
Rethinking the Property Tax in Ontario – Where Do We Go From Here?

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RETHINKING THE PROPERTY TAX IN ONTARIO

- Is the property tax a good local tax?
- How can the present property tax be improved?
- Do we need to re-think local government finance?

IS THE PROPERTY TAX A GOOD LOCAL TAX?

- Yields substantial amount of revenue
- Tax base is immobile
- Visible tax
- Connection between local services and property values
- Inelastic tax base
- Tax base must be estimated



IS THE PROPERTY TAX A GOOD LOCAL TAX?

- Argument for local taxation to finance local public services
- Where user charges are not appropriate (e.g. parks, local streets, fire, police), a residential property tax is sensible
- Ontario should keep the residential property tax in place



IS THE PROPERTY TAX A GOOD LOCAL TAX?

- Non-residential property tax not as good a tax for local governments
- Non-residential property taxes can be exported to other jurisdictions
- Exporting makes the non-residential property tax popular but reduces accountability



IS THE PROPERTY TAX A GOOD LOCAL TAX?

- “Every fiscal tub should be required to stand on its own bottom, and no fiscal unit should be allowed or encouraged to reach out and tap other people’s pocket books in order to finance expenditures whose benefits are confined to residents of the taxing area”

(Wayne Thirsk, 1982)

IS THE PROPERTY TAX A GOOD LOCAL TAX?

- “Tax policy is the product of political decision making, with economic analysis playing a minor supporting role”

(Randall Holcombe, 1998)

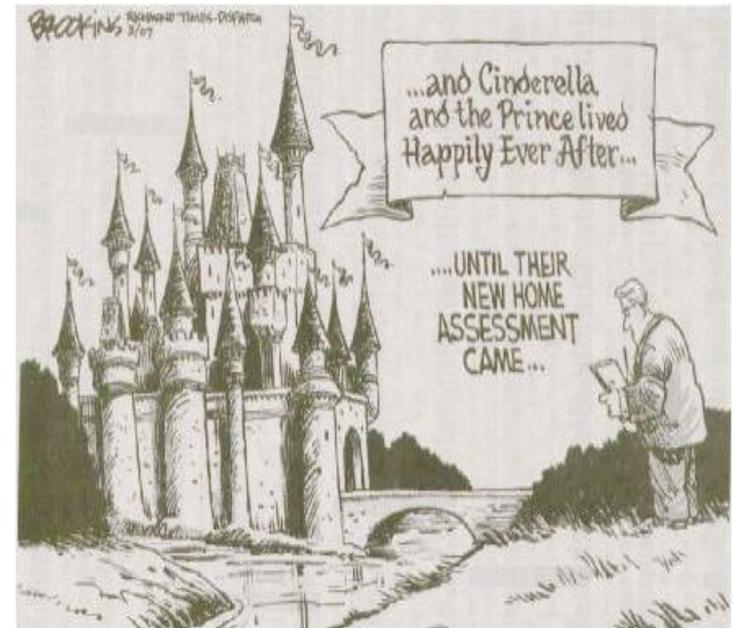


HOW CAN THE PROPERTY TAX BE IMPROVED?

- Abolish education property tax
 - Province fund education from general revenues
 - Tax room for local property taxes
- Uniform tax on all property classes
 - Reduce over-taxation of business
 - Discourage use of property tax incentives
- Reduce exemptions and rate relief
 - Political necessity?

HOW CAN THE PROPERTY TAX BE IMPROVED?

- Explain it to taxpayers:
 - Assessment is used to allocate share of local spending paid from local taxes among property owners
 - Assessment is established for all properties on same date on a comparable basis
 - Assessment increase does not automatically translate into tax increase



HOW CAN THE PROPERTY TAX BE IMPROVED?

- Don't make it worse with assessment freeze along the lines of Proposition 13 in California:
 - High and low-valued properties favoured at expense of medium-valued properties (majority of properties)
 - High-income owners and low-income owners favoured at expense of middle income owners (majority of owners)
 - Elderly homeowners favoured at expense of young
 - Properties increasing in value rapidly (e.g. waterfront, seasonal) favoured at expense of other

Figure 1: Impact of 5% Capping by Property Value

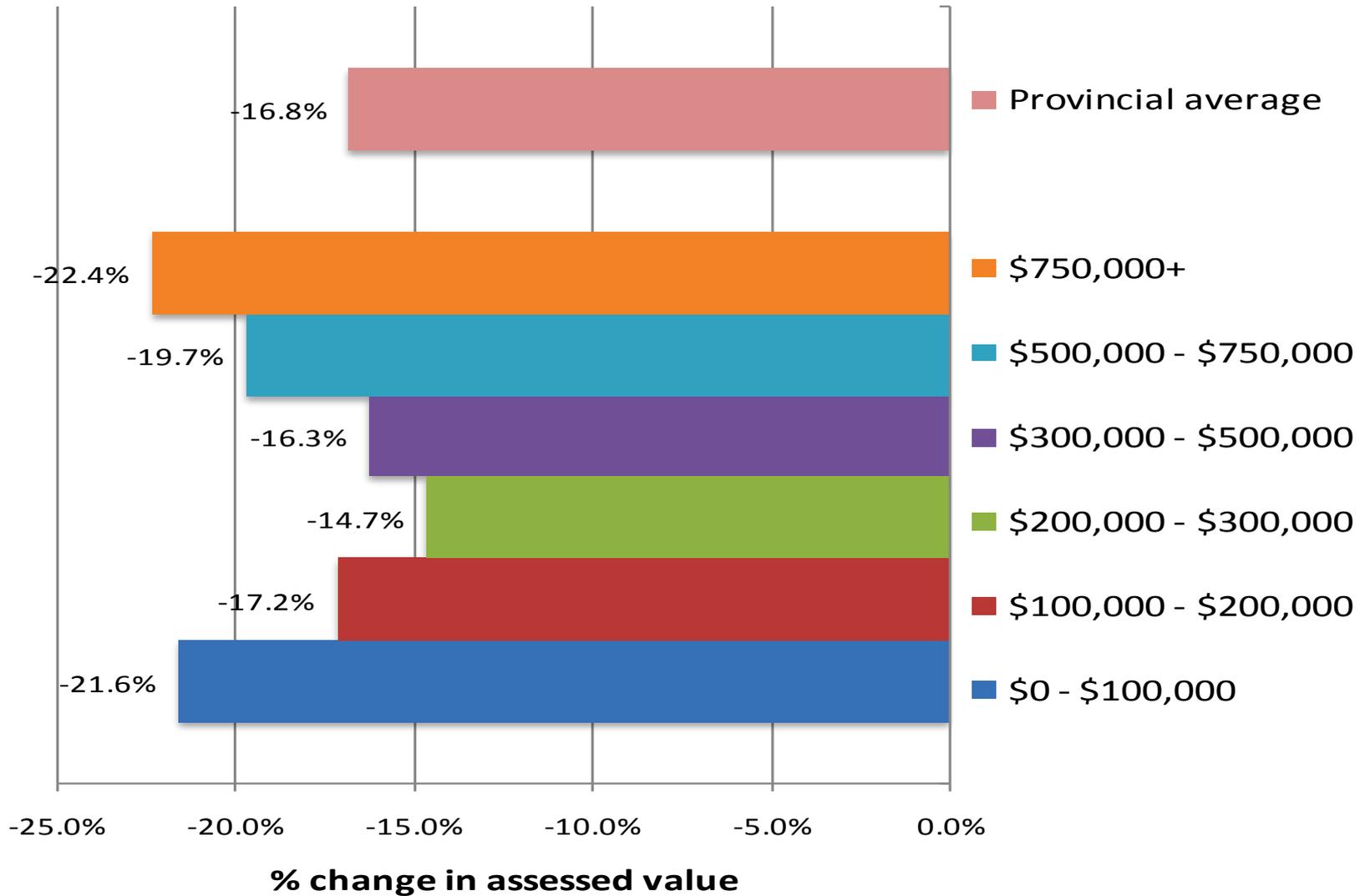


Figure 2 : Impact of 5% Capping by Owners' Age

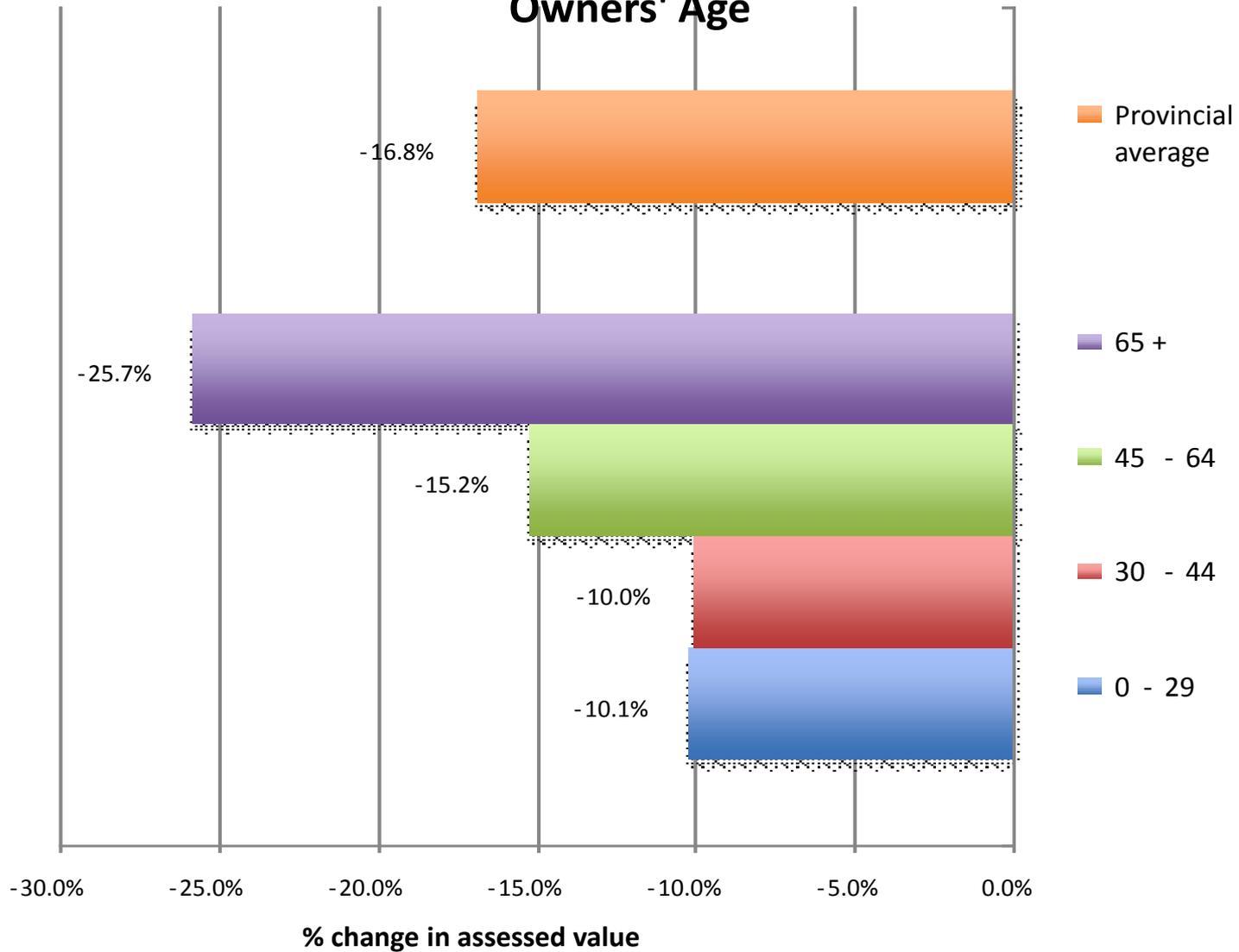
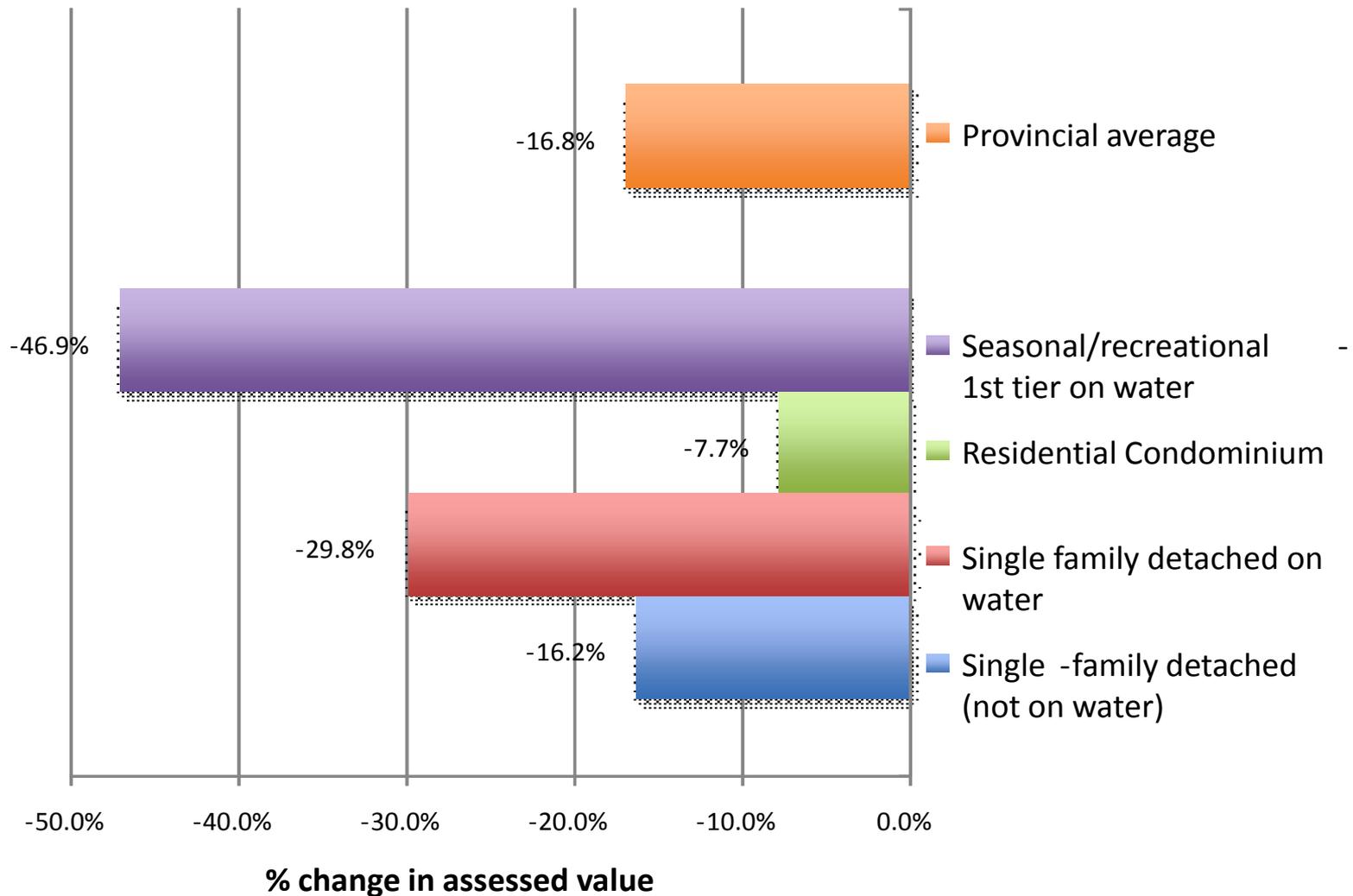


Figure 3: Impact of 5% Capping by Property Type



DO WE NEED TO RE-THINK LOCAL GOVERNMENT FINANCE?

- Less reliance on the property tax
 - business value tax (BVT) to replace non-residential property tax
 - piggyback onto income or sales taxes
- Revenue tools to match expenditure responsibilities



DIFFERENT SERVICES – DIFFERENT REVENUE TOOLS

Private

Water

Sewers

Garbage

Transit

Public

Police

Fire

Local parks

Street lights

Redistributive

Social assist.

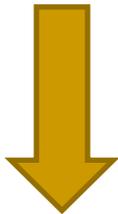
Social housing

Spillovers

Roads/transit

Culture

Social assistance



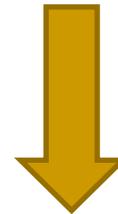
User fees



Property tax

BVT

Sales tax



Income tax



Transfers

A PORTFOLIO OF TAXES

- A mix of taxes is appropriate:
 - One tax may create distortions offset by a mix of taxes
 - Improves flexibility in adapting to local conditions and circumstances
 - Increases revenue elasticity