

Resolution 1

CAPPED ASSESSMENT PROGRAM (CAP) (PASSED)

WHEREAS the CAP was introduced by the province in 2005 to protect property owners from dramatically rising assessments, particularly along waterfront areas; and

WHEREAS concerns were raised regarding long standing property owners who were struggling to pay their property taxes; and

WHEREAS the cap went from 15 per cent, when first introduced, to the Consumer Price Index, resulting in the majority of residential properties being capped; and

WHEREAS this has resulted in significant variations in property taxes for similar houses on the same street, which undermines the key principles of fair market taxation; and

WHEREAS the cap over time can negatively impact certain segments of the population including seniors who may be reluctant to downsize for fear of paying more property taxes on an uncapped property and first-time home buyers who are unable to afford the taxes once the cap is removed; and

WHEREAS this can have a negative impact on economic development in our communities when people refrain from buying new homes; and

WHEREAS it is no longer clear if the program is helping those who need it the most; and

WHEREAS many home owners perceive they are benefitting from the cap when in fact they may be paying higher taxes than they would without the cap due to a lower tax rate; and

WHEREAS municipalities do not want to see people forced out of their homes due to their inability to pay their property taxes and recognize the need for adequate tax relief programs to ensure this does not happen should the CAP be phased out or eliminated; and

WHEREAS there are better alternatives available;

THEREFORE BE IT RESOLVED that the UNSM write the Province requesting the formation of a municipal-provincial committee who would review the issues associated with the CAP and make recommendations on proposed solutions.

Issue Identification:

Property values in the late 1990's and early 2000's were rising dramatically, especially waterfront properties. Concerns were raised that long-standing property

owners were no longer able to pay their property taxes. The CAP was legislated by the province ten years ago, as a means to protect these home owners. Since then, the program has resulted in variations in property taxes for similar houses on the same street. This breaks one of the principles of fair taxation. To raise the same level of revenue with the CAP, it is clear that for every dollar one taxpayer saves, another taxpayer pays more. We are hearing stories of young families not being able to afford the property tax when buying their first home, seniors not able to downsize without paying more in property taxes on the smaller home, and economic development being stymied as people refrain from buying new homes. It is not clear if the program is helping those who need it the most. A review of the program is needed to explore the issues and to find better solutions.

Background Information:

Property tax is the primary source of municipal revenues. Most academics point to a market based assessment as the fairest system. Market values reflect government services and amenities in the area. Those with higher valued homes should pay more in property taxes than those with lower values. The CAP distorts the market based system.

It is not clear if the current program is helping those who need it most. The program benefits those who stay in their homes for a longer period of time, and those whose assessments are rising more rapidly. Depending on market conditions, there is some analysis that suggests the ones with higher valued homes are benefitting more than those of lower value homes.

Public understanding of the issue is complicated. Many perceive they are benefitting but in actuality are paying more in taxes than they would without the CAP. There is general distrust with government among the public, causing some to conclude the removal of the CAP is simply a means for municipalities to raise revenues.

Impact on Municipalities:

Municipalities set their tax rates to raise revenues needed to provide services communities want. The difference between market assessed values and capped values varies depending on the market conditions in the municipality. The impact on new housing developments is not clear, but there are stories about new homes not being built. There are stories about people not moving into more suitable housing because the new property taxes are higher than what they are paying now – particularly with seniors and young families. There are also stories about some municipalities not raising tax rates, even though the revenues are needed, because they know the impact on some taxpayers will be harsher than it would be if there was no CAP. Municipalities do not want to see people forced out of their homes from their inability to pay property taxes. To address this, there would need to be programs in place to ensure this does not happen should the CAP be phased out or eliminated.

As the duration of the program lengthens, the impacts increase and become more

complicated to resolve. This needs to be dealt with now.

Proposed Solution:

UNSM has raised this issue with the province consistently over the last several years. Because the CAP was introduced by an all-party committee of the legislature, UNSM wrote to the province two years ago requesting an all-party committee review the program. The UNSM received a letter from the Minister at that time agreeing to the all-party committee. Further discussions with the province revealed challenges with this approach. UNSM's plea to the province was to form a working committee to review the program.

There are at least a few possible solutions that need to be explored:

- Complete phasing out over a period of 8-10 years (this was done successfully with the business occupancy tax), with a new tax relief program for low income property owners
- Applying the CAP only to situations where increases in property values are significant (e.g. over 15%), and allowing time for these higher property values to be phased in
- Providing municipalities with more tools to assist those struggling to pay their property taxes, and letting municipalities choose how they want to handle it.

At this time, UNSM should not recommend one solution, but should encourage the review to explore and consult on the appropriate solution. Other interested parties should also be consulted.

UNSM has recently written to the province once again requesting a review of the program.

Response from:
Department of Municipal Affairs

RESPONSE:

The Department of Municipal Affairs (DMA) acknowledges the request to move to a working committee on the CAP rather than an all-party committee and will take the request under advisement as we set our priorities for the coming fiscal year.

A formal review of, and possible changes to, the CAP Program requires extensive research and policy work. Moreover, extensive public education would be necessary to ensure property taxpayers are aware of any potential impacts a change in the CAP program would have on property tax bills.

DMA and the UNSM both agree that, with the property taxpayer at the centre of our focus, any phase-out approach or removal of the CAP would require corresponding commitments from municipalities on potential changes to tax rates, as well as low-income/vulnerable sector relief programs, to ensure taxpayer protection.

DMA recognizes the UNSM's ongoing commitment to educating the public on the impacts of the CAP and hopes this commitment will continue moving forward.