

# Tax Reform - Public Participation

Staff Presentation to HRM Tax Reform Committee  
February 22, 2007





# Outline

- Tax Reform Decision Stages
  - Principles, Foundations, Goals, Tools
- Sample Tax Reform Packages
- Details on Sample Packages 3 and 4
- Options for Consultations





# Tax Reform Decision Stages

**Principles** of a well  
designed tax system

**Foundations** of the tax  
system

**Goals** of the tax  
system

**Tools** for Taxation





# Tax Reform-Principles

- **Principles**

- Stability
- Transparency
- Equity
  - Consistency
- Competitiveness
- Simplicity

- **Other Principles**

- Balance
- Broad Based
- Intergovernmental Linkages
- Adequacy
- Efficiency



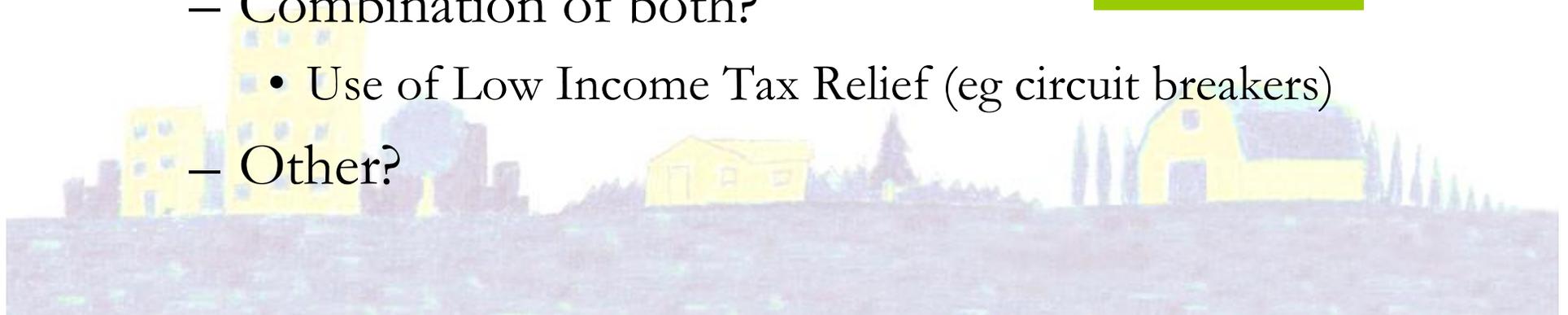


# Tax Reform-Foundations

- Why do we tax people the way we do?
- What should the tax system be based on?
  - Based on Ability to Pay?
  - Based on Services?
    - Cost of providing services
    - Availability of services
  - Combination of both?
    - Use of Low Income Tax Relief (eg circuit breakers)
  - Other?

59% support an  
“ability to pay”  
system.

77% support a  
system based on  
“services”.





# Tax Reform-Goals

- How do we wish to use the “Foundations” to calculate Taxes?
- What behaviours do we wish to encourage or discourage?
- How does the tax system support HRM’s corporate objectives?





# Tax Reform-Tools

- **Market Value Assessment:**
  - Maximum Tax, Assessment Cap, Temporary Tax Credit, Circuit Breakers and Income Relief.
- **Modified Assessment:**
  - Value on Buildings and Structures, Standard Cost for Land, Cap Land Values, Acquisition Value, Freeze Assessment.
- **New or Swapped Tax Powers:**
  - Sales, income, fuel, liquor tax, Higher Provincial Grants and Lower Property Taxes.
- **New/Increased User Fees:**
  - Solid Waste, Roads, Recreation and other fees.
- **Dwelling Unit and Other charges:**
  - Minimum Tax , Dwelling Unit Charges, Per Property Charges, Acreage Charges, Frontage Charges, Poll Tax, Tax Based on Square Footage of buildings.



# Approaches to Public Consultations

| Stages of Process            | Approach A  | Approach B | Approach C | Approach D           |
|------------------------------|---|------------|------------|----------------------|
| Principles                   | Consult   | Committee  | Committee  | Committee            |
| Foundations                  | Consult   | Consult    | Committee  | Committee            |
| Goals                        | Consult   | Consult    | Committee  | Committee            |
| Tools                        | Consult   | Consult    | Consult    | Committee<br>Consult |
| Level of Public Consultation | <p style="text-align: center;"><b>Intense</b> <span style="display: inline-block; width: 500px; height: 15px; background: linear-gradient(to right, blue, purple); border: 1px solid black;"></span> <b>Low</b></p> |            |            |                      |





# Sample Tax Reform Packages (1-5)

| Stages of Process  | Package 1  | Package 2  | Package 3  | Package 4   | Package 5  |
|--------------------|--|--|--|---|--|
| <b>Principles</b>  | Transparency, Equity, Stability, Competitiveness, Simplicity | Transparency, Equity, Stability, Competitiveness, Simplicity | Transparency, Equity, Stability, Competitiveness, Simplicity               | Transparency, Equity, Stability, Competitiveness, Simplicity                                      | Transparency, Equity, Stability, Competitiveness, Simplicity |
| <b>Foundations</b> | Ability to Pay   | Ability to Pay   | Service Based/<br>Ability to Pay   | Service Based/<br>Ability to Pay  | Service Based (Availability)                                 |
| <b>Goals</b>       | Taxes levied according to income                             | Taxes capped according to income                             | Reduce impact of assessment changes. Taxes capped according to income.     | Local Services levied by access. Taxes capped according to income.                                | Based on Availability of Services                            |
| <b>Tools</b>       | Municipal Income Tax   | Assessment but with a Circuit Breaker                        | Dwelling unit charge 25%, Assessment charge for 75%. Circuit Breaker used. | Frontage charge for road services, dwelling unit charge for other services. Circuit Breaker used. | User Fees, Frontage, Dwelling Charges, Other                 |

**Many Other Packages and Variants exist**



# Sample Tax Reform Packages (6-10)

| Stages of Process  | Package 6   | Package 7   | Package 8<br>"Flat Tax"                                      | Package 9<br>(Adam's Plan)                                   | Package 10<br>(Liquor Tax)                                   |
|--------------------|---|---|--|--|--|
| <b>Principles</b>  | Transparency, Equity, Stability, Competitiveness, Simplicity          | Transparency, Equity, Stability, Competitiveness, Simplicity                | Transparency, Equity, Stability, Competitiveness, Simplicity | Transparency, Equity, Stability, Competitiveness, Simplicity | Transparency, Equity, Stability, Competitiveness, Simplicity |
| <b>Foundations</b> | Service Based (Cost)  | Service Based (Cost)  | Ability to Pay ?   | Ability to Pay ?   | Service Based ?  |
| <b>Goals</b>       | Based on Partial Cost of Services. Behaviour reflects "Cost Drivers". | Based on Full Cost of Services.   | Everyone pays the same; All share equally.                   | Assessment (Tax Bills) Frozen.                               | Liquor Tax added to broaden Tax Base.                        |
| <b>Tools</b>       | User Fees, Frontage, Dwelling Charges, Other                          | User Fees, Frontage, Dwelling Charges, Other. Change commercial weightings. | Flat Dwelling Charge   | Frozen Assessment, Charge per Account (for additional funds) | Liquor Tax 25%, Assessment 75% of revenue.                   |

**Many Other Packages and Variants exist**

## Table 1 - Current System versus Sample Package 4

Sample Package 4 Assessment (Provincial Services), Dwelling Unit/Frontage (Municipal)



| Current System (Full Assessment System) | Sample Package 4 Assessment (Provincial Services), Dwelling Unit/Frontage (Municipal) | Variance \$ | Variance % |
|---|---|-------------|------------|
|---|---|-------------|------------|

### Incidence

#### Single Detached Homes

|  |       |       |      |      |
|--|-------|-------|------|------|
| Urban - \$216,000                      | 2,771 | 1,935 | -836 | -30% |
| Urban - \$144,400                      | 1,852 | 1,682 | -171 | -9%  |
| Urban - \$80,500                       | 1,033 | 1,456 | 422  | 41%  |
| Suburban - \$157,000 (on HRM Road)     | 1,855 | 1,975 | 120  | 6%   |
| Suburban - \$157,000 (not on HRM Road) | 1,855 | 1,477 | -378 | -20% |
| Rural - \$111,700 (on HRM Road)        | 1,313 | 1,639 | 326  | 25%  |
| Rural - \$111,700 (not on HRM Road)    | 1,313 | 1,177 | -136 | -10% |

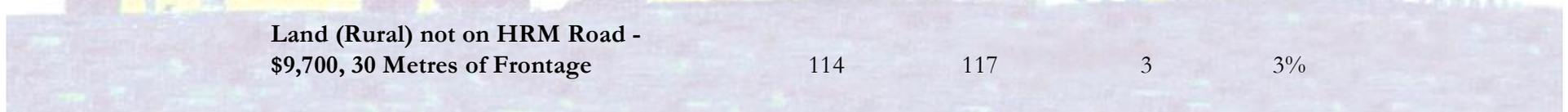
|                                   |       |       |     |     |
|-----------------------------------|-------|-------|-----|-----|
| <b>Home with 1 secondary Unit</b> | 2,150 | 2,557 | 408 | 19% |
|-----------------------------------|-------|-------|-----|-----|

|   |     |     |     |     |
|---|-----|-----|-----|-----|
| <b>Apartments (25 units) - \$39k per unit</b> | 499 | 828 | 330 | 66% |
|---|-----|-----|-----|-----|

|   |       |       |      |      |
|---|-------|-------|------|------|
| <b>Condo (20 units) - \$126k per unit</b> | 1,621 | 1,137 | -484 | -30% |
|---|-------|-------|------|------|

|  |     |     |     |      |
|--|-----|-----|-----|------|
| <b>Land (Rural) on HRM Road - \$9,700, 30 Metres of Frontage</b> | 114 | 579 | 465 | 407% |
|--|-----|-----|-----|------|

|  |     |     |   |    |
|--|-----|-----|---|----|
| <b>Land (Rural) not on HRM Road - \$9,700, 30 Metres of Frontage</b> | 114 | 117 | 3 | 3% |
|--|-----|-----|---|----|





**Table 2 - Current System versus Sample Package 3**  
**Sample Package 3 (Dwelling Unit Charge for 25% of Municipal Services)**

|  | <b>Current System (Full Assessment System)</b> | <b>Sample Package 3 (Dwelling Unit Charge for 25% of Municipal Services)</b> | <b>Variance \$</b> | <b>Variance %</b> |
|--|--|--|--------------------|-------------------|
| <b>Incidence</b>   |  |  |                    |                   |
| <b>Single Detached Homes</b>   |  |  |                    |                   |
| Urban - \$216,000  | 2,771  | 2,471  | -300               | -11%              |
| Urban - \$144,400  | 1,852  | 1,735  | -117               | -6%               |
| Urban - \$80,500   | 1,033  | 1,079  | 46                 | 4%                |
| Suburban - \$157,000 (on HRM Road)                                   | 1,855  | 1,746  | -110               | -6%               |
| Suburban - \$157,000 (not on HRM Road)                               | 1,855  | 1,746  | -110               | -6%               |
| Rural - \$111,700 (on HRM Road)                                      | 1,313  | 1,290  | -24                | -2%               |
| Rural - \$111,700 (not on HRM Road)                                  | 1,313  | 1,290  | -24                | -2%               |
| <b>Home with 1 secondary Unit</b>                                    | 2,150  | 2,212  | 63                 | 3%                |
| <b>Apartments (25 units) - \$39k per unit</b>                        | 499  | 639  | 140                | 28%               |
| <b>Condo (20 units) - \$126k per unit</b>                            | 1,621  | 1,550  | -71                | -4%               |
| <b>Land (Rural) on HRM Road - \$9,700, 30 Metres of Frontage</b>     | 114  | 103  | -12                | -10%              |
| <b>Land (Rural) not on HRM Road - \$9,700, 30 Metres of Frontage</b> | 114  | 103  | -12                | -10%              |



## Table 3 Example of a Single Unit Dwelling

Average Urban Home - \$144,400

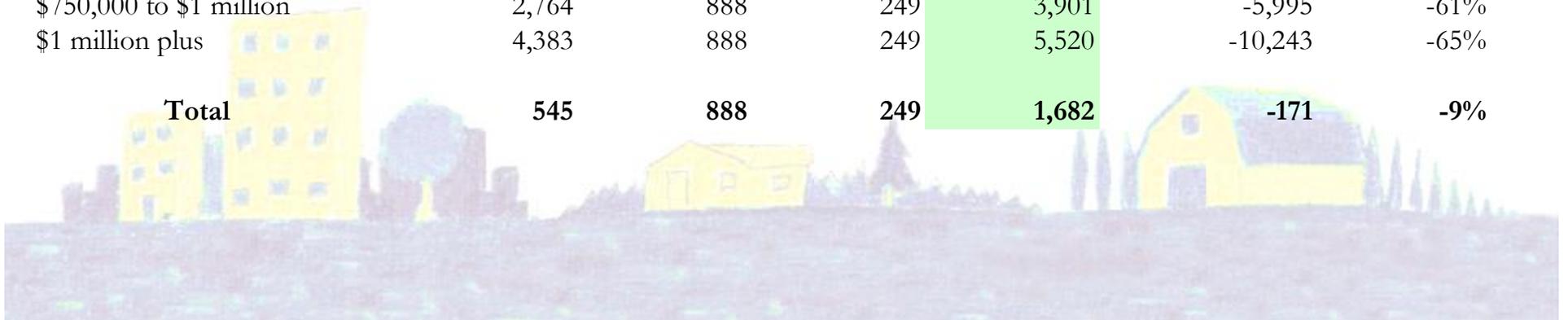
|                                      | Status Quo<br>(General Tax Rate) | Package 4    | Package 3    |
|--------------------------------------|----------------------------------|--------------|--------------|
| <b>Provincial Services</b>           | 450                              | 545          | 545          |
| <b>Municipal Services</b>            |                                  |              |              |
| Local Roads, Sidewalks, and Services | 177                              | 249          | 132          |
| Arterial Roads                       | 76                               | 65           | 57           |
| Transit                              | 102                              | 140          | 102          |
| Other (Police, Fire, Library)        | 1,047                            | 683          | 899          |
| <b>Sub-Total</b>                     | <b>1,402</b>                     | <b>1,137</b> | <b>1,190</b> |
| <b>TOTAL</b>                         | <b>1,852</b>                     | <b>1,682</b> | <b>1,735</b> |



**Table 4 - Current System versus Sample Package 4  
by Distribution of Assessment Values**

**Sample Package 4 Assessment (Provincial Services),  
Dwelling Unit/Frontage (Municipal Service)**

| <b>By Distribution</b>   | <b>Provincial Services</b> | <b>Dwelling Charge</b> | <b>Local Road Charge</b> | <b>Total</b> | <b>Variance</b> | <b>Percent Change</b> |
|--------------------------|----------------------------|------------------------|--------------------------|--------------|-----------------|-----------------------|
| Under \$1,000            | 34                         | 888                    | 249                      | 1,171        | 1,170           | 91156%                |
| \$1,000 to \$25,000      | 93                         | 888                    | 249                      | 1,230        | 1,014           | 470%                  |
| \$25,000 to \$50,000     | 153                        | 888                    | 249                      | 1,290        | 857             | 198%                  |
| \$50,000 to \$75,000     | 245                        | 888                    | 249                      | 1,382        | 615             | 80%                   |
| \$75,000 to \$100,000    | 319                        | 888                    | 249                      | 1,456        | 422             | 41%                   |
| \$100,000 to \$150,000   | 436                        | 888                    | 249                      | 1,573        | 115             | 8%                    |
| \$150,000 to \$200,000   | 596                        | 888                    | 249                      | 1,733        | -305            | -15%                  |
| \$200,000 to \$300,000   | 798                        | 888                    | 249                      | 1,935        | -836            | -30%                  |
| \$300,000 to \$400,000   | 1,130                      | 888                    | 249                      | 2,267        | -1,707          | -43%                  |
| \$400,000 to \$500,000   | 1,453                      | 888                    | 249                      | 2,590        | -2,555          | -50%                  |
| \$500,000 to \$750,000   | 1,901                      | 888                    | 249                      | 3,038        | -3,730          | -55%                  |
| \$750,000 to \$1 million | 2,764                      | 888                    | 249                      | 3,901        | -5,995          | -61%                  |
| \$1 million plus         | 4,383                      | 888                    | 249                      | 5,520        | -10,243         | -65%                  |
| <b>Total</b>             | <b>545</b>                 | <b>888</b>             | <b>249</b>               | <b>1,682</b> | <b>-171</b>     | <b>-9%</b>            |

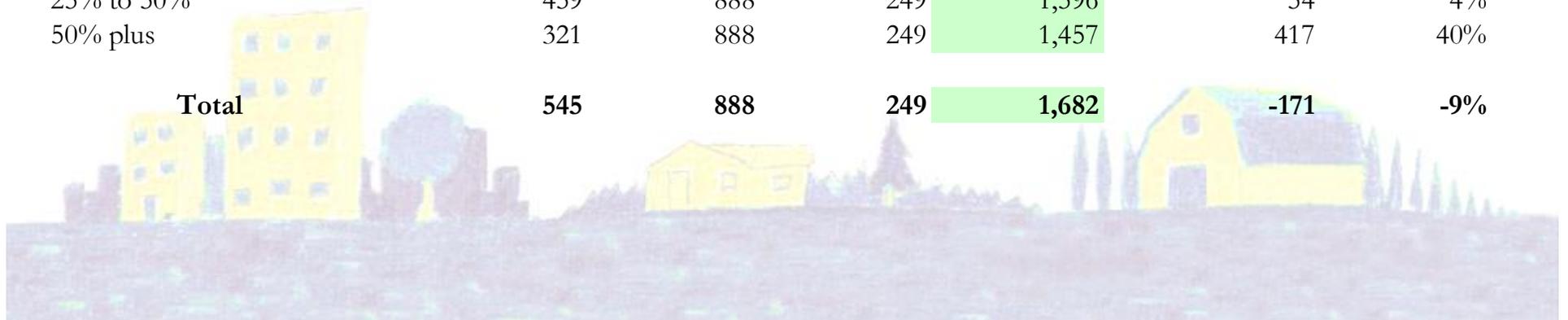




**Table 4 - Current System versus Sample  
Package 4  
by Distribution of Assessment Growth**

**By Increases/Decreases**

|              |            |            |            |              |             |            |
|--------------|------------|------------|------------|--------------|-------------|------------|
| Under - 50%  | 6,012      | 888        | 249        | 7,149        | -14,519     | -67%       |
| -50% to -25% | 690        | 888        | 249        | 1,827        | -552        | -23%       |
| -25% to -10% | 670        | 888        | 249        | 1,807        | -500        | -22%       |
| -10% to -5%  | 548        | 888        | 249        | 1,685        | -179        | -10%       |
| -5% to -2%   | 614        | 888        | 249        | 1,751        | -352        | -17%       |
| -2% to 0%    | 545        | 888        | 249        | 1,682        | -172        | -9%        |
| 0% to 2%     | 326        | 888        | 249        | 1,462        | 404         | 38%        |
| 2% to 5%     | 546        | 888        | 249        | 1,683        | -174        | -9%        |
| 5% to 10%    | 574        | 888        | 249        | 1,711        | -248        | -13%       |
| 10% to 25%   | 538        | 888        | 249        | 1,675        | -152        | -8%        |
| 25% to 50%   | 459        | 888        | 249        | 1,596        | 54          | 4%         |
| 50% plus     | 321        | 888        | 249        | 1,457        | 417         | 40%        |
| <b>Total</b> | <b>545</b> | <b>888</b> | <b>249</b> | <b>1,682</b> | <b>-171</b> | <b>-9%</b> |





**Table 5 - Current System versus Sample Package 3**  
**by Distribution of Assessment Values**

**Sample Package 3 (Dwelling Unit Charge for 25% of Municipal Services)**

| <b>By Distribution</b>   | <b>Provincial Services</b> | <b>Assessment Charge</b> | <b>Dwelling Charge</b> | <b>Total</b> | <b>Variance</b> | <b>Percent Change</b> |
|--------------------------|----------------------------|--------------------------|------------------------|--------------|-----------------|-----------------------|
| Under \$1,000            | 34                         | 1                        | 218                    | 252          | 251             | 19570%                |
| \$1,000 to \$25,000      | 93                         | 113                      | 218                    | 424          | 208             | 97%                   |
| \$25,000 to \$50,000     | 153                        | 228                      | 218                    | 599          | 165             | 38%                   |
| \$50,000 to \$75,000     | 245                        | 403                      | 218                    | 866          | 99              | 13%                   |
| \$75,000 to \$100,000    | 319                        | 543                      | 218                    | 1,079        | 46              | 4%                    |
| \$100,000 to \$150,000   | 436                        | 765                      | 218                    | 1,419        | -38             | -3%                   |
| \$150,000 to \$200,000   | 596                        | 1,070                    | 218                    | 1,883        | -154            | -8%                   |
| \$200,000 to \$300,000   | 798                        | 1,455                    | 218                    | 2,471        | -300            | -11%                  |
| \$300,000 to \$400,000   | 1,130                      | 2,087                    | 218                    | 3,435        | -539            | -14%                  |
| \$400,000 to \$500,000   | 1,453                      | 2,702                    | 218                    | 4,373        | -772            | -15%                  |
| \$500,000 to \$750,000   | 1,901                      | 3,555                    | 218                    | 5,673        | -1,095          | -16%                  |
| \$750,000 to \$1 million | 2,764                      | 5,198                    | 218                    | 8,180        | -1,717          | -17%                  |
| \$1 million plus         | 4,383                      | 8,279                    | 218                    | 12,880       | -2,884          | -18%                  |
| <b>Total</b>             | <b>545</b>                 | <b>973</b>               | <b>218</b>             | <b>1,735</b> | <b>-117</b>     | <b>-6%</b>            |





**Table 5 - Current System versus Sample Package 3**

**by Distribution of Assessment Growth**

**By Increases/Decreases**

|              |            |            |            |              |             |            |
|--------------|------------|------------|------------|--------------|-------------|------------|
| Under - 50%  | 6,012      | 11,380     | 218        | 17,610       | -4,058      | -19%       |
| -50% to -25% | 690        | 1,250      | 218        | 2,157        | -222        | -9%        |
| -25% to -10% | 670        | 1,212      | 218        | 2,099        | -207        | -9%        |
| -10% to -5%  | 548        | 979        | 218        | 1,744        | -119        | -6%        |
| -5% to -2%   | 614        | 1,104      | 218        | 1,935        | -167        | -8%        |
| -2% to 0%    | 545        | 974        | 218        | 1,737        | -117        | -6%        |
| 0% to 2%     | 326        | 556        | 218        | 1,099        | 41          | 4%         |
| 2% to 5%     | 546        | 975        | 218        | 1,739        | -118        | -6%        |
| 5% to 10%    | 574        | 1,029      | 218        | 1,820        | -138        | -7%        |
| 10% to 25%   | 538        | 959        | 218        | 1,715        | -112        | -6%        |
| 25% to 50%   | 459        | 810        | 218        | 1,487        | -55         | -4%        |
| 50% plus     | 321        | 546        | 218        | 1,084        | 45          | 4%         |
| <b>Total</b> | <b>545</b> | <b>973</b> | <b>218</b> | <b>1,735</b> | <b>-117</b> | <b>-6%</b> |





**Table 6 - Current System versus Sample Package 4  
Possible Changes in Low Income Rebate**

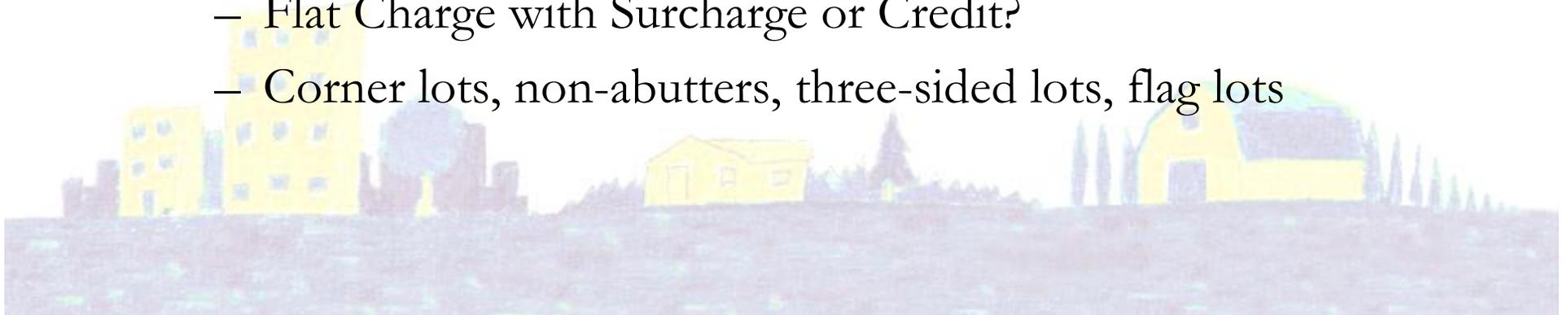
| Gross Household Income | Average Income  | Current System (Full Assessment System) |              | Sample Package 4 Assessment (Provincial Services), Dwelling Unit/Frontage (Municipal Service) |              |                |              |
|------------------------|-----------------|---|--------------|---|--------------|----------------|--------------|
|                        |                 | Current Tax Bill after Rebates          | Taxes/Income | Taxes (Assuming \$80,500 Home)  | New Rebate   | Final Tax Bill | Taxes/Income |
| up to \$2,000          | \$584           | \$1,026                                 | 175.7%       | 1,456   | 1,438        | \$18           | 3.0%         |
| \$2,001 to \$4,000     | 3,054           | 521                                     | 17.1%        | 1,456   | 1,364        | 92             | 3.0%         |
| \$4,001 to \$6,000     | 5,250           | 474                                     | 9.0%         | 1,456   | 1,298        | 158            | 3.0%         |
| \$6,001 to \$8,000     | 6,977           | 593                                     | 8.5%         | 1,456   | 1,246        | 209            | 3.0%         |
| \$8,001 to \$10,000    | 9,058           | 616                                     | 6.8%         | 1,456   | 1,184        | 272            | 3.0%         |
| \$10,001 to \$12,000   | 11,307          | 566                                     | 5.0%         | 1,456   | 1,116        | 339            | 3.0%         |
| \$12,001 to \$14,000   | 13,119          | 571                                     | 4.4%         | 1,456   | 1,062        | 394            | 3.0%         |
| \$14,001 to \$16,000   | 14,915          | 694                                     | 4.7%         | 1,456   | 1,008        | 447            | 3.0%         |
| \$16,001 to \$18,000   | 16,973          | 703                                     | 4.1%         | 1,456   | 946          | 509            | 3.0%         |
| \$18,001 to \$20,000   | 18,911          | 879                                     | 4.6%         | 1,456   | 888          | 567            | 3.0%         |
| \$20,001 to \$22,000   | 21,064          | 971                                     | 4.6%         | 1,456   | 824          | 632            | 3.0%         |
| \$22,001 to \$24,000   | 22,903          | 1,001                                   | 4.4%         | 1,456   | 768          | 687            | 3.0%         |
| \$24,001 to \$26,000   | 24,936          | 1,141                                   | 4.6%         | 1,456   | 707          | 748            | 3.0%         |
| \$26,001 to \$28,000   | 26,510          | 1,216                                   | 4.6%         | 1,456   | 660          | 795            | 3.0%         |
| \$28,001 to \$30,000   | 29,000          | na                                      | na           | 1,456   | 586          | 870            | 3.0%         |
| \$30,001 to \$32,000   | 31,000          | na                                      | na           | 1,456   | 526          | 930            | 3.0%         |
| \$32,001 to \$34,000   | 33,000          | na                                      | na           | 1,456   | 466          | 990            | 3.0%         |
| \$34,001 to \$36,000   | 35,000          | na                                      | na           | 1,456   | 406          | 1,050          | 3.0%         |
| \$36,001 to \$37,900   | 36,950          | na                                      | na           | 1,456   | 347          | 1,109          | 3.0%         |
| <b>Overall</b>         | <b>\$17,107</b> | <b>\$802</b>                            | <b>4.7%</b>  | <b>\$1,456</b>  | <b>\$942</b> | <b>\$513</b>   | <b>3.0%</b>  |

Note: Assumes taxpayers pay 3% of income as HRM taxes including full cost of provincial services.



# Costing Issues – What Can We Administer?

- Computer, Software and Data Issues?
- How specific do we make charges? Eg Frontage ?
  - One Linear Charge or Many?
    - Pavement vs chip-sealed vs gravel
    - Concrete vs asphalt curb
    - Lights vs no lights
    - Sidewalks ?
  - Flat Charge with Surcharge or Credit?
  - Corner lots, non-abutters, three-sided lots, flag lots





# Key Points on Sample Packages

- **Principles** are the same – may not be a source of debate.
- **Foundations** – Two key directions:
  - Ability to Pay vs Services (Cost/Availability)
- **Tools** – Highly contentious
  - Some tools require more debate/buy-in.
  - Many will want to debate tools without agreeing on Foundations or goals.
    - Tools could be used to accomplish opposing goals.
  - At this stage individuals want to know the “impact” on their homes.
- **Evaluation Criteria** – Required to assess the packages.





# Approach A- Consult at all levels

- **Pros**

- The public feels engaged and involved from the onset of the project.

- **Cons**

- Principles may not be contentious.
- Some individuals will find this frustrating and difficult to follow.
- Time consuming.





# Approach B- Consult on Foundation, Goals and Tools

- **Pros**

- The public feels engaged and has the ability to influence key decisions that will guide HRM's taxation system.
- Process allows for buy-in of Foundation.
- Easier to focus on tools later.

- **Cons**

- Some individuals will find this frustrating and difficult to follow.
- People will want to debate tax options.
- Time consuming at start.





# Approach C- Consult only on Tax Tools

- **Pros**

- Can be completed in a timely manner.
- Able to consult the public on tangible options.

- **Cons**

- Public may disagree with Foundations chosen.
- Involving the public late in the process.
- Public may feel the decision has already been made, and the consultation is just a formality.
- Public doesn't feel ownership over the decisions made.
- Risk the process may derail, fail or have to backtrack..
- Individuals may focus on specific impacts on their properties, not the principles or foundations.





# Approach D- Consult at End

- **Pros**

- Could be completed in a timely manner.

- **Cons**

- Public would have little or no formal input into the new system.
- Perceived as a formality.
- Public doesn't feel ownership towards the decisions made.
- Risk the process may derail, fail or have to backtrack..
- Individuals may focus on specific impacts on their properties, not the principles or foundations.





# Options for Consultations

- **Option 1** – Public Determines Foundation
  - Spring Consultations – Determine Foundation.
  - Fall Consultations – Present Full Package(s) with option(s) for Tools.
- **Option 2** – Public Confirms Foundation
  - Present range of Packages in Fall, based on several Foundations and option(s) for Tools.
- **Option 3** – Committee Determines Foundation
  - Present Package(s) in Fall, based on only one Foundation and option(s) for Tools.