Details**



To Make it Successful

- **Organize non-profits into well-defined groups**
 - Create easily understood groups.
 - Should be difficult to “move” from one group to another.
 - Too many groups encourage “category hopping”
 - Group definitions must be fact-based, objective. Easy to confirm and understand. Not subjective or based on opinion.





To Make it Successful

- **Consider how the tax rates and maximums affect different types of properties**
 - Consider the rationale for those rates and categories
- **Provide more tax relief than we do now**
 - The lower the tax, the less incentive to “category hop”.
- **Think about Transition. Change is difficult.**



Options We Looked At

- **Use of existing Residential vs Commercial assessment categories**
 - Technical, confusing
- **Alternative Service Delivery**
 - Few formal agreements, subjective
- **Charities vs non-Charities**



Recommended Approach

(Two Categories)

1. Housing and Homelessness
 - a) Affordable and Supportive
 - b) Subsistence

2. Community Non-Profit
 - Emergency Assistance
 - Sport, Recreation and Leisure
 - Heritage, Historical Attractions, Community History
 - Arts and Crafts
 - Environment
 - Ethno-cultural
 - Service Clubs
 - Social Services
 - Health



Strengths of Housing and Community Model

- **Groups are well defined:**
 - Affordable Housing are a key group. Can be compared to low-income homeowners.
 - Subsistence includes food banks, shelters. Can target highest level of relief here.
 - Should be difficult for non-profits to move between the groups.
 - Debate around level of support for each group, not individual non-profits.



Recommendation

- **Staff return with draft tax rates for the Housing and Community Model showing the impact by each non-profit.**
 - Housing rates compared to low income homeowners
 - Subsistence tax rates minimal
 - Community rates, can experiment with different options



Next Steps

- **Review options for tax rates and the impact(s) on non-profits.**