Taxes Supporting Growth with the Regional Plan

What is HRM's Regional Plan?

- HRM's Regional Plan is a long-range, region-wide plan that outlines where, when and how future growth and development should take place in HRM. The Plan was adopted in June 2006.
    - The Regional Plan (Chapter 5) discusses taxation and its relationship to the Plan.
    - ***HRM by Design***, a planning project currently underway, is expected to make recommendations on the level of density HRM should seek within its growth centres.

How does the Tax Reform Project support the Regional Plan?

- HRM's Tax Reform Project will look at both commercial and residential taxes in HRM. Building on the HRM's Regional Plan, we need to know:
    - Does the current tax system support good land use decisions? Or does the current tax system encourage growth or development activity not in line with the Regional Plan?
    - To what extend should the Municipality use its tax system – as a "stick" or "carrot" – for desired, sustainable growth?

What does the Regional Plan say about Taxes?

- As part of a financial component of the Regional Plan, the Tax Reform project will look to:
    - ensuring a competitive taxation environment;
    - encourage efficient forms of development;
    - encourage demographic and economic growth/development.

What we need to Figure Out?

- What incentives/disincentives does HRM's current tax system provide to encourage/discourage the type of growth that we want to see in our municipality (in the future)?
- How would one describe/measure: i) "efficient forms of development" and ii) desirable (economic) growth?
- How should the new tax system support desired growth patterns and growth areas?
- How should the Regional Planning land-use boundaries be reflected by a new tax system?
    - Could transit taxes follow the Plan's (present or future) transit maps?

For More Information

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What is the Current Tax System in HRM

Property Tax was first used in the 1880's. At that time the value of one's home was seen as being a proxy for their wealth or ability to pay. Today, all property values (known as assessments) are estimated by the Provincial Government. The property tax rates are set by the municipality.

What are the General Tax Rates?

Prior to amalgamation in 1996 each municipal unit each had a "general" tax rate (levied on each property) and a host of area rates (levied on properties within specific areas). In total there were about 250 combinations of different tax rates. Today there are three general tax rates. Most major services (eg police, fire, roads) are included in each rate. However,

- **Urban** - Includes transit, sidewalks, recreation and crosswalk guards;
- **Suburban** - Includes recreation and crosswalk guards. Transit and sidewalks are area rated if the service is available;
- **Rural** - Transit, sidewalks, recreation and crosswalk guards are area rated if they are available.

What other Taxes and Fees Exist?

HRM is more dependent on property tax than any other major city in Canada. In addition to property taxes, however, there are a number of other taxes and fees that exist. These include

- Deed Transfer Tax, a 1.5% tax charged on the sale price of all properties;
- Pollution Control Charge, an amount charged on sewers users for all sewer costs;
- Water charges, levied by the Halifax Regional Water Commission on central water users for all piped water costs;
- Other property taxes levied on forest, farm and recreational property;
- Local Improvement Charges are a tax levied to pay for the first-time installation of sewer and water installations, sidewalks or paving of gravel roads;
- Hydrant charges - levied on properties within 1,200 feet of a hydrant;
- Other fees including transit fares, building permits, recreational fees, etc..

What Issues Exist with Property Taxes?

Many taxpayers feel that home values (and hence property taxes) don't fairly represent either the services they receive or their ability to pay for taxes.

- Some feel they should only pay for sidewalks, transit or recreation centres if they use or have the service. Defining who benefits is often difficult;
- Lower income communities can find it difficult to afford area-rated services such as sidewalks, transit or recreation;
- In many cases property taxes can consume a high percentage of income (Rebates or deferrals of property taxes are available for those under $28,000).

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HRM, the Province, and Property Taxes

What does the provincial government have to do with municipal taxes?

- Municipalities in Nova Scotia must adhere to the Municipal Government Act (MGA), which is a provincial law. The MGA and other laws stipulate how municipal governments collect taxes
  - The Province assigns assessed values to all properties in Nova Scotia
  - The Halifax Regional Municipality, and other local governments then set their tax rates based on these assessed values
  - Lastly, the provincial government also receives a portion of the property taxes collected by HRM

How much of my property taxes go to the provincial government, and what does it pay for?

- A typical property tax bill in 2006 was $1,789.00
- Over 25% of general tax revenue in HRM goes to the Province to fund provincial services such as education, correctional services, assessment services and public housing
- In 2007-2008, these funds will be recovered by HRM through a special area rate to increase the transparency around provincial property taxation

Doesn't the province also provide money to HRM?

- HRM receives 1.5% of total revenue from the provincial and federal governments, less than most major Canadian cities

How does this relate to Tax Reform?

- While Tax Reform does not directly address the fiscal imbalance between the provincial and municipal governments, the Union of Nova Scotia Municipalities have completed a report that addresses these concerns titled: " A Question of Balance: An Assessment of the State of Local Government in Nova Scotia"

What role does the province play in Tax Reform?

- Recommendations from the Tax Reform project may require Provincial legislative changes
- HRM is talking with the provincial government about strengthening the municipal tax system, and ensuring that municipalities have the proper administrative tools

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Costs of Municipal Services to Homes and Businesses

How Much do my Municipal Services Cost?

- When you go to a store, you typically pay each time you buy something. For public services, like roads or garbage pick-up you don't pay each time the service is used.
    - Partially for that reason, most people don't know how much public services actually cost
- Even public services with user fees, like swimming passes or bus tickets, don't usually charge the full price when you use it.
- HRM has done several studies that look at the cost of services, including:
    - ***Settlement Pattern and Form, with Service Cost Analysis*** (2005) which looked at the effect of density on the cost of providing services to HRM households
        - It indicates that some homes may cost three times as much to service as others
        - That study, however, did not look at the "other side of the equation" – how much tax revenue was received from various dwelling types
    - ***The Municipal Expenditure and Revenue Allocation Model* or *MERA*** (2007) looks at the demands of commercial properties and residential properties (and the users of these properties) on municipal services, as well as the direct and indirect benefits received
        - MERA suggests that commercial properties pay more for the services they receive, and residential properties pay less for the services they receive
        - Other information suggests that over 80% of homes (both urban and rural) pay less than the cost of services
        - What does this say about the current tax system? How might this impact the competitiveness in HRM?
    - ***How your Municipal Tax Dollars are Spent*** (2006) which highlighted how much of your tax dollars go to different HRM services, as well as some provincial services
        - For example, did you know that the police service costs a typical household about $21/month, and library services are less than $5/month?

Should People Pay what it Costs?

- Often times the costs of these services are not well known – to residents and businesses.
- Would a tax system based on people paying for the costs of services (to them), lead to:
    - A positive environment for residential and commercial growth?
    - More efficient delivery of municipal services?
    - Could tax dollars be managed better if everyone paid what it cost?
- Sometimes, a fee for service system is simply impractical. For example, how could the police send a bill to a person arrested for a crime… could they invoice the victim?
    - Many municipal services are "common goods" that benefit the community as a whole
    - The tax system plays a role in allowing the costs of these services to be appropriately shared by community members
- Not everyone can afford to pay fees or taxes. How should a household's (or business') ability to pay be considered in a new tax system?

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What is HRM's Financial Health like?

HRM is the physically largest municipality in Canada and one of the few to have both urban and rural areas. Things have changed since amalgamation in 1996:

- The number of homes has risen by 20% and inflation has grown by nearly 30%.
- A new solid waste system with green-bin composting and recycling has been created to replace the old Sackville Landfill.
- As part of a "service exchange" the Province took over social services but gave local roads to HRM. HRM provides service to some provincial roads in the urban core in exchange for the Province maintaining local roads in rural areas.

What are Taxes and other Funds used for?

Today HRM has an operating budget of $645m and a capital budget of over $200m. Tax raised are used for a wide range of services, although not everyone pays for every service:

- municipal services include police, fire, transportation services (roads, sidewalks, streetlights), transit, solid waste, recreation services (recreation facilities, programs, playgrounds), sewer and water (through user fees) and libraries
- HRM is also required to pay for a variety of provincial services including education, corrections, housing and the cost of the assessment system
- All of this is detailed in HRM's audited Financial Statements

So What's the Debt Like?

Since the introduction of its Multi-Year Financial Strategy, one of HRM's strengths has been its strong financial health:

- Debt has fallen steadily since 1996 - 1997 and now sits at $265m
- Debt per Dwelling Unit is less than prior to amalgamation
- Reserves are still weak, but have shown steady growth
- HRM's rating has been increased from 'A Stable' to 'A Positive'

How do we Compare to Other Municipalities?

Comparing expenditure levels can be tricky. Service level and quality differs. HRM has undertaken some comparative benchmarks by dwelling unit. For example:

- HRM's spending is in the bottom third of Canadian municipalities
- Expenditures per Dwelling Unit (after inflation) have risen 7.5% since 1996

So How Does All this Relate to Tax Reform?

Tax reform is about how we share in the costs of the municipality, not about which services we wish to provide and what they cost. Those types of decisions are made through the annual budget debate.

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- For HRM budget information see http://www.halifax.ca/budget/index.html

How Much Tax Does Everyone in HRM Pay

The HRM tax rate is applied on the assessed value of a home. Assessed values in turn vary dramatically with home size, location and a host of other market factors. So even though many homes have similar tax rates, the actual tax bill can differ significantly between properties. Currently, HRM collects $260m in Residential and $180m in commercial property taxes.

How Much is the Average or Typical Tax Bill?

Everyone has to pay property tax - vacant land, trailers, apartments, farms, cabins and the single family home. Renters pay tax indirectly through their rent.

- An average single family home will pay about $1,800 as part of the general tax rate plus other taxes such as area rates.
  - Tax bills can range from a few hundred dollars to over $35,000.
  - About 20% pay under $1,000, 50% between $1,000 and $2,000 and 30% over $2,000.
- Apartments and condos receive almost identical levels of municipal services. It is more cost effective for HRM to provide services to them than to other homes.
  - As part of their rent, an apartment pays about $600 per year in tax
  - Condos pay an average $1,600, almost as much as a single family home.
- Across HRM tax bills can also vary dramatically. For example,
  - the highest and lowest residential tax bills are on the Peninsula of Halifax.
  - Homes on waterfront pay about 25% more than homes elsewhere.

What About Commercial and Other Taxpayers?

Commercial tax bills tend to be far higher than residential bills.

- Commercial tax rates are on average 3.5 times as high as residential tax rates.
- Commercial tax bills range as high as several million dollars.
- While commercial taxpayers pay about 40% more than the cost of services, over 80% of homes (both urban and rural) pay less than the cost of services.
- Many other taxpayers (universities, schools, hospitals and churches) pay little or almost no tax but still use municipal services.

How Do Taxes in HRM Compare to Elsewhere in Canada?

Comparing taxes across Canada means looking at the average or typical tax bill (not simply at the tax rate). Keeping in mind that services often differ.

- For a single family home taxes are in the bottom third for Canadian cities.
- Residential Deed Transfer Taxes are considered high compared to other cities.
- Commercial taxes are more difficult to benchmark.

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Perspectives on Commercial Property Tax in HRM

HRM's Tax Reform Project will look at both commercial and residential taxes in HRM. Building on the Chamber's Economic Strategy we need to know

- How do we properly define a competitive level of municipal tax?
- How does the level of municipal services or tax affect competitiveness?
- Are there different competitiveness issues for different businesses?

What are Commercial Taxes Based Upon?

- Municipal taxes are currently based on assessed value (estimated market value) of properties, as estimated by the provincial assessment services. The tax rate is set by HRM.
  - For leased properties, rents collected by owners are evaluated ("income" method)
  - For owner-occupied properties, assessment is based on cost to purchase ("cost" method)
- Tenants may be assessed a Business Occupancy Tax (BOT), which is currently being phased out
- HRM fees include a 1.5% Deed Transfer Tax on the purchase of properties.

So How High or Low are Commercial Taxes in HRM?

- There are about 11,400 businesses registered and 5,250 private commercial properties in HRM.
- The average commercial property, employing 25 people, pays about $35,000 annually in municipal tax. Taxes vary significantly by business, ranging from less than $100 to more than $1,000,000.
- In HRM, the commercial tax rate is nearly three times higher than the residential tax rate. This "commercial multiplier" averages about **3.5**, if you include the Business Occupancy Tax (BOT).
  - Across Canada, the commercial tax rates are often higher than the residential rate. It can range from **2.3** in Regina to **5.4** in London (industrial properties).
  - It is difficult to benchmark HRM's commercial taxes to other Canadian cities. Some studies (Chamber of Commerce, KPMG) have found them high while other information suggests they may be comparable to most cities.
  - In HRM, commercial properties contribute 41% of all property tax revenues, down from 45% in 2002-03.

What's the Link between Commercial Taxes and Services?

- Commercial properties are provided many of the same services provided to residential services including transportation (roads and transit), police, and fire. Solid waste is provided only to small residential properties (6 units or less) and rural businesses.
- Commercial and residential properties use and benefit from municipal services in different ways
  - Some services may be of greater benefit to residential properties, e.g. playgrounds
  - Some services may be used more by commercial properties, e.g. arterial roads
- HRM has analysed the cost of providing municipal services to commercial and other properties
  - Preliminary results show that commercial properties contribute about 38% of all municipal revenues but directly use only 26% of municipal services. These results are an average and would vary from firm to firm.

What does this mean for Competitiveness in HRM?

- What does commercial tax mean for HRM's business climate or competitiveness? Does it have an undesired economic effect on HRM residents?

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Figuring out Assessment

What is Assessment?

In Nova Scotia, the assessment service assigns a value to every property based on the expected selling or "market" value. This is done by:

- maintaining a data base that keeps a record of the characteristics of every property
- analyse the sales of properties in different areas and looking for similar characteristics at a specific date and time.
- In Nova Scotia a re-assessment is done every year.
- Under Provincial law HRM can not change the value of your assessment. Individuals, however, can appeal their assessment.

How do property assessments relate to my municipal tax bill?

- Each year HRM is provided with the value of every property in the municipality. Municipal expenditures are divided into that total assessment to determine the new tax rates for that year.
  - Every home receives a tax bill based on that year's property value and tax rate.
- HRM has lowered the tax rate in six of the last eight years. Not everyone's property value changes by the same amount, so not everyone benefits equally from any rate decline.
- HRM provides tax relief for low income families through tax rebates and deferrals.

What is the "Assessment Cap"?

- The Provincial Government's Cap Assessment Program (CAP) is designed to protect property owners from dramatic increases in market value. It "caps" assessment increases for eligible properties.
  - For example, in 2007, the cap rate was set at 10%, meaning an eligible home could rise in value no more than 10%.
  - Starting in 2008, the cap rate will be set at the Consumer Price Index (CPI).
- The Union of Nova Scotia Municipalities (www.unsm.ca) has conducted an analysis of the cap program. It has concluded that:
  - it provides relief to those "experiencing rapid increases in property taxes"
  - It will "lead municipalities to set higher property tax rates to maintain tax revenue" with rates rising to "compensate for flattening assessment values".
  - "Uncapped properties will pay more tax and shoulder additional burden."

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- For the UNSM's "Cap Program Analysis Report" see www.unsm.ca.. For the Nova Scotia Government's "Legislated Review" of the Cap Program see http://www.gov.ns.ca/snsmr/muns/cap.asp.

- For more information on property assessments see http://gov.ns.ca/snsmr/asmt/ps/value/.

Municipal Taxes in Canada and around the World

Are properties assessed the same as they are in Nova Scotia elsewhere in Canada?

- Market value assessment is the main assessment method used by all provinces
  - In Nova Scotia, assessments are conducted annually, while in other areas they are conducted every two to four years
- While the assessment method is the same, many municipalities have different categories for tax rates - for example in Nova Scotia there are differing tax rates for urban, suburban and rural properties. Cities such as Ottawa have up to 22 tax classes for setting tax rates

Do other municipalities in Canada have other taxes besides property taxes?

- A review of municipalities has shown that property taxes are the main source of revenue for local governments across Canada
- While the Province of Manitoba transfers 2.2% of their personal income tax revenue and 1% of their corporate income tax revenue their municipalities, currently in Canada, no local government is permitted to levy an income tax
- A business occupancy tax is a common revenue source for municipalities across Canada and is levied in St. John's, Winnipeg, Edmonton, and Calgary. It is currently being phased out in Nova Scotia, and was eliminated in Ontario in 1997
- A deed transfer tax is another common source of revenue for municipalities
- The City of St. John's has the ability to levy a municipal fuel tax. Vancouver levies a fuel tax for transit and road services within the Greater Vancouver Regional District. Winnipeg, Edmonton and Calgary receive transfers from their province for fuel sold.
- Amusement and entertainment taxes are available for use to municipalities in Newfoundland, Quebec, Manitoba and Saskatchewan
- Dwelling unit charges are used in Cape Breton Regional Municipality as a revenue source, and a similar flat property tax is used in some municipalities in Saskatchewan

How do local governments levy taxes in other Countries?

- A review of international municipalities shows that market value is used commonly throughout the U.S. and Europe for property taxes. Some local governments in the U.S. use acquisition value for assessing properties which reflects the market value of the property when it was acquired, and limits the growth of the assessment from that point
- Due to legislative limits on the growth of assessment, many US municipalities have been moving toward taxes such as income or sales
- European countries such as Finland, Sweden and Switzerland rely more heavily on income tax for funding local government services than property taxation
- While there are varying ways of assessing properties in Australia, local governments have many of the same revenue sources as local governments in Canada; they rely heavily on property taxes, user fees, and government grants

Could any of these options work in HRM?

- Access to diverse taxation tools can be beneficial to local governments. Over reliance on any tool can cause just as many problems as being over reliant on property taxation
- Gaining access to additional revenue tools could mean changes to the MGA by the Government of Nova Scotia.

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