MUNICIPAL PROPERTY TAXATION IN NOVA SCOTIA

A report by

Harry Kitchen and Enid Slack

for the

Property Valuation Services Corporation

Union of Nova Scotia Municipalities

Association of Municipal Administrators

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TABLE OF CONTENTS

Executive Summary

The purpose of this study is to evaluate the effectiveness of the current property tax system in Nova Scotia and suggest improvements. To do so, the authors set out criteria for evaluating the property tax; reviewed elements of the property tax system in Nova Scotia; undertook an inter-provincial comparison of assessment and property tax practices across Canada; held a series of meetings with key stakeholders and the Steering Committee; collected data on property assessment and taxes; and performed an analysis of various aspects of the Nova Scotia's property tax system.

In Nova Scotia, the property tax funds a wide range of important local services such as police and fire protection, roads and public transit, solid waste collection and disposal, and recreation and culture. The property tax is a good tax for financing municipal government services but there are some problems with its implementation in Nova Scotia as it relates to assessment practices and tax policy. This study does not consider alternatives to the property tax nor does it evaluate the municipal finance system in Nova Scotia more generally.

The study identifies four assessment issues and six property tax issues. The assessment issues include:

- the choice of area-based or value-based assessment;
- exemptions and payments-in-lieu of property taxes;
- the lag between the annual assessment and the assessment base; and
- the volatility of assessed property values.

Property tax issues include:

- capping of residential assessment for tax purposes;
- commercial versus residential property tax rates;
- property tax incentives to encourage growth and development;
- provincial property taxes for funding education;

- the tax treatment of agricultural and resource properties that are no longer used for these purposes; and
- urban/rural property tax differentials.

For some of these issues, the report makes specific recommendations; for others, it does not because there is no clear direction as to what should be done or there is a need for further study.

Assessment Base

Although all provinces in Canada use market value assessment, it has sometimes been suggested that an area-based assessment system would be preferable. Under an area-based assessment system, the assessed value of a property is based on the size of land and buildings. Experience around the world suggests that market value is the best base for the property tax. Market value captures the amenities of the neighbourhood, amenities that are often created by local government policies (zoning legislation, for example). Area-based assessment results in relatively greater tax burdens on low-income households compared to high-income households because a comparable property in a high-income area pays the same tax as a comparable property in a low-income area.

Recommendation #1: The province should retain market value property assessment as the municipal tax base.

Exemptions and Payments in Lieu of Property Taxes

Exempt properties lower the assessable property tax base. Moreover, they use municipal services like other properties and should be taxed. Since taxed properties face higher property taxes than exempt properties, economic competition among businesses and between businesses and government is distorted. Differential tax treatment may affect location decisions, choices about what activities to undertake, and other economic decisions. Exemptions narrow the tax base and either increase taxes on the remaining taxpayers or reduce the level of local services. Finally, since the proportion of tax-exempt properties varies by municipality, disproportionate tax burdens may be created across communities.

For some exempt properties, municipalities receive payments in lieu of property taxes; on others, they do not. Concerns around the inadequate and uneven use of payments in lieu were raised by a number of municipal officials. For example, payments in lieu on university and college property are less than the amount that would be paid under full market value assessment. Similarly, some provincial and federal properties may not be paying what would be paid if property taxes were levied.

Recommendation #2: The province should re-examine the list of exempt properties to ensure that there is a strong public policy rationale for their continuation. At the same time, payments in lieu of taxes should be examined to ensure that the province is paying its fair share.

Assessment Lag

All properties in Nova Scotia are assessed annually but the annual taxable assessed value is the value that was determined two years earlier. A two year lag has an impact on all properties but particularly commercial properties. When the economy experiences a downturn, many business properties also experience a downturn (profits are lower for some and others lose money). Property taxes, however, do not decline in line with the firm's financial position because they are based on the firm's assessed value two years earlier.

Recommendation #3: The Property Valuation Services Corporation (PVSC) should move to a one year assessment lag in setting annual assessed property values.

Volatility

Tax volatility can arise from two sources: changes in the taxable assessed value of properties and changes in the tax rate. Significant unanticipated changes in individual assessed values reflect market pressures but may create instability and unpredictability in the property tax system. To reduce volatility, the assessment system should capture changes to property values on a timely basis. In particular, additions and renovations should be added to the assessment roll as soon as possible to avoid a surprise spike in taxes when the new assessment comes onto the roll. There may still be annual increases in assessments but they would be less of a surprise and not as large if they were put on the roll sooner.

Recommendation #4: To minimize spikes in assessed values, the Property Valuation Services Corporation (PVSC) should ensure that the assessment system captures changes to property values from additions and renovations in a timely manner.

The province should institute a system of fiscal disclosure that is used in other Canadian and American jurisdictions. Fiscal disclosure requires municipalities to put the revenue-neutral municipal tax rate on the tax bill following a reassessment. Any tax rate above that amount would be noted as a tax levy increase for that year. In other words, an assessment increase has to be met with a concomitant tax decrease or be recorded on the municipal tax bill as a tax increase.

Recommendation #5: The province should implement fiscal disclosure rules which require municipalities to put the revenue-neutral municipal tax rate on the tax bill following a reassessment and record any tax rate above that amount as a tax levy increase for that year.

Capping

Although a case can be made to mitigate tax increases on those who cannot afford them, this mitigation is best done by targeting assistance to those who need it most rather than tampering with the assessment base. This can be done through property tax credits and tax deferrals that are targeted to those taxpayers that can least afford the property tax increases. Property tax deferrals for the elderly are also a way to help seniors stay in their homes when property taxes increase. Even with these measures, it may still be necessary to phase out the CAP. This could be done by simply increasing the cap each year from the annual increase in the CPI to 5 percent to 8 percent (or some other percentage) until everyone is finally out of the CAP. Phasing out the cap should be done in conjunction with previous recommendations for a one-year assessment lag, timely assessments for additions and renovations, and fiscal disclosure,

Recommendation #6: In conjunction with the recommendations for a one-year assessment lag, timely reassessment for additions and renovations, and fiscal disclosure, the province should phase out the capping program by increasing the capping rate.

Taxation of Commercial versus Residential Properties

Commercial property tax rates are higher than residential tax rates everywhere in Nova Scotia as in the rest of Canada and around the world. This differential may be unfair based on benefits received from municipal services (commercial properties use fewer services than residential properties) and may affect business location under certain circumstances. Unfortunately, there is no single means of determining the appropriate tax rate ratio for business relative to residential properties. Moreover, there is no empirical evidence of business leaving the province solely because of property taxes. Hence, the report does not make a recommendation on the appropriate ratio of commercial to residential tax rates, but suggests that municipalities monitor the impact of commercial property taxes on their ability to attract and retain business.

Property Tax Incentives

There is no consensus on the extent to which property tax incentives are an effective strategy for achieving economic growth. Those who favour property tax incentives argue that recipient firms provide benefits to the community that exceed the costs to the municipality for business services and environmental degradation caused by the businesses. Opponents argue that tax incentives are often wasted on firms that would have located there anyway. Tax cuts that are a consequence of a tax incentive need to be financed in some way and, if they are financed by cutting public services that businesses want, the net effect on economic development could be negative. Finally, if one jurisdiction lowers its property tax rate on businesses and neighbouring jurisdictions keep their taxes the same, the expected impact on business activity in that jurisdiction is likely to be much greater than if all jurisdictions in the metropolitan area lower their business tax rates. In looking for ways to attract development, municipalities should remember that public services also influence economic development.

Provincial Property Taxes for Education

A strong case can be made for the province withdrawing from education property taxes and leaving tax room for municipalities. Nevertheless, most provinces levy a provincial property tax and the implications of a provincial withdrawal would be very significant. For this reason, the report does not make a recommendation to go that route at this time. Rather, more study is needed to determine the feasibility of such a move in the context of provincial-local responsibilities more generally.

Agricultural and Resource Properties

In lieu of property taxes on agricultural land, municipalities in 2014/15 are permitted to levy a farm acreage charge not exceeding $2.90 per acre. This value is indexed annually by the increase in the CPI. For forest property classified as resource property (less than 50,000 acres), the rate is $0.25 per acre. For forest property classified as commercial property (more than 50,000 acres), the rate is $0.40 per acre. These rates have been set at the current level for a number of years.

There are two concerns with the taxation of these properties. First, the rates on forestry properties have not changed in a number of years while commercial and residential property tax rates have increased. Second and more importantly, there is considerable concern about the growing acres of agriculture and forest land on which these relatively low rates are applied when, in practice, the land is no longer used for agriculture and forestry purposes.

Recommendation #7: The province should index the forest acreage levy annually to reflect the rate of inflation. The relatively lower rates levied on agricultural and forestry properties should only apply to lands currently used for agriculture and forestry purposes.

Urban/Rural Tax Differentials

Urban and rural tax rates often differ. In principle, differential tax rates have a number of advantages. They are fair on the basis of benefits received as long as the variation in the rates captures the variation in the different cost of servicing different properties in different locations. There is no consensus, however, on whether the rural tax rate is too high or too low.

The appropriate differential to capture these benefits is an empirical question that could not be answered in this study. For this reason, the report does not make a recommendation on the appropriateness of the urban/rural differential. This issue should be resolved by each individual municipality.

INTRODUCTION TO MUNICIPAL PROPERTY TAXATION IN NOVA SCOTIA

This study was commissioned by the Property Valuation Services Corporation (PVSC), the Union of Nova Scotia Municipalities (UNSM), and the Association of Municipal Administrators (AMA) to evaluate the effectiveness of the current property tax system in Nova Scotia and suggest improvements.

The starting point for this study is that the property tax is a good tax for local government.[1] Property cannot move so it is difficult to avoid the tax. The tax generates stable and predictable revenues in that it does not vary with the cyclical swings in economic activity as much as personal income and consumption-based tax revenues. It is a very visible tax which ensures accountability and transparency. It is fair to the extent that it finances services that provide benefits to the local community. It is reasonably easy to administer locally. Nevertheless, there are some problems with the property tax that will be identified in this report with respect to both assessment and tax policy. This study does not, however, consider alternatives to the property tax nor does it evaluate the municipal finance system in Nova Scotia more generally.

To complete this study, we reviewed the current property tax system in Nova Scotia and across Canada including assessment and tax policy, met with the Steering Committee and representatives of key stakeholder groups (listed in Appendix B) to understand the current issues, collected data on assessment and taxes, and undertook our own analysis of various aspects of the property tax system.

The outline of this report is as follows: Section A sets out the criteria for evaluating the property tax; Section B provides some background information on municipal finances in Nova Scotia; Section C provides a comparison of property tax systems across Canada; Section D summarizes the characteristics of the property tax system in Nova Scotia; and Section E raises a number of issues and concerns around the Nova Scotia property tax.

[1] See, for example, Bird and Slack (2004); Bird (2011); Bird and Bahl (2008); Kitchen and Tassonyi (2012); Kitchen (2013); and Bird, Slack, and Tassonyi (2012).

There are two appendices -- Appendix A provides additional information on inter-provincial comparisons of property assessment and property tax structures; Appendix B lists the stakeholders that were consulted for this study.

A. Criteria for Evaluating the Property Tax

In undertaking our analysis, we applied the following standard public finance principles to evaluate the Nova Scotia property tax system:

- Fairness based on benefits received: People should pay taxes according to the benefits they receive from government services (where the beneficiaries of services can be identified and where the service is not primarily redistributive in nature).
- Fairness based on ability to pay: Taxes are fair if their burden is distributed in accordance with some measure of taxpayers' ability to pay. Horizontal equity dictates the equal treatment of people in equal circumstances; vertical equity considers how the burden of taxation is shared across income classes.
- Neutrality: Taxes can influence decisions such as where to live or work, whether to invest in home improvements, where to locate a business, or other economic decisions. According to the neutrality criterion, a tax is favoured if the negative side effects are minimized.
- Stability and predictability: For government, this criterion means that the revenues they expect to receive should be stable and predictable so that they can meet the ongoing costs of government. For taxpayers, it means that the tax should not result in unanticipated changes over time.
- Accountability and transparency: The tax should be designed in ways that are clear so that policymakers can be made accountable to taxpayers for the cost of government services. Taxpayers should be able to understand how their taxes are calculated.

- Easy to administer: The time and resources devoted to administering the tax should be minimized. The simpler the tax system, the easier it will be to administer.

It needs to be recognized at the outset that not all tax policies will be able to achieve all of these objectives at the same time. For example, a policy that achieves stability and predictability may do so at the expense of fairness based on benefits received or ability to pay. Choices will have to be made.

B. Background on Municipal Finance in Nova Scotia

In order to understand the role of the property tax in municipal finance in Nova Scotia, it is important to look at the services it finances and the other revenues collected by municipalities. Table 1 sets out the level of expenditures and the relative importance of the various municipal services from the period from 2008-09 to 2010-11 (the latest year for which provincial summaries of municipal expenditures were available in the *Annual Report of Municipal Statistics* provided by the provincial government). The Table provides an indication of the level of per capita spending on all services in each municipal grouping. In 2010-11, per capita spending for all municipalities was $1,303. For Towns and Regional Municipalities, however, average spending per capita was higher than the average; for Municipalities (rural), it was lower than the average (Panel A of Table 1).

Table 1 also illustrates the range of services provided by local government and the relative importance of each service (Panel B of Table 1). Services include general government; police, fire protection and emergency measures; roads, air, water and public transit; sewage and solid waste collection and disposal; public health and housing; environmental planning and zoning, community development, natural resource development and industrial parks; and recreation and cultural buildings and facilities. In short, municipalities deliver a wide variety of services.

For all municipalities combined, spending on protection and transportation accounted for close to 55 percent of the total in 2010-11; general government close to 18 percent and environmental health 14 percent; recreation and culture accounted for 10 percent. For Towns and Regional Municipalities, the spending pattern was similar. For Municipalities (rural), however, about 28 percent of all spending was on environmental health, more than double the relative importance than in the other municipal groupings. One reason for the higher percentage of expenditures on environmental health is that expenditures on transportation represent a much smaller percentage of total spending for Municipalities (rural) (less than 7 percent).

Table 2 illustrates the level and relative importance of the different revenue sources available to local governments in Nova Scotia for the years, 2008-09 to 2010-11. Average municipal revenues per capita province-wide were $1,290 (Panel A of Table 2). Average revenues per capita are highest in Towns followed by Regional Municipalities, both of which are above the average. Revenues per capita for Municipalities (rural) are less than the provincial average.

Property taxes are by far the most important source of revenue, accounting for around 75 percent of all local revenues (Panel B of Table 2). User fees are next in importance accounting for about 10 percent of revenues, on average, for the province. There is noticeable variation in the relative importance of user fees across the municipal groupings – around 13 percent in Regional Municipalities compared to 5 to 6 percent in Towns and Municipalities (rural), respectively. These differences partly reflect the different distribution of expenditures, especially with respect to transportation. Revenues from licences, fees, permits, etc. account for around 5 percent as do grants.

Table 1: Municipal Government Expenditures, 2008-09 to 2010-11[1]												
	Towns			Municipalities (rural)			Regional Municipalities			All Municipalities		
	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11
Panel A: Per Capita Spending on All Services												
Per Capita Expenditures	$1,389	1,599	1,652	$617	708	758	$1,218	1,481	1,562	$1,030	1,231	1,303
Panel B: Relative Importance of Expenditures by Service												
Services:[2]	%	%	%	%	%	%	%	%	%	%	%	%
General government	17.2	16.0	15.6	23.0	21.6	22.9	14.6	17.4	16.4	16.7	18.0	17.6
Protection	28.4	31.7	31.4	23.9	30.8	29.2	25.6	29.8	27.6	25.7	30.3	28.5
Transportation	23.1	21.4	22.1	6.8	3.7	6.7	28.7	30.4	32.8	23.4	24.4	26.1
Environmental health	13.5	13.4	13.4	27.7	28.3	27.6	13.6	9.6	9.8	16.5	13.9	13.8
Public health	2.5	1.8	1.7	8.1	1.2	0.9	0.7	0.7	0.4	2.5	1.0	0.7
Environmental development	4.1	4.6	4.5	4.9	5.1	4.9	5.3	2.6	2.6	5.0	3.4	3.3
Recreation & Culture	11.2	11.1	11.3	5.6	6.2	7.8	11.5	9.5	10.3	10.2	9.1	10.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[2] General government – legislative, general administration, amortization, debt charges, valuation allowances, other.

Protection – police, law enforcement, fire, emergency measures, protective inspection, amortization, debt charges, valuation allowances, other.

Transportation – common services, road, air and water transport, public transit, amortization, debt charges, valuation allowances, other.

Environmental health – sewage collection/disposal, garbage & waste collection/disposal, amortization, debt charges, valuation allowances, other.

Public health – public health, housing, amortization, debt charges, valuation allowances, other.

Environmental development – environmental planning and zoning, community development, natural resource development, industrial parks, amortization, debt charges, valuation allowances, other.

Recreation & Culture – recreation facilities, cultural buildings and facilities, amortization, debt charges, valuation allowances, other.

[1] Dollar values and percentages represent the average for each group. Water and electricity exp. are not included because they are provided by separate utilities.

Source: Calculated from the *Annual Reports of Municipal Statistics* provided by the Provincial Government in Nova Scotia.

Table 2: Municipal Government Revenues, 2008-09 to 2010-11[1]												
	Towns			Municipalities (rural)			Regional Municipalities			All Municipalities		
	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11
Panel A: Per Capita Revenues from All Sources												
Per Capita Revenues	$1,538	1,600	1,645	$687	738	806	$1,436	1,456	1,511	$1,189	1,228	1,290
Panel B: Relative Importance of Revenues by Source												
Sources:[2]	%	%	%	%	%	%	%	%	%	%	%	%
Property taxes	73.5	73.2	73.8	75.4	77.5	75.3	71.4	73.8	74.4	71.3	74.5	74.5
Payments-in-lieu of taxes	3.9	4.1	4.6	3.0	2.9	2.9	4.8	4.8	4.7	4.2	4.3	4.3
From other governments	1.4	1.6	1.6	1.3	1.3	1.2	0.2	0.2	0.2	0.6	0.7	0.6
User fees	6.3	5.9	5.6	6.3	5.9	5.9	13.2	13.4	12.3	10.6	10.6	10.0
Licences, permits, fees, etc.	6.1	5.6	5.5	8.2	7.5	7.1	6.7	3.4	4.1	6.8	4.6	4.9
Own Source Revenue	91.1	90.4	91.0	94.1	95.0	92.4	96.3	95.7	95.8	93.6	94.7	94.4
Conditional/Unconditional grant	8.6	9.3	8.7	5.1	4.2	6.9	3.7	4.3	4.2	4.7	5.1	5.4
Other transfer	0.3	0.3	0.2	0.7	0.8	0.8	0.0	0.0	0.0	0.2	0.2	0.2
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[2] Property taxes – taxes on assessable property, special assessments, business property.

Payments-in-lieu of property taxes – from federal and provincial governments & their agencies.

From other governments – from federal, provincial and other local governments.

User fees – for some general government services, protective services, transportation, environmental health, public health, environmental development charges, recreation and cultural services, and other.

Licences, permits, fees, rentals, concessions, franchises, return on investment, penalties and interest on back taxes.

Conditional & Unconditional grants – federal and provincial government and agencies.

Other transfers – conditional transfers from other local governments.

[1] Dollar values and percentages represent the average for each group. Water and electricity rates are not included because they are provided by separate utilities.

Source: Calculated from the *Annual Reports of Municipal Statistics* provided by the Provincial Government in Nova Scotia.

C. Inter-provincial Comparison of Property Taxation

This section provides a brief overview of the property assessment base and property tax rate structure across Canadian provinces and territories.[2]

General Assessment Categories and Tax Rate Structure

Appendix Table 1 records the different property assessment categories and municipal tax rate structure in each province and territory. Some of the more salient features of this inter-provincial comparison include the following.

- All provinces and territories have at least two assessment categories – residential and non-residential. Many, however, have more than two assessment categories with Alberta, Saskatchewan, Ontario, and British Columbia leading the way.
- Most provinces levy a provincial property tax, often justified on the grounds that these revenues fund a portion of public school education costs.
- In some provinces, municipalities are free to set their own property tax rates without provincial restrictions while in other provinces, the provincial government directly controls or limits tax rates on some property classes. For example, in New Brunswick, each municipality sets its own local property tax rate but it is a provincial requirement that the non-residential (commercial and industrial) municipal tax rate must be 1.5 times the residential municipal tax rate. In Ontario, municipalities are permitted to set different tax rates (related to the residential rate) for different property categories although provincially set ranges of fairness limit a municipality's flexibility. In Manitoba, except for Winnipeg where differential tax rates may be used, municipalities are not allowed to apply differential tax rates to different property types. Where differential property tax rates are used, the residential rate (except for farm land and resource properties) is always lower than the rate on multi-residential and commercial/industrial

[2] This section includes expanded and updated material from Kitchen and Slack (2012); Canadian Tax Foundation, Finances of the Nation (2012), chapter 6; and from the websites for the Provincial and Territorial Departments or Ministries of Municipal Affairs.

properties. The higher taxation of non-residential properties also applies in other countries (Bird and Slack, 2004).

Property Taxes and School Funding

Appendix Table 2 summarizes property taxes for funding elementary and secondary schooling. In general, the following can be noted:

- Most provinces fund a portion of local schooling costs from the property tax. Newfoundland and Labrador is an exception.
- New Brunswick levies provincial property taxes which go into general revenues and are not dedicated to education.
- With the exception of Manitoba where local school boards still set the local education tax rate, property taxes for education are controlled by the province.
- The provincial property tax on each class of property is generally uniform across the province. Differential rates may apply to different classes of property, however.

Assessment Administration

Some form of central assessment authority has been established in each province to minimize the possibility of unintended variation in provincial assessment practices and to achieve intended variation where it is desired. Responsibility for assessment rests with the provincial or territorial government in Prince Edward Island, New Brunswick, the Yukon, and Northwest Territories. British Columbia has an independent provincial agency, the BC Assessment Authority (BCAA). The Saskatchewan Assessment Management Authority (SAMA) is responsible for managing assessment policy in Saskatchewan with the exception of Saskatoon and Regina and a few other municipalities. These municipalities still fall under the authority (and policies and rules) of SAMA but conduct their own field services and maintain their own computer systems.

The Municipal Property Assessment Corporation (MPAC) in Ontario is a non-profit corporation that undertakes all assessment in the province. The directors are appointed by the provincial government - eight municipal representatives, five taxpayers, and two provincial representatives. In Quebec and Alberta, local governments are responsible for the assessment function, although they operate from a standard provincial assessment manual. In Nova Scotia, assessment is the responsibility of the Property Valuation Services Corporation (PVSC). The corporation operates under a Board of Directors comprising municipal government officials, the Executive Director of the Union of Nova Scotia Municipalities (UNSM), and independent members as set out in the PVSC Act. In Newfoundland and Labrador, local assessors are used exclusively in St. John's; provincial assessors are relied on in the rest of the province. In Manitoba, local assessors are used in Winnipeg and provincial assessors elsewhere.

Every province maintains an assessment manual to guide assessors and it is the practice that assessors follow the manual. Moreover, all provinces exercise a certain measure of control through compulsory educational standards and training courses for provincial assessors. Similar standards have been laid down where the cities rather than the provinces assume responsibility.

Where assessment is a local responsibility, it is funded locally. Where it is a provincial responsibility or the responsibility of a non-profit corporation or agency, it is funded on a full or partial cost recovery basis from participating municipalities.

Frequency of Reassessment

Assessment practice over the past two decades has moved towards more frequent and up-to-date reassessments in every province (see Appendix Table 3). New Brunswick, Nova Scotia, Alberta, and British Columbia are on annual reassessment cycles. In the case of Nova Scotia, the assessed value is based on the property value two years prior. After years of trying to update their assessment system, Ontario reached annual reassessments in 2004. In 2006, however, the province announced that all assessments would be frozen for two years and in 2007, announced a move to a four-year reassessment cycle which is still in place. Municipalities in Saskatchewan are on a four-year cycle and municipalities in Quebec and Newfoundland and Labrador are on a three-year cycle. Manitoba and Yukon are on four and five-year cycles respectively. Properties in the Northwest Territories must be reassessed once in every nine years.

Limits on the Impact of a Reassessment

Some provinces have instituted limits on the impact of reassessments by constraining either assessment or tax increases. Nova Scotia's cap assessment program (CAP), which will be described and analyzed further below, limits annual taxable assessment increases for eligible properties to the annual CPI. Ontario uses a four-year phase-in of assessment increases for residential properties and caps tax increases on commercial and industrial properties. At municipal option, the tax increase arising from a reassessment can vary between 10 percent of the previous year's taxes and 5 percent of the taxes based on the full Current Value Assessment of the property (uncapped taxes). In 2009, the provincial government in Prince Edward Island froze all residential assessments at 2007 values until time of sale. Beginning in 2010, the property assessment freeze was replaced by annual increases based on the change in the CPI to a maximum annual increase of 5 percent. New Brunswick instituted a 3 percent cap on increases in assessment of owner-occupied property as a temporary measure for the 2011 and 2012 taxation years. As will be discussed further in Section E, they removed the cap in 2013 and replaced it with a permanent assessment exemption and a spike protection mechanism.

Exemptions

Local governments do not have legislative power to collect property taxes from properties owned by federal and provincial governments or their enterprises.[3] Section 125 of the *British North America Act* (now the *Constitution Act*) states that "no lands or property

[3] Federal government enterprises generally include crown corporations while provincial government enterprises are made up of a number of diverse entities including provincial housing corporations and provincial liquor control boards.

belonging to Canada or any Province shall be liable to taxation." This clause was enacted to ensure that the legislative powers of taxation of one level of government would not interfere with the control of property of another level of government.

Other institutions, such as colleges and universities, churches and cemeteries, and many charitable organizations, are also exempt from property taxes. Individual provinces have additional exemptions - in some cases from school taxes only and in other cases from both municipal and school taxes. As an illustration, housing for the elderly and infirm, museums and buildings used by war veterans are exempt from school taxes in Manitoba; eligible small theatres and conservation land are exempt from both municipal and school property taxation in Ontario; and Alberta has a list of exempt properties that includes non-profit day-care centres, certain sports and recreational facilities, thrift shops, and sheltered workshops. Public libraries are exempt in all provinces except New Brunswick, Nova Scotia, and Prince Edward Island. Public hospitals are exempt except in New Brunswick, and agricultural societies receive some exemption in all provinces except for Newfoundland and Labrador and Prince Edward Island. Additional exemptions are provided through municipal by-laws in each province.

Payments in Lieu of Taxes

To compensate for forgone property tax revenue on government-owned property (including universities, colleges, hospitals, and penal institutions), the federal and provincial governments make payments in lieu of taxes to local governments in some cases. The impact on municipal revenues from payments in lieu depend on two factors: the number of federal and provincial government properties or crown corporations located within the municipality and the extent to which these payments reflect the value of property taxes that would have been paid otherwise. In some provinces, payments in lieu are equal to full property taxation. In other provinces, the payments fall short.

Ontario is an anomaly when it comes to payments in lieu for provincial hospitals, universities, colleges, and penal institutions. Instead of a payment or grant based on assessed value, it is a fixed amount. For example, the current rate is $75 per bed for hospitals, $75 per resident place for penal institutions, and $75 per full time student equivalent for qualifying post-secondary institutions. This payment, which is often referred to as the "heads and beds" tax, was introduced in 1987 at a fixed rate of $50 per head/bed.

Treatment of Machinery and Equipment

Provinces vary in terms of how they tax machinery and equipment under the property tax. Machinery and equipment affixed to property is included in the assessment base in Newfoundland, Quebec, Manitoba, Alberta, Northwest Territories, Nunavut, and the Yukon. In Prince Edward Island, New Brunswick, and Saskatchewan, only machinery, equipment, and other fixtures that provide services to the buildings are liable to property taxation. British Columbia and Nova Scotia exclude all machinery and equipment from the property tax base. In Alberta, machinery and equipment are excluded from the uniform province-wide property tax on education but may be taxed by municipalities. Edmonton and Calgary, however, exempt machinery and equipment from municipal property taxes. Ontario exempts machinery used for manufacturing, farming, ore smelting and so on.

Treatment of Linear Properties

Most provinces provide special assessment rules for electrical, telecommunications, and natural gas distribution systems; railway property other than land and buildings; and pipelines. Depending on the province and the utility, valuation may be based on: assessed property value; gross revenue or gross receipts for natural gas, electricity distribution, cable television and other telecommunications; pipe length and/or diameter for pipelines; and length of tracks or tonnage per kilometre for railways. Appendix Table 4 notes the tax treatment of linear properties in most provinces.

Business Occupancy Taxes

A business occupancy tax is a local tax which is frequently, but not always, based on the assessed value of commercial and industrial property with statutory liability for payment almost always falling on the occupant. Inter-provincially, there is considerable variation in the extent to which business occupancy taxes are used and in the way in which they are imposed. Over the past two decades, the trend has been to move away from business occupancy taxation to higher property tax rates on commercial and industrial properties. The business occupancy tax, as a separate tax, does not exist in Nova Scotia, Prince Edward Island, New Brunswick, Ontario, the Northwest Territories, Nunavut, and the Yukon. It is optional in Alberta, Saskatchewan, and Manitoba. In Newfoundland and Labrador, a business tax is levied as a percentage of assessed property. It tends not to be used in British Columbia; instead, municipalities impose higher tax rates on non-residential property. The business tax in Quebec is based on the annual gross rental value of business properties.

Property Tax Relief Programs

There are two categories of property tax relief:

- The exemption of certain properties, preferential assessment and differential tax treatment of some properties (residential and farm properties, for example) vis-à-vis other properties (non-residential) was noted in Appendix Table 1.
- Each province (and some municipalities) provides direct property tax relief programs, but almost always for residential properties only. It is this category of relief payments that is considered here.

Appendix Table 5 provides a brief overview of property tax relief programs and suggests the following:

- Provincial programs range from grants to exemptions to tax credits to deferrals.
- Property tax relief schemes tend to be used more extensively where property taxes are relatively more important as a revenue generator.
- Property tax relief is allocated almost exclusively to residential and farm properties - it often takes the form of grants or credits (in addition to lower

effective tax rates) through the personal income tax system.

- Property tax relief is broadly available in some provinces and more specifically targeted to particular groups such as seniors and the permanently disabled in other provinces.

In addition to provincial programs, municipalities in most provinces have the power to enact relief schemes at the local level to alleviate the burden for low-income taxpayers. These initiatives may include reductions, cancellations, or refunds of property taxes, but they are not discussed here.

Property Tax Incentives

A few provinces have passed legislation that permits municipalities to reduce property taxes on business properties as a way to stimulate economic development (Kitchen and Slack, 2012). In British Columbia, the Community Charter and the Vancouver Charter provide municipalities with the authority to exempt property from municipal property taxes. The municipal council is required to establish a revitalization program with reasons and objectives for the program. Exemptions may apply to the value of the land or improvements, or both. Councils are free to specify the amounts and extent of tax exemptions available.

In Alberta, the Community Revitalization levy (CRL) came into effect through an amendment to the Municipal Government Act in 2005. The CRL is similar to the tax increment financing (TIF) programs used in the US.[4] The CRL is an economic development tool used to encourage the redevelopment of areas in need of revitalization. Under a CRL, municipalities can dedicate future property tax revenues in a specific area to pay for a new public facility or new infrastructure in that area. These projects are designed to encourage new development and revitalize a specific part of the city and

[4] TIFs were first introduced in California in 1952 and, since that time, they have spread to almost all US states. TIFs are a much newer instrument in Canada and not nearly as widespread as in the US. TIF legislation was passed in Manitoba in 2008 but TIFs are not yet being used in that province. TIF legislation was passed by the provincial government in Ontario in 2006 but the regulations have yet to be promulgated.

encourage private sector investment. The provincial government also contributes the education portion of the new tax revenue. There is no grant portion to the CRL; it merely diverts the revenues from the increment in property values arising from the investment to pay for the investment.

The City of Regina follows a competitive property tax exemption policy targeted at attracting new business to the region. The City provides a full or partial property tax exemption for up to several years and exemptions are considered on a project-by-project basis. The policy is designed to encourage plans that bring in new investment
In Ontario, under section 28 of the Planning Act, municipalities can designate an area or the entire municipality as a community improvement project area. They can then implement a community-improvement plan (CIP) with grants and/or loans which can, if the municipality chooses, be calculated on a tax increment basis. In other words, the municipality can offer developers a grant or loan that is based on the higher property tax that is generated from development (the tax increment). Such incentives are known as tax increment equivalent grants (TIEGs) and are used in a number of communities across Ontario. TIEGs are different than TIFs because they include a subsidy component. TIEGs only apply to the municipal property tax and not the education property tax.

Montreal introduced a program to enable property owners who invest in their industrial facilities to be reimbursed for their property tax increase. The program, which was announced in October 2007, is designed to encourage the owners of industrial buildings in the metropolitan area to accelerate investment in buildings, improve the competitiveness of Montreal, maintain a diversified economic structure in Montreal, and increase the value of the stock of industrial buildings. The program offers owners of non-residential buildings the possibility of a grant to reimburse them for any increase in their property taxes as a result of improving their property (through construction, conversion, or increasing the size of the building) for five years.

D. Property Taxation in Nova Scotia

This section provides a summary of the characteristics of the property tax system in Nova Scotia.

Assessment Base

Nova Scotia's real property assessment base is broadly defined to include land, buildings, and structures; machinery and equipment is excluded from the assessment base. Properties are assessed at market value. For assessment purposes, property is classified as residential, commercial, and resource or a combination of these. Resource property includes farm properties, forest properties if less than 50,000 acres, community buildings used for commercial fishing boats, and the land portion of municipal water utilities. Farm land is exempt from property taxation.

Property assessments are the responsibility of the Property Valuation Services Corporation (PVSC). Reassessments are conducted annually with each year's assessed values based on the property's value two years prior.

Three principal methods are used to value property: market (or sales) method, income method, and cost method. The market approach determines property values based on the sale price of comparable properties. For properties where there are similar or comparable properties and recorded sales, property assessments are generally based on observed market transactions with adjustments to reflect differences (location, size, condition, etc.) between the subject property and the observed sales. The market method is generally used for residential properties.

Where there is a scarcity of observed sales, PVSC assessors may use the income method or replacement cost (with depreciation) to establish assessed values. The income method determines property values based on the earning power of an income producing property. This method is applied to business properties, apartments, and some light industry properties.[5] The cost approach determines property value based on a standardized estimate of construction costs. This method is used for properties that do not trade in the market.

Nova Scotia introduced a capped assessment program in 2005, retroactive to 2001. Capping limits the increase in taxable assessments on eligible owner-occupied residential properties and resource properties, but not commercial properties. To be eligible for the CAP, the property must be at least 50 percent owned by a Nova Scotia resident; have less than four dwelling units or be a vacant resource property; have ownership remain in the family, if sold; be an owner-occupied condominium; be a mobile home; or be a mobile home park, co-operative housing, residential or resource portion of a commercial farm.

Prior to 2008, an application was required to receive the cap. Starting in 2008, however, capping was automatic. The rate of capping has been adjusted (continuously lowered) since its inception, as shown in Table 3. The capping rate is currently tied to the CPI which was less than 1 percent in 2014.

Reassessment to market value for properties whose increase exceeds the annual CPI only takes place when the properties are sold. Capital improvements to properties such as the addition of a garage or a room which increase the property's assessed value are not capped. The result is that the assessment for an individual property may consist of two parts -- the capped assessed value for the original property and the uncapped assessed value for the net addition to the property.

[5] The sales method is used to assess residential properties, including condominiums, but apartments are assessed using the income method. Some stakeholders claim that the different approach results in escalating assessments for condominiums and declining assessments for apartments.

Table 3: CAP Limit by Year, 2001 – 2014	
Year	CAP (percent)
2014	0.9
2013	1.4
2012	3.9
2011	2.9
2010	0.0
2009	3.4
2008	2.3
2007	10.0
2006	10.0
2005	10.0
2004	10.0
2003	10.0
2002	15.0
2001	15.0
Source: From PVSC	

Table 4 illustrates the impact that the CAP program has had on residential taxable assessment in Nova Scotia from 2008 to 2014. The greatest reduction, on average, in assessed property values arising from the CAP has been in Municipalities (rural), followed by Regional Municipalities, and Towns in that order. For 2013 and 2014, the CAP program for the entire province resulted in a reduction in taxable assessed properties of more than 13 percent (bottom row). A reduction in the assessable property tax base of more than 13 percent means that property tax rates, in aggregate, must be more than 13 percent higher than they would be in the absence of the CAP if the same amount of property tax revenue is generated.

In almost every municipality, the CAP lowered the assessable property tax base by a greater percentage in 2014 than it did in 2008. This finding is not surprising given that the limit on the annual assessment increase has been very small in recent years because the market values have generally increased at a faster rate than the CPI. The issue of capping and the impacts created are examined in more detail in Section E.

Table 5 records the relative importance of assessment for residential and resource properties compared to the assessment for commercial properties over the period from 2008 to 2014. In all cases, residential properties account for the largest portion of the assessment base but the percentage is different for different types of municipalities. In 2014, for example, commercial properties accounted for more than 22 percent of all assessment in Towns, but only 10.2 percent in Municipalities (rural), 17.7 percent in the Regional Municipalities, and 16 percent for the province as a whole. Table 5 also shows that residential assessment as a portion of total assessment has generally grown over the period and commercial assessment has fallen. The size of the taxable assessment base in Nova Scotia is affected by the number of exempt properties. Conservation property is exempt from property taxes as is all property owned by the federal and provincial governments; colleges and universities; churches and cemeteries; various charitable organizations (girl guides and boy scouts, for example).

Table 6 shows the exempt value of assessed property as a percent of all assessed property value in each municipality in Nova Scotia for the period from 2008 to 2014. For the entire province, exempt properties amounted to about 15 percent of market value assessment. On average, Towns had the highest percentage of exempt properties (around 22 to 23 percent), followed by Municipalities (rural) (16 to 17 percent) and Regional Municipalities (12 to 13 percent). What is particularly notable is the wide range of exempt values across all municipalities. Many of these exempt properties, however, make payments in lieu of property taxes to municipalities (discussed later).

Local councils may also exempt certain persons from property taxation if the residential property owner’s family income is below an amount specified by the local council. Eligible persons include those over the age of 65 or widows or single parents supporting dependents. A provincial property tax rebate program is available for all seniors receiving the guaranteed income supplement. Each recipient receives a rebate equal to 50 percent of the previous year’s property taxes to a maximum of $600.

Table 4: Percent by Which Residential Property Assessment was reduced by the CAP, 2008-2014							
Jurisdiction	2008	2009	2010	2011	2012	2013	2014
	%	%	%	%	%	%	%
Regions:							
CBRM	4.0	8.4	13.8	16.3	16.8	19.4	20.6
HRM	5.7	8.0	10.4	10.9	10.6	11.9	12.1
Queens	6.6	14.3	17.8	19.3	17.7	18.6	18.1
Weighted Average	5.6	8.2	10.9	11.6	11.4	12.8	13.1
Towns:							
Amherst	4.5	9.4	11.4	11.1	10.3	11.4	11.6
Annapolis Royal	6.3	4.5	5.0	6.7	5.1	5.3	5.8
Antigonish	7.2	12.3	12.4	10.3	8.8	9.6	9.8
Berwick	7.2	8.9	11.5	12.6	9.6	10.9	10.8
Bridgetown	5.6	10.2	11.1	11.1	8.6	9.3	8.3
Bridgewater	4.0	7.9	9.7	9.9	9.2	9.3	9.0
Clarks Harbour	4.1	5.0	5.6	4.8	3.3	1.9	3.7
Digby	4.9	5.4	6.2	6.3	4.0	5.6	6.1
Hantsport	5.4	13.7	15.2	17.9	19.1	18.2	17.7
Kentville	6.2	7.9	10.8	9.8	7.5	7.9	8.0
Lockeport	2.6	7.2	7.1	10.3	8.2	9.1	10.6
Lunenburg	6.5	8.6	11.4	11.6	9.7	9.2	8.8
Mahone Bay	7.2	12.7	14.6	17.4	13.1	10.4	9.6
Middleton	5.6	9.3	9.5	8.2	6.2	9.0	7.9
Mulgrave	2.5	5.3	7.6	6.5	7.1	7.2	6.7
New Glasgow	7.3	11.8	11.2	10.4	8.4	9.5	9.3
Oxford	3.6	6.4	6.0	6.1	5.4	5.8	6.4
Parrsboro	6.2	11.5	16.1	15.1	11.0	15.2	15.0
Pictou	3.4	7.5	8.5	9.8	9.0	8.8	8.3
Port Hawkesbury	3.9	6.3	8.0	6.3	6.2	5.0	4.3
Shelburne	2.0	2.0	4.7	8.2	6.8	7.8	8.7
Springhill	2.9	2.3	2.4	5.4	4.3	4.3	4.0
Stellarton	9.1	12.8	13.6	12.3	12.3	13.4	12.7
Stewiacki	7.2	14.8	16.7	18.2	14.9	15.8	14.0
Trenton	5.6	8.7	11.7	14.9	13.9	14.7	14.7
Truro	4.5	5.8	9.4	9.3	9.2	9.1	9.1
Westville	7.6	8.6	12.4	11.6	10.1	10.8	12.4
Windsor	4.0	10.9	15.3	15.6	12.5	12.8	11.9
Wolfville	5.3	6.8	8.5	6.8	4.6	6.1	5.5
Yarmouth	4.3	5.6	5.2	4.8	3.8	3.2	2.2
Weighted average	5.4	8.5	10.3	10.1	8.7	9.1	9.0
Municipalities (rural):							
District St. Mary's	6.1	10.1	13.8	16.1	14.7	16.4	16.2
District Barrington	8.3	11.5	11.9	10.4	6.6	7.5	7.0

District Guysborough	5.5	9.5	11.8	11.5	10.1	13.1	12.5
District Hants East	7.7	10.4	14.3	13.8	10.9	15.3	15.2
District Hants West	8.6	17.1	17.3	16.6	13.5	18.4	17.7
District Lunenburg	9.4	13.8	15.8	15.9	13.7	14.5	14.4
District Shelburne	9.4	16.4	20.1	19.1	15.0	16.6	16.5
District Yarmouth	5.5	10.4	13.8	11.9	10.5	8.5	7.8
County Annapolis	7.4	13.1	13.6	14.1	12.6	16.6	16.5
County Antigonish	6.5	11.5	15.1	14.6	14.1	15.8	16.8
County Colchester	7.6	9.8	15.1	14.5	13.8	15.5	15.8
County Cumberland	8.3	13.9	17.7	18.1	16.8	20.4	21.2
County Inverness	5.0	8.9	13.7	12.9	11.9	13.1	13.8
County Kings	7.5	12.4	12.8	12.2	9.7	13.6	13.6
County Pictou	9.7	13.8	19.1	19.9	19.6	22.0	21.6
County Richmond	5.0	9.6	14.2	14.6	13.8	15.2	14.8
County Victoria	5.5	10.5	15.6	14.3	14.8	15.9	15.9
District Argyle	5.8	9.7	11.4	11.5	9.3	9.0	8.5
District Chester	12.2	14.8	16.0	15.8	13.6	14.3	14.7
District Clare	5.8	10.8	10.2	9.4	8.3	8.9	9.5
District Digby	9.2	14.5	14.5	14.7	12.1	13.2	13.0
Weighted average	8.0	12.4	15.0	14.7	13.0	15.2	15.2
TOTAL:							
Weighted average	6.3	9.6	12.1	12.5	11.7	13.2	13.4
Source: Calculated from PVSC assessment data.							

Table 5: Relative Importance of Property Assessment (Capped Values) by Property Type, 2008-2014												
	Towns			Municipalities (rural)			Regional Municipalities			All Province		
Year	Res.	Resource	Com	Res.	Resource	Com	Res.	Resource	Com	Res.	Resource	Com
	%	%	%	%	%	%	%	%	%	%	%	%
2008	74.2	0.5	25.3	81.1	5.8	13.1	81.7	0.9	17.4	80.8	2.4	16.8
2009	74.4	0.5	24.1	81.7	5.7	12.6	81.4	0.9	17.7	80.8	2.3	16.9
2010	74.7	0.4	24.8	82.1	5.7	12.3	81.3	0.9	17.8	80.9	2.3	16.8
2011	75.3	0.4	24.3	82.7	5.6	11.8	81.4	0.9	17.7	81.2	2.3	16.5
2012	76.2	0.4	23.3	83.1	5.5	11.4	81.5	0.9	17.6	81.5	2.3	16.2
2013	76.7	0.4	22.9	84.0	5.5	10.5	81.6	0.9	17.5	81.9	2.2	15.9
2014	77.1	0.4	22.5	84.3	5.5	10.2	81.4	0.9	17.7	81.9	2.2	16.0
Res refers to residential and Com refers to commercial.												
Source: Calculated from data provided by PVSC.												

Table 6: Exempt Assessment as a Percent of Market Value Assessment[1]							
Jurisdiction	2008	2009	2010	2011	2012	2013	2014
	%	%	%	%	%	%	%
Regions:							
CBRM	20.3	19.7	19.3	19.1	18.5	17.8	17.2
HRM	12.2	11.7	11.6	11.7	12.0	12.0	12.0
Queens	27.8	21.1	21.7	21.8	25.2	25.4	25.4
Weighted Average	13.5	12.8	12.7	12.7	13.0	12.9	12.9
Towns:							
Amherst	9.6	9.1	8.8	8.6	8.7	8.6	8.4
Annapolis Royal	60.2	46.8	46.6	45.2	44.8	44.9	45.0
Antigonish	41.6	40.3	41.3	43.0	42.8	43.2	44.4
Berwick	9.0	9.9	10.6	14.8	14.5	13.2	13.3
Bridgetown	20.7	20.9	21.4	20.7	19.9	19.9	20.2
Bridgewater	16.3	18.3	17.6	16.9	16.7	17.8	17.2
Clarks Harbour	21.9	22.1	22.4	22.4	22.4	23.4	23.7
Digby	31.2	30.9	30.8	30.5	29.3	29.1	28.4
Hantsport	6.5	6.3	7.3	7.1	7.5	8.2	8.1
Kentville	12.5	11.1	10.8	12.3	12.5	11.8	11.6
Lockeport	23.5	22.9	23.1	23.9	23.6	23.2	22.5
Lunenburg	13.4	14.3	14.4	14.2	17.0	18.2	17.8
Mahone Bay	12.9	11.8	11.1	10.5	10.7	10.9	10.6
Middleton	35.7	34.7	34.2	33.4	32.9	31.7	31.5
Mulgrave	27.9	28.1	27.5	26.4	25.1	24.6	25.0
New Glasgow	15.3	14.4	14.3	13.9	13.8	13.0	12.9
Oxford	12.4	12.3	20.7	20.7	20.2	20.1	19.4
Parrsboro	15.1	14.2	13.6	13.5	12.9	12.5	12.5
Pictou	20.5	20.5	22.2	21.6	20.8	20.6	20.6
Port Hawkesbury	32.7	32.3	31.9	30.7	30.3	30.4	31.2
Shelburne	17.7	17.5	17.6	16.8	16.7	16.5	15.9
Springhill	36.8	37.0	36.8	35.8	35.7	36.6	40.6
Stellarton	14.7	14.0	14.5	14.0	13.6	13.4	13.7
Stewiacki	10.7	15.2	14.9	14.6	13.7	13.3	12.5
Trenton	44.5	40.6	42.4	41.2	39.8	38.4	38.8
Truro	16.8	17.1	18.5	19.5	23.6	26.9	27.0
Westville	11.7	11.5	10.9	10.6	10.1	9.8	9.5
Windsor	23.6	22.5	21.7	21.3	21.2	20.8	20.6
Wolfville	38.0	37.5	37.4	37.2	36.7	36.2	35.7
Yarmouth	29.0	30.2	30.8	31.5	33.1	33.9	33.3
Weighted average	22.7	22.2	22.4	22.5	23.0	23.4	23.4
Municipalities (rural):							
District St. Mary's	39.3	40.2	41.3	42.0	44.0	45.3	45.6
District Barrington	13.0	12.6	12.8	13.1	13.5	13.7	13.6
District Guysborough	18.9	20.3	22.1	23.0	23.6	24.6	25.0

District Hants East	16.6	16.3	16.0	16.3	16.8	16.3	15.8
District Hants West	14.2	13.3	13.8	13.9	14.5	14.4	14.1
District Lunenburg	6.8	6.6	6.7	7.5	7.7	7.9	7.7
District Shelburne	15.6	14.6	14.3	14.3	14.9	15.3	16.1
District Yarmouth	10.0	9.7	9.5	9.7	10.3	11.2	11.1
County Annapolis	16.9	16.0	16.5	16.7	17.2	17.4	17.1
County Antigonish	17.3	16.6	16.5	16.6	17.0	16.9	16.3
County Colchester	19.3	19.1	18.8	19.1	19.4	19.6	19.0
County Cumberland	26.7	26.0	26.0	26.7	27.4	27.6	27.0
County Inverness	20.1	19.2	18.7	19.1	19.4	19.5	19.2
County Kings	17.3	16.6	16.8	16.8	17.3	17.1	16.6
County Pictou	15.6	15.5	16.2	16.0	16.7	17.4	17.9
County Richmond	14.2	14.4	14.5	15.6	15.8	18.3	19.5
County Victoria	20.9	26.8	25.4	25.2	24.5	24.1	24.4
District Argyle	22.4	22.1	22.6	22.8	23.4	24.2	24.2
District Chester	6.7	7.2	6.8	6.7	7.0	7.1	7.0
District Clare	20.5	19.8	20.9	21.1	21.7	22.4	21.8
District Digby	23.0	23.4	24.5	27.9	29.4	29.9	29.6
Weighted average	16.5	16.3	16.4	16.8	17.2	17.5	17.3
TOTAL:							
Weighted average	15.4	14.9	14.9	15.0	15.3	15.4	15.2

[1] This Table refers to market value assessment (not capped assessment) because there is no capped value for exempt properties.
Source: Calculated from PVSC assessment data.

Municipalities in Nova Scotia often implement additional programs to assist low-income households with their property taxes. In HRM, for example, low-income homeowners are permitted to defer their property taxes until time of sale. This program differs from most programs across Canada because it is not restricted to seniors and/or disabled homeowners and it is not restricted to exempting or deferring incremental tax increases, only – it applies to the entire tax bill. The program has no maximum assessment threshold for eligibility.

Tax Rates

Municipal property tax rates are set locally and the province sets a uniform tax rate for financing education. HRM has discretion to levy an additional property tax for financing special educational programs. The provincial property tax is collected by municipalities and remitted to school boards. For the past three years, this mandatory levy has been determined by applying a fixed rate of $0.3048 to the municipal uniform assessment base. Future tax rates will be set by the Department of Education.

Municipal property tax rates are differentiated by property class. For all municipalities outside the HRM, there are two rates – one for residential properties and one for commercial and industrial properties. Halifax uses two general property taxes – urban and rural plus a number of area rates. Towns, Municipalities (rural), and Regional Municipalities use area rates as well. All municipalities are also permitted to impose a minimum tax per dwelling unit as part of their budget process.

Table 7 records the commercial and residential tax rates for Towns, Municipalities (rural), and Regional Municipalities for the last six years for which data are available. For towns and municipalities, the average residential tax rate fell over the period and the commercial tax rate rose. In regional municipalities, the urban residential rate fell in HRM but the suburban and rural residential tax rates rose. The commercial rate declined in most of HRM. In CBRM and Queen's, both the residential and commercial tax rates rose over the period. For Towns and Municipalities (rural), there is considerable variation in both commercial and residential tax rates with the commercial rates exceeding the residential rates by varying degrees. This differential taxation of commercial and residential properties is discussed in Section E.

There are many factors that explain rising residential tax rates coupled with decreasing commercial tax rates in Towns and Municipalities (rural). One explanation relates to differences in assessment growth of each property class. If the goal is to maintain tax shares by class of property year over year, for example, a more rapidly growing residential base will require a lower tax rate (to maintain the residential tax share) and a higher commercial tax rate. Capping, as noted earlier, may provide part of the explanation for rising residential tax rates in some municipalities.

Table 7: General Property Tax Rates by Municipality,[1] 2008-09 to 2013-14[2]												
Jurisdiction	2008-09		2009-10		2010-11		2011-12		2012-13		2013-14	
	Com	Res	Com	REs	Com	Res	Com	Res	Com	Res	Com	Res
Regions:												
CBRM[3]	5.08	2.19	5.31	2.19	5.56	2.19	5.59	2.22	5.62	2.25	5.65	2.28
HRM:												
Urban	3.73	1.32	3.71	1.29	3.84	1.31	3.80	1.28	3.61	1.24	3.55	1.21
Suburban	3.68	1.19	3.67	1.25	3.83	1.27	3.78	1.25	3.60	1.21	---	---
Rural	3.19	1.15	3.22	1.23	3.39	1.24	3.37	1.22	3.17	1.17	3.20	1.16
Queens[4]	2.88	1.85	2.96	1.85	3.01	1.87	2.95	1.81	2.98	1.84	2.96	1.86
Towns:												
Amherst	4.06	1.65	4.31	1.67	4.60	1.67	4.60	1.67	4.55	1.66	4.45	1.63
Annapolis Royal	3.05	1.65	3.05	1.65	3.15	1.70	3.15	1.70	3.15	1.70	3.15	1.65
Antigonish	2.27	0.87	2.36	0.90	2.47	0.93	2.50	0.97	2.53	1.00	2.53	1.00
Berwick	3.40	1.59	3.62	1.59	3.88	1.61	3.91	1.62	3.88	1.59	3.80	1.51
Bridgetown	3.52	1.80	3.63	1.85	3.63	1.85	3.79	2.01	3.90	2.10	3.93	2.13
Bridgewater	3.53	1.63	3.72	1.63	4.06	1.67	4.06	1.67	3.99	1.65	3.99	1.65
Canso	4.08	2.35	4.08	2.35	4.08	2.35	4.08	2.35	4.08	2.35	---	---
Clarks Harbour	4.83	1.65	5.14	1.65	5.58	1.66	5.58	1.65	5.58	1.65	5.58	1.65
Digby	3.84	1.92	3.89	1.92	3.89	1.92	3.89	1.92	3.99	1.94	4.18	1.99
Hantsport	3.21	1.63	3.35	1.63	3.55	1.66	3.69	1.66	3.85	1.69	3.85	1.69
Kentville	3.02	1.23	3.23	1.29	3.46	1.36	3.48	1.36	3.47	1.36	3.38	1.37
Lockeport	4.95	2.21	5.28	2.21	5.31	2.23	5.36	2.28	5.36	2.28	5.36	2.28
Lunenburg	3.41	1.34	3.30	1.30	3.30	1.30	3.26	1.28	3.19	1.21	3.26	1.28

Mahone Bay	2.74	1.22	2.83	1.18	2.94	1.19	2.90	1.18	2.88	1.15	2.91	1.15
Middleton	3.93	1.80	4.17	1.80	4.30	1.80	4.30	1.80	4.26	1.78	4.26	1.78
Mulgrave	4.25	1.38	4.50	1.37	4.40	1.27	4.43	1.30	4.42	1.28	4.43	1.29
New Glasgow	3.92	1.77	4.02	1.77	4.15	1.80	4.40	1.82	4.40	1.82	4.40	1.82
Oxford	4.13	1.56	4.55	1.56	4.95	1.56	4.98	1.59	4.98	1.59	4.98	1.59
Parrsboro	3.77	2.03	3.93	2.04	4.17	2.04	4.17	2.04	4.15	2.00	4.13	1.99
Pictou	4.36	2.12	4.40	2.06	4.40	1.99	4.40	1.88	4.39	1.86	4.39	1.86
Port Hawkesbury	4.11	1.80	4.26	1.80	4.38	1.78	4.25	1.62	4.27	1.62	4.38	1.78
Shelburne	3.69	2.04	3.81	2.04	3.81	2.06	3.81	2.06	3.81	2.06	3.86	2.04
Springhill	5.23	2.10	5.38	2.25	5.53	2.25	5.53	2.25	5.53	2.25	5.53	2.25
Stellarton	3.55	1.82	3.55	1.82	4.15	1.82	4.15	1.82	4.15	1.82	4.15	1.82
Stewiacki	2.90	1.64	3.24	1.70	3.41	1.70	3.41	1.70	3.41	1.70	3.41	1.70
Trenton	5.49	1.99	5.49	1.99	5.49	1.99	5.49	1.99	5.49	1.99	5.49	1.99
Truro	3.92	1.72	4.11	1.73	4.44	1.75	4.44	1.76	4.44	1.76	4.45	1.77
Westville	3.75	2.13	3.75	2.13	3.75	2.13	3.80	2.13	3.80	2.09	3.69	2.08
Windsor	3.90	1.88	3.90	1.90	4.08	1.96	4.08	1.96	4.08	1.96	4.08	1.96
Wolfville	3.41	1.41	3.49	1.40	3.57	1.43	3.55	1.43	3.55	1.43	3.55	1.43
Yarmouth	3.98	1.81	4.21	1.75	4.52	1.75	4.52	1.75	4.52	1.75	4.51	1.74
Unweighted Av	3.81	1.73	3.95	1.74	4.11	1.75	4.13	1.75	4.13	1.74	3.99	1.67
Municipalities (rural):												
Annapolis	1.80	0.95	1.80	0.98	1.80	0.98	1.80	0.98	1.80	0.98	1.80	0.98
Antigonish	1.40	0.86	1.48	0.88	1.48	0.88	1.48	0.88	1.48	0.88	1.46	0.88
Argyle	2.18	1.09	2.20	1.07	2.25	1.07	2.25	1.07	2.25	1.07	2.25	1.07
Barrington	2.52	1.07	2.63	1.06	2.63	1.06	2.63	1.06	2.63	1.06	2.62	1.06
Chester	1.47	0.60	1.51	0.61	1.53	0.63	1.54	0.64	1.54	0.64	1.53	0.66
Clare	1.90	0.98	1.96	1.02	2.07	1.02	2.07	1.02	2.07	1.02	2.07	1.02

Colchester	2.00	0.74	2.10	0.79	2.25	0.82	2.25	0.83	2.25	0.84	2.25	0.84
Cumberland	2.30	1.01	2.47	1.04	2.63	1.04	2.63	1.04	2.63	1.04	2.63	1.04
Digby	1.85	1.35	1.85	1.30	1.85	1.30	1.85	1.30	1.85	1.30	1.85	1.30
Guysborough	2.15	0.59	2.35	0.59	2.56	0.59	2.58	0.61	2.58	0.61	2.58	0.61
Hants East	2.53	0.88	2.67	0.87	2.70	0.90	2.70	0.89	2.71	0.88	2.70	0.87
Hants West	1.55	0.87	1.57	0.89	1.59	0.90	1.60	0.91	1.68	0.94	1.68	0.92
Inverness	1.82	0.99	1.85	1.02	1.85	1.02	1.85	1.02	1.85	1.02	1.85	1.02
Kings	2.03	0.83	2.16	0.85	2.29	0.85	2.29	0.85	2.29	0.85	2.29	0.85
Lunenburg	1.92	0.79	1.92	0.79	2.06	0.81	2.08	0.84	1.98	0.84	1.96	0.81
Pictou	1.54	0.79	1.71	0.81	1.82	0.81	1.82	0.81	1.82	0.81	2.07	0.77
Richmond	1.69	0.68	1.90	0.72	2.01	0.75	2.01	0.75	2.01	0.75	1.82	1.28
Shelburne	1.85	1.32	1.82	1.30	1.82	1.30	1.82	1.28	1.82	1.28	2.13	0.82
St. Mary’s	1.91	0.83	2.12	0.81	2.15	0.84	2.13	0.82	2.13	0.82	2.10	1.20
Victoria	2.19	1.22	2.19	1.22	2.19	1.22	2.19	1.22	2.15	1.20	2.15	1.15
Yarmouth	2.15	1.16	2.15	1.15	2.15	1.15	2.15	1.15	2.15	1.15	2.15	1.15
Unweighted Avg.	1.94	0.93	2.02	0.94	2.08	0.95	2.08	0.95	2.08	0.95	2.09	0.97

[1] Tax rates includes the municipal component and the provincial education component. Area rates are often used as well, but are not included in this Table.

[2] Property tax rate per $100 of assessment. Area rates may also be added for specific areas or services.

[3] Tax rates are for the City of Sydney.

[4] Tax rates are for Liverpool.

Source: Data available from Nova Scotia Municipal Services

In lieu of property taxes on agricultural land, municipalities in 2014/15 are permitted to levy a farm acreage charge not exceeding $2.90 per acre. This charge is indexed annually by the growth in the CPI. For forest property classified as resource property (less than 50,000 acres), the charge is $0.25 per acre. For forest property classified as commercial property (more than 50,000 acres), the charge is $0.40 per acre. These rates on forestry properties are not indexed. Owners of non-profit recreational lands (golf clubs, ski clubs, summer camps and similar facilities) pay a special recreational property tax.

E. Concerns and Issues Raised about Property Taxes in Nova Scotia

Ten issues that were raised by stakeholders concerning the property tax system in Nova Scotia are addressed in this section. Some of these concerns were expressed by a number of stakeholders while others were raised by only one or two groups. Some are specific and some are more general in nature. The issues are separated into those around property assessment and those around property taxation. For some of these issues, we have made recommendations; for others, we have not because there is no clear cut direction to follow or more study is needed.

Assessment Issues

Four issues with assessment have been identified: the choice of area-based or value-based assessment; exemptions and payments-in-lieu of property taxes; the lag between the annual assessment and the assessment base; and the volatility of assessed values.

1. Area-based or value-based assessment

Although all provinces in Canada use market value assessment, it has sometimes been suggested that an area-based assessment system would be preferable. Under an area-based assessment system, the assessed value of a property is calculated as the sum of the lot area multiplied times an assessment rate per square metre of lot area plus building area multiplied times an assessment rate per square metre of building area. A strict unit assessment does not take into consideration location, market conditions, or quality of structures. Unit value assessment, however, introduces variation to reflect location, zoning, use of property, and other factors.

Where fully functioning property and real estate markets exist (as in Nova Scotia), market value assessment has distinct advantages over area-based assessment. Market value captures the amenities of the neighbourhood, amenities that are often created by local government policies (zoning legislation, for example). To illustrate, consider two properties of identical size (building and land area) and age but located in different parts of a community. One is adjacent to a greenbelt while the other is next to an abattoir. Under unit assessment, both would be assessed at the same value; market value assessment would reflect the different locations. It is unlikely that many would argue that unit assessment would be fair in such an instance.

Area-based assessment also results in relatively greater tax burdens on low-income households compared to high-income households because a comparable property in a high-income area pays the same tax as a comparable property in a low-income area. Similarly, older houses in need of substantial repairs, but with a large floor area, will pay relatively high taxes (Bird and Slack, 2004).

There are other problems with area-based assessment. Although some have argued that it a more objective way to value property than a market value system, the determination of the different assessment rates for land and buildings is still a matter of judgment. Moreover, where area-based assessment has been used, there has been a tendency over time to introduce a number of multipliers to reflect differences in value or to capture specific property characteristics or amenities and increase the fairness of the system. The result has been a complex, distorted, and unfair system. It was the complexity, created by a growing number of multipliers that led to its abandonment as the property tax base in the Netherlands (Youngman and Malme, 2000).

Perhaps the strongest claim for unit value assessment is that it is relatively easy to estimate and administer. This is often not true. Unit assessment requires both an initial determination of value per square metre and, as circumstances change, subsequent adjustments to this value. How is this initial value to be determined and how will the adjustments be made? Is the determination to be made by a bureaucrat or is to be left to the market? If it is made by a bureaucrat, it may be arbitrary and unfair. If it is made by the market, why not simply use the market value of the property instead - as in market value assessment?

Area-based assessments for multi-residential rental, residential condominium, commercial, and industrial properties are particularly problematic. How should common areas (entrances, exits, halls, aisles, malls, and so on) be assessed? What should be included for tax purposes – should specific areas of buildings that do not generate revenues, such as elevators and atriums, be taxed? Should structural elements, such as decorative beams that project outside the glass line as with office towers, be assessed and taxed (Bird and Slack, 2004)?

Support for area assessment has emerged in countries that do not have fully functioning and operational real estate markets (Youngman and Malme, 2000) and for parts of countries, such as the Northwest Territories and Nunavut, where there are isolated hamlets and no clearly functional market for property values because the government owns most of the housing and rents it to occupants (Kitchen and Slack, 2001). But, the conventional and international wisdom is that value-based assessment is preferred based on the standard public finance criteria for evaluating taxes (Slack and Bird, 2014). In Nova Scotia, market value assessment has been widely accepted as the better base for assessing properties (Nova Scotia, Towns Task Force, 2012). New Brunswick also supports market value assessment (New Brunswick, Department of Finance, 2012). It was also the assessment base that most stakeholders felt was appropriate for property taxation in Nova Scotia.

Recommendation #1: The province should retain market value property assessment as the municipal tax base.

2. Exempt properties and payments in lieu

Table 6, which reported exempt assessed property values as a percent of total assessed market value for each municipality, town, and regional municipality in Nova Scotia, showed a wide variation in the relative importance of exempt assessment. Exempt properties lower the assessable property tax base, meaning that non-exempt properties may have to pay higher taxes to compensate for zero or lower than market value taxes on exempt properties. If exempt properties make payments in lieu of property taxes that equal what would be paid under market value assessment, there is no problem because non-exempt properties are not subsidizing exempt properties. They are paying their fair share. If, however, payments in lieu are not paid by exempt properties, there may be a concern.

Exemptions have been criticized on a number of grounds (Slack and Bird, forthcoming, 2014; Kitchen and Tassonyi, 2012). First, exempt properties use municipal services like other properties who occupy space, hence, they should be taxed (Bahl and Linn, 1992). Second, since taxed properties face higher costs than exempt properties, economic competition among businesses and between businesses and government is distorted (Kitchen and Vaillancourt, 1990). Third, differential tax treatment may affect location decisions, choices about what activities to undertake, and other economic decisions. Fourth, exemptions narrow the tax base and either increase taxes on the remaining taxpayers or reduce the level of local services. Finally, since the proportion of tax-exempt properties varies by municipality, disproportionate tax burdens may be created across communities. This result may be especially troublesome when the provincial and federal government determines what is exempt from local property taxation.

Payments in lieu of property taxes (PILs), on average, are not large revenue generators for local governments, but at the margin, they are not insignificant either. Table 8 records the relative importance of PILs, on average, for Towns, Municipalities (rural), Regional Municipalities and for the entire province for the last three years for which data are available. They are most important in Regional Municipalities accounting for close to 5 percent of all municipal revenues and least important in Municipalities (rural) accounting for less than 3 percent of all revenues. Overall, they account for about 4.3 percent of all revenues for all local governments combined. Their relative importance has not changed much over the three-year period.[6]

Table 8: Relative Importance[1] of Payments-in-Lieu from 2008-09 to 2010-11

Jurisdiction[2]	2008-09	2009-10	2010-11
	%	%	%
Towns	3.9	4.1	4.6
Municipalities (rural)	3.0	2.9	2.9
Regional Municipalities	4.8	4.8	4.7
Entire Province	4.2	4.3	4.3

[1] Percentages represent the average for each grouping.

[2] Depending on the relative importance of exempt properties in each community, the importance for a Town, Municipality and Regional Municipality may deviate considerably from the average.

Source: Reproduced from Table 2.

In stakeholder meetings, some municipal officials expressed concern over the payments in lieu that they receive or do not receive. We were told that the federal government makes payments in lieu of taxes on their properties but often not at the level based on market value assessment.[7] Indeed, this concern is not new - it has existed for some time (see Kitchen and Vaillancourt, 1990). We were also told that payments in lieu of taxes on university and college property were less than the amount that would be paid under full market value assessment. For example, municipalities receive full PILs for university and college residences, but PILs are not paid on other university space (administration,

[6] Data provided by HRM staff show that, in HRM in 2013, PILs were paid on 28 percent of all PIL residential assessed property values; on 18 percent of all PIL commercial assessed property value; and 33 percent of all PIL resource assessed property values. Data provided by HRM staff.
[7] We do not make a recommendation on federal payments in lieu because these are beyond provincial jurisdiction.

teaching, research, culture and recreational). Private businesses operating on campuses (Tim Horton's, for example) pay property taxes on the assessed value of their space and water hydrant charges are captured through the water utility. In addition, there are a number of properties (for example, churches, cemeteries, hospitals, charitable organizations) that do not pay property taxes or make payments in lieu.

Providing municipal services to an exempt property that does not make a full payment in lieu of property taxes means that this property is effectively subsidized by taxes levied on non-exempt properties. This subsidization and the impact that it has on non-exempt properties should not be treated lightly, especially given a number of stakeholder concerns over property tax burdens. If there is a sound public policy reason for the exemption, it should be made explicit and easily defended. If there is not a solid public policy rationale, the exemption should be terminated and the property should be subject to the same property tax rate that is paid by other properties in the municipality.

Recommendation #2: The province should re-examine the list of exempt properties to ensure that there is a strong public policy rationale for their continuation. At the same time, payments in lieu of taxes should be examined to ensure that the province is paying its fair share.

3. Lag Between Assessment Date and Implementation

All properties in Nova Scotia are assessed annually but the annual taxable assessed value is the value that was determined two years earlier. Concern with this two-year lag was voiced by a number of stakeholder groups, especially as it impacts commercial properties. In particular, when the economy experiences a downturn, many business properties also experience a downturn (profits are lower for some and others lose money). Property taxes, however, do not decline in line with the firm's financial position because they are based on the firm's assessed value two years earlier.

Assessment lags are not uncommon in assessing commercial and industrial properties and cannot be entirely avoided. A firm's audited financial statements that form the basis for property assessments, are often not available until the following year. Hence, the best that could be hoped for would be an assessment lag of only one year, a policy supported by many of the stakeholders.

Recommendation #3: The Property Valuation Services Corporation (PVSC) should move to a one year assessment lag in setting annual assessed property values.

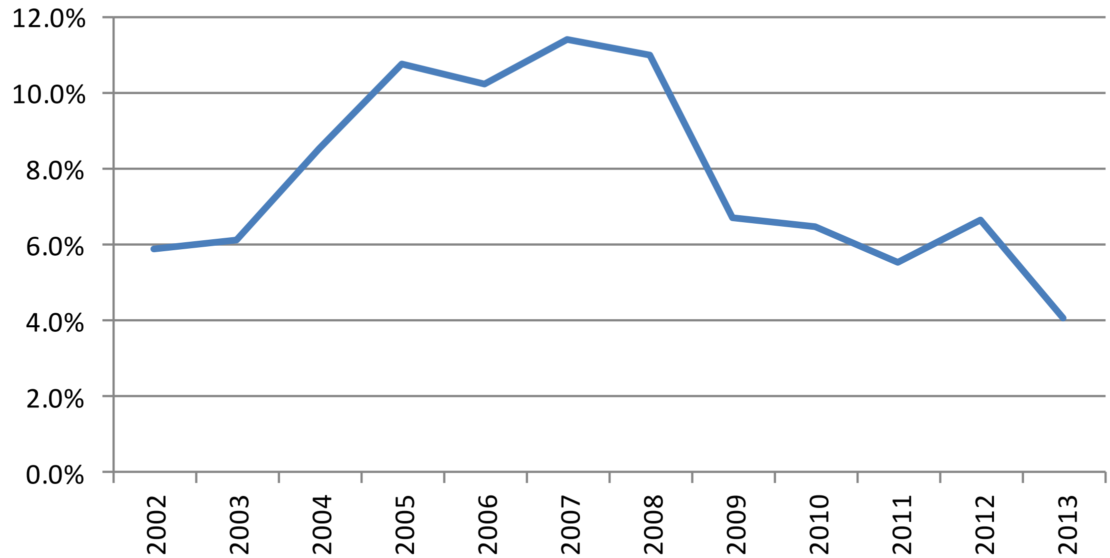
4. Volatility

Stability and predictability are two desirable characteristics of a property tax system, both for taxpayers and municipalities. Taxpayers need some certainty that tax payments will not change significantly from year to year in response to forces over which they have no control (for example, market changes). Municipalities need to know that their tax base is not going to change dramatically from year to year, necessitating tax rate or other revenue changes to meet budget requirements.

Figure 1 shows the annual increase in residential assessment for the province from 2002-03 to 2013-14. Residential assessment increased from 2002-03 to 2007-08 but the rate of increase has fallen considerably since that year. Between 2013 and 2014, the annual average increase was around 4 percent. Although the rate of annual increase in assessment has fallen, the increases are not necessarily uniform across neighbourhoods or individual properties. In other words, there could be some volatility in taxes for individual taxpayers.

Volatility can be a problem for taxpayers when values do not rise uniformly. For example, some neighbourhoods will be "hot" in some years and not in others. Even if total local tax revenues remain constant, there may be large swings in the distribution of the property tax burden when property values increase. Shifts in taxes on certain properties (those increasing – or decreasing -- more rapidly than the average for the municipality) are a particular problem when the market impact is not uniform across a jurisdiction.

Figure 1: Annual increase in residential assessment, Nova Scotia, 2002 -14



Source: Information provided by PVSC.
Note: This figure includes total assessment less new accounts. It does not, however, exclude all new construction.

Tax volatility can arise from two sources: (1) changes in the taxable assessed value of properties and (2) changes in the tax rate. Significant unanticipated changes in individual assessed values reflect market pressures and also create instability and unpredictability in the property tax system. Tax policy can also impact on volatility. In Nova Scotia, for example, there are no restrictions on municipal tax rate increases from year to year in response to an assessment change. In other words, if assessments increase by 10 percent overall, there is no requirement that tax rates fall by 10 percent. This is not to suggest that there should be such a requirement. Additional service demands or uncontrollable cost increases might necessitate municipal tax increases.

Assessment volatility may be driven by a number of factors, some of which are related to market forces and some to assessment practices.[8] The following reflect market forces:

- Re-zoning which changes land use and/or density will, in many cases, result in a new "highest and best use" for existing properties which will, in turn, increase property values. If zoning changes are initiated by the municipality, the resulting increase in assessed value is beyond the control of property owners and is thus unanticipated. If property owners initiate the zoning change, the resulting increase in property values is anticipated.
- In some cases, re-zoning will lead to speculation that will push up property values of neighbouring properties. Increased values reflect market anticipation that these properties will also be re-zoned or that they will be more desirable as a result of their proximity to the area being developed.
- Major infrastructure investment (such as transit or parks) will often increase property values of adjacent properties.
- Market trends may mean that some neighbourhoods are trendy for a period of time and will see higher property values as a result.

The following reflect the impact of assessment practices on volatility:

- The assessment process may itself create volatility. For example, there are occasions when the PVSC may uncover new evidence of market changes that was not available previously. A significant increase in assessment may result because there are only limited sales in a particular market, making it difficult for PVSC to determine if the few new and higher prices reflect an overall trend in a neighbourhood. Stakeholders claimed that PVSC does not always recognize market trends in assessments in a timely manner. In these cases, there can be sudden and significant increases in assessed value.
- Stakeholders also told us about problems with property inspections. Since only a portion of properties are inspected by assessors each year, additions to a house

[8] This section relies on comments from stakeholders and the findings of the recent report of the Vancouver Property Tax Policy Review Commission, City of Vancouver (2014).

(e.g. adding a garage or any other improvement) that increases the value of the property may not be captured for several years. When the property is reassessed to reflect the change, the value (and taxes) can increase dramatically in one year. In some cases, the problem results from the lack of a building permit so the assessors have no knowledge of the improvement until there is an inspection. In other cases, the improvement is just not added to the assessed value in the year in which it is made. Nevertheless, the property taxpayer has benefitted from under-paying property taxes until the improvement is captured.

Recommendation #4: To minimize spikes in assessed values, the Property Valuation Services Corporation (PVSC) should ensure that the assessment system captures changes to property values from additions and renovations in a timely manner.

In the Report of the Vancouver Property Tax Policy Review Commission, assessment volatility was considered to be a problem when a property experienced an unanticipated, year-over-year increase in total assessed value which exceeds the average assessment increase for the same property class by more than 10 percent. The Commission referred to these properties as "hot" properties.

Table 9 shows the percentage of "hot" residential properties by type of property in Nova Scotia for the period from 2008 to 2014, according to this definition. Although waterfront properties have the largest percentage of hot properties, they still only represented 5 percent of properties in that class in 2013-14. The percentage of hot properties in the residential class received a high of 6 percent in 2012-13 but has fallen back to 3 percent in 2013-14.

Annual reassessments are generally recommended as a way to minimize the magnitude of shifts in taxes arising from market changes from year to year. Although assessments are performed annually in Nova Scotia, as noted earlier, stakeholders told us that the spread between the base date for assessment purposes (two years prior to the assessment) and the date of assessment is problematic, particularly in rapidly changing markets. It is especially a problem for taxpayers whose circumstances have changed in the two-year period. Moreover, more frequent inspections of properties would reduce the surprise of a reassessment arising from an improvement to the property (see Recommendation #3 above).

Table 9: Percentage of "Hot" Properties by Property Class, 2008-2014

	Residential	Condominiums	Waterfront	Mobile Homes
2008-09	2%	6%	3%	0%
2009-10	3%	6%	4%	0%
2010-11	4%	0%	11%	0%
2011-12	4%	0%	8%	0%
2012-13	6%	3%	8%	0%
2013-14	3%	2%	5%	0%

Note: Hot properties are defined as properties whose values increased year over year by more than 10% above the average for the class.
Source: Data provided by PVSC

Another way to address volatility is through fiscal disclosure as is done in some other provinces (e.g. Ontario). As noted earlier, one of the reasons that property taxes are increasing is that some municipalities do not lower their tax rates when the assessment base increases. This problem could be addressed by implementing fiscal disclosure measures. These measures would require municipalities to put the revenue-neutral municipal tax rate on the tax bill. Any tax rate above that amount would be noted as a tax levy increase for that year and would be transparent to taxpayers. Fiscal disclosure would provide an incentive to municipalities to reduce tax rates when assessments increase.

Recommendation #5: The province should implement fiscal disclosure rules which require municipalities to put the revenue-neutral municipal tax rate on the tax bill following a reassessment and record any tax rate above that amount as a tax levy increase for that year.

Property Taxation Issues

Meetings with stakeholders raised a number of concerns with the property tax in Nova Scotia, including: capping residential assessment; commercial versus residential property taxation; provincial property taxes for education; property tax incentives; the tax treatment of agricultural and resource properties that are no longer used for these purposes; and urban/rural tax differentials.

5. Capping

The capping system in Nova Scotia, and the extent to which it has reduced the size of the assessment base, was described in Section D. CAP legislation was introduced in 2005 (retroactive to 2001) in response to property tax hikes that accompanied the housing market boom and the resulting increase in assessed values. Figure 1 showed increasing residential property values at the time the cap was introduced but declining property values since 2008.

Capping breaks the link between taxes and market values. Instead of being based on market value, property taxes are based on an unchanging measure. Breaking this link makes property taxes less uniform and more arbitrary.

Inequities

One of the major issues with capping that stakeholders identified was the unfairness that it creates. Capping is inequitable because properties with similar market values are not paying the same taxes. Moreover, the benefits of capping increase with the length of time the property is owned. In other words, assessment capping shifts the property tax burden from those who have owned property for a long time to recent homebuyers. In the case of the Nova Scotia capping program, CAP savings are cumulative so that the savings will be different for similar properties depending on when they entered the CAP program. Those properties that have been capped the longest enjoy the largest savings.

Table 10 illustrates the inequities in the Nova Scotia capping system with examples of specific properties in selected municipalities. The properties in the table highlight that properties of similar value in any given municipality can pay vastly different taxes depending on whether they are eligible for the CAP and when they entered the CAP program.[9] They are eligible, as noted earlier, if there has been no sale or new construction and if the occupants are residents and owners. The table shows that properties of similar value in the same municipality are paying different taxes because of different status under the CAP.

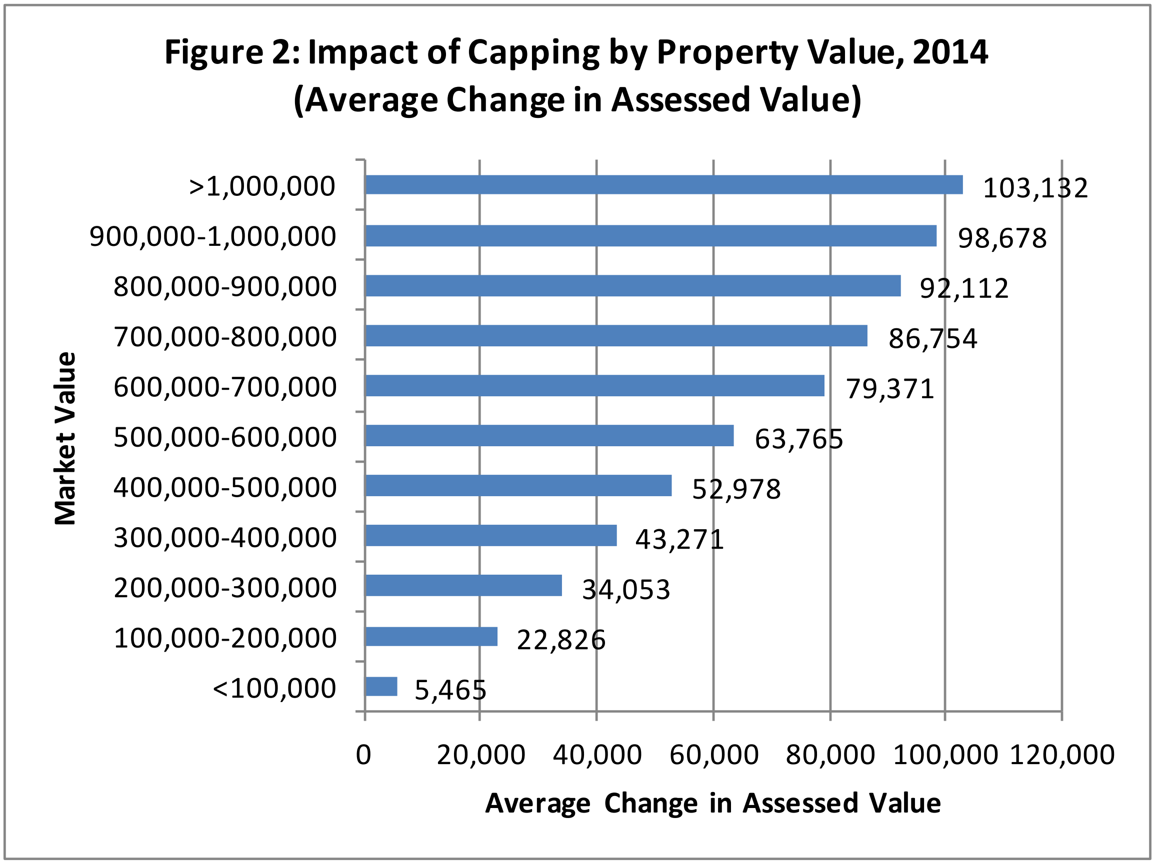
Figure 2 shows the impact of capping by property value in Nova Scotia in 2014. It shows that the value of the cap savings increases with property value, ranging from a low of $5,465 for properties valued less than $100,000 to $103,132 for properties valued at greater than $1 million. Figure 3 shows that cap savings as a percentage of market value generally decline with property value, however.

Table 10: Impact of CAP on Similar Properties, Selected Municipalities, Nova Scotia

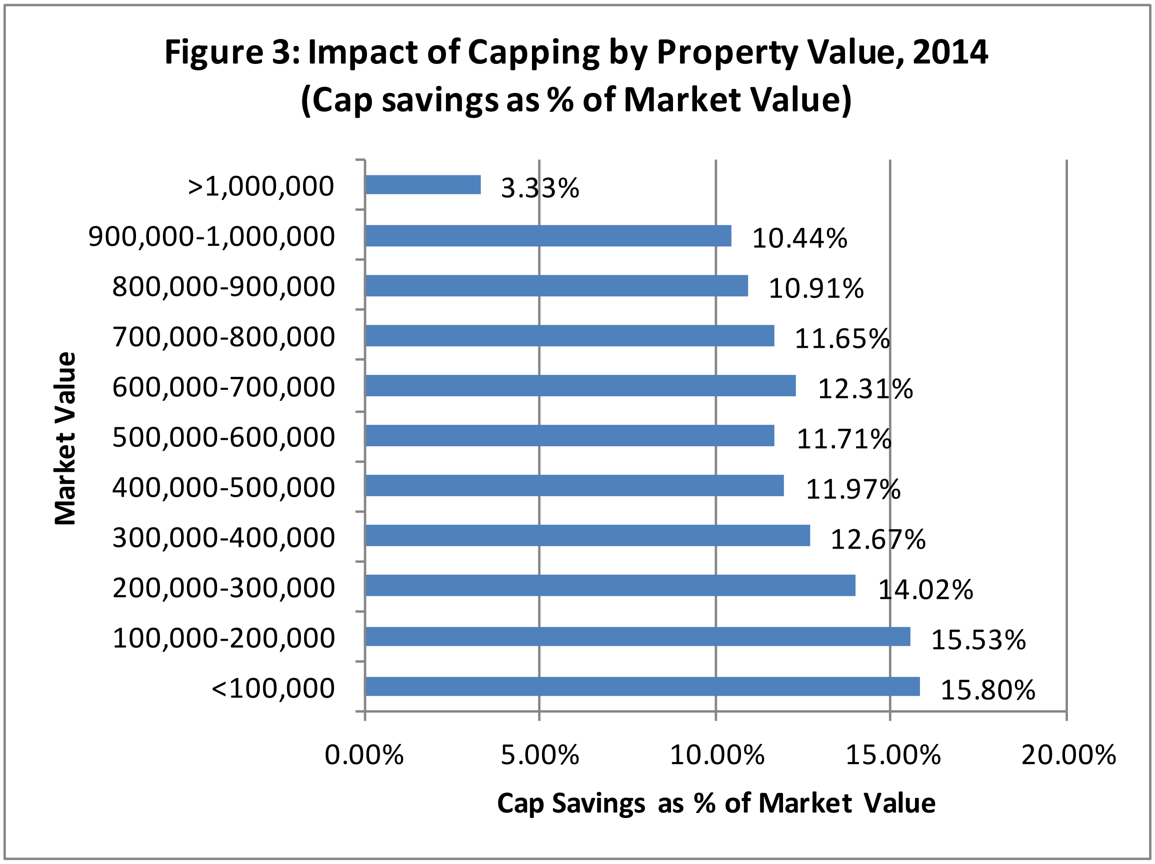
	Market value	Value after capping	Property Taxes	Comments
Halifax Regional Municipality				
Condominium #1	$132,300	$97,500	$1,190	In program since 2006
Condominium #2	$132,300	$122,300	$1,492	Sale in 2010 and 2009 reset CAP (previous year CAP - $86,100)
Condominium #3	$132,300	$132,300	$1,614	Ineligible for CAP (not owner-occupied)
Town of Lunenberg				
House #1	$227,400	$178,200	$2,156	In program since 2005
House #2	$260,400	$260,400	$3,151	Ineligible for CAP (non-resident)

[9] The idea that homes with similar market values can pay significantly different taxes was recognized in a provincial review of the capping program in Nova Scotia in 2011 (SNSMR 2011).

House #3	$259,900	$204,300	$2,472	In program since 2005
House #4	$251,000	$251,000	$3,037	No CAP (sale in 2011)
House #5	$403,000	$101,900	$1,233	In program since 2005
New Glasgow				
House #1	$463,000	$463,000	$8,430	Ineligible for CAP (new construction 2009)
House #2	$425,600	$425,600	$7,746	Sale in 2010; no CAP benefit for 2010 or 2011
House #3	$421,700	$322,600	$5,871	In program since 2007
Port Hawkesbury				
House #1	$175,600	$175,600	$2,845	Sale in 2011
House #2	$175,200	$145,100	$2,350	In program since 2008
Town of Yarmouth				
House #1	$328,000	$297,500	$5,206	In program since 2008
House #2	$327,700	$327,700	$5,735	Sale in 2011
House #3	$227,800	$193,200	$3,381	In program since 2005
House #4	$225,500	$225,500	$3,946	Sale in 2011
Municipality of the District of Chester				
House #1	$3,799,300	$2,344,000	$15,001	In program since 2005
House #2	$2,421,700	$2,276,600	$14,570	In program since 2008
House #3	$2,369,200	$2,369,200	$15,162	Ineligible for CAP (non-resident)
House #4	$193,600	$168,200	$1,076	In program since 2008
House #5	$193,600	$193,600	$1,239	Sale in 2011
Source: Information provided by Property Value Services Corporation				



Source: Based on information provided by PVSC.



Source: Based on information provided by PVSC.

These findings are similar to those in US studies. In California, for example, it was found that by 1991 taxes on newly purchased property in Los Angeles County were more than five times the taxes on property of equal market value owned since 1975 (O'Sullivan, Sexton and Sheffrin 1995). A study of the freeze in assessment in Muscogee County, Georgia shows that a house purchased in 1997 had, on average, an assessed value for 1997 local tax purposes that was 67 percent higher than the equivalent house purchased in 1983 or 1984 (Sjoquist and Pandey 2001). Similar to the findings for Nova Scotia, the average reduction in assessed value from the freeze was much larger for higher-valued properties than lower-valued properties but the percentage of market value declined as the value increased. The difference between the frozen (capped) assessment and market value was substantially larger for households with longer tenure and was associated with households that have higher incomes and who are older.

An analysis of the distributional implications of Proposition 13 in California concluded that the dollar amounts of the tax reductions increased with income but the reductions relative to income were largest for both the low-income and high-income households (Chernick and Reschovsky 1982). As the authors note, ironically the smallest declines in property taxes went to the middle income property owners who were the strongest champions of Proposition 13.

Unintended Consequences – Taxes May Increase

Some stakeholders suggested that it is important to retain the capping program because taxpayers benefit from the lower taxes that result. It is not the case, however, that all taxpayers under the CAP benefit from lower taxes. Assessment limits (capping) result in what Mark Haveman (the executive director of the Minnesota Taxpayers Association) refers to as "phantom tax relief" – the appearance of property tax relief where none actually exists (Haveman and Sexton, 2008). The reason for this characterization of capping is that the increase in the tax rate that is required to raise revenues when the size of the tax base has been reduced by limiting assessment can offset relatively small reductions in assessed value. The result is that, for some properties, a reduction in market value assessment actually results in higher property taxes.

Table 11 shows the impact of assessment capping on property tax rates in selected municipalities in Nova Scotia in 2014. In all cases, the lower assessment resulting from the CAP has necessitated a higher tax rate for the municipality to collect the same amount of property tax revenues. Using the information in Table 11, Table 12 shows the impact of capping for a hypothetical residential property that is valued at $200,000 but capped at $190,000. In all of the municipalities in Table 12, the assessment decline has been met by a tax increase. The reason is that, to raise the same amount of revenue with as without capping requires the tax rate to increase. If the capped savings are less than the tax rate increase, some capped properties end up paying more taxes with capping than they would pay without it.

Table 11: Residential Assessment and Tax Rates (Actual and Market Value), Selected Municipalities, 2014					
Municipality	Taxable Capped Assessment (dollars)	2014 Tax Rate	Residential Taxes (dollars)	Market Value Assessment (dollars	2014 Tax Rate if MV were used
HRM	32,662,346,300	1.21	395,214,390	37,151,985,000	1.06
CBRM	3,479,777,600	1.90	66,115,774	4,382,427,300	1.51
Lunenberg	2,198,982,200	0.81	17,811,756	2,569,176,900	0.69
New Glasgow	416,178,800	1.82	7,574,454	458,690,600	1.65
Port Hawkesbury	141,509,600	1.78	2,518,871	147,857,300	1.70
Yarmouth	278,516,100	1.74	4,846,180	284,902,800	1.70
Chester	1,326,107,800	0.66	8,752,311	1,553,839,400	0.56

Notes: The tax rate for HRM is the urban rate. The tax rate for CBRM is a weighted average of residential tax rates in the region.
Sources: Information provided by Property Value Services Corporation

Table 12: Tax Impact of Capping, $200,000 house capped at $190,000, Selected Municipalities, 2014					
Municipality	2014 Tax Rate	2014 Tax Rate if MV were used	Tax Under Capped Assessment (dollars)	Tax Without Capped Assessment (dollars)	Difference between capped and non-capped assessment
HRM	1.21	1.06	2,299	2,128	+171
CBRM	1.90	1.51	3,610	3,017	+593
Lunenberg	0.81	0.69	1,539	1,387	+152
New Glasgow	1.82	1.65	3,458	3,303	+155
Port Hawkesbury	1.78	1.70	3,382	3,407	-25
Yarmouth	1.74	1.70	3,306	3,402	-96
Chester	0.66	0.56	1,254	1,127	+127

Notes: The tax rate for HRM is the urban rate. The tax rate for CBRM is a weighted average of residential tax rates in the Regional Municipality. In the last column (difference between capped and non-capped assessment), a plus (minus) sign indicates that taxes levied are higher (lower) under the CAP program than they would be if the CAP were removed. The actual dollar value indicates the magnitude of this difference.
Sources: Information provided by Property Value Services Corporation

Another, perhaps unintended, consequence of capping is the tendency for taxpayers whose property values have increased the most to put pressure on municipal councils to raise expenditures knowing that their assessments are capped and they will pay proportionately less to fund additional expenditures than individuals whose property values have decreased or remained constant (Haveman and Sexton 2008). Established residents who benefit from time of sale reassessment demand more services than they would be willing to pay for if they faced a tax price that reflected their proportionate share of the cost. In Florida, for example, rising property values combined with assessment limits meant that the marginal cost to homeowners for expanding local spending was low (Hawkins, 2006). Property tax collections increased by over 70 percent from 2000 to 2006.

Complexity and Confusion

Capping complicates the administration of the property tax and creates confusion among taxpayers because the taxes paid are no longer calculated simply as a tax rate multiplied by the tax base. Moreover, there is no incentive to review one's assessment. If one of the reasons for the volatility has to do with assessment errors, these errors will never be corrected.

Impact on Mobility and New Construction

Since capping shifts the property tax burden from those who have owned property for a long time to recent homebuyers, it favours seniors over the younger population. Capping until time of sale also reduces the incentive to move and distorts economic decision-making. For example, homeowners may not move if their job location changes because their property taxes would rise even if they move to a house of equal value. Capping also creates a disincentive for skilled labour to move to the province because new homeowners pay the full property tax and are not capped.

The capping program discourages new construction which is not included under the CAP. Discouraging home building and population movement to the province (particularly a younger population) flies in the face of the report of the Ivany Commission which is looking for ways to support the Nova Scotia economy and, in particular, to attract and retain both inter-provincial and international immigrants, particularly young skilled workers, to grow the population and the economy (Nova Scotia Commission on Building Our New Economy, 2014).[10]

Difficult to Remove Capping... or is it?

Finally, it is difficult to remove a freeze: "once a freeze is imposed, the process of thawing may be too painful to bear" (Youngman, 1999, 1395). The current situation with the capping and clawbacks of commercial and industrial properties in Ontario provides an example of this point. It is difficult to go back to a straight market value assessment, even if it is a fairer system, after assessment-related tax increases have been capped for a period of time.

It is not impossible to remove capping, however. New Brunswick ended capping. In 2010, the province implemented a 3 percent cap on increases in assessment of owner-occupied property as a temporary measure, effective only for the 2011 and 2012 taxation years. The province felt that market value is essential for an equitable distribution of property taxes and that an assessment cap moves assessed values away from the market value of property. In 2013, the 3 percent cap was removed and replaced with a permanent assessment exemption. The assessment gap (difference between the 2012 market value and 2012 capped assessment) serves as a permanent exemption from taxation. Those properties that benefited from capping will be able to keep the savings until the house is sold or changes use. It is anticipated that the phase out would take 20 years. The province has also adopted "assessment spike protection" to protect homeowners from unanticipated assessment spikes. Any increase greater than 10 percent will be phased in over a number of years. New construction and major improvements are exempt from this protection.

Alternatives to Capping in Nova Scotia

[10] Some stakeholders have also expressed the concern that lower residential property taxes from capping could result in a shift onto the commercial property class. More study would be needed to determine if this shift is indeed occurring.

Some stakeholders told us that they did not like capping but felt that it could only be removed if it were replaced with something else. We suggest the following approach to get out of capping that also address the underlying problems of volatility:

- The assessment system should capture changes to property values on a timely basis. In particular, additions and renovations should be added to the assessment as soon as possible to avoid a surprise spike in taxes when the new assessment comes onto the roll. There may still be annual increases in assessments but they would be less of a surprise and not as large if they were put on the roll sooner. Recommendation # 4 above addresses this issue.
- The province should institute a system of fiscal disclosure that is used in other Canadian and American jurisdictions. Fiscal disclosure (known as truth in taxation in the US) requires municipalities to put the revenue-neutral municipal tax rate on the tax bill following a reassessment. Any tax rate above that amount would be noted as a tax levy increase for that year. In other words, an assessment increase has to be met with a concomitant tax decrease or be recorded on the municipal tax bill as a tax increase. In Ontario, for example, municipalities can hold tax rates constant (or increase them) when assessments increase but they have to report it as a tax increase on tax bills. Recommendation # 5 above addresses this issue.
- Although a case can be made to mitigate tax increases on those who cannot afford them, this mitigation is best done by targeting assistance to those who need it most rather than tampering with the assessment base. This can be done through property tax credits and tax deferrals that are targeted to those taxpayers that can least afford the property tax increases. Property tax deferrals for the elderly are also a way to help seniors stay in their homes when property taxes increase. As noted earlier, Nova Scotia does have property tax deferral programs at the municipal level. HRM, for example, offers a rebate that varies with income and the amount of the residential property tax. After the rebate has been applied,

taxpayers can postpone payment of all or a portion of the balance at an interest rate set by Regional Council.[11]

- Even with these measures, it may still be necessary to phase out the CAP. This could be done by simply increasing the cap each year from the CPI to 5 percent to 8 percent (or some other percentage) until everyone is finally out of the CAP.

Recommendation #6: In conjunction with the recommendations for a one-year assessment lag, timely reassessment for additions and renovations, and fiscal disclosure, the province should phase out the capping program by increasing the capping rate.

6. Commercial versus Residential Property Taxation

Table 7 reported general property tax rates for commercial and residential properties for every Regional Municipality, Town, and Municipality (rural) in Nova Scotia for the years from 2008-09 to 2013-14. In every municipality, commercial tax rates exceed residential tax rates and sometimes by a considerable amount. The differential in commercial versus residential property taxes is sometimes measured by a tax ratio which is calculated by dividing the commercial tax rate by the residential tax rate. A coefficient of 2.75, for example, means that the commercial tax rate is 2.75 times higher than the residential rate.

Table 13 reports the tax ratio for each Town, Municipality (rural), and Regional Municipality in Nova Scotia for 2008-09 to 2013-14. The ratios in HRM and CBRM are higher than the average ratio for Towns and Municipalities (rural). In the last few years (with the exception of Queen's Regional Municipality), the tax rate on commercial properties has been more than twice the average residential rate for all groups of municipalities. Moreover, this ratio has increased for almost all municipal property groups over the past decade, although there are some exceptions to this pattern. In some

Table 13: Ratio of Commercial General Property Tax Rate to the Residential General Property Tax

[11] The interest rate is Prime -2 percent for customers in the program and Prime +2 percent for customers whose income now exceeds the limits and must start a repayment plan.

Rate, 2008-09 to 2013-14						
Jurisdiction	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Regions:						
CBRM[1]	2.32	2.43	2.54	2.52	2.50	2.48
HRM:						
Urban	2.83	2.88	2.93	2.97	2.91	2.93
Suburban	3.10	2.94	3.02	3.02	2.98	----
Rural	2.77	2.62	2.73	2.76	2.71	2.74
Queens[2]	1.56	1.60	1.61	1.63	1.62	1.59
Towns:						
Amherst	2.46	2.58	2.75	2.75	2.74	2.73
Annapolis Royal	1.85	1.85	1.85	1.85	1.85	1.91
Antigonish	2.61	2.62	2.66	2.58	2.53	2.53
Berwick	2.14	2.28	2.41	2.41	2.44	2.52
Bridgetown	1.96	1.96	1.96	1.89	1.86	1.85
Bridgewater	2.18	2.28	2.43	2.43	2.42	2.42
Canso	1.74	1.74	1.74	1.74	1.74	-----
Clarks Harbour	2.93	3.12	3.36	3.38	3.38	3.38
Digby	2.00	2.03	2.03	2.03	2.06	2.10
Hantsport	1.97	2.06	2.14	2.22	2.28	2.28
Kentville	2.46	2.50	2.54	2.56	2.55	2.47
Lockeport	2.24	2.39	2.38	2.35	2.35	2.35
Lunenburg	2.54	2.54	2.54	2.55	2.64	2.55
Mahone Bay	2.25	2.40	2.47	2.46	2.50	2.53
Middleton	2.18	2.32	2.39	2.39	2.39	2.39
Mulgrave	3.08	3.28	3.46	3.41	3.45	3.43
New Glasgow	2.21	2.27	2.31	2.42	2.42	2.42
Oxford	2.65	2.92	3.17	3.13	3.13	3.13
Parrsboro	1.86	1.93	2.04	2.04	2.08	2.08
Pictou	2.06	2.14	2.21	2.34	2.36	2.36
Port Hawkesbury	2.28	2.37	2.46	2.62	2.64	2.46
Shelburne	1.81	1.87	1.85	1.85	1.85	1.89
Springhill	2.49	2.39	2.46	2.46	2.46	2.46
Stellarton	1.95	1.95	2.28	2.28	2.28	2.28
Stewiacki	1.77	1.91	2.01	2.01	2.01	2.01
Trenton	2.76	2.76	2.76	2.76	2.76	2.76
Truro	2.28	2.38	2.54	2.52	2.52	2.51
Westville	1.76	1.76	1.76	1.78	1.82	1.77
Windsor	2.07	2.05	2.08	2.08	2.08	2.08

Wolfville	2.42	2.49	2.50	2.48	2.48	2.48
Yarmouth	2.20	2.41	2.58	2.58	2.58	2.59
Unweighted avg.	2.20	2.27	2.35	2.36	2.37	2.39
Municipalities (rural):						
Annapolis	1.89	1.84	1.84	1.84	1.84	1.84
Antigonish	1.63	1.68	1.68	1.68	1.68	1.66
Argyle	2.00	2.06	2.10	2.10	2.10	2.10
Barrington	2.35	2.48	2.48	2.48	2.48	2.47
Chester	2.45	2.48	2.43	2.41	2.41	2.32
Clare	1.94	1.92	2.03	2.03	2.03	2.03
Colchester	2.70	2.66	2.74	2.71	2.68	2.68
Cumberland	2.28	2.38	2.53	2.53	2.53	2.53
Digby	1.37	1.42	1.42	1.42	1.42	1.42
Guysborough	3.64	3.98	4.34	4.23	4.23	4.23
Hants East	2.88	3.07	3.00	3.03	3.08	3.10
Hants West	1.78	1.76	1.77	1.76	1.79	1.83
Inverness	1.84	1.81	1.81	1.81	1.81	1.81
Kings	2.45	2.54	2.69	2.69	2.69	2.69
Lunenburg	2.43	2.43	2.54	2.48	2.36	2.42
Pictou	1.95	2.11	2.25	2.25	2.25	2.69
Richmond	2.49	2.64	2.68	2.68	2.68	1.42
Shelburne	1.40	1.40	1.40	1.42	1.42	2.60
St. Mary’s	2.30	2.62	2.56	2.60	2.60	1.75
Victoria	1.80	1.80	1.80	1.80	1.79	1.87
Yarmouth	1.85	1.87	1.87	1.87	1.87	1.87
Unweighted Avg.	2.08	2.15	2.19	2.19	2.19	2.16

[1] Tax rates are for the City of Sydney.
[2] Tax rates are for Liverpool.

Source: Calculated from data available from Nova Scotia Municipal Services

cities in other provinces (such as Ontario and BC), the ratio has been falling because of initiatives to reduce the differential between residential rates and commercial rates (see discussion below).

Higher property tax rates on commercial properties raise at least two challenging issues. First, are these higher rates justified in the context of a sound municipal finance system; that is, are commercial and industrial properties overtaxed relative to residential properties in terms of the benefits they receive from municipal services? Second, do higher commercial tax rates have an impact on economic activity and competitiveness? Each of these issues is discussed below.

Are non-residential properties overtaxed relative to benefits received?

The taxation of business properties (commercial and industrial) at higher tax rates than residential properties is a common practice across Canada, as it is in many other countries (Bird and Slack, 2004). Higher taxation of business properties creates a number of efficiency, equity, and accountability concerns. Efficiency in municipal service levels will not be achieved if revenues collected from property taxes on business properties are used to subsidize services consumed by the residential sector. This subsidization means that the residential tax rate will be less than it would be in the absence of the subsidy and an oversupply of municipal services could follow because, as will be noted below, residential taxpayers determine the nature and level of services (they vote).

Equity is not achieved if those benefiting from the services are not paying full costs. Taxation of non-residential properties relative to the benefits they receive from local services has been addressed in a handful of Canadian studies. These studies estimate the benefits that the non-residential sector gets from the consumption of local public services compared to the residential sector. The findings suggest that the residential sector receives proportionately more benefits from local government services than the non-residential sector. The reason is that the non-residential sector relies less heavily on social services, social housing, elementary and secondary education, libraries, recreational facilities, and it is often responsible for providing its own garbage collection, security, and fire protection. The following summarizes three Canadian studies that examined the consumption benefits of businesses relative to residential properties:

- A review of property taxes and municipal expenditures in eight municipalities in Ontario in 1990 concluded that non-residential property taxes ranged from 28 to

51 percent of total local property taxes but accounted for only 31 to 40 percent of municipal expenditures (Kitchen & Slack, 1993).

- A more recent study in the City of Vancouver (MMK Consulting, 2007) concluded that the non-residential sector paid $2.42 in taxes for each $1 of benefit received, while the residential sector paid only 0.56. The study also concluded that the non-residential share of services consumed was 24 percent of the total; the residential share was 76 percent.
- In a *Commentary* by the C.D. Howe Institute (Mintz and Roberts, 2006), the authors concluded that the non-residential sector is over-taxed relative to the residential sector when compared with the benefits that each of these sectors receives.

Although the benefits-received principle is legitimate and the consumption approach has some validity, the value of these studies is somewhat limited. Not only are these studies based on a set of assumptions that may be questionable, the measures of benefits do not include the indirect benefits enjoyed by non-residential properties. These benefits include, for example, the quality of life in the city (for example, safety, parks and libraries, etc.) which influences business location decisions and their ability to attract skilled labour. Although the over-taxation of businesses relative to benefits received is real, the magnitude of that over-taxation has not been quantified with any precision.[12]

In terms of accountability, non-residential property owners pay property taxes but are not eligible to vote in municipal elections.[13] This situation undermines the principle of accountability because residents have the most influence over the type and level of services provided but do not pay a proportionate share of the costs of those services. Moreover, business property taxes may be exported to residents of other jurisdictions – in other words, some portion of the local tax burden may be borne by people who live elsewhere either through a change in relative commodity prices or a change in the net return to non-locally owned factors of production (inputs in the production process). For

[12] This point was also raised in the City of Vancouver (2014).
[13] The point that businesses do not vote is also made by CFIB (2011 and 2012).

example, if higher effective tax rates on commercial and industrial properties lead to relatively higher prices charged on the sale of that community's exports to other communities, the taxing jurisdiction will have effectively shifted part of its tax burden onto residents of other communities.[14] When the commercial/industrial sector exports its tax burden, municipal government accountability is weakened because the direct link between the municipal government responsible for local services and the ultimate person paying the tax is absent.

Do non-residential property taxes impact economic activity and competitiveness?

Over-taxation of the non-residential sector can lead to less economic activity, lower output, fewer jobs and a less competitive business environment (Ottawa, 1998, chapter 2). Because property taxes on business properties increase the marginal effective tax rate on capital, they can discourage investment on structures and reduce the competitiveness of the business sector (Dahlby, 2012).

Do property taxes affect business location?

There is no general agreement about the importance of property taxes in location decisions. Indeed, some stakeholders in Halifax told us that there is no concrete evidence that the tax differential between commercial and residential properties is having much impact on business location, although the differential does make it difficult to promote the HRM as a competitive location.

The available evidence, most of which is drawn from the United States, suggests that property tax differentials are relatively unimportant in inter-municipal or inter-regional location decisions but do play a role in intra-municipal or intra-regional location decisions (Bartik 1991). These results are not surprising. In terms of inter-metropolitan location decisions, business activity is most influenced by market conditions, the

[14] Exporting will also occur because commercial and industrial property taxes are deductible from provincial and federal corporate income taxes, shifting part of the burden across the province and the country (Dahlby 2012).

availability and cost of a skilled labour force, the presence of necessary production materials, and proximity to markets. Since property taxes account for a relatively small proportion of the total costs for most businesses, it is unlikely to be large enough to initiate a relocation decision or encourage significant business activity. Intra-metropolitan location decisions, on the other hand, may be affected by property tax differentials because the other factors (skilled labour, access to markets etc.) are similar.

The response to business taxes also varies for different types of business activities because industries differ in terms of their responsiveness to fiscal variables. For example, tax-sensitive firms are more likely to locate in a low-tax jurisdiction. According to studies that have been undertaken on different industries, manufacturing location decisions tend to be more sensitive to taxes than non-manufacturing location decisions. The reason is that the manufacturers are more oriented to the national market. Local costs will have a larger effect on their profits because it will be more difficult to pass these costs on to consumers. Moreover, manufacturers tend to be more capital intensive and local property taxes are taxes on capital (Bartik, 1991).

Where there are advantages to locating near similar activities (a phenomenon known as agglomeration economies), the tax will have a less significant impact.[15] Some examples might include a trendy shopping area or a financial district where there are significant advantages from being in a particular location. In these cases, the property tax will be less important in the business location decision than in those cases where business is fairly mobile.

Do property taxes affect competitiveness?

[15] A study of office buildings in downtown Chicago found that 45 percent of the amount by which the property tax in one building exceeded the tax in another was shifted forward onto tenants as higher gross rents per square foot and 55 percent was borne by the owner (McDonald, 1993). The fact that some firms, such as large financial institutions, are willing to pay a premium for a location in the downtown core suggests that these firms/businesses benefit from "economic rents" created by that location.

The few studies on non-residential property taxes and economic competitiveness suggest that the impact of property taxes depends on a number of factors – the nature of the business decision (investment in new facilities, ongoing operations, etc.), the business in question (pulp and paper, forestry, mining, etc.), plus several other factors.

A BC study of industrial property taxes undertaken by Davies Transportation Consulting Inc. et al. (2011) for the Union of British Columbia Municipalities (UBCM) and the BC Ministry of Community, Sport and Cultural Development analyzed the impact of property taxes on the most important business decisions of major industrial facilities in that province: investment in new facilities, ongoing operations and temporary closures, re-investment in existing plants, and economic obsolescence and plant closure.[16] In their analysis of a sample of individual companies in BC, property taxes did not generally account for "a dramatically disproportionate share of costs relative to national averages." Their findings suggest the following:

- Under typical operating conditions, property taxes are not a major issue for competition. The reason is that property taxes represent a relatively small portion of overall costs and, as long as industries are operating profitably, the tax has little impact on business operating decisions.
- In terms of investment in major capital projects, property taxes are not a significant factor because they are small relative to total costs and relative to the potential revenue from the new investment. These investments tend to be undertaken when commodity prices are high and investors see a potential for extraordinary profits.
- When it comes to re-investment in existing facilities, however, property taxes do have an impact. These investments tend to be undertaken when commodity prices are low in order to maintain production capacity or reduce operating costs.
- Property taxes have a larger impact on firms with facilities in many different locations. These firms will optimize the allocation of capital to those projects

[16] Their case studies included: pulp and paper, sawmills, mining, aluminum and smelting, shipbuilding and repair, and marine terminals and grain elevators.

which have the highest return. Other things being equal, firms will thus have an incentive to invest in those jurisdictions that have lower industrial tax rates.

- For firms in financial distress, property taxes are a major factor because they may account for a large portion of the firm's fixed costs.

One argument that is often cited to justify higher property taxes on businesses is that they can deduct all expenses incurred in earning income (including property taxes) and owner-occupiers of residential dwellings are not allowed similar deductions. The extra tax on business is justified on the grounds that it evens out the disparities in taxes that would otherwise exist. Although it is true that owner-occupiers are not able to deduct property taxes, it is also the case that owner-occupiers are not required to include in taxable income either imputed income from their owner-occupied dwellings or capital gains earned on the disposal of their principal residences (Boadway and Kitchen, 1999, chapter 3). Such exclusion is similar to a deduction from income for tax purposes (as in the case of the tax on businesses) in that both reduce the taxable economic income of the taxpaying unit.

What have other jurisdictions done to reduce the burden on non-residential properties?

The higher taxation of the non-residential sector has generated some policy initiatives across the country. Beginning in 1995, for example, Vancouver city council shifted some of its tax burden from the commercial and industrial sector onto the residential sector each year for five years. In response to the recommendations of the Vancouver Property Tax Policy Review Commission in 2007, the city continued to shift some of the burden of the business class onto the residential class. The business/residential tax ratio decreased from 5.8:1 in 2006 to 4.2:1 in 2013.

Beginning in 1998 in Ontario, as part of the property tax reforms, the provincial government introduced policies to reduce the over-taxation of non-residential property. Transitional tax ratios were regulated by the Province as upper limits on the municipal ability to shift more of the relative tax burden onto non-residential property. The transitional tax ratios reflected the relative tax burden by comparing the notional effective tax rate (taxes as a percent of assessed value) of a particular property class (e.g. commercial property) to the effective tax rate of the residential property class. Subsequently, the relative burden of taxation has been measured by “tax ratios” for each class of property. The ratio is calculated by dividing the tax rate for each class by the tax rate for the residential property class. At the same time, ‘ranges of fairness’ were established to block any increase in the relative tax burdens of the non-residential property classes. In 2001, the provincial government in Ontario announced that tax increases in municipalities where the ratios were beyond the provincially established average ratios - must be imposed on the residential sector and not on the commercial/industrial sector. In 2003, greater flexibility was provided to allow an increase in the tax rate on these classes of property of up to 50 percent of the increase in the residential rate (Bird, Slack, and Tassonyi, 2012).

Once the path was set by provincial policy, the City of Toronto began reducing the ratio between the tax rates on non-residential and residential properties. The target was to reduce the ratio from 4:1 in 2004 to 2.5:1 by 2013 for small businesses and by 2017 for all non-residential properties.

Should business property taxes be reduced in Nova Scotia?

As already noted, business property taxes are higher than residential property taxes throughout Nova Scotia, as elsewhere in Canada and around the world. Unfortunately, there is no single means of determining the appropriate tax rate ratio for business relative to residential properties. Stakeholders offered some ideas of an appropriate ratio but provided no justification for their suggested ratio. Nor were we able to obtain any empirical evidence of business leaving the province solely because of property taxes. Hence, we are not in a position to make a recommendation on the appropriate ratio of commercial to residential tax rates, but we are suggesting that municipalities monitor the impact of commercial property taxes on their ability to attract and retain business.

Ultimately, the task of setting tax rates and ratios requires judgement on the part of decision-makers. Local governments should monitor tax changes in their municipality and neighbouring municipalities as well as the attractiveness of their municipality for business investment. This information should help to determine whether tax ratios need to be changed, keeping in mind that a lower commercial tax rate will be borne by higher residential tax rates.

The Report of the Vancouver Property Tax Policy Review Commission recently recommended a series of eight metrics to determine if the tax burden between commercial and residential property classes should be changed. Five metrics compare the commercial property tax situation in Vancouver to that of neighbouring municipalities – tax share, tax rates, tax per square foot, taxes per capita, and the tax rate ratio. The final three metrics gauge the ability of the city to retain and attract business investment relative to its neighbours (change in building permits, change in assessment, and change in vacancy rates). Municipalities in Nova Scotia that are concerned about the impact of commercial property taxes on business activity should consider applying these metrics.

7. Tax Incentives -- should property taxes be used to stimulate economic development?

As noted above, there is some consensus in the academic literature that property taxes have a small but significant influence on business location within metropolitan areas but not between metropolitan areas. There is no consensus, however, on the extent to which property tax incentives are an effective strategy for achieving economic growth.

Those who favour property tax incentives argue that recipient firms provide benefits to the community that exceed the costs to the municipality for business services and environmental degradation caused by the businesses (Glaeser, 2002).[17] When incentives succeed in attracting new business to a city, they can increase income and employment,

[17] Presumably this is the justification for the recommendation of the Towns Task Force to allow Towns to be able to levy a lower commercial tax rate within defined geographic boundaries of the downtown core (Towns Task Force, 2012).

expand the property tax base, and revitalize distressed areas (Kenyon, Langley, & Paquin, 2012). In the best of all cases, attracting a large facility can increase worker productivity and attract other firms to the area, creating agglomeration economies (benefits from firms locating in close proximity) (Glaeser, 2002). Finally, tax incentives are an indication that the municipality is pro-business (Brunori, 2007).

Opposition to tax incentives focuses on the zero-sum aspects of tax competition: development at one location will be at the expense of development at another location. Tax incentives are often wasted on firms that would have located there anyway. Lower taxes are offered to new businesses locating in the municipality at the expense of existing residents. Tax incentives can lead to unfair competition among businesses and can lead to a situation where no major investments occur without them. Tax cuts need to be financed in some way and, if they are financed by cutting public services that businesses want, the net effect on economic development could be negative. Indeed, the extensive US evidence suggests that such incentives often lead to a deterioration of the tax base and lower levels of public services (Kenyon, Langley, and Paquin, 2012).

Finally, if one jurisdiction lowers its property tax rate on businesses and neighbouring jurisdictions keep their taxes the same, the expected impact on business activity in that jurisdiction is likely to be much greater than if all jurisdictions in the metropolitan area lower their business tax rates (Wassmer, 2007). Property tax incentives are effective for the first jurisdiction that implements them but once they proliferate across the metropolitan region, they lose their effectiveness in promoting economic growth (Kenyon, Langley, and Paquin, 2012). The overall findings from the US literature suggest that tax incentives have a poor record in promoting economic development (Kenyon, Langley, and Paquin, 2012).

In looking for ways to attract development, municipalities should remember that public services also influence economic development. Higher taxes that are matched by better public services may not discourage firms from locating in a municipality. Expansion of public services may reduce the prices paid for those services by business (for example, education expenditures may reduce the quality-adjusted prices of labour by increasing the supply of workers of a given quality) (Bartik, 1991). Firms prefer to locate in communities with extensive business-related services because, without local government provision of these services, the firms would likely have to provide them on their own.

8. Should provincial property taxes be used to fund education?

Most provinces in Canada levy a provincial property tax (see Appendix Table 2) on the pretext that these revenues are used to partially fund elementary and secondary public schools. Newfoundland and Labrador is an exception in that it does not levy a provincial property tax. Manitoba is the only province where school boards set their own property tax rate for funding a portion of local education costs. Elsewhere, the province sets the property tax rate and revenues go into general funds.

For Nova Scotia, Table 14 records the level of property taxes for education and for municipal purposes for 2009, 2010, and 2011 (Panel A). For the entire province, the provincial education property tax amounted to more than $206 million in 2011. Municipal property taxes, by comparison, exceeded $876 million in 2011. Panel B of the Table notes the relative importance of education and municipal taxes for each grouping of municipalities for the same years. Over this three-year period, the relative importance of the provincial education tax fell for each municipal group.

There is no question that the public education system provides direct benefits to its students along with indirect or collective benefits for residents of the community and the province. If one adheres to the benefits principle for financing local public services, there may be merit in a financing system that assigns some property tax funding responsibility to local residents. In other words, if the local community benefits from local schools, there may be an argument for some local property tax funding to support these schools. This assumes, however, that local school boards have the power to set the local education tax rate and retain the revenue for local school needs. Except for a small education tax rate in HRM where the revenues are spent in the HRM, none of this happens in Nova

Scotia. The province sets the tax rate and is free to use the revenues where it chooses – it may be on schools, but it may not be on schools. In this way, revenue from the provincial property tax is really no different than revenue from the provincial income tax or the Harmonized Sales Tax (HST). Since neither of these taxes is shared with municipalities, one may very well ask why the municipal sector should share the property tax with the province.

There is also an issue of accountability and transparency. Since local governments collect the property tax for municipal and education purposes, it is not clear to taxpayers that part of the property tax they pay goes to the provincial government and that it is the provincial government that sets the education property tax rate. Even though provincial education property taxes are itemized separately on the property tax bill, taxpayers tend to look at the total taxes they have to pay and blame the municipality for levying the taxes. If the province were to vacate the property tax field, it would increase transparency. Moreover, in a revenue neutral world and using 2011 as an example, property tax rates for Towns, on average, could have fallen by 11.9 percent; for Municipalities, by 24.1 percent; and for Regional Municipalities by 18.8 percent.[18]

A number of stakeholders expressed concern with the province's involvement in property taxation, with some merit. The property tax is an appropriate tool for funding municipal services (see Slack and Bird, 2014; Bird, Slack, and Tassonyi, 2013; Kitchen and Tassonyi, 2012) but it is not a good tax for funding provincial services. Provinces should be responsible for services that are primarily redistributional in nature and those that generate significant spillovers (Kitchen, 2002). Schooling qualifies on both accounts (Auld and Kitchen, 2006). In line with this, it follows that these services are more appropriately funded by taxes more closely aligned to ability to pay than by taxes based on assessed property values. This means funding education from the income tax and the

[18] Revenue neutrality means that the same amount of revenue is collected for municipal tax purposes after the education property tax is removed from the property tax base as was collected before it was removed. Of course, if municipalities choose to increase expenditures with this additional tax room, property taxes will not decline as much.

HST. If the province were to follow this direction, it would reduce the pressure on the property tax and increase transparency in the property tax system.

A strong case can be made for the province withdrawing from education property taxes and leaving tax room for municipalities. Nevertheless, most other provinces levy a provincial property tax and the implications of a provincial withdrawal would be very significant. For this reason, we are not making a recommendation to go that route at this time. Rather, more study is needed to determine the feasibility of such a move in the context of provincial-local responsibilities more generally.

9. **Tax treatment of agricultural and resource properties no longer used for those purposes**

In lieu of property taxes on agricultural land, municipalities in 2014/15 are permitted to levy a charge not exceeding $2.90 per acre. This charge or rate is indexed annually by the increase in the CPI. For forest property classified as resource property (less than 50,000 acres), the charge or rate is $0.25 per acre. For forest property classified as commercial property (more than 50,000 acres), the charge or rate is $0.40 per acre. These rates have been set at the current level for a number of years and are not indexed.

In meetings with stakeholders, two concerns were raised around the taxation of these properties. First, there was a concern that the rates on forestry properties had not changed in a number of years while commercial and residential property tax rates have increased. Second and more importantly, there was considerable concern about the growing acres of agriculture and forest land on which these relatively low rates are applied when, in practice, the land is no longer used for agriculture and forestry.

Table 14: Education and Municipal Property Taxes, 2009-2011

	2009			2010			2011		
Panel A: Education and Municipal Property Taxes in thousands of dollars									
Jurisdiction	Education	Municipal	Total	Education	Municipal	Total	Education	Municipal	Total
	($000)	($000)	($000)	($000)	($000)	($000)	($000)	($000)	
Towns	17,532.4	121,222.9	138,755.4	17,849.3	126,111.3	143,960.6	17,687.9	130,335.1	148,022.9
Municipalities (rural)	58,302.4	163,776.9	222,079.3	59,247.2	177,545.2	236,792.4	59,171.6	185,872.7	245,044.3
Regional Mun.	126,063.3	502,143.2	628,206.5	129,762.9	536,527.0	666,289.9	129,528.6	560,408.1	689,936.7
Total	201,898.1	787,143.0	989,041.1	206,859.3	840,183.6	1,047,042.9	206,388.1	876,615.8	1,083,003.9
Panel B: Percentage Distribution[1] of Property Taxes									
	2009			2010			2011		
Jurisdiction	Education	Municipal	Total	Education	Municipal	Total	Education	Municipal	Total
	%	%	%	%	%	%	%	%	%
Towns	12.6	87.4	100.0	12.4	87.6	100.0	11.9	88.1	100.0
Municipalities (rural)	26.3	73.7	100.0	25.0	75.0	100.0	24.1	75.9	100.0
Regional Mun.	20.1	79.9	100.0	19.5	80.5	100.0	18.8	81.2	100.0
Total	20.4	79.6	100.0	19.8	80.2	100.0	19.1	80.9	100.0

[1] Weighted average for each municipal group.

Source: Calculated from data in the *Annual Report of Municipal Statistics*, Nova Scotia Government.

Two things should happen here. First, the rates on forestry properties should be indexed to the annual increase in the Consumer Price Index just as they are for agricultural properties. Second, more careful attention should be paid to the assessment of these properties to ensure that they are actually being used for agriculture and forestry purposes. Otherwise, the rates should be changed to reflect their current use.

Recommendation #7: The province should index the forest acreage levy annually to reflect the rate of inflation. The relatively lower rates levied on agricultural and forestry properties should only apply to lands currently used for agriculture and forestry purposes.

10. Urban/rural tax differentials

In meetings with stakeholders, the issue of the differential in the tax rate between urban and rural municipalities was raised, primarily in Regional Municipalities where there are different rates for urban and rural areas. In principle, differential tax rates have a number of advantages (Kitchen and Tassonyi, 2012). They are fair on the basis of benefits received as long as the variation in the rates captures the variation in the different cost of servicing different property locations. They are efficient if designed to recover the cost of local public services consumed - no incentive exists for a household or firm to alter its behaviour or location to avoid the tax as long as it matched the cost of services consumed.

Some stakeholders suggested that the rural tax rate is too high compared to the residential rate because they claimed they receive fewer tax-funded services than the urban area. At least one stakeholder group suggested the opposite; that is, the rural tax rate should equal the urban tax rate because rural residents have access to the same services as urban residents.

There is no obvious answer to the different positions noted above. What may be said, however, is that rural areas do benefit from services provided in neighbouring urban areas and often without paying for them. For example, rural residents visit urban areas for entertainment, recreation, shopping, employment, etc. and in the course of their visit, they benefit from many services provided in the urban area – roads, streets, street lighting, parks, recreation and cultural facilities, police and fire protection if they need it, and so on. To argue that rural residents receive no benefit from urban services is simply not accurate.

What does the above suggest about the urban rural tax differential in Nova Scotia? Where an urban and neighbouring rural area are part of the same taxing jurisdiction, such as in the Regional Municipalities, the rural area could reasonably be expected to pay for some of the services in the urban area because the residents of the rural area have access to these services and benefit from them. What the rate should be to capture these benefits is an empirical question that cannot be answered here. For this reason, we have not made a recommendation on the appropriateness of the urban/rural differential. This issue should be resolved by each individual municipality.

Summary of Recommendations

Recommendation #1: The province should retain market value property assessment as the municipal tax base.

Recommendation #2: The province should re-examine the list of exempt properties to ensure that there is a strong public policy rationale for their continuation. At the same time, payments in lieu of taxes should be examined to ensure that the province is paying its fair share.

Recommendation #3: The Property Valuation Services Corporation (PVSC) should move to a one year assessment lag in setting annual assessed property values.

Recommendation #4: To minimize spikes in assessed values, the Property Valuation Services Corporation (PVSC) should ensure that the assessment system captures changes to property values from additions and renovations in a timely manner.

Recommendation #5: The province should implement fiscal disclosure rules which require municipalities to put the revenue-neutral municipal tax rate on the tax bill following a reassessment and record any tax rate above that amount as a tax levy increase for that year.

Recommendation #6: In conjunction with the recommendations for a one-year assessment lag, timely reassessment for additions and renovations, and fiscal disclosure, the province should phase out the capping program by increasing the capping rate.

Recommendation #7: The province should index the forest acreage levy annually to reflect the rate of inflation. The relatively lower rates levied on agricultural and forestry properties should only apply to lands currently used for agriculture and forestry purposes.

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Appendix A – Inter-Provincial Comparisons

Appendix Table 1: Assessment Categories and Municipal Tax Rate Structure		
Province	**Assessment Categories**	**Municipal Tax Rates**
Newfoundland and Labrador	Residential, commercial, or part residential and part commercial. Productive farmland and buildings associated with this land are exempt.	Tax rates are set locally. Most municipalities apply uniform rates except for St. John's where there may be 2 rates (residential and commercial). Managed forests are taxed on a per acre rate. Utilities pay a tax of 2.5% of revenues collected in the municipality.
Prince Edward Island	Commercial and non-commercial. Commercial property excludes farm property and buildings, nurseries and market gardens, and timberland. Farmland is assessed as value in farm production and not at market value.	Each municipality sets two municipal property taxes - one for commercial assessment and another for non-commercial assessment. In some municipalities, the commercial rate is higher than the non-commercial rate and in others it is the same. There are no provincial restrictions on these rates. Provincial property tax rates are levied at a fixed rate - $1.50 per $100 of assessed value on both commercial and non-commercial property. Provincial tax rates are lower for residents than for non-residents – the difference is $0.50 per $100 of assessed residential value. Tax credits are also applied in two cities for roads and all municipalities that provide police services.
Nova Scotia	Residential, commercial, and resource which includes farm properties, forest properties if less than 50,000 acres, community buildings used for commercial fishing boats, and the land of municipal water utilities. Farm land is exempt.	Tax rates are set locally. Property tax rates are differentiated by property class – one rate for residential properties and another rate for commercial properties. Halifax has two basic rates for each property class, (one for urban and one for rural), and many area rates. Municipalities are permitted to levy a farm acreage tax not exceeding $2.10 per acre in lieu of property taxation of agricultural land. For forest property classified as resource property (less than 50,000 acres), the property tax is levied at $0.25 per acre. For forest property classified as commercial property (more than 50,000 acres), the property tax is levied at $0.40 per acre.

		Finally, municipalities are permitted to impose a minimum tax per dwelling unit as part of their budget process.
New Brunswick	Residential and non-residential. Special provisions apply to the assessment of farmlands, farm woodlots, freehold timberland, golf courses, charitable and not-for-profit organizations, and horse racing parks – they are assessed at value in current use. Farm properties in excess of five hectares are assessed at their value as farmland; farm buildings and up to five hectares of land are assessed at market value. Freehold timberland is assessed at a fixed value of $100 per hectare. Farm woodlots are assessed at a value that realizes a tax rate of $1.00 per hectare on the combined provincial and municipal tax for the previous year.	There are two property taxes. A provincial tax of $1.50 and $2.25 per $100 of assessed value is levied on residential and non-residential property, respectively. Each municipality sets its own municipal property tax rate but the non-residential municipal tax rate must be equal to 1.5 times the residential municipal tax rate – this is a provincial requirement. Owner-occupied residential properties within cities, towns and villages receive a full credit on the provincial tax rate. Owner-occupied residential properties outside of these municipalities receive a credit of $0.85 per $100 of assessed value. A rental levy of $0.5 per $100 is applied to non owner-occupied residential properties. Beginning in 1999, property taxes paid by registered farm operations were capped at the average rate charged by local service districts (non-incorporated municipalities) - currently 27 cents per $100 of assessed property value. This is to even out the tax burden for farmers in both incorporated and unincorporated municipalities.
Quebec	Properties are not differentiated except for farms, natural gas, electricity, and telecommunications systems. Farmland is assessed at market value for municipal taxation purposes but there is a ceiling of $375 per hectare at which such land may be assessed for school board	The general property tax rate is set by local councils. They have the opportunity to levy up to 6 tax rates depending on the property category (e.g. residential, multi-residential, commercial, etc.). The residential rate is applied to farm properties and the government provides grants of roughly 75 percent of municipal taxes (excluding the taxable value of the farmer's residence).

	taxation.	
Ontario	There are seven main property classes: residential/farm, multi-residential, commercial, industrial, pipe lines, farmlands, managed forests. In addition, the province permits municipalities to adopt additional classes including new multi-residential, office buildings, shopping centers, parking lots, large industrial properties, sports facilities and resort condominiums. Farms, except for the farm house and one acre of land which is assessed at market value, conservation lands and managed forests are assessed at value in current use and not market value	Municipalities are permitted to set different tax rates (related to the residential rate) for the different property categories although provincially set limits on the resulting ratio of tax rates constrain a municipality's flexibility in setting differential rates and in increasing the relative burden on multi- and non-residential properties. Where there are two-tier governments (a region or county and lower tiers), the upper tier is required to set the relative tax burden between the property classes. By legislation, farm buildings and agricultural land must be taxed at 25 percent of the residential rate as must managed forests. Farm house and one acre of land are taxed at the residential rate. Sub-classes to which rate reductions apply include vacant commercial (30 percent reduction), vacant industrial (35 percent reduction) and farmland pending development. As well, the commercial class may be divided into three sub-classes according to value with graduated tax rates applied to each sub-class. Finally, municipalities may also choose to apply differential rates to any of the following optional classes; new multi-residential, shopping centres, office towers, parking lots and vacant land, and large industrial.
Manitoba	There are ten property classes: residential 1 (1-4 units), residential 2 (5 or more units), residential 3 (owner occupied condominium and co-operative housing), farm, institutional, pipeline, railway, designated recreational property, other. Farm land is assessed as value in agriculture and not at market value.	Mill rates set by municipal councils. All municipalities may apply differential tax rates to different property types.

	Railway roadway is assessed on the basis of tonnes of freight per mile; gas distribution systems are assessed at market value. Pipeline assessment is based on the outside diameter of the pipe.	
Saskatchewan	There are two levels of property classes – provincial and municipal. Property classes for urban, rural and northern municipalities are agricultural, residential and commercial/ industrial. Cities may set additional subclasses of property. Provincially, cultivated agricultural land is assessed at 55% of fair value and non-arable land is assessed at 40%, while buildings used for farm purposes in rural municipalities are exempt. Provincial percentages of value for determining taxable assessments are 70% for residential, 100% for non-residential, and 75% for railways, pipelines, and elevators.	Mill rates are determined locally. Variable mill rates may be applied in urban, rural, and northern municipalities. Cities may also set subclasses of property to which variable mill rates may apply. Finally, municipalities are permitted to impose a minimum tax or a base tax (base plus mill rate levy) for all property classes.
Alberta	Assessments are assigned to the following property classes: residential, non-residential (commercial and industrial), farm land, machinery and equipment. Municipal councils may divide the residential class into subclasses on any basis it chooses and it may divide the non-residential class into vacant and improved sub-classes. Farm land is assessed at productivity or agricultural use value. Farm residences and	Municipal councils have the power to levy differential tax rates on different property categories. Municipalities may also impose a business tax, business revitalization zone tax, special tax, well-drilling equipment tax, or local improvement taxes.

	buildings in rural municipalities are exempt. The province provides guidelines for the assessment of linear property, railway, and machinery and equipment.	
British Columbia	There are nine classes of assessable property: residential, utilities, unmanaged forest land, major industry, light industry, business and other, managed forest land, recreational property/non-profit organization, and farm land. Total property value must be apportioned between land and improvements on the assessment rolls. Market value is the usual method for determining the assessment base except for pipelines, railways and telecommunications cables; major industrial improvements; farm and forest land. Farm land is assessed at productivity or agricultural use value. Farm improvements, other than buildings, up to an assessed value of $50,000 are exempt from property taxation. Forest land is assessed in a two step process: first, if the trees have not been harvested, the value of the land without trees is assessed. Second, if the trees have been harvested, the	Municipal property tax (mill) rates are set by local councils. Variable tax rates are allowed for the different classes of property.

	assessed value of the trees is added to the bare land value of the land two years after the property owner receives the benefits of the harvest.	
Northwest Territories and Nunavut	In municipal taxation areas, land is assessed at market value and improvements (machinery and equipment) at replacement cost. Land, improvements, mobile units, pipelines, railway works, and transmission lines are assessed separately.	General property tax rates, set by the Territorial governments, are levied at uniform mill rates in non-taxed based municipalities. Within municipalities, mill rates are set locally and may vary by class of property.
Yukon	Land is assessed at fair market value. Buildings, machinery and equipment are assessed at depreciated replacement cost. Public utilities, railroads, and pipelines are assessed as prescribed by regulation.	Municipal property tax rates are set by local councils. The tax rates may vary by class of property and across regions.
Source: From websites for Provincial and Territorial Departments or Ministries of Municipal Affairs; Canadian Tax Foundation, *Finances of the Nation, 2012*, Canadian Tax Foundation, Toronto, chapter 6; and Harry Kitchen and Enid Slack, 2012, "Property Taxes and Competitiveness in British Columbia", a report prepared for the BC Expert Panel on Business Tax Competitiveness, available at www.fin.gov.bc.ca/docs/expert_panel_submissions/Business%20Property%20TaxCompetitiveness%20Report.pdf		

Appendix Table 2: School Property Tax Structure	
Newfoundland & Labrador	Property taxes are not used to finance elementary and secondary school expenditures.
Prince Edward Island	The province funds 100 percent of education costs from general revenues, which include the revenues generated by a province-wide property tax. This revenue is not earmarked specifically for education, however. The *School Act* allows regional administrative units to levy and collect a local tax for supplementary education programs (upon approval by the Ministry and a plebiscite), but this power has not yet been used.
Nova Scotia	Public schools are financed from the general revenues of the province and municipalities. The provincial share of school financing comes from the province's general revenues. The municipal portion comes from a uniform property tax rate set by the province plus the Halifax Regional Municipality has discretion to levy an additional property tax.
New Brunswick	All public education costs are funded from general provincial revenues. Included in these revenues is a provincial property tax on all properties. The property tax is not earmarked specifically for schools, however. Legislative provision for using local property taxes to raise revenue for supplementary programs is permitted but seldom used.
Quebec	The province funds about eighty-five percent of all public school costs from general revenues and school boards fund the remaining 15 percent from a local property tax levy. There is no provincial property tax. Local school boards must levy a property tax but it cannot exceed $0.35 per $100 of standardized assessment unless referendum approval is obtained from the taxpayers within the school district. No such referendum has ever been held. Local property taxes are used to finance the maintenance of school facilities. The province sets the property tax revenue to be collected by each board (or grouping of school boards on the island of Montreal) as follows: it sets the dollar amount per school board (set annually by Ministry of Education) plus per student dollar amount times the number of students.
Ontario	Education is 100% provincially funded. Part of this funding comes from a property tax. The province sets the property tax rate (residential) or amount to be raised (commercial and industrial) for education. The tax rate on residential/farm and multi-residential properties is uniform across the province. The province sets the amount that is to be raised by the tax on commercial and industrial properties. All education tax revenues are collected by the municipality and remitted to school boards. In 2007, the province agreed to lower the property tax rate for education on business properties by 14 percent over the following seven years. In 2008, further reductions in the business education tax were announced for the sparsely populated northern part of the province (this mainly affects forest based industrial properties).
Manitoba	Provincial funding comes from the general revenues of the province and from locally generated school board revenues (almost entirely from property taxes on both non-residential and residential property). Local school boards have the power to set local property tax rates and this power is used extensively.

Saskatchewan	The province sets a uniform property tax rate for each of three major property classes.
Alberta	The province is responsible for funding education. About half of its funding requirement is supported from general provincial revenues and the remainder from a uniform province-wide mill rate on residential property and a higher uniform rate on commercial/industrial property. Municipalities collect the tax and remit it to the province. School boards may also seek elector approval to levy an additional property tax to a maximum of 3 percent of their budget. Since the province assumed responsibility for education property taxes in 1994, the province has reduced its reliance on property taxes for financing education. In 2013, the uniform mill rate was 2.65 mills for residential properties and 3.90 for non-residential properties.
British Columbia	Schools are funded entirely by provincial grants generated from provincial government revenue that includes provincially imposed non-residential and residential property taxes. Everyone within a school district pays the same residential tax rate, but the province varies the rate between districts in order to moderate the effects of differences in assessed values across the provinces. If school boards wish to spend more than their provincial grant, the board must seek local taxpayer approval through a referendum for additional expenditures to be financed through local property taxes. This has never been used, however.
Northwest Territories	Education funding comes from a territorial school levy (property tax) and from local property taxes.
Nunavut	Same as NWT
Yukon	Education is funded by the territorial government and it does not levy a property tax for education.
Source: Same as Appendix Table 1.	

Appendix Table 3: Frequency of Assessment	
Newfoundland & Labrador	Three year cycle with the lag in assessed values being twenty-two months.
Prince Edward Island	In 2009, the provincial government froze all residential assessment at 2007 values until time of sale. Beginning in 2010, the property assessment freeze was replaced by annual increases based on the change in the CPI to a maximum annual increase of 5 percent. Commercial and industrial property is assessed annually.
Nova Scotia	Annually with each year's assessed value based on the property's value two years prior.
New Brunswick	Annually as of Jan. 1 each year.
Quebec	Three year cycle with the assessed value being finalized by April 30 (for appeals) of the first year of the cycle.
Ontario	Four year cycle.
Manitoba	Four year cycle
Saskatchewan	Four year cycle
Alberta	Annual
British Columbia	Annual
Yukon	Five year cycle
Northwest Territories and Nunavut	Must be assessed at least once every nine years.
Source: Same as Appendix Table 1.	

Appendix Table 4: Property Tax and Assessment Treatment of Linear Properties	
Ontario	• Real estate (land and buildings) holdings for telephone, cable, municipal electric utilities and gas companies are assessed and taxed as commercial or industrial properties. • Crown agency utilities are fully taxable but make payments in lieu of taxes. • Utility poles, transmission towers, wires, and underground cables are not valued and taxed. • Underground pipes for natural gas distribution are taxed on a per metre (length) basis. • "Rights of ways" owned by utilities and railways are taxed at a fixed rate per acre – the province sets the rate for nine geographic regions and indexes it to average provincial commercial tax rate changes.
Quebec	• Land, buildings, attached machinery and equipment that are part of a gas distribution, telecommunication, or electric power system are taxed as follows: o For natural gas and electricity distribution systems, the tax is 3 percent of gross revenues. o For cable television systems, the tax rates are 2 percent of revenue under \$5 million, plus 3 percent of revenue over \$5 million. o For other telecommunications systems, the rates are 3 percent and 5 percent, with same threshold revenue level. Revenues are collected by the Province and re-allocated to municipalities on the basis of subscribers.
Newfoundland	• Utilities pay a tax of 2.5 percent of revenues collected in the municipality.
British Columbia	• Electricity, oil, natural gas and telecommunications pay a gross receipts tax (1 percent) instead of a property tax. • Railway "rights of ways" are assessed on the basis of weighted average assessed values for an area as approximated by assessed values of abutting properties.
Saskatchewan	• Railway "rights of way" and pipelines are taxed on 75 percent of assessed values. Assessed values are estimated from values of abutting properties.
Manitoba	• Railway roadways are assessed on the basis of gross tonnes of freight per kilometre. • Gas distribution systems are assessed at market values – based on values of abutting properties. • Pipeline assessment is based on the outside diameter of the pipe.
Alberta	• Assessment of railway "right-of-way" property is a fixed dollar amount per kilometre based on the annual tonnage transported on the "right-of-way." Each rail company must annually report the type and length of line in each municipality to the local assessor.

	Tax rates are set by the province. • Linear property is assessed (based on values of abutting properties) and tax rates are set by the province – properties include oil and gas wells; pipelines to transport petroleum products; electric power systems (generation, transmission and distribution); and telecommunication systems and cable TV
Nova Scotia	• Transmission lines and distribution assets for telecommunication, cable and electric power systems are not assessed; instead, property owners pay taxes based on special legislation. • Land and buildings are valued and taxed on commercial tax rates. • According to the existing Nova Scotia special legislation, Bell Aliant pays 4 percent of gross subscribers exchange service revenues to each municipality. • Nova Scotia Power Inc. (NSPI) makes a grant in lieu of taxes to the Province with a portion of the grant distributed among municipalities based on the assessed value of NSPI property. • Low pressure natural gas distribution pipelines are exempt from taxation based on assessment, and are taxed based on the amount of gross distribution revenues raised in each municipality (4 percent for 2014-2018 and 5 percent thereafter). • High pressure distribution pipeline or pressure reduction stations are liable for assessment (value determined by pipe size, length, depreciation for high pressure distribution pipelines and value on actual cost less depreciation for pressure reduction station) and taxed on commercial rate, with the exception of serving single end-user, in which case taxation is based on 8% of gross revenue. • Main railway operating rights of way are exempt from taxation.
Source: Same as Appendix Table 1.	

Appendix Table 5: Property Tax Relief Schemes by Province	
Newfoundland	No specific property tax relief schemes.
Prince Edward Island	For senior citizens with annual household income of $35,000 or less, 100 per cent of property taxes can be deferred. Deferred taxes must be paid when the property is sold or transferred to someone other than the owner's spouse.
Nova Scotia	Local councils may exempt certain persons from property taxation if their family income is below an amount specified by the local council. Eligible persons include those over the age of 65 or widows or single parents supporting dependents. A provincial property tax rebate program is available for all seniors receiving the guaranteed income supplement. Each recipient receives a rebate equal to 50 percent of the previous year's property taxes to a maximum of $600.
New Brunswick	Property tax relief is provided through grants to low income owner-occupied homeowners with incomes less than $22,000. These grants are credited against property taxes of eligible homeowners up to a maximum of $300. For homeowners with incomes from $22,001 to $25,000, the maximum credit is $200 and for homeowners with incomes from $25,001 to $30,000, the maximum credit is $100. Provincial property taxes and in some cases a portion of the municipal property tax on agricultural land may be deferred as long as the land is used for agricultural purposes.
Quebec	The province provides a refundable property tax credit administered through the personal income tax system. It is available to both homeowners and renters. In addition, the province provides a partial reimbursement for local property taxes paid on farm and timber properties.
Ontario	The province provides a refundable provincial property tax credit applied against provincial income tax liability for low and modest income homeowners and renters. As well, there is a property tax grant of up to $500 for eligible seniors. Lower property tax rates (25 percent of the residential rate) are paid by owners of eligible farmlands and buildings. The province reimburses 100 of property taxes paid by owners of eligible managed forests and conservation lands. Municipalities also have the power to reduce, refund, cancel or defer residential and farm property taxes.
Manitoba	The province provides relief to residential homeowners through a combination of income tax credits and the elimination of the provincial education support levy. The basic amount of $700 is available to every homeowner and tenant who pays at least $250 in property taxes. Most homeowners see this a direct reduction on property tax statements. Other homeowners and tenants may claim the credit on their income tax return. In 2013, maximum credit was $675 ($1,100 for seniors) reduced

	by one percent of net family income. Additional property tax relief to a maximum of $175 (minus two percent of family income in excess of $15,100) is available to homeowners and tenants, fifty-five years and older. Eighty percent of the education property tax paid on farmland is rebated.
Saskatchewan	No specific property tax relief programs.
Alberta	An income tested transfer program is in place for seniors. A portion of the payment is for assistance with municipal property taxes. Alberta rebates, regardless of income, a portion of school taxes paid by homeowners. This rebate equals the property tax increase that occurs the year prior to a senior's sixty-fifth birthday.
British Columbia	The provincial government's homeowners' grant program reduces property tax liability for owner-occupied principal residences. A basic grant of $570 is available to reduce provincial and local government property tax. The grant is eliminated when the property value reaches a certain amount. In 2012, it was $1,399,000. An additional grant of $275 is available for homeowners 65 years and older, permanently disabled, and veterans. In 2012, this grant was phased out when the value of the residence reached $1,454,000. There is also a land tax deferment program. This allows those fifty-five years and older, surviving spouses, and the permanently disabled to postpone payment of the property tax until the property is sold. BC farmers may delay payment of property taxes until October 31, after crops have been harvested and sold.
Northwest Territories	Senior citizens and disabled living in the general taxation area receive 100 percent relief from property taxes. If they live in a municipal taxation area, the municipality generally exempts them from fifty percent of property taxes. The Territorial government reimburses the municipality for the amount exempted.
Nunavut	The Territorial government may give senior citizens and disabled living in the general taxation area 100 percent relief from property taxes. For those in Iqaluit, the city may grant them 100 percent relief.
Yukon	There is a general homeowner grant program that provides a grant equal to fifty percent of property taxes to a maximum of $450 per household. For senior citizens, the grant equals seventy-five percent of property taxes to a maximum of $500. There is also a seniors' homeowner's property tax deferral program for homeowners outside incorporate municipalities.

Source: From websites for Provincial and Territorial Departments or Ministries of Municipal Affairs; and Canadian Tax Foundation, *Finances of the Nation, 2012*, Canadian Tax Foundation, Toronto, chapter 6.

Appendix B –Stakeholder Consultations

January 21-23, 2014	
Steering Committee and Support	Greg Keefe, Keith Hunter, Russell Walker, Bob McNeil, Betty MacDonald, Kathy Gillis
Service Nova Scotia and Municipal Relations	Jeff Shute Marvin MacDonald
Atlantic Provinces Economic Council	Fred Bergman
Canadian Centre for Policy Alternatives - NS	Michael Bradfield
Researcher	Shingai Nyajeka
February 25-27, 2014	
Halifax Chamber of Commerce	Nancy Conrad Captain Angus Topshee Rob McPherson Gisele Kakamousias Eric Blake Darren Nantes
Kingswood Ratepayers Assn	Richard Delong
Greater Hammonds Plains Community Association	Peter Davidson
Lockview Area Ratepayers Association	Cameron Bruce Michael Creighton
PC Party	Jamie Baillie
AMA	**In Person:** Sandy Hudson Maris Freimanis Connie Nolan Ray Hickey Ramesh Ummat Janice Wentzell Kristen Stallard Kelly Rice **Video Conference:** Marie Walsh Bob McNeil John Walley Greg Herrett Louis Coutinho Doug Armstrong Linda Fraser

	Tom Ossinger Jeanette Doucet Tammy Wilson Ken Smith Rachel Turner Brian Smith Alain Muise Jeff Gushue Ken Moses
Nova Scotians for Tax Fairness	Howard Epstein
CBRM Property Taxpayers Association	Joe Gillis Dan Gillis
Canadian Taxpayers Federation	Kevin Lacey
Halifax Regional Municipality	Bruce Fisher Andre MacNeil
UNSM	Dave Corkum Keith Hunter Claire Detheridge Carl Chisholm Laurie Murley Jimmy MacAlpine Betty MacDonald
March 19, 2014	
Canadian Federation of Independent Business	**By telephone:** Jennifer English
Yarmouth Chamber of Commerce	**By telephone:** Chris Atwood
April 8-9, 2014	
Economic and Rural Development and Tourism	**By email:** Christopher Daly Bruce Osborne
Nova Scotia Business Inc.	**By email:** Jason Zaluski