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Item No. 11.1.6

Halifax Regional Council
November 20, 2007
December 4, 2007

TO: Mayor Kelly and Members of the Halifax Regional Council

SUBMITTED BY: *Melanie Campbell*
for Councillor Russell Walker, Chair, HRM Grants Committee

DATE: November 14, 2007

SUBJECT: Administrative Order 10 Respecting Residential Tax Exemption: Proposed Indexing of Rebate Values and Minimum Tax Payable

ORIGIN

Grants Committee meeting of November 5, 2007.

RECOMMENDATION

It is recommended that Regional Council approve:

1. The implementation of an indexed Residential Tax Exemption Program, effective April 1, 2008.
2. Amendments to the Administrative Order 10 as detailed in Attachment 2 of the attached staff report.

BACKGROUND

See staff report dated October 17, 2007, Attachment 1 to this report.

BUDGET IMPLICATIONS

See staff report dated October 17, 2007, Attachment 1 to this report.

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

See staff report dated October 17, 2007, Attachment 1 to this report.

ATTACHMENTS

1. Staff Report dated October 17, 2007, Administrative Order 10 Respecting Residential Tax Exemption: Proposed Indexing of Rebate Values and Minimum Tax Payable

Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210 or Fax 490-4208.

Report Prepared By: Melody Campbell, Legislative Assistant.



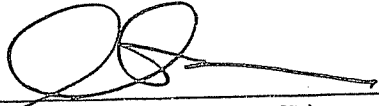
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Attachment 1

HRM Grants Committee
November 5, 2007

TO: Chair and Members of HRM Grants Committee

SUBMITTED BY:


Catherine Sanderson, A/Director of Finance

DATE:

October 17, 2007

SUBJECT:

Administrative Order 10 Respecting Residential Tax Exemption:
Proposed Indexing of Rebate Values and Minimum Tax Payable

ORIGIN

In May, 2007, Regional Council approved amendments to the Residential Tax Exemption Program re: income thresholds, rebate values, and minimum tax payable. Staff were to return to Council with a proposed formula for setting these values annually to expedite the program's sensitivity to changes in assessment values and/or municipal tax rates.

RECOMMENDATION

It is recommended that:

1. The HRM Grants Committee approve the implementation of an indexed Residential Tax Exemption Program, effective April 1, 2008;
2. Amendments to Administrative Order 10 as detailed in Attachment 2 of this report be forwarded to Regional Council for approval.

BACKGROUND

Ideally, the value of property tax rebates to lower income homeowners are adjusted annually (up or down) in response to changes in property assessment values and municipal tax rates. To do so in a timely manner and to accommodate any increase/decrease in program costs, staff propose that formulas be established for specific values and set out in Administrative Order 10. Such an approach enables staff to adjust rebate values and minimum tax payable values annually without having to revise policy. If approved, in future years Administrative Order 10 would only need to be revised if Regional Council want to change (a) a formula, or (b) program eligibility criteria. See: **Attachment 1. Calculations for Annual Indexing: Residential Tax Rebates.**

The current Administrative Order 10 can be viewed on the HRM web site at <http://www.halifax.ca/legislation/adminorders/index.html> or from the Office of the Municipal Clerk.

EXECUTIVE SUMMARY

It is recommended that Administrative Order 10 be amended as follows:

- The value of rebates by income range and property tax payable be calculated using a "reference rebate" value that is 1/3rd of the *average regional residential property tax* payable for the lowest (e.g. <\$18,000) income range and medium (e.g. \$1,000-\$2,000) property tax bracket.
- The program's income ranges are developed using the Canada Council on Social Development low income cut-offs, specifically, the *low income cut-off for (a) a one-person and (b) a three-person household, for a population of 100,000 to 499,999.*
- The application deadline of December 31st be revoked and replaced by *March 31st of each fiscal year.* Retroactive applications remain ineligible.
- The overall aim is to move the program from a quasi grant model towards integration within HRM's tax system and 'standard' operating procedures.

DISCUSSION

The proposed formula approach uses three (3) main values to set the rebate values by income and property tax bracket:

- The average amount of tax paid in HRM for a single-family dwelling in the prior year;
- The low income cut-off value from the prior year for a 1-person household in a community *with a population between 100,000 and 499,999;*
- The low income cut-off value from the prior year for a 3-person household in a community *with a population between 100,000 and 499,999.*

It is important that Council, staff, and the general public understand how we arrive at the formulas that guide the program. This technical information will be added to the program staff guidelines to aid

consistent implementation of policy. The administrative order itself will also be shorter and easier to understand.

Table T: Household Income, Property Tax, Rebate Value, and Minimum Payable					
	Gross Household Income (before deductions)				
Tax Payable	\$0-\$18,000	\$18,001-\$20,500	\$20,501-\$23,000	\$23,001-\$25,500	\$25,501-\$28,000
<\$1,000	\$550	\$440	\$330	\$220	\$110
\$1,000 - \$2,000	\$650	\$520	\$390	\$260	\$130
>\$2,000	\$750	\$600	\$450	\$300	\$150
	Minimum Tax Payable (deducted from rebate)				
	\$100	\$200	\$225	\$250	\$275

All eligible applicants have the option to defer the balance of tax due or by using a monthly payment plan.

1.1. Setting the Maximum Rebate Values

The value of maximum rebates by income range and property tax payable is constructed using a benchmark which, for the purpose of this program, is called the "reference rebate" value; this is the rebate amount for the middle property tax bracket (\$1,000-\$2,000) for the lowest income range (<\$18,000). This value is currently \$650 as shown above in bold in Table "T".

The "reference rebate" value is set equal to one-third (1/3) the prior year's average regional residential tax bill (for a one-person household), rounded to the nearest \$50 (e.g. $1/3 \times \$1,915 = \650). This is a change from the previous approach, which used one-half (1/2) of the average property tax bill of program participants (e.g. $1/2 \times \$1,300 = \650). This new formula produces the same result -- \$650 in 2006/2007 -- but provides greater stability in future years, since it is not subject to variation due to changes in participation rates or composition of eligible rebate program applicants.

For each income range, the maximum rebate varies by property tax bracket of the applicant. For those in the highest tax range (e.g. >\$2,000) and lowest property tax bracket (e.g. <\$1,000) the maximum rebate is set higher or lower, respectively, in increments of \$100. The three maximum rebate levels for 2007/2008 are \$550, \$650 and \$750 for the three income ranges.

1.2. Stepping Down the Rebate Values

The rebate levels step down by 20% of the maximum rebate values, from left to right. For example, at the middle property tax bracket, the rebates will step down by \$130 (20% x \$650) as you move to the next column, e.g. \$650, \$520, \$390, \$260, \$130 in 2007/2008.

2. Setting the Three Property Tax Brackets

The upper value of the middle property tax bracket shall be set equal to the prior year's average regional residential property tax bill for a one-person household, rounded up to the nearest \$100 (e.g. \$1,915 would be rounded up to \$2,000). The upper value of the lowest property tax bracket shall be \$1,000 lower (eg. \$2,000 - \$1,000 = \$1,000).

3. Setting the Five Income Ranges

The program will continue to use income ranges developed by Statistics Canada and used by the Canadian Council on Social Development, called the LICOs (low income cut-offs).

Use HRM's total population (100,000 - 499,999). The low-income cut-off scales vary by population size. For example, what is considered "low income" for a single person in a rural community is significantly lower than that for an urban area. Albeit slightly more than 50% of current program participants reside in rural areas of HRM, the program uses the region's population size (ie. an urban city) for simplicity and consistency and to recognize the number of one-person households in the urban core where assessment values are higher. Many of these households are occupied by seniors who have been long-term residents.

There are three steps in using the LICOs to develop (or update) Table 'T':

i) **Identify the low income cut-off for a single person (e.g. \$0 - \$18,000).** This income bracket was created to accommodate the very lowest end of the income scale. Although not exclusively, this sector is likely to include unemployed persons, disability pensions, and persons or families on social assistance. Rebate values are higher across a broader range of incomes (\$0-\$18,000) as compared to the ~\$2,500 spread for other income ranges. This value is rounded up to the nearest \$1,000 because national data tends to lag the program by about 2 years.

ii) **Identify the low income cut-off for a 3-person household (ie. \$28,000).** The upper income threshold which establishes eligibility for the program uses the low income cut-off value for a 3-person household. This sector is likely to include more senior couples, persons with private pension plans or government income guarantees (ie. seniors GIS and OAS), and low-waged households. This value is rounded up to the nearest \$1,000 because the national data tends to lag the program by about 2 years.

iii) **Set the Second to Fifth income ranges, increasing in four even steps, equal to 1/4 the difference between the rounded 1-person and 3-person LICOs (e.g. $1/4 \times \$28,000 - \$18,000 = \$2,500$), therefore the upper income values of the five income ranges in 2007/2007 are: \$18,000, \$20,500, \$23,000, \$25,500, \$28,000.**

4. Setting the Minimum Tax Payable Amounts

The minimum tax payable is set as 1% of the median point within each income range, rounded to the nearest \$10 but not less than \$100.

5. Application Deadline

Albeit residential tax exemptions have been delivered using a quasi grant program approach it is in fact closer to an entitlement program insofar as if the applicant meets the eligibility criteria they should receive a rebate irrespective of the program's annual budget. Therefore, staff recommend that the application deadline be the end of the fiscal year (March 31st). Retroactive rebates remain ineligible.

Note: Using the rules above, the following Sample 2007/2008 Table 'T' was created for illustration purposes only. It represents the amounts that would be set for the program, if the proposed formulas were in place for 2007-08. The only change, from the Table 'T' currently in use, is the slightly lower minimum taxes payable.

Sample 2007/2008 Table 'T' Using Formula Approach Household Income, Property Tax, Rebate Value, and Minimum Payable					
Gross Household Income (before deductions)					
Tax Payable	\$0-\$18,000	\$18,001-\$20,500	\$20,501-\$23,000	\$23,001-\$25,500	\$25,501-\$28,000
<\$1,000	\$550	\$440	\$330	\$220	\$110
\$1,000 to \$2,000	\$650	\$520	\$390	\$260	\$130
>\$2,000	\$750	\$600	\$450	\$300	\$150
Minimum Tax Payable (deducted from rebate)					
	\$100	\$190	\$220	\$240	\$270

All eligible applicants have the option to defer the balance of tax due or by using a monthly payment plan.

BUDGET IMPLICATIONS

The new formulas will become effective in the 2008-09 fiscal year.

The program's future budget will increase or decrease relative to five main factors (a) assessment values, (b) municipal tax rates, (c) participation rates (d) the composition of eligible rebate recipients in terms of household income and property tax payable, and (e) low income data for Nova Scotia. However, annual budget adjustments for the program should be quicker and easier to calculate.

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating and Capital and Reserve budgets, policy and procedures regarding withdrawals from the utilization of Capital

and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

1. The Grants Committee could overturn staff's recommendations and retain the status quo.

This action is not recommended: If the program were successful in attracting eligible applications from "the poorest of the poor" the average tax paid by program participants could decrease thereby lowering rebate values across all income ranges. Hence, staff recommend the regional average be used.

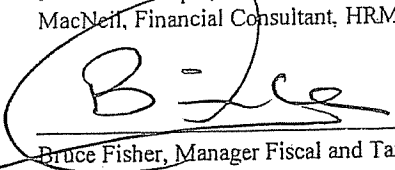
2. The Grants Committee could amend a specific formula or an aspect of the program.

ATTACHMENTS

1. Calculations for Annual Indexing: Residential Tax Rebates.
2. Amendments to Administrative Order 10 (Proposed).

A copy of this report can be obtained online at <http://www.halifax.ca/commcoun/cc.html> then choose the appropriate Community Council and meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by : Peta-Jane Temple, Team Lead, Tax, Grants & Special Projects, HRM Finance 490-5469; Andre MacNeil, Financial Consultant, HRM Finance.

Report Approved by: 
Bruce Fisher, Manager Fiscal and Tax Policy, HRM Finance

Attachment 1

Calculations for Annual Indexing: Residential Tax Rebates

		Inputs (2007-2008 sample)							
	1	\$1,913	Average HRM Tax for single-family home (prior year)						
	2	\$17,895	LICOs, 1-person family, community over 250,000 population (prior year or latest available)						
	3	\$27,386	LICOs, 3-person family, community over 250,000 population (prior year or latest available)						
		Range	from	\$0	\$18,001	\$20,501	\$23,001	\$25,501	
			to	\$18,000	\$20,500	\$23,000	\$25,500	\$28,000	
Input 2, rounded up to nearest \$1000		Tax Payable		100%	80%	60%	40%	20%	Input 3, rounded up to nearest \$1000
		min	max						
		n/a	\$1,000	\$550	\$440	\$330	\$220	\$110	% of reference "rebate" applied to each income range
Input 1, rounded up to nearest \$100		\$1,001	\$2,000	\$650	\$520	\$390	\$260	\$130	
		\$2,001	n/a	\$750	\$600	\$450	\$300	\$150	
One-third of Input 1, rounded to nearest \$50		1% Min. Tax		\$100	\$190	\$220	\$240	\$270	
		1% of median point of income range, rounded to nearest \$10, not less than \$100							

Attachment 2.

Amendments to Administrative Order 10
Respecting Partial Tax Exemption for Residential Taxation

- 1) Section 3 (a) (iii) is revoked and replaced with the following:
 - (iii) The applicant's income together with the income of a spouse or other members of the household over the age of 18 falls within the threshold established in section 4.0 (b).
- 2) Section 4 (1) shall be revoked and replaced with the following:

Income Ranges

- 4.0 The maximum rebate payable shall vary according to the household income of the applicant in the prior year based upon the following formula:
- (a) The lowest income range shall extend from \$0 to the annual Statistics Canada low income cut-off for a single-person household. This figure will be rounded up to the nearest \$1,000 and shall be based on the population of the entire HRM region.
 - 2) The program income eligibility threshold shall be established using the annual Statistics Canada low income cut-off for a three-person household, rounded up to the nearest \$1,000, based upon the population of the entire HRM region.
 - 3) Between the lowest income range and the eligibility threshold, the income ranges shall increase in equal increments.

Tax Brackets

- 4.1 The maximum rebate payable shall vary according to the amount of tax payable by the applicant in the current year based upon the following formula:
- (a) The upper value of the middle property tax bracket shall be equal to the average residential tax payable across HRM in the prior year on a property with a single-dwelling, rounded up to the nearest \$100. The upper value of the lower property tax bracket shall be set \$1,000 lower than the upper value of the middle property tax bracket.

Maximum Rebate Levels

- 4.2 (a) The reference rebate, used to calculate maximum rebate values by income range and amount of property tax payable, shall be set at one-third of the average residential tax payable across HRM in the prior year on a property with a single-dwelling, rounded to the nearest \$50.
- (b) The reference rebate shall be the maximum rebate for those in the middle property tax bracket and the lowest income range.
 - (c) The maximum rebate at the lower property tax bracket and the lowest income range shall be \$100 lower than the reference rebate.
 - (d) The maximum rebate at the higher property tax bracket and the lowest income range shall be \$100 higher than the reference rebate.
 - (e) Within each property tax bracket, the maximum rebate values shall decrease, as income increases, in decrements

equal to the maximum rebate at the highest income range.

3) Section 4 (2) of Administrative Order 10 shall be revoked and replaced with the following:

4.3 (a) Tax exemptions granted pursuant to Sections 4.0 to 4.7 shall not reduce the tax payable on a property in the year of application to less than \$100.

(2) The minimum tax payable shall be calculated as 1% of the median point within each income range, rounded to the nearest \$10, but shall not be less than \$100.

4) Section 6 shall be revoked and replaced with the following:

6) An application for exemption for a fiscal year shall be submitted by March 31st of that fiscal year and no application shall be made for a retroactive exemption.

Done and passed this xx day of xx, 2007.

Mayor

Municipal Clerk