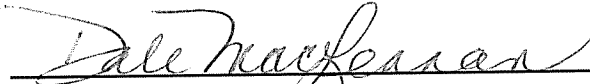

Halifax Regional Council
June 18th, 2002

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: 
Dale MacLennan, Director, HRM Financial Services

DATE: May 8, 2002

SUBJECT: **By-law T-201 Tax Exemption for Non-Profit Organizations - Letter to Minister, Service Nova Scotia & Municipal Affairs Requesting Tax Assessment Category for Registered Charities in HRM.**

INFORMATION REPORT

ORIGIN

At the meeting of Regional Council November 6th, 2002 a report from the Grants Committee requesting an extension of By-law T-201 through 2002-2003 was approved. Further, the report recommended application to the Minister of Service Nova Scotia & Municipal Affairs requesting the development of a property tax assessment classification for duly registered charities. At the request of councillor Blumenthal, President, UNSM, this request was to be copied to the Union of Nova Scotia Municipalities.

A copy of correspondence sent to Minister Angus MacIsaac, dated May 8, 2002 is appended in Attachment 1 of this report.

BACKGROUND

Under the current assessment system there are three (3) principle categories: commercial, residential and resource. Those non-profit organizations and charities whose property is not a residence automatically fall within the commercial classification. Annual tax rates set by the municipality are significantly higher for the commercial classification: for example, in 2002-03 the urban commercial tax rate was 3.358 per \$100 of assessment as compared to an urban residential rate of 1.316 (almost 40% less).

Staff contend that the operations of charities are not comparable to that of a commercial or industrial enterprise. And, that the eligibility and reporting criteria required of registered charities under the federal Income Tax Act protects the public interest. HRM's request to the Minister excludes 'non-profit' organizations registered under the auspices of the provincial Registry of Joint Stocks on the basis of the

scope of designations and minimal reporting requirements.

If successful in our application to the Minister, the intent is to ask for Regional Council's approval of a non-profit tax rate. This rate would be uniform across HRM and set slightly below that of the rural residential rate. In effect, such a decrease in property tax levy would constitute the "entitlement" portion of tax subsidy. Any further reduction would be set in accordance with By-law T-201.

With a new assessment categories for charities and a municipal tax rate for non-profit organizations, future billings should be fully automated for the charitable sector. This would eliminate the need to apply to the *Tax Exemption for Non-Profit Organizations Program* administered under the HRM Grants Program. Only those charities seeking further subsidy need apply.

Non-profit organizations registered under Joint Stocks would apply to the *Tax Exemption for Non-Profit Organizations Program* for any conversion to the new non-profit tax rate. This would be the 'entitlement' portion of public subsidy. Any further reduction in taxes (such as 50%, 75%, or 100% exempt) would be evaluated in accordance with the provision of programs and services that align with the municipality's mandate. It is anticipated that if the amendments to By-law T-201 due to be debated in 2002-2003 are approved, higher levels of public subsidy would be awarded to those organizations whose programs and services replace, supplement or complement a municipal responsibility.

DISCUSSION

Our goal is to develop a by-law, supplemented by detailed policy and procedures, which results in a tax program which is fair, easily understood, cost-effective, accessible, and applied with consistency. The aim is to receive, process, and bill applicants in a timely manner and to provide public accountability for the cost of subsidies provided to the non-profit sector.

COMMUNITY IMPACTS

If an assessment classification for registered charities is approved, and if a non-profit tax rate is approved, the billing of registered charities could become fully automated. Application to By-law T-201 would not be required unless a charity sought public subsidy for the provision of a service that would otherwise be a municipal responsibility.

Non-profit organizations who are not registered charities would see a decrease in their property taxes as a consequence of the non-profit tax rate. Application to By-law T-201 would not be required unless a non-profit group sought public subsidy for the provision of a service that would otherwise be a municipal responsibility.

Note: staff view property taxes as a legitimate operating expense and therefore any reduction in taxes provided through By-law T-201 represents an operating subsidy to an organization. Groups who do not provide a program or service that would otherwise be a municipal responsibility can apply to the *Community Grants Program* for project-specific assistance (not general operating). Such applications are evaluated on merit and relative to other applicants in the same sector. Awards are based on the specific nature of a project, not on the type of organization.

It is anticipated that changes to By-law T-201 will provide greater equity for non-profit organizations

who do not own equity in property ownership but who rent facilities in the open market. Arguably, these groups also pay property taxes albeit in-directly through monthly rents.

BUDGET IMPLICATIONS

If a non-profit tax rate were approved by Regional Council there would be a reduction in tax revenue. However, it is anticipated that this revenue loss would be off-set by closer alignment of exemptions with the municipality's mandate in service delivery. Further, it is anticipated that HRM's subsidy of organizational operating costs would decrease. Disparity in the level of assistance provided non-profit property owners as compared to renters would be reduced.

The proposed changes to By-law T-201 are intended to (a) contain costs within budget capacity, (b) distribute HRM assistance to the non-profit sector in a more equitable and efficient manner, and (c) increase public accountability. These changes are also consistent with a transition away from long-term core operating subsidies towards short-term project-specific assistance.

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 other relevant legislation.

ALTERNATIVES

This is an information report only. Once a response has been received from the Minister of Service Nova Scotia & Municipal Relations staff will advise Regional Council through the Grants Committee.

ATTACHMENTS

1. Letter to Minister Angus MacIsaac, Service Nova Scotia & Municipal Relations, from George McLellan, HRM CAO dated May 8, 2002.

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: Peta-Jane Temple, Coordinator, Grants Program 490-5469



CHIEF ADMINISTRATIVE OFFICE
George McLellan *Chief Administrative Officer*

May 8, 2002

Hon. Angus MacIsaac
Service Nova Scotia & Municipal Relations
4th Floor, Summit Place
1601 Lower Water Street
PO Box 216
Halifax, NS B3J 2M4

Dear Minister MacIsaac:

Further to the Provincial Government's recent passage of the Municipal Law Amendment 2001 Act, Halifax Regional Municipality respectfully asks for your consideration in the establishment of a property tax assessment classification for organizations duly registered as charitable societies under the Federal Income Tax Act. Currently, if the facilities of such organizations are not residential in nature, the property is by default assessed as commercial. As you are aware, there is a significant difference in tax rates between these two assessment categories.

It is the opinion of Regional Council that public support could be expected for the development of an assessment category for charities. Few, if any, of these organizations conduct what might be reasonably considered profitable or profit-seeking ventures.

Halifax Regional Municipality seeks this classification category only in relation to charities registered under the Income Tax Act. We are presently of the opinion that the non-profit or not-for-profit designations assigned under the auspices of the Registry of Joint Stocks are overly inclusive and do not necessarily comply with the objectives of our municipal tax exemption program for non-profit organizations.

We are sensitive to the financial challenges facing many municipal governments in Nova Scotia. Consequently, if in the opinion of the Assessment Services Division or the Union of Nova Scotia Municipalities, such an assessment category were to create financial hardship for other municipalities, we would ask for your consideration for the discretionary application of such an assessment category. In the manner of discretionary property tax exemptions, municipalities could elect to afford registered charities such a classification and/or a lower tax rate.

Thank you in anticipation of your consideration of this request. We would welcome an opportunity to discuss this issue in more detail with members of your Assessment Services Division staff.

Yours truly,



George McLellan
Chief Administrative Officer

Copy: Mayor Peter Kelly
Ken Simpson, Exec. Director, UNSM
Jerry Blumenthal, President, UNSM
P. J. Temple, Grants Program, HRM