

Item No. 8.1



Creating a Modern Property Tax System for Halifax

Report of the Tax Reform Committee
March 18, 2008

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Executive Summary

In January of 2007 Regional Council established its Tax Reform Committee to lead its Tax Reform project and to seek public feedback. In the Spring of 2007 the Committee held public discussions on the Foundations of the tax system.

The Committee has now made a number of key findings. First, it believes that the current property tax system must change. That system no longer has a strong connection to income or to municipal services. As such, it has become less and less equitable. The Committee has concerns over the economic competitiveness of the property tax system as well as the Deed Transfer Tax.

The most critical piece of tax reform is to determine what the Foundations of any new tax system should be. Based on public feedback the Committee believes a new system should reflect a combination of municipal services and ability to pay. A Mission Statement with seven principles and 29 objectives has been created. Services should be paid for by those who benefit the most: the individual, the community or the region.

The Committee has designed a Draft Tax Model for additional public feedback. Key elements of that model are:

- ✚ Provincial Property Taxes remain the responsibility of the Province and remain on assessment.
- ✚ Municipal Services should be collected through nine tax rates with a series of flat amounts per home. Amounts may vary for multi-unit buildings. Assessment should not be used.
- ✚ There should be an enhanced property tax rebate for lower income individuals, similar in form to the GST Credit, and, hopefully administered through the Canada Revenue Agency.
- ✚ The Deed Transfer Tax is not connected to municipal services and is an economic disincentive. It should be phased-out.
- ✚ The benefits of Economic Competitiveness belong to residents and commercial taxpayers. It is critical that work continue into this topic to ensure the entire municipality benefits as much as it can.
- ✚ Should it ever be given income tax power it should consider replacing the Regional Tax Rate with a high income surtax.

The next step is for a series of public open houses in the Spring of 2008. Public feedback is a critical element to determine if the Mission Statement and the Draft Tax Model are appropriate. Following those meetings the Committee expects to review and revise its Draft Tax Model and return to Regional Council.

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Introduction

Since January of 2007 Regional Council's Tax Reform Committee (TRC) has been working diligently on a redesign of the current property tax system. The Committee consists of 13 individuals: six councillors (2 each from urban, suburban and rural areas) and seven private citizens. Its meetings are public. The Chair is a private citizen.

The purpose of the Committee is to

provide an important communication and public participation link between HRM and the broader community and stakeholders. This steering committee will be the "eyes and ears" of HRM residents and business people throughout the tax reform process and provide leadership to the project ... thereby strengthening the community's contribution to any recommendations.

In the Spring of 2007 the Committee held public consultations on the Foundations and Principles of the Property Tax System. It has now created a much more substantial set of Foundations, Principles and Objectives and has designed a full tax model for discussion purposes. The Committee is now prepared to seek additional public feedback.

The Current Property Tax System Must Change

The Nova Scotia property tax was originally intended to be a wealth tax. In the society of the late 1800s wealth was often accumulated in the form of property and household possessions. This was especially true of farm and resource property where the value of a property was equal to how much income the land could produce. Over time the economy, the real estate market and municipal government have all changed dramatically. The Committee has concluded that the current tax system needs to be modernized.

There is little evidence either that property assessment can easily be made more accurate or that more accurate values would provide for a more logical tax system. Rather, the municipality needs to re-think the foundations of its entire tax system and either base it on the historic principle of wealth and income, on municipal services, some combination of the two or some other basis.

1. Property Values No Longer Relate to Income or Services

Computers and new mass appraisal systems provide the potential for far greater efficiency in property assessment. Regardless, there is no longer a strong connection between ownership of property and wealth or income. Data reviewed by the Committee shows that in 2001 the statistical correlation between income and home values was only 28% out of a possible 100%. New types of mortgages exist and real estate speculation has driven up home prices. Homes are long term investments while income and ability to

pay can fluctuate with changes in employment, family size, the economy and age. At its best the current property tax system is little more than a tax on an unrealized capital gain.

Nor is there a strong connection between municipal services and property taxes. There are many factors other than municipal services with a greater influence on property prices. This has led to the frequent complaint that values have risen and services have stayed the same.

2. The Property Tax System has become less Equitable

The breakdown in the link between wealth and property values has meant that the property tax has become fundamentally inequitable. For instance:

- ✚ There is limited equity between income groups. Low income taxpayers pay a substantial portion of their incomes on property tax. For families in the middle income range, taxes can vary from 1% to 10% of their income.
- ✚ There are variations in tax burden amongst different types of properties that have no apparent rationale. For instance:
 - Waterfront properties typically pay more tax than non-waterfront.
 - Condos pay higher taxes than apartments even though services are very similar and both are cost-efficient to service.
 - Taxes on a single family home can vary by thousands of dollars even though services may be very similar.
 - Under the assessment cap, many inequities are frozen. Homes being sold will lose the cap and revert back to market prices. Homes with identical market values may pay different amounts of property tax, simply because of when they were last sold.

3. The Property Tax System Needs to Be Economically Competitive

Over the next 25 years Halifax is expected to see significant growth in its population. The Regional Plan was designed to support that growth through compact development. Municipal services can be provided more efficiently to larger multi-unit buildings (such as condominiums and apartments) than to less dense forms of housing. However, a municipal tax system based on property values does not recognize this. As such, there are variations in the tax burden on homes, apartments and condos that are at odds with the Regional Plan. Apartments are currently ineligible for the assessment cap, meaning there will likely be a gradual shift in the tax burden towards apartment units.

One of the biggest areas of concern relates to the functioning of the assessment cap. When a home is sold it reverts back to its market value and the assessment cap limits start over again. Newer homes or homes being sold (i.e. losing protection of the assessment cap) will have higher taxable values than other homes. Over time this will lead to a shift

in the tax burden for such homes with serious impacts for the real estate market and hence economic growth.

The Deed Transfer Tax has also been a barrier to individuals seeking to purchase homes. As with the general property taxes, there is no strong connection to either services or income. The Committee is concerned that it will be a significant barrier to many young people purchasing a home.

The Foundations and Principles of a Modern Property Tax System

The Foundations of a tax system are based on the ultimate intent of that system. For instance, the Income Tax system is designed to reflect ability to pay by taxing income. The Harmonized Sales Tax is meant to reflect consumption by individuals. Now in the 21st century Halifax is a very different place from the 1880s, but the basic foundations of that original property tax system remain as a wealth tax.

As directed by Council, the Tax Reform Committee spent considerable time consulting with the public on the Foundations of the property tax system. In the Spring of 2007 a series of public workshops were held. Over 40% of those attending felt that the tax system should be based on a combination of both services and the ability to pay. Two independent surveys undertaken also support this conclusion.

Based on this the Committee designed a Mission Statement and a set of Values for the property tax system. The Mission Statement describes the Foundation of the tax system as

To provide an equitable tax system based on a charge for services provided and ability to pay by:

- o Linking taxes and fees for services to those who derive the greatest benefit at the individual, community and regional levels, and,***
- o Considering the ability to pay.***

If there is one element of the Mission Statement that is critical to every piece of the tax system it is the word “Benefit”. While there are circumstances where a household clearly “Receives” or does not “Receive” a municipal service this distinction is not always clear. Sometimes an individual has “Access” to services but chooses not to use them. Or, a household can inadvertently “Cause” the need for a service. (For example, heavy traffic flow can “Cause” the need for sidewalks). In other cases the “Benefit” that exists is very broad and can not be isolated to one individual or to a community. For the Committee the “Benefits Test” is a critical element of any new tax system. When the greatest benefit accrues to an individual, that individual should pay. Where the greatest

benefit is at the community level, that community should pay. And where there is broad regional benefit, than all of Halifax should pay.

At the Spring 2007 consultations participants were given 11 principles for a reformed tax system and asked to rank them in order of importance. Based on that the Committee determined the most important principle was Equity. These 11 principles were re-worked into seven key principles. The most critical of these is the principle of Equity. That principle is supplemented by Economic Competitiveness, Economic Efficiency, Respect for other Governments, Stability, Simplicity, and Transparency and Accountability.

Proposed Principles for any New Tax System

- Equity
- Economic Competitiveness
- Economic Efficiency
- Respect for other Governments
- Stability
- Simplicity
- Transparency and Accountability

Each of these principles has been defined by the committee and is supported by at least two objectives. Together, there are 29 objectives for a reformed tax system. These objectives function as Evaluation Criteria for the Committee in reviewing proposals for any new tax system. The entire Mission Statement, Values, Principles and Objectives are listed in Appendix A.

Equity is considered by the Committee to be the most important principle. Equity requires that the tax system be applied consistently to all taxpayers and have no systematic biases. Based on the foundations each tax bill should reflect municipal services and there should be no regressive impacts. For business, equity also means not providing an unfair advantage to one firm over another.

Economic competitiveness means realizing the economic potential of the region. This is about more than business. In an economy facing increasing labour shortages it is critical that we attract new immigrants and retain our youth. As Halifax grows faster it needs to support efficient growth patterns and align the tax system with the ideals of the Regional Plan. This means supporting compact development, competitiveness and environmental sustainability. For business, we clearly need to understand just how the commercial tax burden affects the economy of the region.

An efficient tax system is one that encourages healthy behaviours by taxpayers. It is normal for individuals to try avoiding taxes. Often tax systems inadvertently encourage patterns of action that were never intended. For instance, many years ago in Britain there was a tax on the number of windows in a house. The intentions were good: wealthier people had bigger homes, hence more windows. The result was that people boarded up their windows to lower their tax bills.

In Nova Scotia the three levels of government interact constantly. Too often the focus can become not on the citizen but about the shortcomings of another level of government. The Committee felt that mutual respect amongst all levels of government was key to the success of any new tax system. Obviously Halifax needs to administer its tax laws according to Provincial law and to respect their role in municipal government. Any new tax system must function well along-side the tax systems of the other 54 municipalities in Nova Scotia.

Stability is one of the key pieces of any reformed tax system. Obviously taxes can and will likely change over time but taxpayers need to know that there are certain key factors that will lead to changes in tax. In the case of a system based on services and ability to pay it should be economic changes, service levels or costs and the taxpayers own economic circumstances that lead to tax changes. Otherwise, neither taxpayers nor the municipality should see sudden and dramatic changes in their taxes. Rather, there should be an element of predictability for the informed citizen.

Simplicity means the tax system should be easily understood and any administrative costs or complexity should be minimized. In some cases there may be trade-offs with other principles. For example, the simplest system possible may be inequitable. Or, the most equitable system possible may be complex.

Transparency and Accountability is also a critical principle. Taxes must be based on objective calculations that can be verified and are reliable. Documentation is critical so that even when taxpayers disagree, they at least understand the basis of that disagreement. Tax systems should not have a bias towards raising or lowering taxes, rather, these are public policy choices that must be clearly debated and explained. The implications of those choices for services and for the tax burden (as opposed to the tax rate) must be clear.

In designing these principles the Committee listened closely to what it heard during the public consultations. It scrutinized academic literature and information from other governments. What it ultimately designed was a series of principles that are designed around the wishes of the taxpayers of Halifax and are customized for Halifax. The Committee feels strongly that these principles operate independently of any specific proposals for a new tax system and that there is a synergy to how these principles work. Ultimately, it is these principles that are most critical and, regardless of any specific tax measures, should guide Halifax into the changes it needs to make.

The Foundations and Principles Lead to a Draft Tax Model for Consultations

The Committee has been directed by Regional Council to not only design foundations and principles but to use them to create options for any new tax system. Two things are critical. First, any options must reflect the principles that the public has expressed a desire for. Secondly, the options it designs are simply that, options for debate. The

public needs to review and comment on those options. It is the Committee's belief that the Model it has created, while it has tremendous potential, is not valid until it is subject to public debate by citizens and Council. The public may accept the Committee's work, may want it modified, may ask the Committee to move in another direction or could prefer the status quo. The Committee's role is to collect feedback and make changes as it sees fit. Only then can it forward a final recommendation on its work to Council for their decision.

Making the link between the principles of a reformed system and creating a new service-based/ability to pay model of tax was a complex undertaking. The Committee looked at tax systems in other jurisdictions. It examined a number of various approaches to municipal tax including increased user fees, multiple tax rates by level of services and cost (eg, by class of road, up to 17 different rates for solid waste pick-up), assessment, frontage and income tax.

There are clearly two parts to a new tax system: designing a service based tax and integrating it with an ability to pay approach. In designing a service-based tax model, the Committee had to consider three key questions:

-  What is the service?
-  Who should pay?
-  How should they pay

What Is The Service?

Services were grouped into nine basic categories. These included Hydrants, Solid Waste, Local Roads, Local Recreation Facilities, Local Sidewalks, Local Transit, Regional Roads, Regional Transit and other services of a broad regional nature.

The Committee felt that any taxes collected by the Municipality for the Province were not a Municipal responsibility but a Provincial responsibility. These taxes include mandatory education, corrections, housing and the assessment system. Provincial formulas base the amount of these taxes mostly on assessment values. As such, these taxes should continue to be collected as an area rate with the tax rates based on assessment values as used in the provincial formulas. The Committee believes the Municipality should not subsidize these rates directly or indirectly (such as through its low income rebate).

Who Should Pay?

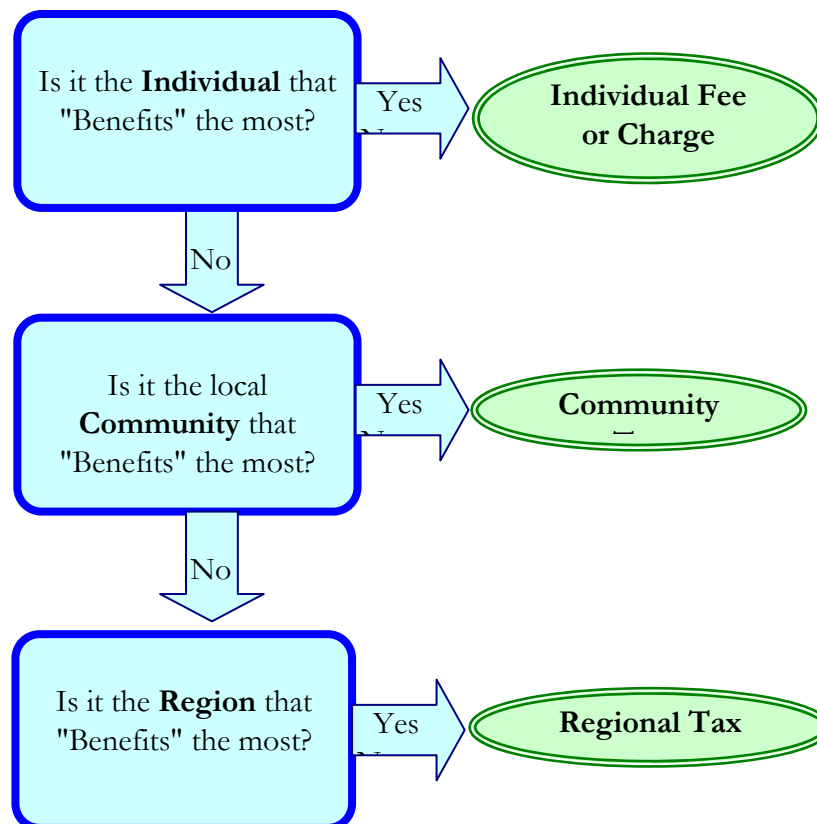
The Committee used the "Benefits Test" to determine who should pay for a service. In looking at each service the following key points were relevant

-  Can the municipality measure an individual's use of the service?
-  Can the individual opt out of using the service?
-  Are there alternatives to using the service?
-  Can the individual control their use of the service?
-  Can the municipality control the use of the service?
-  Should individuals be encouraged to use the service?

- ✚ Is the service aimed towards low income individuals?
- ✚ Is the need for the service partially caused by a non user?
- ✚ If individuals use the service, do others benefit?
- ✚ Do non-users benefit from the service?
- ✚ Who benefits from the service? The community or region?
- ✚ Is the service available across the region?

When the benefit accrues mainly to the individual, then either a user fee or a charge levied on individuals should be used. Where the benefit is felt mostly at the community level, then the community should pay. Where the benefit is very broad and occurs across the municipality, any tax should be levied on a regional basis.

The "Benefits" Test



In reviewing each of its nine service groupings the committee looked at the following types of tax it could impose. These include:

- ✚ Individual Fees and Charges – There are two types:
 - o **Individual Fees** - These are user fees levied on the amount of service consumed by an individual family regardless of where they live.
 - o **Individual Charges** – a tax levied on the direct user of a service regardless of the amount of service consumed or where they live.

- ✚ Community Taxes – These comprise two types:
 - **Common Tax Rates** where those benefiting from a service pay a common rate to support the service. Unlike the current area tax rate system the rates levied will be common to all taxpayers deemed to benefit.
 - **Zone Tax Rates** – these are taxes levied based on the Regional Plan’s General Future Land Use descriptions (See Appendix C). There would be four potential zones: the Pink (Regional Centre), Orange (next to Regional Centre), Green (Commuter Shed), and Blue (Resource areas). Tax rates would vary by zone.
- ✚ **Regional Tax Rate** – A tax paid by all taxpayers.

The Committee also looked at key Council policies for guidance in how to deal with services and taxation. The Regional Plan, Economic Strategy, Capital Cost Contribution policy, Community Visioning and Indoor Facilities Master Plan all helped shape their thinking on services. The Committee came to the following consensus on services:

Hydrants – Individual properties with hydrants had no alternative to hydrant service and could not opt out of the service. Properties not close to a hydrant do not generally benefit from hydrant service. Therefore, individual properties within 1,200 feet of a workable hydrant should be charged the cost of hydrants.

Solid Waste – Collection of Compost, Refuse and Recycling is a key municipal service with very broad benefit. However, there are alternatives to public collection. In fact, apartment buildings (over 6 units) and the majority of commercial taxpayers do not get public collection. Rather, they pay private haulers for their own garbage collection, in addition to paying taxes for the cost of public collection. As there is an alternative to public collection, only properties receiving collection should be charged the cost of collection and disposal of solid waste.

Local Roads – The Committee distinguished between local roads (serving neighbourhoods) and arterial and collector roads that formed the backbone of the regional transportation network. Homeowners living on a local road generally benefit from that local road service. There is no real alternative for that homeowner. Those who don’t use the local road service generally don’t benefit from that service. Therefore, individual properties fronting on a local road should share the costs of the local road network. Properties on an arterial or collector road would also share in the cost of the local road network. The Committee also felt that those who fronted on a local road that was privately owned or maintained by the Province of Nova Scotia did not get the same level of benefit as others. Hence they should see a reduced rate of 75% for local road costs.

Local Recreation Facilities – The Committee distinguished between local and neighbourhood recreation facilities and the much larger multi-district facilities. The former are currently considered Category 4 facilities under the municipality’s Indoor Facilities Master Plan and normally do not have either rinks or pools. In general, people tend to drive 5 to 10 minutes to use these local recreation facilities. The Committee felt that the benefit of these facilities went to those within a five to 10 minute drive and that

they should pay the cost of the facilities. The Indoor Facility Master Plan is currently being replaced with the Community Facility Master Plan. The Committee has forwarded a number of questions to the organizers of that plan.

Local Sidewalks – The Committee distinguished between sidewalks that are on a local road and those which are located on an arterial or collector road. It believes the latter should be included as part of a Regional Transportation costs. As with the local road network, homeowners living close to a sidewalk generally benefit from that sidewalk. Those who aren't in that area generally don't benefit from that service. Therefore, properties within walking distance of a local sidewalk should share the operating and capital costs of the local sidewalk network.

Local Transit – The Committee distinguished between Regional Transit (Metrolink, Rural Express Transit and the Ferry system) and the local transit routes. Transit service provides benefit to both users and to non-users. The users obviously benefit in the form of a ride (for which they pay a fare). Non-users benefit in several ways. First, there is reduced congestion on the roads. Secondly, there are reduced greenhouse gases. Third, transit use reduces the number of cars on the roads and hence may delay or eliminate the need for the widening or expansion of the road network. Under the Regional Plan it was estimated that well-planned out transit routes could help avoid up to \$165m in future road costs. Therefore the cost of local transit needs to be shared amongst the users of the service and the local community. Any portion of local transit to be covered by tax should be collected through a charge levied on those within walking distance of a transit stop.

Regional Roads – The Committee saw the Regional Road network as including the arterial and collector roads and the sidewalks, lights and other road features that existed alongside those specific roads. The Committee saw this road network as having very broad benefit for all Halifax; hence all should share in its costs. The Committee also recognized that the road network was designed to service commuters. It is the commuters and other users who "Cause" the road to be oversize and create the need for its sidewalks and other road features. In keeping with the Regional Plan, it felt that the costs of that road network should be allocated according to how families commute. For this purpose it used Regional Plan land use and commuter data to divide HRM into four commuting zones (see Appendix C): the Pink (Regional Centre), Orange (next to Regional Centre), Green (Commuter Shed), and Blue (Resource areas). The cost of the Regional Road network is to be allocated amongst these four areas according to their commute patterns.

Regional Transit – Regional Transit includes the backbone of the transit system, namely Metro Link, the Ferry system and any new Rural Express Transit but not the local transit routes. The Committee saw Regional Transit as having very broad benefit for all, even more so than local transit. Again, the key considerations are reduced traffic congestion, the environmental benefits and avoidance of future road costs. As with Regional Roads, the Committee felt that the costs of that network should be allocated according to commuting patterns (see Appendix C). Again, it used Regional Plan land use and commuter data to divide HRM into four commuting zones: the Pink (Regional Centre),

Orange (next to Regional Centre), Green (Commuter Shed), and Blue (Resource areas). The cost of the Regional Transit network is to be allocated amongst these four areas according to their patterns of commuter traffic.

Regional Tax Rate – The Committee felt that a number of municipal services offered very broad benefit and that the benefit could not easily be narrowed down to either any group of individuals or to any specific community. Therefore, the cost of these services should be borne by all taxpayers. Included in this group are the Police and Fire Services, Libraries, large multi-district recreation facilities (usually including rinks and pools), sporting facilities and event facilities (such as the Metro Centre), recreation programs and support services (eg Finance, Human Resources, Legal and Governance costs).

How Should They Pay?

In approaching how to tax, the Committee reviewed a number of different taxation options. Included are those tax powers available to municipalities such as dwelling unit or property charges, frontage fees, user fees, acreage charges and area rates. It also looked at taxes traditionally levied by the Federal and Provincial Governments such as income tax, fuel tax or sales taxes. These types of taxes do not always function well as service taxes but have other advantages. In the case of income tax it is clearly the most effective mechanism to deal with ability to pay although municipalities in Canada typically do not have the power to levy income tax.

The Committee felt the most effective manner to tax homes would be through a series of dwelling unit charges, with a different dwelling unit charge for each service. Dwelling unit charges would be simple, transparent and provide much greater stability to homeowners than would a property valuation system. For example, for owners of a single family home it would be set at a common amount. Instead of a home being assessed and then having a tax rate applied to it, it would be taxed at a fixed amount, depending on its services.

Example of Dwelling Charge under Tax Reform **Single Family Home in Pink Zone, Full Services**

	Home A	Home B	Home C
Current System:			
Value of Home	100,000	156,700	200,000
Tax Rate per \$100 of Value	0.840	0.840	0.840
Taxes	\$840	\$1,316	\$1,680
Proposed System:			
Flat amount Per Services	\$1,316	\$1,316	\$1,316

A simple dwelling unit fee brings clarity and simplicity to the majority of homeowners and is available for use under the municipality's current tax powers. It removes the complexity of understanding and measuring the value a home. Homeowners will need to understand which services they are responsible for paying.

Example of Dwelling Charges under Tax Reform Single Family Home by Zones, Selected Services

	Pink Zone (Full Services)	Orange Zone (Full Services)	Green Zone (Full Services)	Green Zone (Partial Services)	Blue Zone (Partial Services)
Paid by Most Homes:					
Regional Rate	474	474	474	474	474
Regional Roads	45	88	101	101	30
Regional Transit	25	49	57	57	17
Solid Waste	256	256	256	256	256
Local Roads*	176	176	176	132	132
	976	1,043	1,064	1,020	908
Paid by Some Homes:					
Local Transit	140	140	140	-	-
Local Sidewalks	48	48	48	-	-
Hydrants	116	116	116	-	-
Local Recreation Facilities	36	36	36	-	-
	339	339	339	-	-
Total Municipal Taxes	\$1,316	\$1,383	\$1,403	\$1,020	\$908

* Under Partial Services assumes a Private or Provincial Road at 75% of regular amount.

For most other types of residential taxpayers, the system will also be relatively simple and comparable to that for single family homes. For Multi-Unit Buildings (such as most apartments and condos) there are two key differences. First, such properties will pay the charge for hydrants and local roads only once per building, regardless of the number of dwellings in the building. This recognizes that the service is provided to the building only once, hence making such properties far more cost-efficient for the municipality to service. As the number of units in a building rises the tax per each dwelling will fall. Taxes will continue to be paid by the owner of the building, even though they are calculated using the number of units. Secondly, other types of services will be paid for by each unit at 60% of the normal rate. This recognizes that it is more efficient for the municipality to service such properties. As with all taxpayers, only those receiving solid waste collection will pay. Currently apartments greater than 6 units do not get solid waste collection but are still billed through the general tax rate. Under tax reform this practice will cease.

Example of Dwelling Charge under Tax Reform

Multi-Unit Building in Pink Zone, Full Services (except Solid Waste in Large Apartments)

	Apartment (6 Units)	Condo (6 Units)	Apartment (100 Units)	Condo (100 Units)
Paid for by the Property Once:				
Hydrants	116	116	116	116
Local Roads	<u>176</u>	<u>176</u>	<u>176</u>	<u>176</u>
	292	292	292	292
By the Number of Dwellings at 60%:				
Regional Rate	1,706	1,706	28,430	28,430
Regional Roads	162	162	2,692	2,692
Regional Transit	90	90	1,504	1,504
Local Transit	503	503	8,391	8,391
Local Sidewalks	<u>172</u>	<u>172</u>	<u>2,861</u>	<u>2,861</u>
	2,633	2,633	43,878	43,878
By the Number of Dwellings at 100%:				
Local Recreation Facilities	214	214	3,568	3,568
Solid Waste	<u>1,538</u>	<u>1,538</u>	<u>0</u>	<u>25,637</u>
	1,752	1,752	3,568	29,205
Total Municipal Tax	\$4,677	\$4,677	\$47,738	\$73,375
Tax per Dwelling	780	780	477	734

Vacant residential land will require a slightly separate system of taxation. Such parcels of land will be charged for certain key services at a flat rate. In the event that the land (including land with a dwelling unit) is quite large and occupies considerable road frontage or multiple hydrants there may be a surcharge to cover the cost of the additional servicing. As land becomes developed and sub-divided, taxes will increase with the number of additional dwellings and the mix of services.

The committee considered a number of variants to the draft tax model including

-  Placing hydrants in the regional tax rate
-  Using frontage for the local road costs
-  Using commuter distance for regional road costs
-  Those on private and provincial roads pay the full local road charge
-  Using 2 zones (not 4) for the regional road and regional transit rates
-  Using user pay for a portion of the solid waste costs

Ability to Pay

The Committee spent considerable time analyzing the current property tax system, service based taxation and the relationship of taxes to income. It believes that the draft tax model eliminates many of the inconsistent relationships between income levels and property tax that now exist. It also feels there is a need for increased tax relief for lower income individuals.

Low Income families will receive a considerable increase in the amount of the municipal low income property tax rebate. A revised rebate should function similarly to the GST Credit. The amount of the rebate will increase to \$1,000 per family plus \$100 for each child or equivalent dependent (to a maximum \$300). (The amount per child will require an amendment to the Municipal Government Act). This rebate means that roughly 60% of low income individuals will pay less under tax reform. 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. If agreement on this is reached with the Federal and Provincial Governments, the current take-up rate for the program could increase substantially, benefiting many families that currently do not apply.

The draft tax model brings greater progressivity to low income earners. Middle income earners will see inconsistencies in their tax levels disappear. There will be very few middle income earners with municipal tax levels greater than 5%. Conversely, those with relatively very low tax levels will likely see them rise towards the average. Higher income earners will tend to see taxes decline as a function of income. Without access to income tax it is extremely difficult for the municipality to prevent this from happening under a service based tax model. The Committee has agreed in principle that an income tax or surtax should be considered, if the municipality ever gets this power.

Commercial Taxpayers

Commercial and Business Occupancy will remain, for the time being, on the market value assessment system. The Committee has concerns that there are disadvantages to using the market value approach but is not yet prepared to recommend a change of this magnitude. In general, it believes that commercial taxation should follow the principles of the Municipality's Economic Strategy and focus on financial services, insurance, real estate, transportation infrastructure, national defence and universities. Alternative ideas being explored by the Committee include using square footage, a maximum tax, a small business tax rate and a new business tax holiday. Most of these alternatives will require legislative amendments. The Committee recommends that Council approach the Nova Scotia government concerning accelerating the scheduled phase out of the Business Occupancy Tax for financial and insurance services and have all businesses phase out at the same time.

Commercial firms will, however, pay for municipal services using the same set of assumptions designed for residential tax payers. For instance, like large apartments, commercial taxpayers do not receive solid waste collection. Commercial tax rates for each of the nine service areas have been adjusted based upon the estimated amount of

benefit that accrues to the commercial sector. For instance, commercial use of the arterial road network is quite high. Hence, the commercial side should be expected to pay almost 50% of the cost of the regional road costs. In other areas costs are driven more by residential use than commercial. The amount paid by the commercial sector towards the Regional Tax Rate has been adjusted up to ensure that commercial as a whole does not pay less than it does now. This implies a subsidy for a single family home of \$420 or about \$290 per employee of a commercial firm.

The Committee believes that the relationship between residential and commercial tax rates is critical and needs much closer scrutiny. The historic tax multiplier of 2.55 on commercial and residential market values (i.e. before the assessment cap) should not be increased, other than for the phase-out of the Business Occupancy Tax and the recent introduction of the Provincial Area Rates.

Example of Commercial Taxation under Tax Reform Tax Rate per \$100 of Assessment and Flat Rates by Property by Zones, Selected Services

	Pink Zone (Full Services)	Orange Zone (Full Services)	Green Zone (Full Services)	Green Zone (Partial Services)	Blue Zone (Partial Services)
Paid by Most Firms:					
Regional Rate	2.285	2.285	2.285	2.285	2.285
Regional Roads	0.205	0.205	0.205	0.205	0.137
Regional Transit	0.114	0.114	0.114	0.114	0.076
Local Roads*	0.244	0.244	0.244	0.183	0.183
	2.848	2.848	2.848	2.787	2.681
Paid by Some Firms:					
Local Transit	0.202	0.202	0.202	-	-
Local Sidewalks	0.041	0.041	0.041	-	-
Local Recreation Facilities	0.037	0.037	0.037	-	-
	0.280	0.280	0.280	-	-
Flat Rates by Property:					
Hydrants	116	116	116	-	-
Solid Waste	-	-	-	256	256
	116	116	116	256	256
Total Municipal Taxes	\$3.128	\$3.128	\$3.128	\$2.787	\$2.681
	and \$116	and \$116	and \$116	and \$256	and \$256

* Under Partial Services assumes a Private or Provincial Road at 75% of regular amount.

Deed Transfer Tax

In addition, the Committee reviewed the 1.5% Deed Transfer Tax. It is the Committee's feeling that such a tax has no connection to services provided and may hinder economic growth, as it arbitrarily increases house prices. The Committee is therefore recommending the phase-out of the Deed Transfer Tax and that the foregone revenue is recovered through comparable increases in residential and commercial taxes. The

Regional Tax Rate under the new system would have to increase by \$163 for each home (\$96 for multi-unit buildings) to offset the loss of Residential Deed Transfer Tax revenues. The Commercial tax rate would also increase to offset the loss of Commercial Deed Transfer Tax revenues. This would be a revenue neutral change with taxpayers saving the cost of the Deed Transfer.

Evaluation of the Draft Tax Model under the Principles and Objectives

In evaluating the strengths and weaknesses of this tax system it is critical to relate it back to the original principles and objectives established by the Committee. The strengths and weaknesses of this particular model are as follows:

-  **Equity** – Variations in Taxation that are tied solely to the value of homes will disappear. Rather, comparable service levels will be taxed at the same amount. This means that a number of long standing biases in the property tax system will disappear:
 - Waterfront property will be taxed on the same basis as non-waterfront
 - Condos will be taxed on a basis comparable to apartments.
 - Municipal taxes will be levied on a consistent basis with income, with taxes owed varying within a narrow range. As a result, families with similar income will pay fairly similar taxes. Examples of middle income or retired families paying 5% to 10% of their income in property tax will disappear as will the risk of one losing their home.
 - Lower income individual will be protected and in most cases will pay less under these proposals.
 - In general, there will be much greater consistency in the way that properties are taxed. The hodgepodge of boundaries and rules in place since amalgamation will disappear.
 - While the draft tax model generally taxes people consistent with their income (there are no strong variations due to home values) it is not a truly progressive system. High income taxpayers will likely pay less municipal tax. The Committee feels the idea of a municipal income tax or surtax to pay for items of a broad regional nature (i.e. the Regional Tax Rate) could be explored.

-  **Economic Competitiveness** – The draft system lead to much greater competitiveness for Halifax.
 - It will favour compact development, hence supporting the regional plan. Large apartments and condos will pay taxes commensurate with municipal services that also recognizing how efficient such properties are for the municipality to service.
 - With the elimination of the Deed Transfer Tax young families, immigrants and other buyers will find it easier to finance home purchases.

- There will be no bias against newly constructed homes or homes that have been recently sold. Apartments will be taxed on a comparable basis to condos. This will be an improvement over the assessment cap that has a systematic bias against new or recently sold homes. Apartments are ineligible for the assessment cap.
- The model does not go as far as it might in encouraging compact development. Large lots do tend to cost much more to service than small lots. This model uses average costs for municipal services and does not attach higher taxes to properties that are high cost to service. As an alternative, frontage could be used to collect local road cost.
- It is estimated that over 80% of current residential properties pay less in residential tax than it costs to service the property. This practice of overtaking commercial taxpayers in order to maintain lower residential taxes may have a negative impact on the competitiveness of business in HRM.

- ✚ **Respect for Other Governments** – The Province will be seen as responsible for the Provincial Area Rated costs while the municipality will cease to use assessment for residential property taxes.
 - The Provincial and the Municipal Government should be less likely to “blame” tax and revenue changes on the other.
 - Almost all changes discussed are within the current legal powers of Halifax and only minor changes to the Municipal Government Act need be sought. The sole exception is the suggestion that Halifax provide tax relief based on the number of children in a family.

- ✚ **Simplicity** – Compliance costs and appeals should decline.

- ✚ **Stability** – Taxpayers should not see sudden and dramatic increases simply due to their home values changing. This will lead to greater predictability and stability in municipal revenues.
 - While strong support for low income individual is desirable, in a recession it may mean that the municipal tax revenues will decline far faster than they would otherwise.
 - Halifax is heavily dependent upon property tax revenues to fund its services. This dependence will get greater with tax reform due to the elimination of the Deed Transfer Tax.

- ✚ **Transparency** – Taxes rates and burden will become highly visible and the tax burden will be straightforward.
 - Increases in value often lead to tax increases even when the tax rate is dropped. With these changes the services being paid for and a realistic cost per service are much more readily apparent.

- o Taxes will be based upon simple facts: a home exists or not and as such is taxed. Subjective arguments about the value of a home will disappear. Taxes will be easy to verify.
- o The cost to service a home will become dramatically more apparent, hence making the role of the commercial sector in subsidizing home taxes more apparent.

The Next Step is Public Feedback

Public consultation is critical to the committee's work. It is the Committee's intention to present the Foundations and Principles to the public along with the draft tax model for discussion. Only once additional feedback is gathered can the Committee return to Council with any necessary changes and its final recommendations.

The Committee's communications plan intends on up to thirteen open houses including several daytime meetings. Other input will continue to be sought through letter, e-mail, phone and the web site.

The changes being contemplated are extremely significant. While there is not a need for extensive legal changes to the Municipal Government Act there is a clear need to make a number of revisions in order to administer such a new system. The committee does not have a final recommendation on implementation but expects that any new system will take one to four years to phase in, both for administrative reasons and to allow taxpayers to adjust to the change.

The Committee recommends that as previously directed by Regional Council the Tax Reform Committee move forward towards public consultations and receive feedback on

-  The Foundations, Principles and Objectives of a new tax system, and,

-  The Draft Tax Model,

and that it then report back to Regional Council

Appendix A

The Foundations and Principles of a Modern Property Tax System

The HRM Municipal Tax System

Mission Statement

"Foundations of the Tax System"

To provide an equitable tax system based on a charge for services
provided and ability to pay by:

Linking taxes and fees for services to those who derive the
greatest benefit at the individual, community and regional levels,
and,

Considering the ability to pay.

Values

As a central and key element of municipal government, HRM strives to ensure that the tax and fee system

Encourages the economic well-being of all its taxpayers and citizens,

Recognizes that the funds raised through taxes and fees belong to the citizens of HRM and are held in trust,

Encourages fiscal prudence and an acceptable level of tax and fee burden for services, and

Recognizes that municipal services may benefit everyone and that to the extent all benefit, all should share in the cost of the service.

Equity

Similarly situated taxpayers should be taxed similarly.

Objectives:

- 1 All taxpayers should be taxed according to their municipal services.
- 2 The tax and fee system should be designed to be non-regressive.
- 3 The tax and fee system should apply consistently to all taxpayers and citizens.
- 4 The Tax and Fee system should have no unintended systematic bias towards any group of individuals, firms or local communities.
- 5 The tax and fee system should not provide an unintended advantage for any business relative to its local competitors.

Economic Competitiveness

The Municipal Tax System should be designed to maximize the economic potential of the Region and Province.

Objectives:

- 6 To encourage investment and business activity within Halifax Regional Municipality and within Nova Scotia.
- 7 To encourage the long-term growth of the municipality including a focus on immigration, youth and diversity.
- 8 To encourage responsible home ownership.
- 9 To encourage efficient growth patterns and to support the Regional Plan.
- 10 To support the Region's business climate including international competitiveness.
- 11 To allow for environmental sustainability.
- 12 To ensure that residential, commercial and other taxpayers pay an appropriate share of the tax burden.

Economic Efficiency

The Municipal Tax System should be designed to encourage healthy behaviours by citizens and taxpayers.

Objectives:

- 13 To limit the unintended effects on people's behaviours due to taxation.
- 14 To focus on as broad a tax base as possible.

Respect for other Governments

Recognize the links to the Federal and Provincial Governments and other Municipalities.

Objectives:

- 15 Where HRM and another government share tax room, there shall be consulting over the use of the tax room, and mutual respect for each other and the taxpayers involved .
- 16 HRM will administer its tax system according to the Laws of the Province of Nova Scotia and, where appropriate, seek changes to those laws.
- 17 The HRM Tax System should function well along-side the tax systems of other Nova Scotian municipalities.

Stability

The Tax and Fee System should be designed to discourage unintended, sudden and dramatic changes in municipal taxes.

Objectives:

- 18 Individuals should be able to reasonably predict future taxes, based upon their understanding of their circumstances and the services available.
- 19 Individual tax bills should not experience sudden and dramatic change other than to reflect service changes and/or changes in ability to pay.
- 20 The Tax and Fee system should be designed to discourage unintended sudden and dramatic changes in municipal revenues.

Simplicity

The Tax and Fee system should be as simple as possible to minimize compliance costs and be easily understood.

Objectives:

- 21 The system should be designed to limit the overall complexity of the system.
- 22 Features of a municipal tax system should be limited to those that make a clear and dramatic improvement for a large number of citizens.
- 23 The number of methods of taxation or fees to pay for any one service should be minimized.
- 24 The administrative costs of the municipal tax system should be minimized.

Transparency and Accountability

It should be clear how and when taxes and fees are imposed and approved.

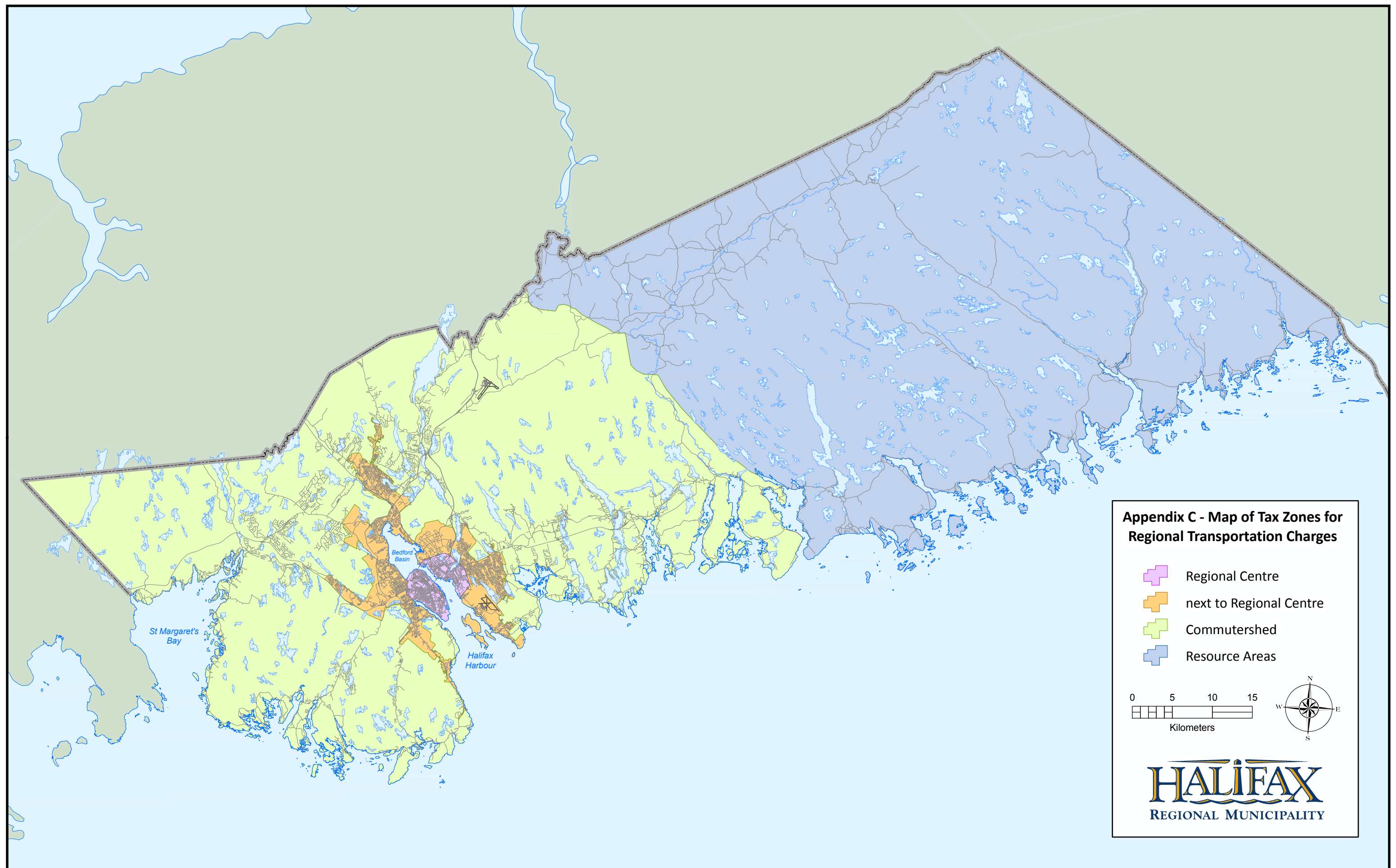
Objectives:

- 25 Taxes and fees should be based on objective and factual information, and not subject to opinion or estimation.
- 26 The Tax Bill for individuals should be calculated in a manner that is reliable and verifiable.
- 27 The tax system and its components should be clearly documented and available to the public.
- 28 The tax system should not have any unintended biases towards lowering or increasing taxes or expenditures.
- 29 The tax burden needs to be reviewed and set on a regular basis.

Appendix B

Proposed Location of Open Houses

1. Middle Musquodoboit
2. Sheet Harbour
3. Lake Echo
4. Cole Harbour
5. Dartmouth
6. Bedford
7. Sackville
8. Halifax
9. Tantallon
10. Fall River
11. Business – Downtown (daytime)
12. Business – Burnside (daytime)
13. Halifax – Downtown (daytime)



Appendix C - Map of Tax Zones for Regional Transportation Charges

-  Regional Centre
-  next to Regional Centre
-  Commutershed
-  Resource Areas

0 5 10 15
Kilometers

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HALIFAX
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