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NOVA SCOTIA OFFICE

Brief to All- Party Committee on Property Tax Cap

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Introduction

Taxes are the price we pay for a civilized society is a truism which leads to several principles:

1. Taxes should be progressive - people with a greater capacity to pay should pay a higher rate of taxation;
2. Taxes should be transparent, i.e., understandable as to why they are collected, how they are calculated, how the rules are applied and to whom;
3. Taxes should be easily administered in collecting them and in dealing with anomalous circumstances;

Of course, there are many difficulties in designing taxes. For instance, how do we measure “capacity to pay”? Usually it is in terms of income; sometimes based on wealth. Do we distinguish between tax payers on the basis of their characteristics such as family-size; how do exceptions complicate the administration and the acceptance of a tax. Is the “market” price a fair estimate of value?

In Canada, the property tax is the major source of revenue for municipalities but elsewhere, e.g., Scandinavia, they are a small fraction of total revenues.¹ Our property taxes violate all three principles and the cap on increases in property assessment is an example of the difficulty of dealing with some concerns without exacerbating others. For instance, the efforts to distinguish between uses and users, e.g., residential, commercial, resource, or speculation.

We contend that there are better ways to raise revenues for municipalities, to increase the progressivity, efficiency, and transparency for all concerned while reducing the impact of any given change in property valuations.

¹ Kitchen, H. & E. Slack (2016). “More Tax Sources for Canadian Cities: Why, What, and How?” *IMFG Papers on Municipal Finance and Governance*, No. 27, p. 10, Retrieved from https://munkschool.utoronto.ca/imfg/uploads/348/imfgpaper_no27_taxrevenues_slack_kitchen_june_27_2016_updated.pdf



Income Tax Alternative

The Canadian Centre for Policy Alternatives-Nova Scotia promotes a municipal income tax (MIT) in our Nova Scotia Alternative Budgets.² We focus on an income tax as this is the primary progressive tax in our tax system which is built around regressive taxes such as sales and property taxes. The municipal income tax would require one additional line on our provincial income tax, a surcharge on the currently calculated provincial tax of the filer. This surcharge would be remitted to the municipality of the filer, as indicated by their postal code.

Income taxes make up the majority of local tax revenues in many advanced economies, including Austria, Switzerland, Germany, and all four Scandinavian countries.³ Furthermore, the income tax approach to municipal funding honours all three basic principles of taxation. Of course, the devil is in the details, e.g., the base unit as many households have more than one tax filer. Should each filer in the household pay the tax, spreading it over them all and likely reducing its progressivity? Should only the highest earner in the household be subject to the tax, to avoid reducing its progressivity? How quickly can the tax be phased in? How much of the total municipal tax revenues should be generated from the income tax?

The “wrinkles” in the design of the municipal income tax can be ironed out once its benefits are recognized and this approach accepted. With a significant income tax source of revenue, the level of the municipal property tax can be decreased dramatically, as would the impact of shifts in property valuations. Thus, the need for the cap on changes in assessments is reduced.⁴

In addition to this fundamental shift in the tax base of municipalities, there can be improvements to the property tax itself.

A Progressive Property Tax on Non-Primary Residences

A key issue with the cap on property valuations for taxation is that it may not benefit those for whom the policy was created - Nova Scotians with relatively low incomes who have held a property in their family for generations, but can no longer afford to pay the property tax on

² Canadian Centre for Policy Alternatives - Nova Scotia (2012). “A Sustainable Vision for Our Community: Alternative Municipal Budget for the Halifax Regional Municipality”, Retrieved from <https://www.policyalternatives.ca/publications/reports/sustainable-vision-our-community>

³ Ibid.

⁴ For more details on municipal income taxes in Canada, see Bradfield, M. (2013). “An Alternative to Property Taxes”, *Canadian Centre for Policy Alternatives Policy Points*, Retrieved from https://www.policyalternatives.ca/sites/default/files/uploads/publications/Nova%20Scotia%20Office/2013/02/PolicyPoints_Alternative_to_Property_Taxes_0.pdf



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escalating valuations. Instead, many high income earners may benefit from a substantial tax break and municipalities are denied important revenue.

A progressive municipal income tax in place of a property tax on Nova Scotian's primary residences would help solve the problem of fairness, allowing Nova Scotians with relatively low income to retain high-valuation family property.

However, non-residents - both Nova Scotians owning second properties and out-of-province residents - also benefit from municipal services and, therefore, should contribute their share of taxes. This contribution should be based on the same principle of fairness associated with progressive income taxes - that the most fortunate should pay the highest tax rates.

Thus, we propose that in addition to initiating a progressive income tax, municipalities adopt a progressive property tax that would apply only on properties that are not a primary residence. This tax would not be subject to a valuation cap, but rather based on market valuations with progressively higher marginal tax rates on properties with higher assessments.

Progressivity would promote fairness, creating a system where those with the greatest fiscal capacity actually pay the highest tax while limiting the cost to Nova Scotians with modest vacation properties. In addition, the revenue collected from such a tax on non-residents could be used to further reduce the municipal tax payable by low-income Nova Scotians or to improve municipal services.

Our proposals improve the equity and efficiency of the tax system while also making tax payments less subject to the vagaries of market land price swings.