

Municipal Taxes

November 2005

(Note: A version of this note was prepared during the November 2003 municipal election)

Let me start by saying quite clearly that I believe that the tax structure for municipalities needs a complete overhaul. I am not a defender of the current system.

The subject of taxes and the fairness or unfairness of the system is complex and I don't expect to be able to do it justice in this letter. I am not an authority on the subject in any case. In preparing this note, I started out trying to develop some context, through a common base of information, to assist the discussion. In the end, I decided that this additional information would best be placed in a series of attached annexes (I-IV). What I have provided is not exhaustive but I hope that it will provide a reasonable starting point and that most would find some of it useful.

I am frequently asked for my position regarding fairness in taxation and what I propose to do about it. First of all, you should know that I take this seriously. I understand that the effects of some of the very large assessment increases can be destabilizing for families. It could lead older homeowners to leave homes in a community in which they have lived for a long time. It could also cause some to leave this City altogether because they find the effects of these assessments and the related tax increases simply intolerable.

I am committed to working toward getting greater fairness into the system. Indeed, I have already done so in the area of the multi-residential tax class. I would refer you to Annex III for a description of what has been happening to tenants in the multi-residential class and the actions I have taken to redress the situation. I mention this simply to point out that, as we try to fix the system, it would be wise to seek allies in as many parts of society as possible and those potential allies exist! I will be working for fairness throughout the system. I believe that a broad base of support for tax reform can be developed. In this way we have more hope for eventual success.

It has been said many times that there is only one taxpayer. I believe that all governments should be invited to consider the current state of affairs. This should be done without wasting time in bickering either amongst the various levels of government or amongst the various political persuasions. Our taxpayers deserve a solution on an urgent basis regardless of exactly what has caused us to get into our current predicament. There probably is blame enough to spread around without that exercise leading to anything useful. At the end of the day, changes to the system can only be effected by Queen's Park. Municipalities do not have the legal flexibility to change the current system.

Every year, in advance of any decisions taken by elected representatives, I have always scheduled information/discussion forums in the ward, with the presence and assistance of senior staff, so that the public may inform themselves of the proposed budget elements and provide input to their representative. This year, the draft 2006 budget indicates new 'pressures' of \$129.4 million. There are proposed 'solutions' amounting to some \$110 million, leaving an unfunded portion of the Operating Budget (after all obvious potential funding solutions have been applied) estimated at \$19 million. It appears that the list of service reductions, which came out of the Universal Program Review in 2004, may have to be re-examined. Capital Budget pressures are forecast at between \$4 million and \$20 million when pre-approved service enhancements, implementation of the City Corporate Plan and Departmental Business Plans and Pay-As-You-Go contributions for capital strategic initiatives are considered. I encourage everyone to participate in the exercise as much as they are able. There will again be a public meeting in this ward on November 24th at the Overbrook Community Centre, 33 Quill Street at 7:30 p.m.

Yours sincerely,

Jacques Legendre
Councillor
Rideau-Rockcliffe

Annex I – Fair Tax Principles and Recent History

Reasonable people will accept, however grudgingly, that taxes are necessary. In my view, they should have the following characteristics:

1. They should be as low as possible to achieve the intended 'public good';
2. They should be "transparent" by which I mean that the purpose of the tax must be clear, broadly supported and, ideally, the taxation should be related, wherever possible, to its intended purpose;
3. They should not be costly to collect; and, finally,
4. They must at least be fair.

The first item is usually the principal point of debate each year at budget time. It includes discussions around the efficiency of various services provided by the City or whether a particular service ought properly to be provided at all.

TRANSPARENCY

This characteristic of taxes can have many facets. Some examples are taxes related to consumption (sometimes called 'rates' e.g. water and sewer rates or 'fees' e.g. bus passes/tickets, community centre fees, ice rinks, swimming pools, etc.).

Partial transparency. Anyone using the service pays something toward the service. That part, at least, is visible. Many of the fees charged represent only part of the cost of the service – e.g. bus passes, swimming pool fees. Property tax payers subsidize the balance of the cost of providing the service.

Full transparency. At the municipal level, we have the water rates. They are clearly related to consumption AND directed to the water/waste-water system. They do not support any other service. This is an example of a very fair tax as it is directly related to the amount used by the taxpayer.

(F.Y.I. At the time that garbage collection was taken over by the RMOC, I attempted to have the fees for this service based on the amount of garbage put out by the homeowner – essentially a consumption tax - or, failing that, have the fee charged equally for each door since I could not see that the cost of collecting would in any way be related to the value of the property. This proposal received very little support. The lack of support can be explained very easily. It was perceived that if the wealthy paid less, then everyone else would pay more. I mention this in order that everyone is aware that it will be very difficult to change the current system. Considerations of fairness do not always carry the day or meet with universal support.)

RECENT HISTORY

At both senior levels, federal and provincial, we have a tax on each litre of gasoline sold at the pump. Now here is a tax related to consumption and directed to transportation, or is it? In that case, at least for the provincial tax, there used to be the justification that significant dollars collected in this way were directed at the transportation system, either for provincial highways or returned as grants to municipalities so they could keep their existing transportation system in good repair and assist with enhancements to the system as warranted. These grants used to cover **75% - 80%** of municipal costs in this area. Those grants no longer exist yet the province continued to collect exactly the same proportion on each litre of fuel as it had in the past! In addition, since we are talking about transportation, municipalities have had downloaded to them the cost of maintaining highways that used to be entirely covered by the province (one example locally is highway 174 which used to be known as highway 17). Here is a case of a formerly 'transparent' tax that has become considerably less so. In Ontario, the gas tax revenue goes to "general revenues". The result has been a silent shift on to the property tax base. Other provinces (B.C., Alberta, and Quebec) have provided access to some of this revenue to their

municipalities so that they can address some of their transportation needs from this source. This has finally become the case in Ontario recently.

The federal authorities have divested themselves of significant parts of the transportation system for which they were responsible (e.g. many local airports). Until recently, Canada was the only G8 country whose national government provided no assistance to cities for their mass transit systems. Even the U.S. is a significant national contributor in this area! There is, at long last, a realization that the situation is unbalanced and the federal authorities are slowly changing this state of affairs.

I have mentioned the state of affairs in the area of transportation to illustrate one very important aspect of the problem that we are facing. It is this; in recent years, senior governments of all political persuasions, have corrected their deficit situations, in part, by changing the balance of who-does-what. The net result has been a significant downloading of services to the "bottom", i.e. the municipal level, without a corresponding adjustment or 'downloading' of revenue capacity. Many municipal services are not related closely, or at all, to the property being taxed. Some of the downloaded services are intended to redistribute wealth from those better off to those less wealthy. Yet the only tax base available to municipalities to accomplish this is known to be 'regressive', that is, it does not reflect an ability to pay (the way income tax does, for example). The property tax system is quite old and was intended to tax according to the property being served. This is no longer the case. Municipalities have scrambled to try to maintain an acceptable quality of life for their communities while the old assumptions of how society should be organized around the question of 'the public good' and how should it be supported, were changing rapidly.

Annex II – Tax comparisons between Ottawa and Toronto (for 2003)

City staff has provided the following points for this discussion:

- The tax rate for residential properties in Toronto is lower than in Ottawa if one only looks at the tax rate as the comparator. However, the comparison of tax rates is only part of the real comparison because the property values of each municipality will vary for similar properties. The City of Edmonton does an annual comparison of property taxes and uses a specific house type as a comparator. In that comparison the property taxes in Toronto are \$2,583 and in Ottawa \$2,607. The comparator is a 3-bedroom 1,200 square foot bungalow. It is not a comparator that works for all areas of the city but it does demonstrate that the taxes on a comparable property are not that different.
- The Edmonton study also looks at the property tax per capita for municipalities. Ottawa is \$1,528 and Toronto is \$1,850.
- 2003 - In Ottawa our tax ratio for commercial property is 1.98 whereas in Toronto it is 3.79. This results in a much larger share of the taxes being paid by the non-residential tax base. It also results in a residential tax rate that is lower than ours. Moreover, Toronto has the largest concentration of commercial and industrial properties anywhere in Ontario. This large tax base of non-residential property provides relief for the residential taxpayer.

2005 - The following is an excerpt of a reply sent in October of 2005 to Gail Logan, President of the Ottawa Chamber of Commerce on the subject of comparisons between Ottawa and Toronto taxes: For instance, you state that, "For 2005, Toronto residents paid a tax rate of 0.6107% in municipal taxes while Ottawa residents paid a tax rate of 1.0265%. On a home valued at \$300,000, the Torontonian paid \$1832, while the Ottawa resident paid \$3,080." Real estate in Toronto is significantly more expensive than real estate in Ottawa. Comparing tax rates at an arbitrary value between cities is not informative. While the mathematics may be correct, the statement leaves the reader with the impression that these are properties of similar characteristics, which is not the case. A more useful comparison would be a median value house in both municipalities. The median home in 2005 in Ottawa was assessed at \$247,000 while the median home in Toronto was \$330,700. This means in 2005 the median home in Ottawa paid \$2535 while the median home in Toronto paid \$2019 a difference of \$516. When the education rate is added on, the median home in Ottawa paid \$3266 and the median home in Toronto paid \$2997 -- a difference of \$269.

Toronto has historically been able to keep their residential taxes low because they have so much commercial assessment. In 2004, residential taxes in Toronto represented 36% of the total taxes levied, whereas they are 52.7% of the total taxes in Ottawa. Residential assessment represents 70% of the unweighted assessment in Toronto whereas in Ottawa they represent 73%, so we are discounting our residential class much less than Toronto.

The commercial sector is 14% of Ottawa's unweighted assessment and paid 24% of the taxes in 2004 (a ratio of 1.7), whereas the commercial class in Toronto was 18% of the unweighted assessment, yet paid 43% of the taxes (a ratio of 2.38). Clearly, the commercial sector in Toronto is carrying more of the tax burden than in Ottawa.

You also stated that, "For 2005, the Commercial Office class in Toronto paid 2.293% for municipal taxes, while the Ottawa tax rate was 2.614%. The difference in taxes paid on a

property in this class is \$6,879 for the Toronto business and \$7,842 for the Ottawa business valued at \$300,000 - 14% higher in Ottawa." In fact, the tax rate you showed for Ottawa is the office tower optional class that represents approximately 4% of the commercial properties. If you calculate a broad class tax rate for commercial to make it comparable to Toronto, which has only one class of commercial property, the Ottawa rate would be 2.283, which is lower than the Toronto rate of 2.293. And, if we were to look at the residual commercial class only -- where 92% of commercial properties are taxed -- the rate is 2.166%.

[NOTE: - The information for 2003 provided by staff is correct for the Commercial tax ratios quoted (1.98 for Ottawa and 3.79 for Toronto). The 1.98 ratio for Ottawa represents the "broad class" rate, which combines all the Ottawa commercial subclasses -shopping centres, office towers & parking lots -, into one ratio. This was done in order to compare with Toronto. It does not utilize all the various subclasses - it has only 1 ratio for its commercial properties.

The information contained in the 2005 reply to the Chamber has been updated to reflect the current ratios. Tax policy decisions along with provincial regulations have affected the ratios since 2003. The overall message is still the same - the commercial sector in Toronto is carrying more of the tax burden than in Ottawa.]

- The last comparator, of course, is the level of service provided in each of the municipalities. This is hard to compare. [A political 'aside': One remembers that Mayor Lastman was driven to request the assistance of the army to clear Toronto's streets of snow. I mention this not so much to poke fun at Toronto (although it is hard to resist!) as to point out that we do have a harsher climate and that has its own costs attached which cannot be avoided.]
- The property tax system measures wealth on property values. It does not measure the draw on services nor the ability to pay. As such it is flawed. However, it is the only tax base made available to us by the Province and our flexibility to change the system is constrained by provincial laws.

Annex III – Tenants in Multi-residential Buildings

Residents in apartment buildings of more than six units (the multi-residential class) are paying, through their rents, property taxes at almost double the rate for identical services as is charged for residences that are owner-occupied (typically, condominiums) of the same market value. This situation has lasted for decades, largely, I believe, because the tenants are unaware that this is occurring. They, of course, never receive a tax bill from their municipality. I believe that everyone would agree that there is little equity in that situation.

This is one area of property taxes that is especially inequitable when one considers that the residents (tenants) discriminated against in this way are, on average, amongst the least well-off of our residents.

My intervention in this dossier has been threefold. First, I have worked to raise awareness of the inequity. Secondly, I proposed at Council a motion that we would start, over a period of time, move toward parity between the residential and the multi-residential property tax classes. Finally, I have moved that Council request the provincial government to require that tenants receive information about their contribution to property taxes on an annual basis as is done in European countries.

Annex IV – Property Tax Classes

- 1 - Residential and Farm
- 2 - Multi-Residential
- 2A - New Multi Residential
- 3 - Commercial (occupied)
 - Vacant Units and Excess Land
 - Vacant Land
- 4- Commercial Office
 - Vacant Units and Excess Land
- 5- Shopping Centres
 - Vacant Units and Excess Land
- 6- Parking Lot/Vacant
- 7 - Professional Sports Facility
- 8 - Industrial (occupied)
 - Vacant Units and Excess Land
 - Vacant Land
 - Industrial Farm Land
- 9 - Large Industrial
 - Vacant Units and Excess Land
- 10 - Pipe Lines
- 11 - Farmlands
- 12- Managed Forests