

LOCAL GOVERNMENT CHALLENGES WITH THE PROPERTY TAX

Enid Slack

Institute on Municipal Finance and Governance
Munk Centre for International Studies, University of Toronto

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CHALLENGES WITH THE PROPERTY TAX

- ③ How does the tax work?
- ③ How do you explain it to taxpayers?
- ③ How do you increase the tax?
- ③ How do you design tax policy?

HOW DOES THE TAX WORK?

◎ Tax = tax rate X tax base?

HOW DOES THE TAX WORK?

- ◎ Property classes
- ◎ Optional property classes
- ◎ Graduated tax rates
- ◎ Capping and clawbacks
- ◎ Phase-ins
- ◎ Mitigation measures

HOW DO YOU EXPLAIN IT TO TAXPAYERS?

- ③ Property tax will only increase if your assessment increase is greater than the average in the municipality
- ③ Your assessment went down but your taxes went up
- ③ You are paying taxes to the upper tier, the lower tier, and school boards

HOW DO YOU INCREASE THE TAX?

- ① Inelasticity
- ① Visibility
- ① Volatility
- ① Recession
- ① Peak of the revenue hill?

INELASTICITY

- ③ Taxes don't increase automatically with economic growth
 - ⊙ Assessment base lags
 - ⊙ Revenue neutral tax rates arising from reassessment

VISIBILITY

- ③ Lump sum payments not deducted at source
- ③ Visible services
- ③ Visibility increases taxpayer scrutiny

VOLATILITY

- ③ Market value can be volatile, not stable and predictable
- ③ Some properties may experience an unanticipated increase significantly greater than the average increase for the class
- ③ Visibility and volatility have led to assessment limits in many US states and pressure to impose limits in Canada

IMPACT OF RECESSION

- ③ More vacant property – lower property tax revenues
- ③ Higher tax arrears (usually with a lag)
- ③ Can a municipality increase tax rates in a recession?

PEAK OF THE REVENUE HILL?

- ③ Are we at the peak of the revenue hill for property taxes?
- ③ Can tax rates increase any more for residential property?
- ③ Can tax rates increase any more for non-residential property?

HOW DO YOU DESIGN TAX POLICY?

- ③ How much should business be taxed?
- ③ Should property tax incentives be used to attract business?
- ③ Which capping measure should be used?
- ③ What mitigation measures should be used?

HOW TO TAX BUSINESS

- ③ What should the tax share for business properties be based on:
 - ③ services received
 - ③ mobility
- ③ Does it matter that businesses don't vote?

PROPERTY TAX INCENTIVES

- ③ Should property tax incentives be used to attract businesses?
- ③ Do they work?
- ③ Are they a good idea?
- ③ Ontario municipalities can use Tax Increment Equivalent Grants (TIEGs)

CAPPING MEASURES

- ③ Municipal choice to implement annual cap up to 10 percent of the previous year's taxes or a minimum annual increase of up to 5 percent of CVA taxes
- ③ Municipalities can move capped or clawed back properties directly to CVA if capped taxes were within \$250 of the CVA taxes

MITIGATION MEASURES

- ③ How should mitigation measures be designed:
 - ⦿ Tax deferrals
 - ⦿ Exemptions
 - ⦿ Tax reductions, cancellations or refunds

AND THEN THERE ARE THE POLITICS OF THE PROPERTY TAX

- ◎ Politics often overrides economics principles:
 - ◎ pressure to maintain the tax burden at or near its current level (e.g. capping)
 - ◎ pressure to favour one group of taxpayers over another (e.g. residential over business)

LOCAL GOVERNMENT CHALLENGES WITH THE PROPERTY TAX

- ③ Confusing system to understand
- ③ Difficult to explain to taxpayers
- ③ Tough to increase tax
- ③ Complicated choices on how to tax different classes of property, capping measures, and other tax policies