Published in Dawson Trail Dispatch, November 2022, Vol. 27, Issue 3

A Radical Idea to Redefine "Municipal Taxation"

By Monica Guetre

The municipal elections are over and it will be up to residents to ensure the promises made are kept by those elected.

Community development, a major theme of the elected candidates, now depends on local council dedication to navigate the whims of provincial and federal politicians. What makes development difficult is the lack of stable funding models that can be used to maintain not only the status quo but to create a future plan.

Beyond the myriad of federal and provincial program transfer payments, the primary revenue streams for municipalities are property taxes followed by special levies, service fees, fines, other taxes and the selling off assets such as a building or land.

For Councils, CAO's and essential support staff the forever question is, "How to increase revenues from existing sources, how to create new cost effective revenue streams and how to reduce costs?"

For residents and business owners the question is, "Is the cost fair, reasonable and does it advance or hinder quality of life in our chosen neighbourhood?"

Get Rid of Property Taxes

Property taxes are regressive with respect to income taxes that are progressive. Meaning that for income taxes, if you are making less money your tax share is lower and those making more have a higher income tax rate. Many argue that a progressive income tax is more equitable because of this.

A senior who purchased their home many years ago and is now on a fixed income or a family trying to make ends meet is still is going to pay the same assessed value on their property even though their ability to pay fluctuates. Since property taxes are not directly related to the ability to pay, it can be a burden.

By using assessed values, this burden is unequally distributed across the municipality with residents at very different levels of income. We do know that this burden varies between municipality and provinces. Does a property tax actually contribute to after-tax income equality in Canada?

What's good about property tax is that it is paid directly to the municipality you reside in.

Currently property tax is typically calculated by multiplying the assessed value of the property by the tax rate - referred to as 'mill rate' and expressed as dollars of tax per $1,000 of assessed value. For the most part agricultural land as well as residential properties is usually taxed at lower rates than non-residential properties.

Property tax is levied on the full value of the property, not the owner's equity and does not take into account income or household/business expenses. For many, household and business income has dropped over the last several years.

Why are the federal, provincial and municipal governments in the real estate and insurance valuation business? How have we allowed politicians to become traders in a futures market?

Whether your abode or business is 900 ft or 20,000 sq ft with a basement or 2nd story has an attached or detached garage, built along a country road or in a town/city should not matter when it comes to paying for services that a municipality provides for our benefit.

The property tax you pay is determined on what the assessed value could be if sold on the open market, even if the decision to sell is this year, way in the future, or never happens because you decide to pass it down to the next generation.

Volatile assessed values should not be used to cover actual municipal costs such as plowing snow, grading a gravel road, building roads, lagoons or bridges. Whether you live in a growing municipality or one that is struggling because the tax base has moved out or shut down it could be difficult to budget and plan long-term.

Property taxes can stifle investment which results in a lack of ability to pay for our infrastructure in our communities and hamper community development if there is no money to pay for services let alone attract new business and residents.

Move to a Municipal Service Cost

Any household or business can tell you that they make plans based on actual numbers, not the "what ifs". This is why our "property" tax bill should be turned into a "municipal service" bill. The municipality can even add cost lines, for transparency, services such as garbage, recycling services, or a special temporary levy to pay for flood protection, a new waterway that is used recreationally or for paving a road or upgrading infrastructure.

A "Service" bill based on actual costs would end the cost of administration for property assessment and appeals as well.

The cost to run a municipality can be easily calculated and it's based on actual numbers in real time.

A uniform "Services" bill has the advantage of being simple, transparent, and predictable in terms of the amount of revenue that will be collected – most importantly it is based on actual cost.

Those municipalities that offer enhanced access to services that benefit our quality of life and health such as solar power generating, water quality testing, recycling, hazardous waste disposal, parks, libraries, arenas would receive more than those that do not.

Possibly we could look at capping the amount that a lower income household pays by building into a provincial formula an amount to provide relief to those actual lower income people. New Brunswick did this by adopting an "assessment spike protection" that protects homeowners from steep and unanticipated increases. Any increase greater than 10 percent will be phased in over several years. In that province new construction and major improvements are exempt from this protection.

We could look at a short term consumption levy to pay for new roads or bridges. This type of tax or levy is easy to collect and, well hate to say it, it's impossible to dodge.

At the risk of getting an earful on the benefits of a consumption tax or a "user tax", these do work by targeting new and existing investments in our community that in turn create a better quality of life for us all. A usage tax could reduce overall waste going into a landfill or incentivising an industry to reduce the use of water. Recently in Calgary, you have some crop growers moving into empty high rises. Apparently they use less water, fertilizer and pesticide compared to growing crops in an open field. Additionally, it expands your agricultural base and leaves those open fields for crops that can't be grown indoors. This is only one example of how incentives could work with different property classes that increase money coming in to pay for municipal services.

Looking further afield in northern Europe, local governments receive less than 11 per cent of their funds from property taxes; in Sweden, it is only 2.4 per cent.

Use a Similar Calculation Based on Provincial and Federal Taxation

Your income tax filings already include the Provincial income tax. We could scrap the property tax and instead add to your annual filing a "municipal income tax." Our municipal taxation would mirror the parameters of the other two levels of government. For this change to work, a baseline would have to be established for municipal budget requirements. This change is simple since it is a calculated by multiplying your provincial income tax by x percent to calculate a refundable/payable municipal income tax. It would be progressive in its calculation too. One problem is how to collect taxes from those individuals and corporations that legally don't have to report all their revenue in Canada but still use our infrastructure and community services. The solution is to add a calculation based on postal code for the services used within the province and municipality.

Whether you agree or disagree with how a change in calculation should be implemented, we need to re-evaluate how municipal taxes are calculated. In reality, municipalities require revenue, and that will never disappear. But is there a better and less volatile way to calculate? Can we create a system that is more of a catalyst for improvements and more equitable in how we pay for the services?