



Item No. 3 (i)

Council Focus Area 2008/2009

Tax Reform

Date: November 13, 2007

Introduction

Taxation is a critical underlying element of municipal government. In Nova Scotia, municipal governments tend to be very heavily dependent upon property taxes to provide valuable municipal services. The operation of a modern tax system brings with it many complex policy and operational issues. These issues often have serious implications for the provision of municipal services. There are a wide variety of impacts on all taxpayers (residential, commercial and other) and on the economy and society as a whole.

Issue: Tax Reform

Taxation Reform has been discussed by Regional Council on a number of past occasions. Council first began to seriously consider tax reform in 2004. In January 2006 it held a COW Focus Area solely on tax reform. Taxation issues are also described in the approved Regional Plan (Chapter 5 “Economy and Finance”).

In Nova Scotia, property tax was first introduced in the 1880s. One of the underlying premises of tax reform is that the objectives and philosophy of the current tax system are unclear. On October 3, 2006 Council directed staff to examine and look at replacing the “Foundations” of the current tax system “so that it will do what we want it to do”. Subsequently, Council created a Sub-Committee of Council, the Tax Reform Committee (TRC), to provide an important communication and public participation link between HRM and the broader community and stakeholders.

Tax reform can be described as encompassing five key interrelated issues:

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

The current outcomes for Tax Reform can be summarized as follows:

Outcome

Progress

1. Establishment of Tax Reform Committee

- Terms of Reference established October 10th, 2006
- Thirteen member committee appointed December 12, 2006
- Expectation that committee’s work will take twelve to eighteen months
- First Meeting, January 2007
- Has held 16 meetings

2. Initial Public Consultations

- Council approved approach in April of 2007.
- Purpose was to identify (1) principles of a well-thought out tax system, (2) what “foundations” that tax system should be based on, (3) how views of residents and business might differ.
- Held 5 public meetings with nearly 150 attendees
- Information Report presented to Council in July 2007
- Since the public meetings, numerous written and verbal comments have been received.
- Undertook a public opinion survey to further probe public opinions.

3. Design of Tax System Options

- Working on Mission Statement, Values, Principles and Objectives of a revised tax system.
- Evaluation Criteria being prepared.
- Design of Tax “Packages” underway.

Issue: Other Taxation Issues

There are a variety of tax issues that are generally outside the scope of the Tax Reform Committee and that have or will be dealt with Council as separate issues. These include

- Heritage Tax Incentive Program - currently under review by staff
- Introduction of Revised Assessment Cap - presentation at Council on October 23, 2007. Addition information is to be presented during 2008-2009 budget.
- Supplementary Education reform - approved by Council on June 26, 2007
- Area Rates for Provincial Services - approved by Council during 2007-2008 budget.
- Tax Burden information - additional information included in the 2006-2007 and 2007-2008 budget debates.
- Elimination of the Business Occupancy Tax - approach approved in the 2006-2007 budget.

Next Steps

The Tax Reform Committee intends to return to Council in January of 2008. The key steps to be dealt with are:

(1) the setting of final timelines for the project including the timing of the expected 2008 public consultations.

(2) a review of the proposed Foundations of the tax system including its purpose and an explanation of the Evaluation Criteria that has been developed.

(3) the presentation of the proposed tax package(s) that could replace the existing tax system complete with any possible variants to that proposed system. This will include an evaluation of the proposed system under the Evaluation Criteria, the impact of the system on various types of taxpayers and implementation considerations.