

# Who wears the CAP?

All-Party Committee on the CAP  
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Presented by:



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# Presentation Outline





# CAP Effect

Tax Shifting

Random Impacts

Systemic Impacts

# Analysis Results

Method

HRM Analysis

CAP impact on apartments

Top Benefitters

CAP impact by dwelling value





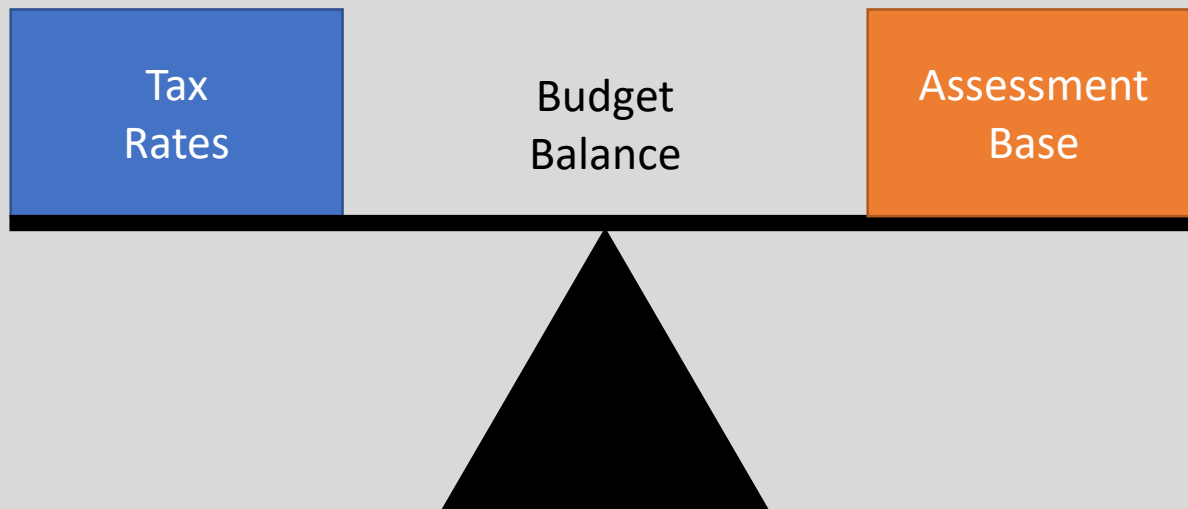
# CAP Effect





# Tax Shifting

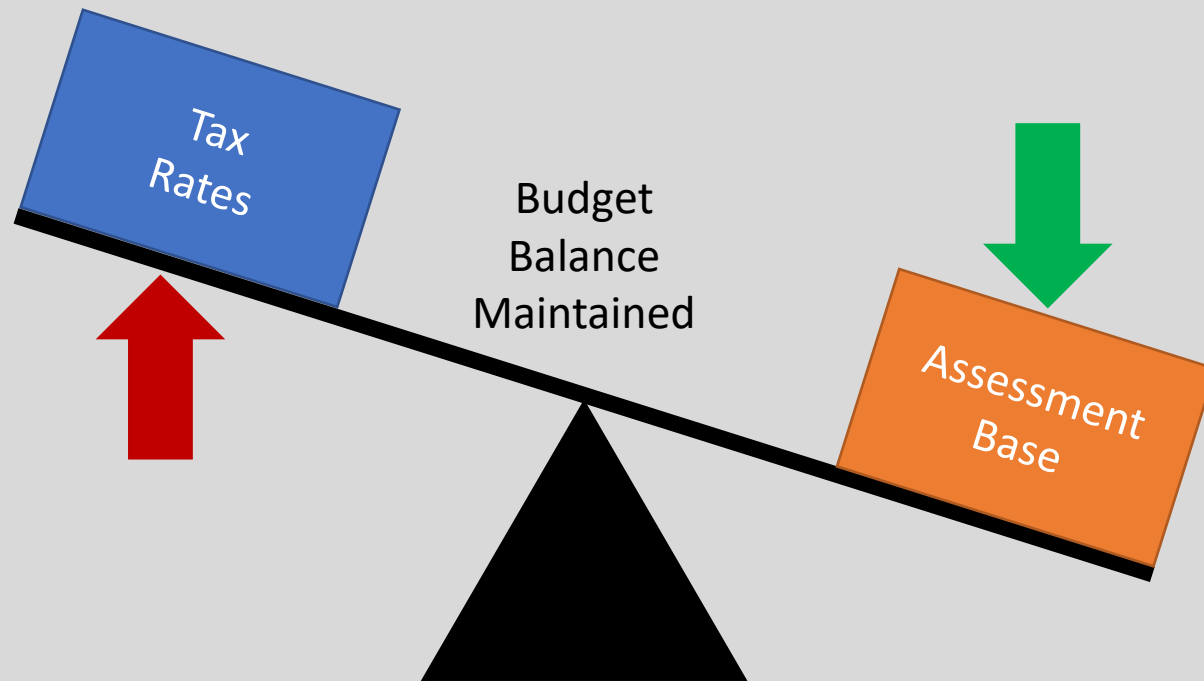
Budgets are balanced to meet municipal operating/capital requirements. Tax rates are set to generate the required revenue from whatever the assessment base is.





# Tax Shifting

The CAP is net neutral. If the total assessment base is suppressed, rates have to increase.





# Tax Shifting

Net neutral means if one property is saving, another pays more to make up the difference.

Patterns and scale of shifting determined by:

Property Type (Eligible vs. Ineligible)

Length of Tenure

Value of Property

Property-Specific Market Trends (vs. CPI)





# Random Impacts

Tax shift drivers disconnect tax burden from neighbourhood factors (value, service levels) resulting in vastly different tax bills between similar homes, in similar locations, receiving similar services.





# Systemic Impacts

People sort themselves into locations, dwellings, and tenure-types according to socio-economic status and life-stage.





# Systemic Impacts

People sort themselves into locations, dwellings, and tenure-types according to socio-economic status and life-stage.

Tax shift drivers are not unbiased, they shift benefit to:

People who own their dwelling

People who move infrequently

People who occupy high-demand locations

People who occupy high-valued dwellings





# **Analysis Results**





# Methodology

1. For the full municipality, calculate the adjustment in tax rate that would be required to generate the same total tax revenue from the full (uncapped) residential assessment base, versus the smaller taxable (capped) residential assessment base.
2. For each AAN, calculate the current taxes payable by applying the actual tax rate (including area rates) to the taxable assessed value for each account.
3. For each AAN, calculate the taxes that would be payable under a CAP repeal by using the adjustment calculated in (1) on the actual tax rate (including area rates), and applying this to the full assessed value for each account.
4. Subtract the taxes payable for each scenario to determine the amount of overpayment or underpayment each property experiences as a result of the CAP.






# Halifax Regional Municipality

Turner Drake analysis of 2017 tax year data

- 44% of NS population, 55% of NS assessment
- Residential & Resource CAP Gap = 11%
- >140,000 data points analysed (AANs)





# Halifax Regional Municipality

## Random Impacts





# Halifax Regional Municipality

## Random Impacts

CAP results in a large number of small shifts

Properties with shifts of  $\pm$  \$200 per year or less

- 45% of all residential properties
- Average impact of \$10 savings per year

Properties with shifts of  $\pm$  \$500 per year or less

- 88% of all residential properties
- Average impact of \$30 overpayment per year



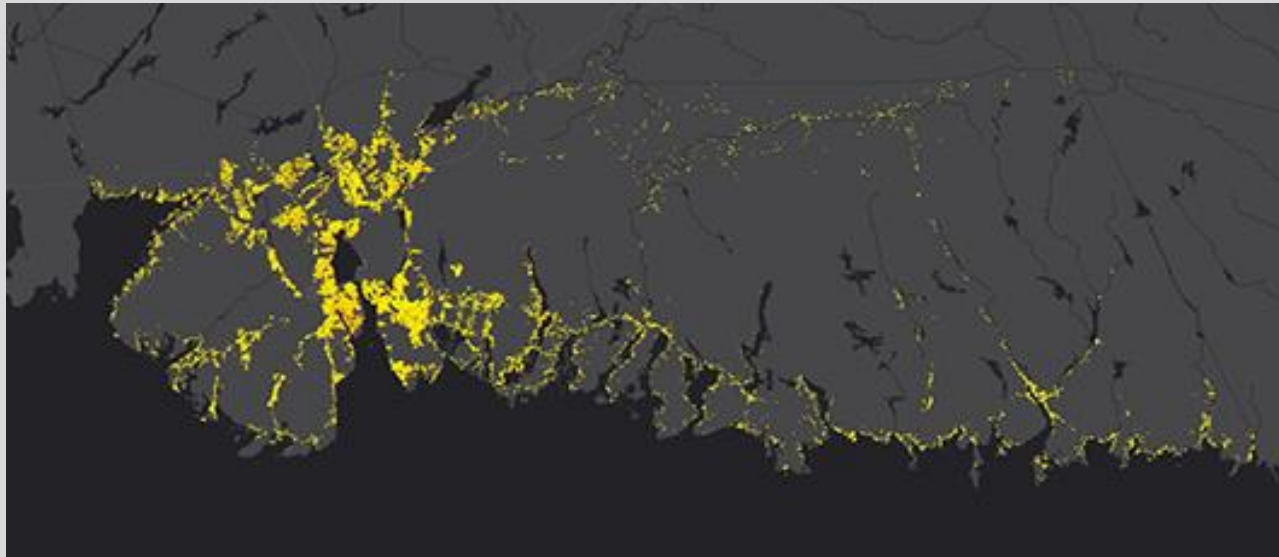



# Halifax Regional Municipality

## Random Impacts

57% of households overpay

- 30% in uncapped apartments
- 27% capped properties that still overpay
- \$27 million in total overpayment in 2017






# Halifax Regional Municipality

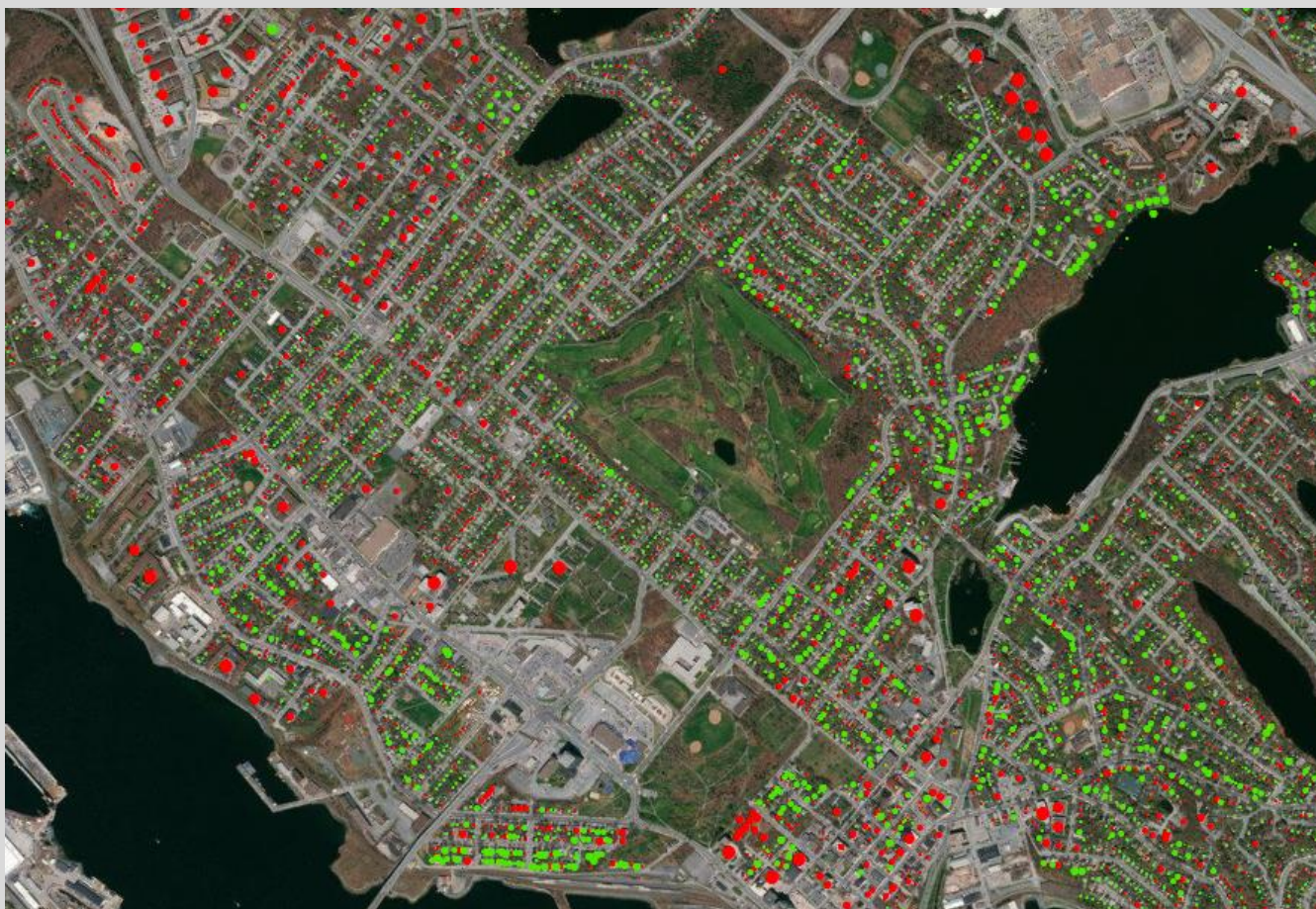
## Systemic Impacts






# Halifax Regional Municipality

## Systemic Impacts






# Halifax Regional Municipality

## Systemic Impacts





# Halifax Regional Municipality

## Systemic Impacts





# Halifax Regional Municipality

## Systemic Impacts

Overpayment is limited to CAP distortion amount (11% in HRM in 2017)

Potential savings has no similar limit

Result: CAP shifts taxes from a broad base of chronic over payers towards a small pool of super-savers. Super savers are generally located in high-income areas.

Top 1% of savers received >15% of total tax savings generated by the CAP





# Apartment Impacts

Analysis for IPOANS

Added unit counts to properties to analyse  
CAP impacts on renter households (HRM 2017 Data)

Custom case studies to highlight context





# Apartment Impacts

Results by CMHC Rental Survey Submarket

Submarket Zone	Average Monthly CAP Penalty per Unit (2017)	Median Monthly Rent (2017)	Median Renter Household After Tax Income (2011)	Median Owner Household After Tax Income (2011)	Income Ratio Owner:Renter (2011)
Peninsula South	\$ 17	\$ 1,110	\$ 30,790	\$ 86,380	281%
Peninsula North	\$ 12	\$ 975	\$ 31,063	\$ 64,131	206%
Mainland South	\$ 7	\$ 725	\$ 29,175	\$ 62,825	215%
Mainland North	\$ 11	\$ 985	\$ 37,586	\$ 68,494	182%
Dartmouth North	\$ 7	\$ 775	\$ 30,044	\$ 62,975	210%
Dartmouth South	\$ 10	\$ 791	\$ 32,662	\$ 62,362	191%
Dartmouth East	\$ 9	\$ 865	\$ 38,722	\$ 72,783	188%
Bedford	\$ 13	\$ 1,260	\$ 43,992	\$ 81,796	186%
Sackville	\$ 10	\$ 1,025	\$ 33,378	\$ 65,787	197%
Remainder of CMA	\$ 10	\$ 1,450	\$ 35,165	\$ 68,013	193%





# Apartment Impacts

## CBRM Seniors Apartment Case Study

Year	2018	2017	2016	2015	2014
Property Assessment	\$ 1,030,500	\$ 1,121,000	\$ 984,400	\$ 1,252,700	\$ 1,239,800
Taxes Payable (annual)	\$ 21,702	\$ 23,608	\$ 20,731	\$ 26,257	\$ 25,986
CAP Penalty (annual)	\$ 3,494	\$ 3,777	\$ 3,400	\$ 4,415	\$ 4,420
Unit Rent (per month)	\$ 573	\$ 563	\$ 553	\$ 543	\$ 533
Unit Share of Tax (per month)	\$ 45	\$ 49	\$ 43	\$ 55	\$ 54
Unit Share of CAP (per month)	\$ 7	\$ 8	\$ 7	\$ 9	\$ 9

CAP Impact fluctuates \$84-\$108 per year  
Represents ~15% of the unit's total tax share

8% of Prescription Medication Spending

8.5% of Public Transit Spending

15% of Dental Care Spending





# CAP Benefitters Analysis

## Analysis for IPOANS

### Top 100 AANs receiving tax savings in HRM

Period	2014	2015	2016	2017	2018	5 Year Performance*
Highest Individual Discount	82%	82%	82%	82%	82%	82%
Lowest Individual Discount	5%	7%	10%	10%	11%	8%
Average Individual Discount	26%	27%	29%	29%	30%	27%
<b>Total Discount - All Properties</b>	<b>22%</b>	<b>22%</b>	<b>24%</b>	<b>24%</b>	<b>25%</b>	<b>23%</b>

\* calculated on the basis of each unique AAN's performance over the entire study period, thus may not equal the sum of data for individual years. Also includes a small number of tax overpayments due to property transactions. See Methodology Step 1 for further explanation.





# CAP Benefitters Analysis

## Top 100 AANs receiving tax savings in HRM

Period	2014	2015	2016	2017	2018	5 Year Performance*
Highest Individual Subsidy	\$ 8,065	\$ 8,084	\$ 11,804	\$ 9,553	\$ 10,050	\$ 47,556
Lowest Individual Subsidy	\$ 1,116	\$ 2,205	\$ 2,542	\$ 2,912	\$ 2,952	\$ 5,387
Average Individual Subsidy	\$ 3,639	\$ 3,870	\$ 4,293	\$ 4,384	\$ 4,572	\$ 20,067
<b>Total Subsidy - All Properties</b>	<b>\$ 356,661</b>	<b>\$ 383,135</b>	<b>\$ 425,046</b>	<b>\$ 438,375</b>	<b>\$ 420,639</b>	<b>\$ 2,006,685</b>

\* calculated on the basis of each unique AAN's performance over the entire study period, thus may not equal the sum of data for individual years. Also includes a small number of tax overpayments due to property transactions. See Methodology Step 1 for further explanation.





# CAP Benefitters Analysis

## Property Characteristics

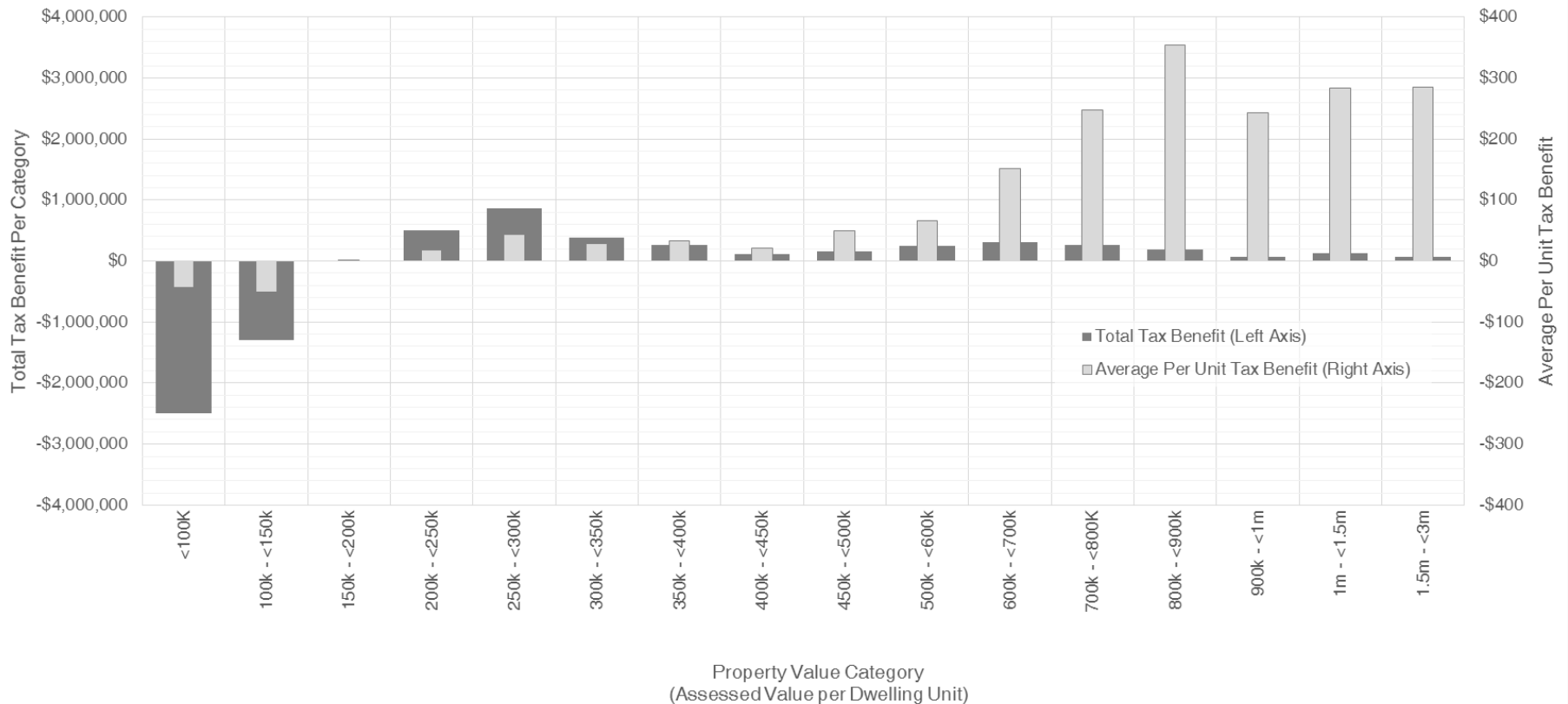
- 87 were single detached homes
- 73 were waterfront (Northwest Arm & Banook)
- Mostly Urban
  - 79 Regional Centre
  - 13 Inner Suburban
  - 5 Outer Suburban
  - 3 Rural Commutershed
- “Median” Property
  - 3,300ft<sup>2</sup> living area, 4 bed 3 bath
  - Assessed at \$1.56 million
  - Capped at \$1.08 million



# CAP Impact by Dwelling Value

## Systemic Impacts Illustrated

Distribution of CAP-Related Tax Benefits by Property Value  
 (Estimated using HRM 2017 Tax and Assessment Data)





# Conclusion

Analysis holds if the phase-out:

- is revenue neutral for municipalities
- is revenue neutral within the residential and resource assessment base only

The CAP:

- does not generate significant savings for for most eligible properties (many overpay)
- systematically overcharges properties more likely to house people of lower income
- systematically directs the greatest benefit to properties that likely don't need it





# Thank You



Turner Drake  
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