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;

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- 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.

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