Municipal Property Tax Issues in the City of Saint John

A report prepared for the City of Saint John

Harry Kitchen and Enid Slack

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Harry Kitchen is Professor Emeritus in the Economics Department at Trent University. Over the past thirty years, he has completed more than 100 articles, reports, studies, and books on a range of issues relating to local government expenditures, finance and governance in Canada and abroad. In addition, he has served as a commissioner, advisor, and consultant for a number of municipal and provincial governments in Canada, the federal government in Canada, and has worked on projects in Russia and China. In 2013, he was awarded a Queen's Diamond Jubilee medal for his work with the Federation of Canadian Municipalities.

Enid Slack is the Director of the Institute on Municipal Finance and Governance (IMFG) and Adjunct Professor at the Munk School of Global Affairs at the University of Toronto. Enid has worked on municipal finance issues for over 30 years and advises governments and private companies on public finance issues in Canada and abroad. She chaired the Municipal Port Property Tax Fairness Commission in Metro Vancouver in 2010 and was a Commissioner on the Vancouver Property Tax Policy Review Commission in 2007 and again in 2013. In 2012, Enid was awarded the Queen's Diamond Jubilee Medal for her work on cities.

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Executive Summary

Saint John faces a declining population, slow growth in its property tax assessment base, and high property tax rates, especially when compared to the municipalities that surround the city. This is the context that has the city wondering if the current property tax is fair and equitable for all taxpayers and whether it has the capacity to support the City's current and future growth objectives. The purpose of this report is to evaluate the fairness and equity of the property tax in Saint John and to suggest changes that could be made in the short run to improve the tax. It also explores whether changes can be made to the property tax to stimulate economic growth and promote fiscal sustainability

The report reviews the theoretical and empirical literature on the property tax, focusing on features that are relevant to Saint John. It summarizes the characteristics of the property tax in Saint John and compares them to property taxes in other cities in New Brunswick and across Canada. It raises a number of issues around the property tax and makes some suggestions for what the city can do, as well as what the province can do, to improve its fairness and equity. The report does not discuss and evaluate the assessment system in New Brunswick, which is currently under review, because this is a technical issue beyond the mandate of this study.

The Issues

Ten issues relating to the property tax in Saint John are addressed in this report:

1. <u>The appropriate relationship between the property tax for different property classes</u>
   Throughout New Brunswick, the municipal property tax on business properties is legislated to be 1.5 times the tax on residential properties. Although there is no justification for a higher tax on business because business properties use fewer services than residential properties and they are more likely to move in response to a tax increase, the over-taxation of business by municipalities in New Brunswick is much less than in most other Canadian jurisdictions. Indeed, other cities in Canada, such as Vancouver and Toronto, have made a conscious effort in recent years to reduce the property tax on business because it has been much higher than the tax on residential properties.

2. Property tax differentials across jurisdictions

   Although there is no general agreement about the importance of property taxes on location decisions, the available evidence suggests that different property tax rates matter for location decisions in neighbouring jurisdictions. For example, the significant difference between property tax rates in the City of Saint John compared to the neighbouring municipalities and Local Service Districts may have an impact on residential and non-residential location decisions. It cannot be concluded that the tax differential, by itself, has had an effect in Saint John, but the city is experiencing slower growth in its tax base compared to its immediate neighbours.

   At least part of the explanation for the higher tax rate in Saint John is that the city provides services that benefit neighbouring communities. Evidence from other jurisdictions also suggests that people in surrounding areas use services that are paid for urban residents, such as roads, for example. Addressing the problem of service spillovers in the Saint John region where each municipality has its own independent governing structure is not something that can be resolved with changes to the property tax. Indeed, this issue was identified in the Finn Report where he recommended the creation of regional service districts and the amalgamation of municipalities. The creation of larger municipalities or two-tier districts, for example, could result in all of the beneficiaries of local services paying their share of the cost of services.

3. Property tax incentives

   Cities everywhere want to attract businesses and are often keen on offering property tax incentives on the grounds that businesses provide benefits to the community that exceed the municipal costs for services and potential environmental degradation. When incentives succeed in attracting new businesses to the city, they can result in increased employment and income, a larger property tax base, and the revitalization of depressed areas.

   Property tax incentives have had a poor record in promoting economic development, however. They are often wasted on firms that would have located there anyway and they are unfair because new businesses benefit from lower taxes at the expense of existing

residents and businesses. Tax incentives can lead to unfair competition among businesses and result in a situation where no major investment occurs without them. Tax incentives might be effective for the first jurisdiction that implements them but once they proliferate across many jurisdictions, they lose their effectiveness to promote economic growth. It might be preferable to invest in services and infrastructure which will also attract new businesses and, at the same time, provide benefits to existing residents and businesses.

4. Taxation of special properties

   Special or unique properties include, for example, oil and gas refineries, linear properties (railway lines, pipelines), farmland, and forests. For the City of Saint John, property tax revenues from oil and gas refineries are a major issue in part because machinery and equipment (M&E) is not taxed in New Brunswick. M&E is not taxed in Ontario either but is taxed in Newfoundland and Labrador, Quebec, Saskatchewan, Alberta, and British Columbia. Although this exemption can be justified on the grounds that it encourages manufacturing and processing and expands economic activity, it provides an incentive to alter production so as to minimize property taxes. Including M&E in the property tax base, on the other hand, will result in fairer property tax treatment of all manufacturing and processing plants. If there are concerns about the impact of including M&E in the tax base on economic activity or the over-taxation of business properties more generally, a preferred approach would be to include it in the tax base but lower the tax rate on all non-residential properties.

5. Exemptions for some properties

   Property tax exemptions are unfair because exempt properties use municipal services similar to other properties and exemptions narrow the tax base thereby necessitating higher taxes on non-exempt properties or a reduction in services. Differential tax treatment of similar properties is likely to affect location decisions, choices about what activities to undertake, and other economic decisions. If there is a sound public policy reason for an exemption, it should be made explicit and, at the very least, exempt properties should be assessed on the same basis as non-exempt properties so the foregone tax revenue can be

made explicit. If there is no public policy rationale for the exemption, it should be terminated.

In the case of Saint John, federal properties are tax exempt but payments in lieu of property taxes are made by the federal government which are pretty close to what the property taxes would be. Hospitals and universities pay property taxes to the city but only at the residential rate. There are also commercial components to these properties (e.g. food courts, gift shops, etc.), however, which should be assessed and taxed at the higher commercial tax rate to place them on a level playing field with similar non-institutional properties.

6. Concessions for some taxpayers

   Although it is generally true that richer people live in more expensive houses, property taxes can be a problem for some taxpayers. In particular, taxpayers who are asset rich and income poor, such as seniors on a fixed income, face a cash flow problem. It is important to protect low-income taxpayers from property taxes that create an excessive burden. A number of programs are used across North America to address this problem, such as tax deferral schemes for the elderly and property tax credits against income for income tax purposes (also known as circuit breakers). In New Brunswick, for example, there is already a provincial property tax deferral scheme for seniors as well as grants that are credited against property taxes on the principal residence of low income owner-occupied homeowners.

7. Special tax on vacant land

   Current practice in New Brunswick is to assess vacant land at its market value – the value in its highest and best use. Although some have suggested that a higher tax should be levied on vacant land to encourage development and expand the tax base, there is no justification for it because the current system of assessing vacant land at its highest and best use already provides an incentive for development. In other words, the taxes levied reflect the property value as if it were developed so there is an incentive to develop the land to generate the income to pay the property tax. Moreover, it would be unfair to levy a

special tax on vacant land since it does not benefit from local services nearly as much as land that is occupied.

8. Assessment freeze

The Province of New Brunswick recently announced an assessment freeze for 2018 while the newly proposed provincial assessment agency has a chance to complete a province-wide reassessment. The problem with freezing assessments is not so much the reduction in local tax revenues that may result because municipalities could potentially increase the local tax rate to collect the same amount of revenues. Rather, the more serious problem is the inequities among properties that will result because properties with similar market values will not be paying the same tax. Furthermore, assessment freezes can result in property tax increases for some taxpayers because a reduction in assessment can be more than offset by an increase in the tax rate required to keep revenues the same. Lastly, it is difficult to remove a freeze if it has been there for a long time so it is advisable to remove the freeze as soon as possible.

9. Progressive property tax rates

Progressive property tax rates are rates that increase as the value of the assessment base increases. Though not permitted in New Brunswick or the rest of Canada, they are levied in some European jurisdictions. Progressive municipal property tax rates are not a good idea. If one jurisdiction levies progressive rates while another does not, high-income people will leave the progressive tax rate jurisdiction and low-income people will move in. In other words, this type of redistribution through taxes breaks down unless it is carried out at a broader scale.

The role of property taxes is to pay for services and not redistribute income. From an administrative point of view, progressive property tax rates are a problem because they are more difficult to understand than a uniform rate and because the division of property taxes into different classes according to their value provides an incentive for taxpayers to appeal their assessments to move to a lower property value class. Concessions to low-income taxpayers are a better way to introduce progressivity into the property tax system.

10. Provincial property taxes

    Although the property tax is a good tax to fund municipal services that increase the value of property, the case for provincial property taxes is not strong because the province delivers services that have an element of redistribution (such as education and health) which is not an appropriate role for the property tax. Eliminating the provincial property tax in New Brunswick would reduce the pressure on the municipal tax and increase the accountability and transparency in the property tax system because municipalities such as Saint John would be solely responsible for the taxes. Municipalities would also benefit from the increased tax room.

Conclusions

Overall, there is not much that Saint John can do on its own to improve the fairness and equity of the property tax because property tax policy is largely governed by provincial legislation. The city should not fall prey, however, to some of the bad ideas that are being talked about such as putting an additional tax on vacant land, taxing businesses at an even higher ratio of the residential tax rate than currently, or increasing property tax incentives to attract businesses.

The city does have the power to make some modifications such as substituting some user fees for property taxes, e.g. for solid waste collection and disposal. Not only would an increase in user fees allow the city to lower property taxes, it would give people an understanding of what the services they are using actually cost and could result in a reduction in the demand for services.

As already noted, the city's higher tax rate compared to neighbouring municipalities reflects, in part, the services it provides to residents in those jurisdictions. The problem of service spillovers in the region cannot be resolved with changes to the property tax but rather requires changes to the governing structure to ensure that all the beneficiaries of local services are taxed to pay for them.

The Province should look at gradually getting out of levying property taxes both to improve the transparency and accountability of the property tax and to provide tax room for municipalities.

1. **Introduction**

A recent decline in population, combined with slower growth in the property tax assessment base and a reduction in assessment of Canaport's LNG property, has raised concerns about how well the property tax system is working in Saint John. At the same time, the municipalities which surround the city are experiencing growth in their assessment base and enjoy lower tax rates than the city. Is the current property tax "*fair and equitable*" for all taxpayers? Does it have the capacity to support the City's current and future growth objectives? Are there short term changes or refinements that would improve its fairness while, at the same time, ensuring fiscal sustainability and the capacity of the City to attract and retain people, businesses and investment?

The purpose of this report is to evaluate the fairness and equity of the property tax in Saint John and to suggest changes that can be made in the short run to improve the tax. It also explores whether anything can be done with the property tax to stimulate economic growth and promote fiscal sustainability. The report reviews the literature on property taxation around the world with a particular emphasis on features that are relevant to Saint John; summarizes the characteristics and trends in the property tax in Saint John and compares them to property taxes in other cities in New Brunswick, as well as cities across Canada; and makes some suggestions for what the city and the province could do to improve the fairness and equity of the property tax as well as ensure fiscal sustainability and promote economic growth. The report does not discuss the assessment system in New Brunswick, which is currently under review, because assessment is a technical issue and beyond the scope of this report.

The report is organized in seven parts plus two appendices. Following this introduction, part two highlights a few issues around the role of property taxes in general. Part three reviews recent trends in the tax base and tax rate in Saint John, and provides some comparative data on other municipalities in New Brunswick and Canada. Part four highlights a number of salient features of property assessment and property tax systems across Canada. Part five discusses and evaluates ten property tax issues that are relevant to Saint John and the province. Part six provides a general overview of the role of property taxes in meeting growth objectives and ensuring fiscal sustainability. Part seven concludes the report.

As will be seen from the following discussion, many questions posed in this report are difficult to answer: in fact, for many issues faced by the city, the answer may not lie in municipal changes to the property tax. Some of the issues will have to be addressed by the provincial government through changes in legislation; others will need to rely on other policies, for example to attract new people and business to the city. Nevertheless, some suggestions are made in this report to improve the fairness and equity of the property tax.

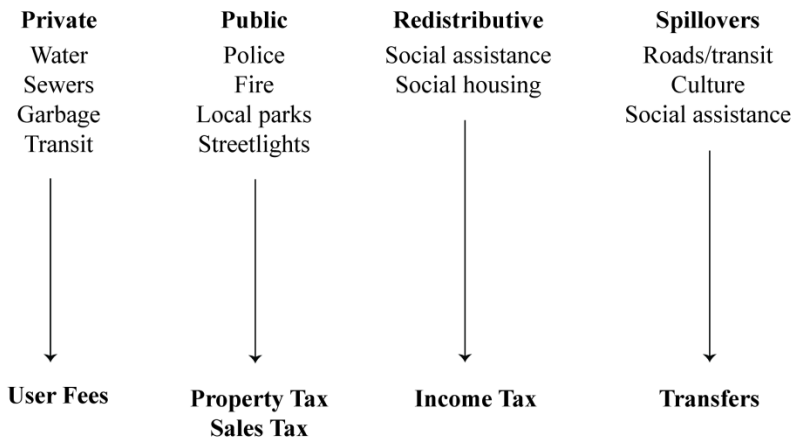
2 Role of Municipal Property Taxes

As a starting point, it is important to understand the role of property taxes in financing municipal services. The benefit model of local public finance suggests that, for the public sector to operate efficiently, it is important to establish a clear link between expenditure and revenue decisions--those who make decisions about expenditures should be the same as those who make the decisions about how to pay for them.[1] Moreover, funding sources should relate to the characteristics of the services being provided.

With that in mind, Figure 1 illustrates the funding tools that are appropriate for different services.[2] For those services with "private good" characteristics (such as water, sewers, garbage collection and disposal, transit, and most recreation) where individual beneficiaries can be identified, user fees are efficient and fair. In general, user fees should be adopted wherever there is a clear link between the fee and the benefit received. Appropriately designed user fees allow residents and businesses to know how much they are paying for the services they receive from local governments and to make decisions about how much to consume. At the same time, user fees allow governments to make efficient decisions about how much to provide. When users do not pay for a service or do not pay its full cost, they consume more than they would otherwise. The resulting demand sends a signal that more of the underpriced service should be provided leading to more expensive infrastructure investment than is economically efficient or justified.

[1] This link is what one author refers to as the Wicksellian connection (Breton 1996). For more on the Wicksellian connection in financing local public services, see Bird and Slack (2014), Slack and Bird (2015), and Kitchen and Slack (2016).
[2] This categorization first appeared in Slack (2009).

Figure 1: Different Financing Tools for Different Services



A question that often arises around user fees is "what percentage of costs should municipalities recover through user fees?" The answer depends on the nature of the service.[3] For water and sewers, for example, efficiently set user fees should recover all costs; indeed full cost recovery is now legislated in Ontario (Fenn and Kitchen, 2016). For solid waste collection and disposal, user fees (bag tags, for example) have replaced property taxes as a means of financing operating and capital costs in a growing number of Canadian municipalities (Kitchen and Tassonyi, 2012). For public transit, by comparison, transit fares should not cover all costs because automobile users do not cover all their road operating and environmental costs (Kitchen and Lindsey, 2013). The use of user fees for recreational services depends on the nature of the program or the users of the facility. Beer league hockey players or oldtimer slow-pitch participants, for example, should cover all costs. For youth programs where part of the benefit is keeping them out of trouble, thus reducing potential social and criminal costs, user fees may appropriately and efficiently be set to cover only a portion of the costs. Thus, the percentage of the costs that should be covered by user fees depends on the nature of the service and the people who use it. If the service benefits only those who use it, all costs should be covered; if use of a service by one individual or group generates externalities (spillovers) or benefits for others, user fees should only cover a portion of the costs. This portion will depend on local circumstances.[4]

[3] There is an extensive literature on user fees and they have been examined in detail in a number of places - see Bird and Slack, forthcoming 2017, for example.

[4] Equity concerns arising from user fees can be addressed either by targeting lower-income individuals with existing provincial income-transfer programs or by lowering or waiving fees for low-income users.

Services with "public good" characteristics (for example, police and fire protection, neighbourhood parks, local streets, and street lighting) generate collective benefits that are enjoyed by all local residents. Benefits from these services cannot be assigned to individual beneficiaries and therefore, specific charges cannot be levied. Here, the property tax is an appropriate funding source.

Services that redistribute income should be funded from income tax revenues because it is the most progressive tax available. For cities, these services may include social assistance and social housing.

For some services or facilities provided locally, benefits (or costs) may spill over municipal boundaries. Positive spillovers (externalities) occur if residents of neighbouring jurisdictions receive a service for free or at less than the cost of its provision. For example, roads constructed in one jurisdiction may be used by residents of another jurisdiction without any charge to the latter. Recreational facilities (baseball diamonds, soccer fields, neighbourhood parks, for example) are often provided in a hub community and used by residents of neighbouring communities. There are two issues here – fairness and efficiency. In terms of fairness, users from outside the providing community are underpaying and users who live inside are overpaying. In terms of efficiency, the providing municipality does not charge users from other municipalities and may base its expenditure decision on the benefits captured within its jurisdiction alone, thus leading to an under-allocation of resources to this service. One way to provide an incentive to the municipality to allocate more resources to the service generating the externality is a transfer from the provincial government. Another way to internalize spillovers would be to provide the service at an area-wide or region-wide level.[5]

2.1 General evaluation of the property tax

For decades now, the literature has identified a number of criteria that a fiscally sound local tax should meet. These criteria are summarized in Box A.

[5] See part 6 for a more detailed discussion of how to address spillovers through structural changes.

Box A: Criteria for Evaluating a Local Tax

The literature identifies a good local tax as having the following characteristics:

- Fairness: the tax is perceived to be fair in terms the benefits they receive from local public services;
- Immobile tax base: the tax is levied on a base that is immobile -- if the tax base can't move, the tax will be borne by local residents and not passed on to people living in other jurisdictions;
- Sufficient, stable and predictable revenues: the tax generates sufficient, stable and predictable revenues for local governments;
- Visible, transparent, and accountable: the tax is visible and transparent to taxpayers so that governments can be held accountable;
- Ease of administration: the tax is easy to administer locally.

Source: Bird and Slack (2004)

The property tax stacks up very well against these criteria. The property tax base is largely immobile – the residential portion of the tax cannot be exported to taxpayers in other jurisdictions – and therefore, is relatively neutral or efficient because distortions in economic behaviour are minimized.[6] It is largely effective in funding services for which the collective benefits accrue to the local community; hence, it satisfies the fairness criterion based on benefits received. Revenues are relatively stable and predictable. It is highly visible, so it makes local governments accountable for the tax levied. This visibility makes it a politically contentious tax and one that is difficult to increase or reform. As such, the property tax may have difficulty generating sufficient revenue to fund the complex and increasing demands that local governments face. In that case, municipalities should turn to an increasing reliance on user fees and accessing new local taxes (Kitchen and Slack, 2016).

Two criticisms frequently directed at the residential property tax, however, are that it is unfair and regressive. The validity of each of these assertions is addressed next.

2.2 Is the property tax fair?

Discussions of fairness or equity (in reality, both mean the same thing) have been the subject of debate for decades. In general, fairness may be measured in one of two ways; first, on the basis of benefits received from the public services that are available and second, on the basis of a

[6] The same is not true of the non-residential property tax, however, which can be exported to other jurisdictions. For a discussion of the economic impact of non-residential property taxes in Ontario, see Smart (2012).

taxpayer's ability to pay taxes. Each produces a different result - what does each mean and when should each be used?

The benefits received concept for fairness in taxation is based on the principle that one should pay for the public services that one uses. In other words, property taxation should be viewed as a benefits-based tax as long as it is used to fund those services that provide collective benefits to the local community.

Ability to pay, by comparison, argues that one's tax liability should be based on one's ability to pay taxes as measured by taxable income.[7] The larger (lower) is one's taxable income, the greater (lower) is one's ability to pay taxes. Ability to pay is the basis for the personal income tax system in Canada and, indeed, in many other countries. Fairness or equity based on ability to pay has two components: horizontal equity and vertical equity. Horizontal equity is achieved when all individuals with the same ability to pay incur the same tax liability; for example, each taxpayer with $50,000 in taxable income (gross income minus deductions) pays the same amount in taxes. Vertical equity is achieved when those with greater ability to pay (a higher level of taxable income) face a proportionately higher tax liability compared to those with less ability to pay, although the literature on what the differential should be is never clearly defined. Given that the index for measuring fairness according to ability to pay is taxable personal income and given that municipalities do not have access to an income tax, income is not an appropriate base for measuring fairness or equity in funding municipal services.

2.3 Is the property tax regressive?

As noted in the previous section, the property tax is fair as long as it funds services that provide collective benefits to the local community. A common criticism, however, is that the property tax is regressive; that is, it takes a higher percentage of a poor person's or poor family's income when compared with the income of a rich person or a rich family. The same argument, by the way, could be made about any tax that is not based on income. For example, sales taxes are based on spending and not on income. As such, a person who earns $30,000 per year with taxable expenditures of $10,000 will pay the same amount of sales tax as a person who earns $50,000 a

[7] In some countries where there is a wealth tax (a tax on inheritance or estates), the base may be broadened to include both income and wealth.

year with $10,000 of taxable expenditures. If one calculates this tax as a percent of each person's income, the tax is regressive. It cannot be any other way. The same can be said for a tax on gasoline and diesel fuel, beer and alcoholic beverages, and theatre tickets, and so on. The issue of regressivity is important but it should not be an argument against the property tax. Furthermore, it can be handled, as it is at the moment in New Brunswick, through the provincial property tax relief program where grants may be credited against property taxes on the principal residence of low income owner-occupied homeowners. There is also a provincial property tax deferral program for eligible seniors who may defer the annual increase in the property tax on their principal residence (see Appendix Table A-6).

3. Property Taxation in New Brunswick

The property tax system consists of two components: the tax base and the tax rate.

3.1 Tax base

New Brunswick's real property assessment base is broadly defined to cover "land and buildings, including machinery, installation and equipment for providing services to the buildings" (Chapter A-14 of the *Assessment Act*). Properties are assessed at market value on an annual basis. For assessment purposes, property is classified as residential or non-residential (business properties). Residential property is further classified as owner-occupied (homeowners) or non-owner occupied (rental properties, cottages, and so on).

All properties are assessed at market value with responsibility for assessment resting with Service New Brunswick - a provincial assessment authority. The Province recently announced that a new independent assessment authority would be created to handle all future assessments (details are being worked out).

Three principal methods are used to value property: market (or sales) method, income method, and cost method. The market approach determines property values based on the sale price of comparable properties. For properties where there are similar or comparable properties and recorded sales, property assessments are generally based on observed market transactions with adjustments to reflect differences (location, size, condition, etc.) between the subject property and the observed sales. The market method is generally used for residential properties.

Where there is a scarcity of observed sales, provincial assessors may use the income method or replacement cost (with depreciation) to establish assessed values. The income method determines property values based on the earning power of an income producing property. This method is applied to business properties, apartments, and some light industry. The cost approach to assessing property value is based on a standardized estimate of construction costs. This method is used for properties that do not trade in the market.

Special provisions apply to the assessment of farmlands, farm woodlots, freehold timberland, golf courses, charitable and not-for-profit organizations, and horse racing parks – they are assessed at value in current use. Farm properties in excess of five hectares are assessed at their value as farmland (i.e. current use); farm buildings and up to five hectares of land are assessed at market value. Freehold timberland is assessed at $100 per hectare.

3.1.1 Three city comparison of tax base per capita over the past five years

It makes sense to compare the tax base in Saint John with the tax base of cities of similar population -- Fredericton and Moncton -- rather than with smaller municipalities in New Brunswick. Table 1 lists the proportion of the assessment base that is made up of residential and non-residential properties for these three cities for the last five years. The percentage of assessment that is residential is lower in Saint John (70 percent) than in the other two cities and, on the flip side, the percentage that is non-residential is higher (close to 30 percent). These percentages have been fairly stable over the five-year period in all three cities.

Table 2 records the municipal tax base per capita for these three cities for the same years. The per capita tax base is considerably lower in Saint John than in the other cities and it has been for the past five years. At the same time, the tax base in Saint John has only grown by 2.1 percent over this five-year period whereas Fredericton and Moncton, by comparison, experienced growth rates of 9.9 percent and 15.6 percent, respectively. For 2017, the tax base per capita in Saint John is almost $29,000 per capita lower than Fredericton and more than $20,000 lower than Moncton.

Table 1: Percent of total assessment that is residential and non-residential in three cities in New Brunswick, 2013 to 2017

	2013		2014		2015		2016		2017	
City	Res.	Non-res.	Res.	Non-res.	Res.	Non-res.	Res.	Non-res.	Res.	Non-res.
	%	%	%	%	%	%	%	%	%	%
Saint John	70.0	30.0	70.7	29.3	70.6	29.4	70.4	29.6	70.4	29.6
Fredericton	79.1	20.9	80.0	20.0	79.6	20.4	79.3	20.7	79.4	20.6
Moncton	74.9	25.1	74.7	25.3	74.3	25.7	74.1	25.9	74.3	25.7

Res. is the percentage of the total assessment base attributed to the residential sector. Non-res. is the percent of the total assessment base attributed to the non-residential sector.

Source: *Annual Report of Municipal Statistics*, Environment and Local Government, New Brunswick.

Table 2: Municipal Tax Base Per Capita in Three New Brunswick Cities, 2013 to 2017

	2013	2014	2015	2016	2017	
	Per capita	Per capita	Per capita	Per capita	Per capita	%age growth from 2013 to 2017
	$	$	$	$	$	%
Saint John	94,669	94,150	94,648	96,093	96,666	2.1
Fredericton	114,074	118,471	121,598	123,631	125,345	9.9
Moncton	101,263	106,310	110,932	112,824	117,014	15.6

Source: Calculated from tax and population data in the *Annual Report of Municipal Statistics*, Environment and Local Government, New Brunswick.

3.1.2 Tax base growth in Saint John, 2005 to 2017

This section examines the growth rate in the total property tax base, rather than per capita tax base, and it considers a longer time period, from 2005 to 2017, for Saint John alone. Table 3 lists the annual percentage increase in the residential property tax base (column 2), non-residential property tax base (column 3), and the total of both sectors (column 4).

From 2005 to 2010, Saint John experienced an impressive growth in its assessment base. From 2011 to 2013, the growth rate slowed down somewhat, primarily because of the recession and

because residential assessment increases were capped at three percent for 2011 and 2012. From 2014 to 2017, the rate of growth dropped dramatically for both the residential and non-residential sectors. For 2014, in particular, much of the decrease was attributed to a reassessment (lowering the value) of pulp mills (non-residential properties) but much of the remainder may be attributed to a slowdown in the overall growth in economic activity and a higher growth rate in the tax base in neighbouring municipalities. This decline has put considerable pressure on the property tax base to fund municipal services.

Table 3: Percentage increase in tax base in Saint John, 2005-2017

Year (1)	Residential (2)	Non-residential (3)	Total (4)
	%	%	%
2005	6.15	4.61	5.52
2006	6.47	4.70	5.69
2007	5.32	4.76	5.12
2008	8.39	6.41	7.57
2009	11.07	6.85	9.08
2010	8.46	3.06	6.42
2011	5.12	2.24	4.01
2012	4.94	5.75	5.23
2013	3.21	3.48	3.26
2014	0.70	-2.49	-0.48
2015	0.29	0.90	0.56
2016	1.19	2.06	1.53
2017	0.73	0.39	0.59

Source: Calculated from data in the *Annual Report of Municipal Statistics*, Environment and Local Government, New Brunswick.

Figure 1 illustrates the downturn in the yearly growth rate in the tax base in Saint John since 2009.

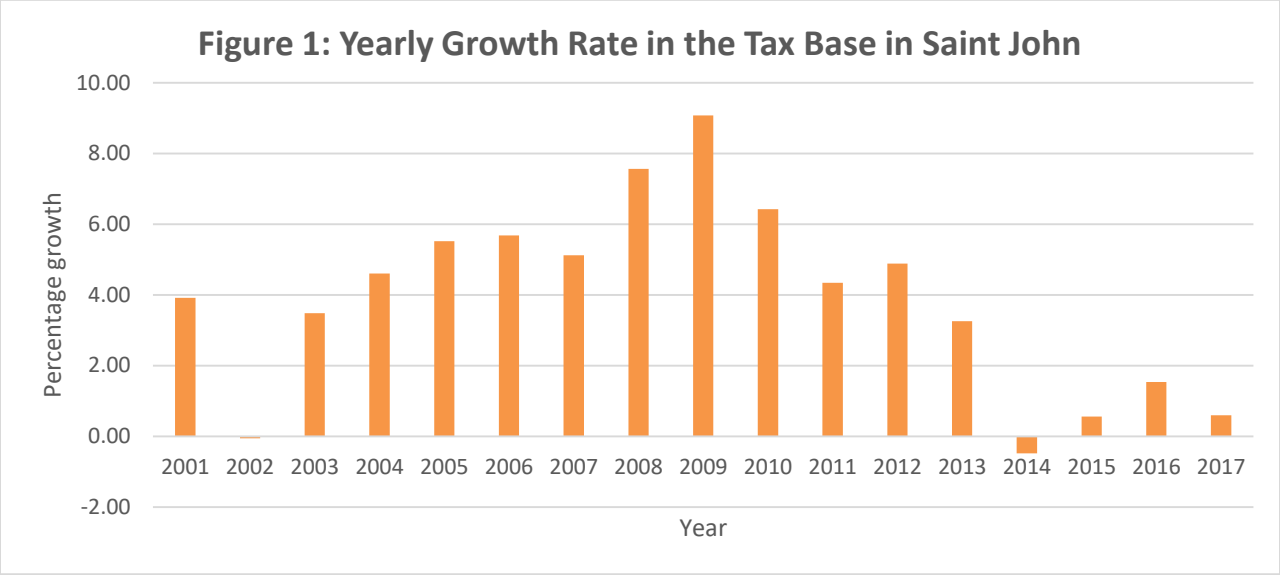
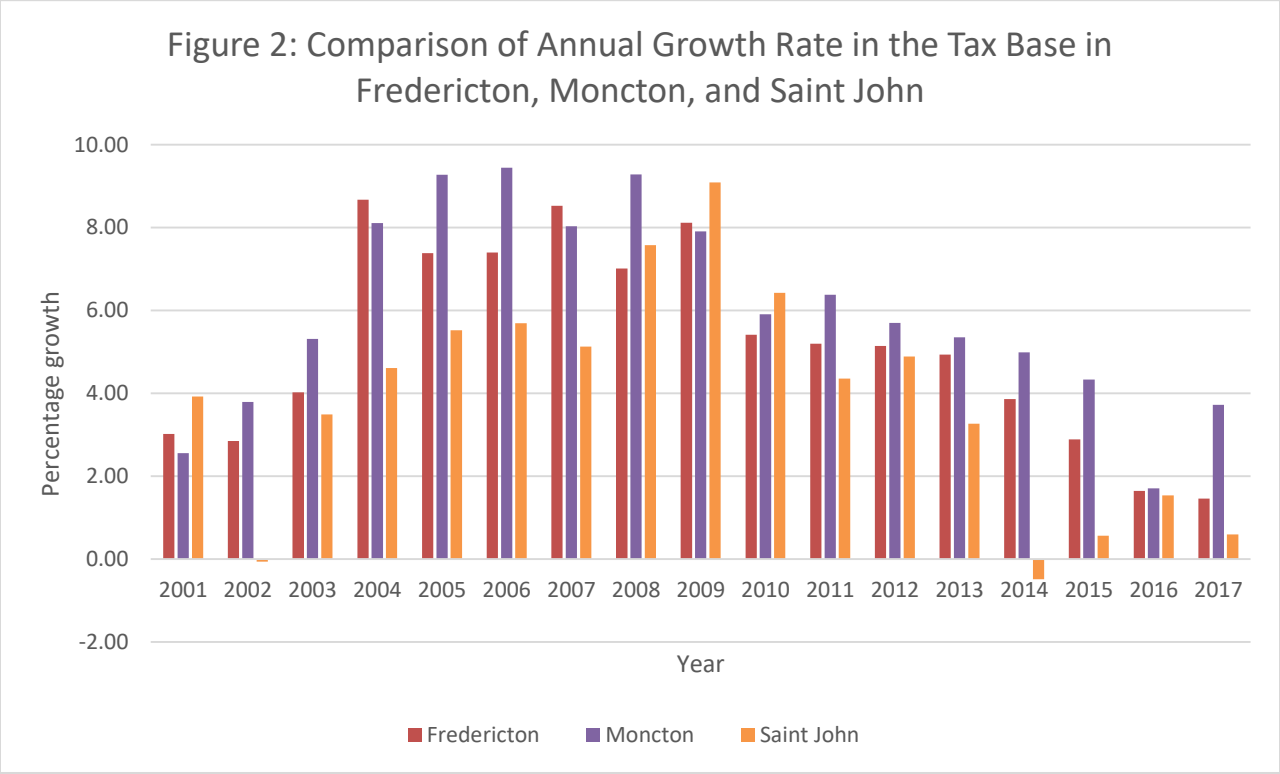


Figure 2 compares the annual growth rate in the tax base for Fredericton (first column in the bar chart for each year), Moncton (the second column), and Saint John (the third column). Over the past seven years, the annual increase in the tax base in Saint John has trailed the other two cities.



3.2 Tax rates

Two property taxes are levied on the assessment base in New Brunswick - one is a provincially set tax rate and the other is a locally set tax rate. Provincial regulations stipulate that the local tax rate on non-residential property must be 1.5 times the rate on residential property. This requirement no longer exists for the provincial property tax rate, however.

Table 4 reports provincial and local property tax rates for three cities for the last five years. The provincial rate has not changed over this period, nor has the local rate in Saint John and Fredericton. Moncton's rate increased slightly in 2016. Saint John's tax rate exceeded the rate in the other two cities in every year; it was more than 25 percent higher than the rate in Fredericton and more than 8 percent higher than the rate in Moncton.

Table 4: Residential and non-residential property tax rates, 2013 to 2017

	2013		2014		2015		2016		2017	
	Res $	Non Res $	Res $	Non Res $	Res $	Non Res $	Res $	Non Res $	Res $	Non Res $
Prov. rate	1.3973	2.1035	1.3373	2.021	1.2773	2.1860	1.1233	2.1860	1.1233	2.1860
Local Tax Rates										
Saint John	1.7850	2.6775	1.7850	2.6775	1.7850	2.6775	1.7850	2.6775	1.7850	2.6775
Fredericton	1.4211	2.1317	1.4211	2.1317	1.4211	2.1317	1.4211	2.1317	1.4211	2.1317
Moncton	1.6393	2.4590	1.6393	2.4590	1.6393	2.4590	1.6497	2.4746	1.6497	2.4746
The local transcribed taxes are inside the city. Some cities have outside rates as well.										
Source: *Annual Report of Municipal Statistics*, Environment and Local Government, New Brunswick.										

Owner-occupied residential properties within cities, towns, and villages receive a full credit on the provincial tax rate. These properties include a single-family residence, a duplex, a triplex or an apartment building. In the case of a duplex, triplex or apartment building, only the portion of the property maintained as the owner's principal residence and up to 0.5 hectares of land is eligible for the credit.

An additional tax of $0.0194 per $100 is imposed on all taxpayers to pay for assessment costs. As well, there is a residential tenancy fee of 0.0486 cents per $100 of assessed value on rented

properties classified as residential that do not receive the residential tax credit or that are not exempt from the levy under the Residential Tenancies Act.

Section 87(4) of the *Municipalities Act* permits municipalities to use area rates where services differ by area of the municipality. Cities are permitted to levy a business improvement area tax (BIA) on non-residential properties, and many do, at a rate determined locally but the rate cannot exceed $0.20 per $100 of assessed value. Saint John currently has a BIA rate of $0.16. Area rates are not permitted for different levels of a specific service such as snow ploughing or frequency of garbage pickups, however.

3.3 Comparative importance of assessment and tax revenue, Saint John, 2005, 2010 and 2016

Table 5 compares the assessment and tax revenue for each of seven property types for 2005, 2010 and 2016 for Saint John. The more salient features are:

- Residential assessment accounted for slightly more than 51% of total assessment in 2010 and 2016 (columns 3 and 4), up from around 49% in 2005 (column 2). Residential property taxes accounted for 40% of municipal property taxes (columns 6 and 7) in the latter two years, an increase from 36% in 2005 (column 5).
- Commercial assessment and property taxes accounted for roughly the same proportion in each year although the percentage of assessment was significantly lower than the percentage of tax revenue, a consequence of the higher tax rate on commercial properties compared to residential properties.
- Industrial assessment accounted for about 16.5% of all assessment in 2005, 18.1% in 2010 and 16.2% in 2016. Property taxes on these properties have exhibited the greatest change in relative importance over the three years falling from 26.6% of all property taxes in 2005 to 20.7% in 2016.
- Institutional assessment accounted for a higher percentage of all assessment in 2005 and 2016, but a lower percentage in 2010. When compared with commercial assessment, it accounted for a higher percentage in each year. Property taxes from institutional property, on the other hand, were considerably less important in terms of revenue compared to industrial and commercial property taxes.
- The other property types showed little change in relative importance over the three years.

Table 5: Relative Importance of Property Assessment and Taxes for Saint John, 2005, 2010 and 2016

Assessment Category (1)	Percent of Current Assessment			Percent of Property Taxes		
	2005 (2)	2010 (3)	2016 (4)	2005 (5)	2010 (6)	2016 (7)
Residential	49.11	51.62	51.36	35.94	40.41	39.94
Commercial	14.34	13.31	13.58	23.84	23.65	24.84
Industrial	16.46	18.11	16.17	26.62	23.55	20.69
Institutional	18.73	15.90	17.41	13.05	11.94	13.86
Recreational	1.29	1.01	1.36	0.48	0.38	0.65
Farms	0.04	0.03	0.02	0.04	0.03	0.02
Woodland	0.03	0.03	0.00	0.04	0.04	0.00
Total	100.0	100.0	100.0	100.0	100.0	100.0
Source: From data provided by Saint John						

3.4 Comparison of the property tax rate and tax base in Saint John with neighbouring municipalities

This discussion is separated into two parts - a comparison of municipal tax rates and a comparison of the tax base over the past five years for Saint John, Quispamsis, Rothesay, Hampton, and Grand Bay/Westfield.

3.4.1 The municipal tax rate

Table 6 shows the municipal residential property tax rate for Saint John and its four neighbouring municipalities for the last five years. It shows clearly that the tax rate in Saint John is considerably higher than in all of the other municipalities -- about 40% higher than in Quispamsis in 2017; about 47% higher than Rothesay; almost 42% higher than Hampton; and 30% higher than Grand Bay/Westfield (see Table 7). In addition, all of these municipalities have higher tax rates than the nearby Local Service Districts (LSDs).

Table 6: Municipal Property Tax Rate on Residential Property[1]

	Saint John	Quispamsis	Rothesay	Hampton	Grand Bay/ Westfield
2013	1.785	1.22	1.19	1.25	1.37
2014	1.785	1.24	1.19	1.25	1.37
2015	1.785	1.25	1.20	1.25	1.37
2016	1.785	1.27	1.21	1.25	1.37
2017	1.785	1.28	1.22	1.26	1.37

[1] The non-residential property tax rate in each municipality is 1.5 times the residential rate.

Source: *Annual Report of Municipal Statistics*, Environment and Local Government, New Brunswick.

Table 7: Percentage by which the residential property tax rate in Saint John exceeded the residential tax in neighbouring municipalities

	Quispamsis	Rothesay	Hampton	Grand Bay/ Westfield
2013	46.3	50.0	42.8	30.3
2014	44.1	50.0	42.8	30.3
2015	43.0	48.8	42.8	30.3
2016	40.6	47.5	42.8	30.3
2017	39.5	46.3	41.7	30.3

Source: *Annual Report of Municipal Statistics*, Environment and Local Government, New Brunswick.

3.4.2 The municipal tax base

Table 8 records the percent of the tax base that is made up of residential and non-residential assessment in each municipality. In Saint John, 61 percent of the tax base is residential and 39 percent is non-residential. In Rothesay and Hampton, approximately 90 percent is residential and 10 percent non-residential. In Quispamsis and Grand Bay/Westfield, 94 to 96 percent of the tax base is residential.

Table 9 lists the percentage change in both the residential tax base and the non-residential tax base from 2013 to 2017 for each municipality. Panel A records the annual percentage change and panel B lists the total percentage change from 2013 to 2017. The residential assessment base increased in each year in every municipality although the rate of increase varied from very high to very low; indeed, it was less than one percent in some years. The change in the non - residential growth rate

varied much more dramatically, ranging from comparatively large increases to modest decreases (as indicated by a negative sign).

Table 8: Percentage of the tax base made up of residential and non-residential assessment

Year	Saint John		Quispamsis		Rothesay		Hampton		Grand Bay/ Westfield	
	Res.	Non-res	Res.	Non-res	Res.	Non-res	Res.	Non-res	Res.	Non-res
	%	%	%	%	%	%	%	%	%	%
2013	60.9	39.1	94.0	6.0	91.1	8.9	90.0	10.0	96.2	3.8
2014	61.6	38.4	93.9	6.1	90.8	9.2	89.8	10.2	96.1	3.9
2015	61.5	38.5	93.9	6.1	90.7	9.3	89.6	10.4	96.0	4.0
2016	61.3	38.7	94.0	6.0	90.8	9.2	89.8	10.2	96.0	4.0
2017	61.4	38.6	93.9	6.1	91.0	9.0	89.9	10.1	96.2	3.8
Source: *Annual Report of Municipal Statistics*, Environment and Local Government, New Brunswick										

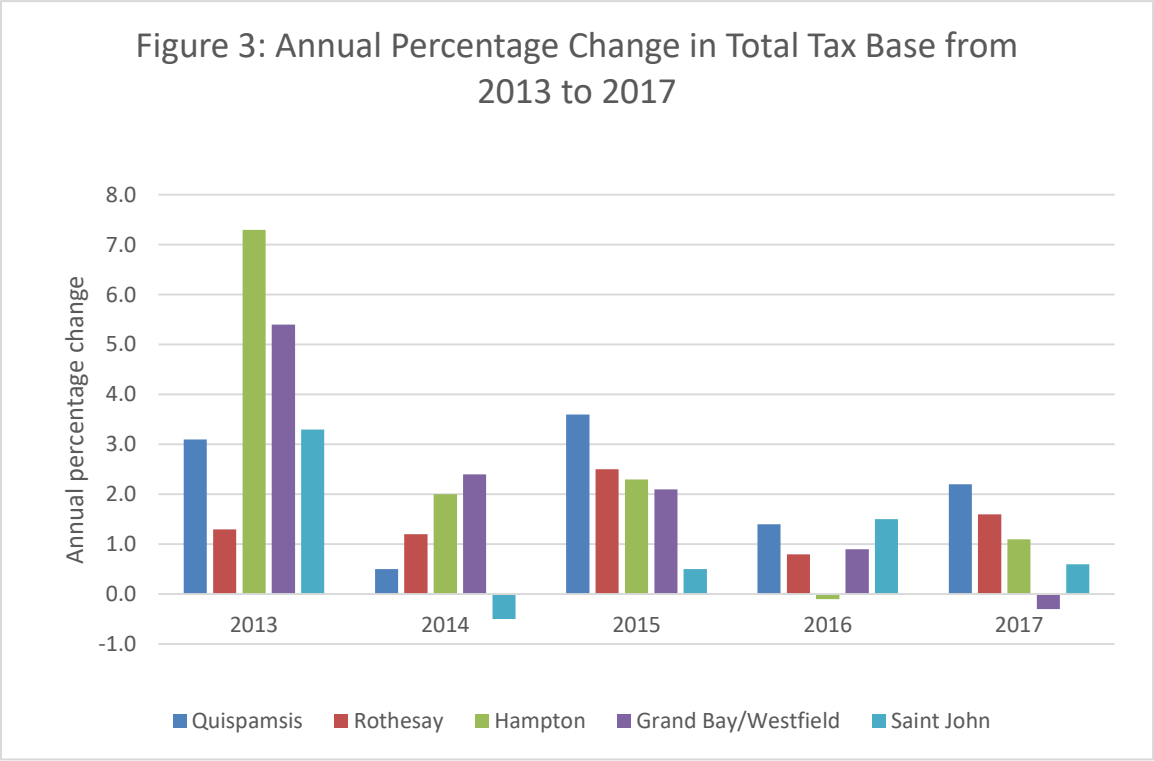
The overall growth (from 2013 to 2017) in each component of the tax base is reported in panel B of Table 9 where it is noted that the growth in Saint John trailed the other municipalities by a considerable amount. Specifically, the five-year growth rate in the residential tax base was slightly less than three percent (2.94 percent). By comparison, the residential tax base grew by 7.64 percent in Quispamsis; 6.11 percent in Rothesay; 5.27 percent in Hampton; and 5.11 percent in Grand Bay/Westfield.

Table 9: Percentage change in the residential and non-residential tax base

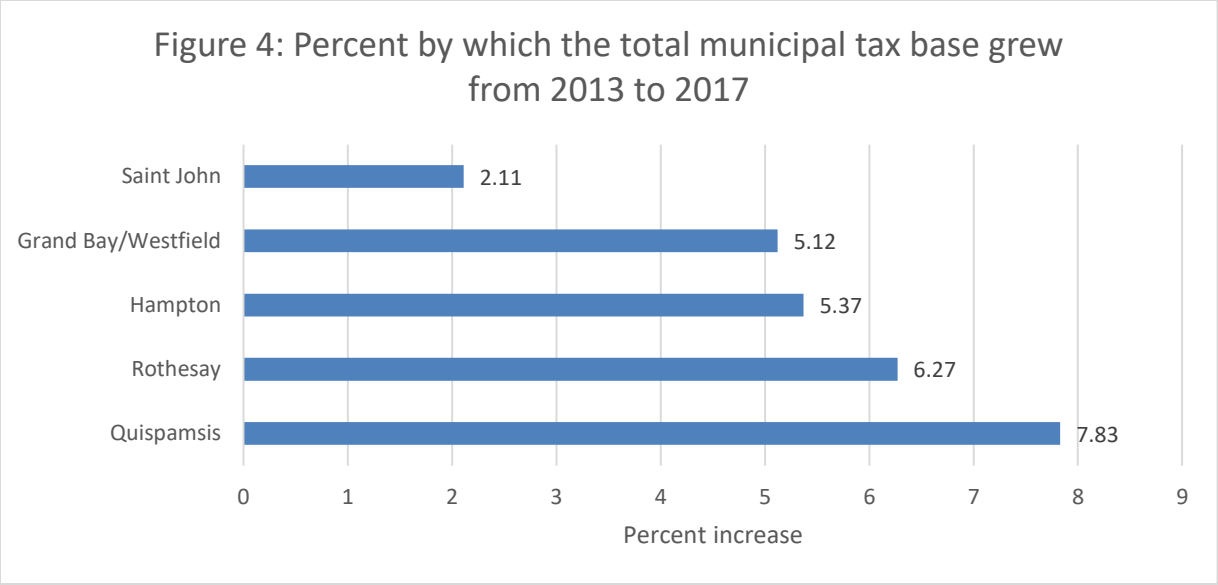
Year	Saint John		Quispamsis		Rothesay		Hampton		Grand Bay/ Westfield	
Panel A: Annual percentage change										
	Res.	Non-res	Res.	Non-res	Res.	Non-res	Res.	Non-res	Res.	Non-res
	%	%	%	%	%	%	%	%	%	%
2013	3.2	3.5	2.7	10.7	1.1	4.2	6.6	13.6	5.5	2.3
2014	0.7	-2.5	0.4	1.8	0.9	4.5	1.9	3.0	2.2	7.0
2015	0.3	0.9	3.5	4.3	2.4	3.1	2.0	4.8	2.1	4.1
2016	1.2	2.1	1.4	0.6	0.9	0.2	0.2	-2.1	0.9	0.2
2017	0.7	0.4	2.1	3.7	1.8	-0.2	1.1	0.5	-0.1	-5.4
Panel B: Total percentage change from 2013 to 2017										
2013 to 2107	%	%	%	%	%	%	%	%	%	%
	2.94	0.81	7.64	10.78	6.11	7.85	5.27	6.24	5.11	5.51
Source: *Annual Report of Municipal Statistics*, Environment and Local Government, New Brunswick										

The overall growth rate in the non-residential tax base showed much greater variation. For example, in Saint John, it was less than one percent (0.81 percent); in Quispamsis, it was 10.78 percent; in Rothesay, it was 7.85 percent; in Hampton, it was 6.24 percent; and in Grand Bay/Westfield, it was 5.51 percent.

Figure 3 illustrates the annual change in the total tax base (residential plus non-residential) in Saint John (last column in the bar chart for each year), Quispamsis (first column), Rothesay (second column), Hampton (third column), and Grand Bay/Westfield (fourth column). Of these five municipalities, Saint John had the lowest growth rate in 2014 (actually showing a decrease) and 2015 and the second lowest growth rate in 2017.



For the entire five-year period (Figure 4), the total tax base (residential plus non-residential) in Saint John grew by only 2.11 percent, well below the other municipalities. By comparison, the tax base in Quispamsis grew by 7.83 percent; in Rothesay, by 6.27 percent; in Hampton, by 5.37 percent; and in Grand Bay/Westfield, by 5.12 percent. For all of these municipalities combined, the total regional growth in the tax base was 3.7 percent from 2013 to 2017.



3.5 Property Taxes per Capita in Selected Canadian Cities

Moving to the rest of the country, Table 10 records property taxes per capita in twelve Canadian cities. These comparator cities were chosen in consultation with the City of Saint John for the following reasons: Fredericton and Moncton are provincial comparators. St. John's is an Atlantic comparator as well as being a coastal city with similar population density and covering a large geographic area. Cape Breton Regional Municipality is an Atlantic comparator with declining population, slowing economy, industrial presence (steel), and a large area with very low density. In Ontario, Sarnia, Sault Ste. Marie, and Greater Sudbury all have major industrial properties and similar populations. Regina, Strathcona County, and Prince George all have oil refineries.

At the outset, it must be emphasized that any interprovincial comparison of municipal property tax data has to be treated with extreme caution. Provincial and municipal expenditure responsibilities differ across provinces. Provincially set service standards/requirements that affect service costs and hence property taxes, may also vary across provinces. Provincial grants to municipalities differ across provinces. Reliance on user fees differs. With this caution in mind, one notes that variation in property taxes per capita across cities within the same province (New Brunswick and Ontario, in particular) is relatively small, while variation across provinces is much larger.

Table 10: Property Taxes per Capita in Selected Canadian Cities, 2015

City	Province	2016 Population	Municipal Property Taxes Per Capita
			$
Saint John	New Brunswick	67,575	1,751
Fredericton	New Brunswick	58,220	1,654
Moncton	New Brunswick	71,889	1,747
St. John's	Newfoundland/Labrador	108,860	Not available
Cape Breton RM	Nova Scotia	94,285	951
Sarnia	Ontario	71,594	1,533
Sault Ste. Marie	Ontario	73,368	1,410
Greater Sudbury	Ontario	161,531	1,450
Brandon	Manitoba	48,859	789
Regina	Saskatchewan	215,106	1,067
Strathcona County	Alberta	98,044	2,188
Prince George	British Columbia	74,003	1,411

Notes: With the exception of St. John's, provincial property taxes are also levied in each province. Data for Brandon and CBRM exclude PILs. Brandon did a reassessment in 2016.

Sources: Population from the 2016 Census. Property tax data are taken from municipal budgets or provincial compilations of municipal financial information.

3.6 Relationship between property taxation of residential and non-residential properties

The general practice in Canada and around the world is to levy higher property tax rates on multi-residential properties (although this is not the case in New Brunswick) and commercial/industrial properties than on residential properties.[8] Table 11 shows the differential tax rates between residential and non-residential properties in a number of Canadian jurisdictions. These jurisdictions were chosen because of their similarities to Saint John. This cross country comparison indicates that the ratio of municipal non-residential (commercial/industrial) to residential property taxes in Saint John and all of New Brunswick is 1.5. This is lower than in the other comparator municipalities. In Regina, it is a little higher than 1.5. For the other

[8] This may be achieved by levying higher tax rates on some property types or by assessing some property types at a higher percentage of market value.

municipalities, the ratio is much higher. For more detail on the ratio between residential properties and other property classes, the reader is referred to Appendix Tables B.[9]

Table 11: Municipal Tax Ratios in Selected Canadian Municipalities, 2015

City	Commercial	Industrial	Major/large industrial
Saint John, New Brunswick	1.5000	1.5000	1.5000
Fredericton, New Brunswick	1.5000	1.5000	1.5000
Moncton, New Brunswick	1.5000	1.5000	1.5000
Sydney, Nova Scotia	2.4942	2.4942	2.4942
St. John's, Newfoundland	3.2346	3.2346	3.2346
Strathcona County, Alberta	1.9842	1.9842	1.9842
Regina, Saskatchewan	1.5123	1.5123	1.5123
Prince George, BC	2.0509	3.2980	6.0228
Sarnia, Ontario	1.6271	2.0476	3.0035
Sault Ste. Marie, Ontario	2.1404	2.9624	5.2614
Greater Sudbury, Ontario	2.1397	3.1038	3.5180

Notes: Tax ratios are calculated relative to the residential tax rate. These tax ratios do not include the provincial property tax.

Source: Appendix Tables B.1, B.2, B.3, and B.4.

4 Inter-provincial comparison of property assessment and taxation

[9] The tables in Appendix B also show that, in many provinces, non-residential properties are divided into several sub-classes with different tax rates.

This section provides a brief overview of the characteristics of the property assessment base and tax rate structure across Canadian provinces and territories, based on tables in the Appendix.[10]

4.1 General Assessment Categories and Tax Rate Structure

An inter-provincial comparison of property assessment categories and municipal tax rate structures (see Appendix Table A-1) suggests the following.

- All provinces have at least two assessment categories – residential and non-residential – but many have more.
- Most provinces levy a provincial property tax, often justified because of the provincial role in funding public education.
- In some provinces, municipalities are free to set their own property tax rates without provincial restrictions whereas in other provinces, the provincial government directly controls or limits tax rates on some property classes. For example, in New Brunswick, each municipality sets its own local property tax rate but it is a provincial requirement that the non-residential (commercial and industrial) municipal tax rate be 1.5 times the residential rate. In some provinces, however, (e.g. Alberta, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador), municipalities are free to set their own property tax rates without provincial restrictions.[11] In other provinces, municipalities are free to set their own tax rates but the provincial government reserves the right to intervene. For example, municipalities in British Columbia set their own tax rates but the province can, by regulation, make special rules about tax rates. It used this power to cap the taxes on the utilities class and impose a maximum municipal tax rate on designated port properties. In Saskatchewan, there are no restrictions on setting municipal property tax rates but the province can set limits on mill rate factors through regulation. It has not exercised this power to date. In Quebec, different tax rates can be applied to different property classes but the province specifies minimum and maximum differentials (Québec 2017). In Ontario, municipalities are permitted to set different tax rates (relative to the residential

[10] This section includes expanded and updated material from Kitchen and Slack (2012); Kitchen and Slack (2014); and from the websites for the Provincial and Territorial Departments or Ministries of Municipal Affairs.

[11] Manitoba only has one municipal property tax rate so differentials do not apply. See BC Ministry of Community, Sport and Cultural Development (2012).

rate) for different property categories but provincially set ranges of fairness limit local flexibility. Where differential property tax rates are used, the residential rate (except for farm land and resource properties) is always lower than the commercial/industrial rate.

4.2 Property Taxes and School Funding

In terms of property taxes to pay for elementary and secondary schooling, the following can be noted (see Appendix Table A-2):

- Most provinces fund a portion of local schooling costs from the property tax. The exception is Newfoundland and Labrador.
- In most provinces, property tax rates for education are set by the province.
- The provincial property tax on each class of property is generally uniform across the province, but differential rates may apply to different classes of property.

4.3 Assessment Administration

Each province has established a central assessment authority to minimize unintended variation in assessment practices and to achieve intended variation where it is desired. Responsibility for assessment rests with the provincial government in some provinces; in others, it is the responsibility of an independent provincial agency. Some examples include the BC Assessment Authority (BCAA) in British Columbia; the Saskatchewan Assessment Management Authority (SAMA) in Saskatchewan with the exception of Saskatoon and Regina and a few other municipalities; the Municipal Property Assessment Corporation (MPAC) in Ontario, and the Property Valuation Services Corporation (PVSC) in Nova Scotia. In Quebec and Alberta, local governments are responsible for the assessment function, although they operate under a standard provincial assessment manual. In Newfoundland and Labrador, local assessors are used exclusively in St. John's; the rest of the province relies on provincial assessors. In Manitoba, local assessors are used in Winnipeg and provincial assessors elsewhere.

Every province maintains an assessment manual to guide assessors and it is the practice that assessors follow the manual. Moreover, all provinces exercise a certain measure of control through compulsory educational standards and training courses for provincial assessors. Similar standards have been laid down where the cities, rather than the provinces, assume responsibility.

Where assessment is a local responsibility, it is funded locally. Where it is a provincial responsibility or the responsibility of a non-profit corporation or agency, it is funded on a full or partial cost recovery basis from participating municipalities.

4.4 Frequency of Reassessment

Assessment practice over the past two decades has moved towards more frequent and up-to-date reassessments in every province (see Appendix Table A-3). New Brunswick, Nova Scotia, Alberta, and British Columbia are on annual reassessment cycles. In the decades of trying to update their assessment system, Ontario reached annual reassessments in 2004. In 2006, however, the province announced that all assessments would be frozen for two years and in 2007, announced a move to a four-year reassessment cycle which is still in place. Municipalities in Saskatchewan and Manitoba are on a four-year cycle. Municipalities in Quebec and Newfoundland and Labrador are on a three-year cycle.

4.5 Limits on the Impact of a Reassessment

Some provinces have instituted limits on the impact of reassessments by constraining either assessment or tax increases. Nova Scotia's cap assessment program (CAP) limits annual taxable assessment increases for eligible properties to the annual consumer price index (CPI). Ontario uses a four-year phase-in of assessment increases for residential properties and caps tax increases on commercial and industrial properties. At municipal option, the tax increase on commercial and industrial properties arising from a reassessment can vary between 10 percent of the previous year's taxes and 5 percent of the taxes based on the full Current Value Assessment of the property (uncapped taxes). In 2009, the provincial government in Prince Edward Island froze all residential assessments at 2007 values until time of sale. Beginning in 2010, the property assessment freeze was replaced by annual increases based on the change in the CPI to a maximum annual increase of 5 percent (if the CPI is negative, assessments remain fixed).

New Brunswick instituted a 3 percent cap on increases in assessment of owner-occupied property as a temporary measure for the 2011 and 2012 taxation years. In 2013, the 3 percent cap was removed and replaced with a permanent assessment exemption. The assessment gap (difference

between the 2012 market value and 2012 capped assessment) serves as a permanent exemption from taxation. Those properties that benefited from capping will be able to keep the savings until the house is sold or changes use. It was anticipated that the phase out would take 20 years. The province also adopted "assessment spike protection" to protect homeowners from unanticipated assessment spikes. Any increase greater than 10 percent would be phased in over a number of years. New construction and major improvements were exempt from this protection. Recently, the province announced that legislation would be introduced in the fall of 2017 to freeze all property tax assessments in 2018 for at least as long as it takes the newly proposed provincial assessment agency to reassess all properties. Exceptions include new construction, major improvements with a building permit and real estate transactions, or where a property assessment decreases due to market forces.

4.6 Exemptions

Local governments do not have legislative power to collect property taxes from properties owned by federal and provincial governments or their enterprises.[12] Section 125 of the *British North America Act* (now the *Constitution Act*) states that "no lands or property belonging to Canada or any Province shall be liable to taxation." This clause was enacted to ensure that the legislative powers of taxation of one level of government would not interfere with the control of property of another level of government.

Other institutions, such as churches and cemeteries, and many charitable organizations, are also exempt from property taxes. Individual provinces have additional exemptions - in some cases from school taxes only and in other cases from both municipal and school taxes. As an illustration, housing for the low income elderly and infirm, museums and buildings used by war veterans are exempt or partially exempt from school taxes in Manitoba; eligible small theatres and conservation land are exempt from both municipal and school property taxation in Ontario; and Alberta has a list of exempt properties that includes non-profit day-care centres, certain sports and recreational facilities, thrift shops, and sheltered workshops. Public libraries are exempt in all provinces except New Brunswick, Nova Scotia, and Prince Edward Island. Public hospitals are exempt except in New Brunswick, and agricultural societies receive some exemption in all

[12] Federal government enterprises generally include crown corporations while provincial government enterprises are made up of a number of diverse entities including provincial housing corporations and provincial liquor control boards.

provinces except for Newfoundland and Labrador and Prince Edward Island. Additional exemptions are provided through municipal by-laws in each province.

4.7 Payments in Lieu of Taxes

To compensate for forgone property tax revenue on government-owned property (including universities, colleges, hospitals, and penal institutions), the federal and provincial governments make payments in lieu of taxes to local governments in some cases. The impact on municipal revenues from payments in lieu depend on two factors: the number of federal and provincial government properties or crown corporations located within the municipality and the extent to which these payments reflect the value of property taxes that would have been paid otherwise. In some provinces, payments in lieu are equal to full property taxation; in other provinces, payments fall short.

Ontario is an anomaly when it comes to payments in lieu for provincial hospitals, universities, colleges, and penal institutions. Instead of a payment or grant based on assessed value, it is a fixed amount. The current rate is $75 per bed for hospitals, $75 per resident place for penal institutions, and $75 per full time student equivalent for qualifying post-secondary institutions. This payment, which is often referred to as the “heads and beds” tax, was introduced in 1987 at a fixed rate of $50 per head/bed.

4.8 Treatment of Machinery and Equipment (M&E)

Provinces vary in terms of how they tax machinery and equipment under the property tax (Appendix Table A-4). Machinery and equipment are taxed in Newfoundland and Labrador, Quebec, Manitoba, Saskatchewan, British Columbia and Alberta (but machinery and equipment is excluded from the uniform province-wide property tax on education). The calculation of the assessed values for M&E in the western provinces varies widely from province to province (Conger and Dahlby, 2015). In Prince Edward Island and New Brunswick, only machinery, equipment, and other fixtures that provide services to the buildings are liable to property taxation - machinery and equipment used in the oil refinery properties in Saint John are excluded. Nova Scotia excludes all machinery and equipment from the property tax base. Ontario exempts machinery used for manufacturing, farming, ore smelting and so on.

4.9 Treatment of Linear Properties

Most provinces provide special assessment rules for electrical, telecommunications, and natural gas distribution systems; railway property other than land and buildings; and pipelines. Depending on the province and the utility, valuation may be based on: assessed property value; gross revenue or gross receipts for natural gas, electricity distribution, cable television and other telecommunications; pipe length and/or diameter for pipelines; and length of tracks or tonnage per kilometre for railways (see Appendix Table A-5).

4.10 Business Occupancy Taxes

A business occupancy tax is a local tax which is frequently, but not always, based on the assessed value of commercial and industrial property. Statutory liability for payment almost always falls on the occupant. Inter-provincially, there is considerable variation in the extent to which business occupancy taxes are used and in the way in which they are imposed. Over the past few years, the trend has been to move away from business occupancy taxation to higher property tax rates on commercial and industrial properties. The business occupancy tax, as a separate tax, does not exist in Nova Scotia, Prince Edward Island, New Brunswick, and Ontario. It is optional in Alberta, Saskatchewan, and Manitoba. In Newfoundland and Labrador, a business tax is levied as a percentage of assessed property. It tends not to be used in British Columbia; instead, municipalities impose higher tax rates on non-residential property. The business tax in Quebec is based on the annual gross rental value of business properties.

4.11 Property Tax Relief Programs

There are two categories of property tax relief:

- The first includes the exemption of certain properties, preferential assessment, and differential tax treatment of some properties (residential and farm properties, for example) compared to other properties (non-residential), as noted earlier.
- The second category is direct property tax relief. Each province (and some municipalities) provides direct property tax relief programs, but almost always for residential properties only. It is this category of relief payments that is considered here.

A brief overview of property tax relief programs suggests the following (see Appendix Table A-6):

- Provincial programs include grants, exemptions, tax credits, and deferrals.
- Property tax relief schemes tend to be used more extensively where property taxes are relatively more important as a revenue generator.
- Property tax relief is allocated almost exclusively to residential and farm properties - it often takes the form of grants or credits (in addition to lower effective tax rates) through the personal income tax system.
- Property tax relief is broadly available in some provinces and more specifically targeted to particular groups such as seniors and the permanently disabled in other provinces.

In addition to provincial programs, municipalities in most provinces have the power to enact relief schemes at the local level to alleviate the burden for low-income taxpayers. These initiatives may include reductions, cancellations, or refunds of property taxes, but they are not discussed here.

4.12 Property Tax Incentives

A few provinces have passed legislation that permits municipalities to reduce property taxes on business properties as a way to stimulate economic development. In British Columbia, the Community Charter and the Vancouver Charter provide municipalities with the authority to exempt property from municipal property taxes. The municipal council is required to establish a revitalization program with reasons and objectives. Exemptions may apply to the value of the land or improvements, or both. Councils are free to specify the amounts and extent of tax exemptions available.

In Alberta, the Community Revitalization levy (CRL) came into effect through an amendment to the Municipal Government Act in 2005. The CRL is similar to the tax increment financing (TIF) programs used in the US.[13] The CRL is an economic development tool to encourage the redevelopment of areas in need of revitalization. Under a CRL, municipalities can dedicate future property tax revenues in a specific area to pay for a new public facility or new infrastructure in

[13] TIFs were first introduced in California in 1952 and, since that time, they have spread to almost all US states. TIFs are a much newer instrument in Canada and not nearly as widespread as in the US. TIF legislation was passed in Manitoba in 2008 but TIFs are not yet being used in that province. TIF legislation was passed by the provincial government in Ontario in 2006 but regulations were never enacted.

that area. These projects are designed to encourage new development and revitalize a specific part of the city and encourage private sector investment. The provincial government also contributes the education portion of the new tax revenue. There is no grant portion to the CRL; it merely diverts the revenues from the increment in property values arising from the investment to pay for the investment.

In Ontario, under section 28 of the Planning Act, municipalities can designate an area or the entire municipality as a community improvement project area. They can then implement a community improvement plan (CIP) with grants and/or loans which can, if the municipality chooses, be calculated on a tax increment basis. In other words, the municipality can offer developers a grant or loan that is based on the higher property tax that is generated from development (the tax increment). Such incentives are known as tax increment equivalent grants (TIEGs) and are used in a number of communities across Ontario.

It is important to note that TIEGs are not the same as Tax Increment Financing (TIFs), for the most part because TIEGs include a subsidy component and TIFs do not. Under a TIF, property tax revenue from the designated area is divided into two categories for a specified period of time (long enough to recover all of the public funds used to redevelop the property, usually between 15 and 35 years). Taxes based on pre-developed assessed property values are retained by the municipality for general use. Taxes on increased assessed values arising from redevelopment (the tax increment) are deposited in a special fund to repay bonds that have been issued to finance public improvements in the redeveloped area. In other words, increases in property tax revenue from the redevelopment of an area are dedicated to financing public improvements in that area.

Montreal introduced a program to enable property owners who invest in their industrial facilities to be reimbursed for their property tax increase. The program, which was announced in October 2007, is designed to encourage the owners of industrial buildings in the metropolitan area to accelerate investment in buildings, improve the competitiveness of Montreal, maintain a diversified economic structure in Montreal, and increase the value of the stock of industrial buildings. The program offers owners of non-residential buildings the possibility of a grant to reimburse them for any increase in their property taxes as a result of improving their property (through construction, conversion, or increasing the size of the building) for five years.

5 Specific Issues in Property Taxation

This section raises a number of issues or potential issues of relevance to property taxation in the City of Saint John and the Province of New Brunswick by addressing ten questions.

5.1 Should the tax rate be different on residential and non-residential properties?

Although there is no clear answer to the question about the appropriate relationship between non-residential and residential property taxes, three principles of taxation -- equity based on benefits received from local services, accountability, and efficiency -- suggest that non-residential properties should be taxed less than residential properties.

To the extent that the property tax is intended to pay for services that provide collective benefits to the local community, fairness or equity dictates that the tax rate should be the same for all properties receiving the same services or levels of service, regardless of property type. For properties that benefit from more services or higher levels of service, the tax rate should be higher.

A number of Canadian studies over the past two to three decades have compared the benefits received by residential properties compared to non-residential properties. In general, they have all concluded that the residential sector receives proportionately more benefits from local government services than the non-residential sector. In particular, the non-residential sector is often responsible for providing its own garbage collection, security, and fire protection and it relies less heavily on social services, social housing, elementary and secondary education, libraries, and recreational facilities.

One argument that is often cited to justify higher property taxes on businesses is that they can deduct all expenses incurred in earning income (including property taxes). Owner-occupiers of residential dwellings, by comparison, are not allowed similar deductions. The higher tax on business, it is often argued, is justified on the grounds that it evens out the disparities in taxes that would otherwise exist. Although it is true that owner-occupiers are not able to deduct property taxes from income for income tax purposes, it is also the case that owner-occupiers are not

required to include in taxable income either imputed income from their owner-occupied dwellings or capital gains earned on the disposal of their principal residences. Such exclusions are similar to a deduction from income for tax purposes (as in the case of the tax on businesses) in that both reduce the taxable economic income of the taxpaying unit.

In terms of accountability, non-residential property owners generally do not have the right to vote (in their capacity as business owners) in local elections[14] and have less ability than residents to hold elected officials accountable for expenditure and tax decisions. In keeping with this principle, residential taxpayers should shoulder a larger portion of the tax burden. Moreover, efficient municipal service levels will not be achieved if property taxes on business properties are used to subsidize services consumed by the residential sector. Since service levels in any municipality are driven largely by the demands of the residential sector (because residential taxpayers vote), their subsidization means that the residential tax rate will be less than it would be in the absence of the subsidy and an oversupply of municipal services could follow.

In terms of efficiency, businesses are more likely to leave a municipality in response to taxes than residential property owners because the former are more mobile. Hence, business properties should be taxed more lightly than residential property.

Single residential versus multi-residential properties

The practice in some provinces (not in New Brunswick) has been to assess multi-residential properties at higher values than single unit residential properties and/or to levy a higher tax rate on multi-residential properties. This leads to higher effective tax rates on the former. Similar to the discussion on the tax treatment of residential and non-residential properties, there is no basis for treating multi-residential and single unit residential properties of equal value differently unless it can be demonstrated that they receive different municipal services or levels of service.

5.2 Is it fair to exempt some properties from property taxes?

Exemptions have an impact on the fairness of the property tax. Exemptions may be categorized in different ways. For example, there are constitutional exemptions which prevent municipalities

[14] It should be noted that businesses were recently given two votes per business in municipal elections in New South Wales, Australia.

from levying property taxes on federal or provincial properties. In the place of property taxes, federal governments make grants or payments-in-lieu (PILs). In some provinces, such as Ontario, the province also makes payments in lieu on their properties. In New Brunswick, by comparison, provincially- owned properties do not make payments-in-lieu; instead, they pay municipal property taxes on the assessed value of their properties. PILs, on average, are not large revenue generators for local governments, but at the margin, they are not insignificant either. In Saint John, federal PILs account for $1.5 million which is equivalent to 1.24% of property tax revenues.

PILs do not create a revenue problem if they are equal to what the property tax would be; in other words, their revenue shortfall is not being subsidized by property tax paying properties. If, however, payments in lieu are not paid by exempt properties or if they are paying less than they would pay in property taxes, the resulting impact is unfair. Table 12 records residential and non-residential assessment totals for properties on which federal government PILs are paid to Saint John. Federal residential and non-residential properties are assessed at almost $22,000 and $57.5 million respectively. Expected payments and actual payments are almost identical. Actual payments fell short of expected payments by $18,700 or less than 1% of the total expected. This suggests that federal payments-in-lieu of taxes are not really a problem in terms of revenue shortfall.

Other exemptions include places of worship (churches, temples, mosques, for example) and also cemeteries. A third group includes public or quasi-public organizations such as hospitals, educational institutions, libraries, nursing homes, non-profits organizations, etc. Finally, some exemptions, such as for machinery and equipment, are given to encourage economic development. For each of these categories, property taxes or PILs are not paid. In some cases, properties which are exempt are not assessed (churches and cemeteries, for example); in other cases, properties are assessed even though they are not taxed.

Table 12: Federal Properties and Payments-in-Lieu of Taxes, Saint John, 2016

	$
Federal residential assessment	21,800
Federal non-residential assessment	57,450,700
Payment expected	2,165,720
Payment received	2,147,050

Shortfall	18,670
Municipal portion of Payment	1,513,813
Source: Disaggregated data provided by City of Saint John	

On fairness grounds, exemptions are difficult to justify. Exempt properties use municipal services like other properties that occupy space and, hence, should be taxed. Second, exemptions narrow the tax base resulting in increased taxes (higher than they would be otherwise) on non-exempt properties or a reduction in service levels. Third, differential tax treatment may affect location decisions, choices about what activities to undertake, and other economic decisions. If there is a sound public policy reason or rationale for the exemption, it should be made explicit. If there is not a solid public policy rationale, the exemption should be terminated and the property should be subject to the tax rate that is paid by non-exempt properties.

Finally, exempt properties should at least be assessed on the same basis as non-exempt properties even if they are not taxed. The property tax rate, then, could be applied to the tax base to calculate the value of forgone tax revenue. In this way, local government officials and the taxpaying public would be aware of the real cost of the exemptions and better able to judge whether they are acceptable and fair.

5.2.1 How should hospitals and universities be taxed?

Hospitals and universities in New Brunswick pay municipal property taxes at the residential rate. This practice has, on occasion, raised the question of whether the residential rate or the higher non-residential rate should be applied. The theoretical and empirical literature is basically silent on the property tax rates that should be applied to these institutions. One can, however, consider the services they provide as a basis for determining the appropriate tax rate.

There are two components to both types of properties. One is residential in nature including rooms and services provided for these rooms. The assessed value of this part of the property should be taxed at the residential rate. The second is commercial, including food courts, book and gift shops, and other types of commercial activities that are also available outside the institutional setting. The assessed value of the portion of the property with these activities should be taxed at the higher

non-residential tax rate. This distinction would establish a level playing field with similar non-institutional properties.

5.3 Should property tax relief be available for low income taxpayers?

Property tax relief is delivered in in New Brunswick through provincial grants that are credited against property taxes on the principal residence of low income owner-occupied homeowners. If income is less than $22,000, the maximum grant is $300. For homeowners with incomes from $22,001 to $25,000, the maximum credit is $200 and for homeowners with incomes from $25,001 to $30,000, the maximum credit is $100. There is also a property tax deferral program for eligible seniors who may defer the annual increase in the property tax on their principal residence. Unlike most provinces in Canada, municipalities in New Brunswick are not permitted to offer property tax relief.

As with any tax that creates a liquidity problem for low income taxpayers, income transfer or tax relief programs are appropriate. In most Canadian provinces, municipalities can offer property tax deferrals which permit the property owner to defer some or all property taxes. The outstanding amount becomes a lien against the property and is payable when the property is transferred. It is a deferral of taxes and not a tax rebate. In some cases, an interest charge (often below the market rate of interest) applies to the deferred taxes. These programs are generally restricted to seniors.

Another option and one that is in place in N.B. is a provincial property tax relief scheme based on income. This introduces an important element of progressivity in the property tax system.

5.4 Do property tax rate differentials have an impact on the tax base?

There is no general agreement about the impact of property taxes on location decisions and hence, on the tax base. The available evidence, most of which is drawn from the United States, suggests that property tax differentials are relatively unimportant in inter-municipal or inter-regional location decisions but do play a role in intra-municipal or intra-regional location decisions. For example, a business may not be affected by a property tax differential between Saint John and Halifax but it could be affected by a property tax differential between Saint John and Rothesay. These findings are not surprising. In terms of inter-regional location decisions, business activity is most influenced by market conditions, the availability and cost of a skilled labour force, access to

transportation, the presence of necessary production materials, and proximity to markets. Since property taxes account for a relatively small proportion of the total costs for most businesses, it is unlikely to be large enough to initiate a relocation decision or encourage significant business activity.

Intra-regional location decisions, on the other hand, may be affected by property tax differentials. The smaller the area over which the business may locate, the more similar are the non-tax factors. Within a regional area such as greater Saint John, for example, market conditions and cost variables (such as labour, transportation, and energy costs) tend to be reasonably similar. In this context, fiscal factors take on more significance: lower property taxes in one community generate lower costs at the margin and higher profits for businesses locating in that particular area.

As noted earlier, there has been a significant difference between the municipal property tax rate in the City of Saint John and its neighbouring municipalities (see section 3.4 above). In recent years, the growth in the tax base in Saint John has been noticeably slower than in neighbouring municipalities. Although one cannot conclude unequivocally what has driven this, it suggests that the higher tax rate in Saint John likely had an impact on both non-residential and residential location decisions. Similarly, lower tax rates in the nearby Local Service Districts have likely had an impact.

5.5 *Is there a role for property tax incentives?*

There is a significant literature on the pros and cons of non-residential property tax incentives in the United States but very little in Canada. In large part, this is due to the proliferation of tax incentives in that country where it has been estimated that they cost state and local governments between $5 and $10 billion each year (Kenyon, Langley, & Paquin, 2012).[15] Property tax abatements are used to discourage existing businesses from leaving a city, to steer businesses to a particular location within the city, or to change the use of the property. The idea behind reducing the property tax is to compensate a business for pursuing an economic activity that is in the public interest but which may not necessarily be in its private interest.

[15] A study of stand-alone property tax abatements in the U.S. indicates that 35 states allowed for these abatements in 2004 (Dalehite, Mikesell, & Zorn, 2005). In 2007, there were at least seven other states that allow municipalities to offer a reduction in property taxes but only in conjunction with a larger economic development program (Wassmer, 2007).

While not nearly as extensive as incentive programs in the U.S., Saint John has a suite of Urban Development Incentive Programs for the Central Peninsula area of Saint John. These incentives target the redevelopment of vacant spaces for new residential development. There are three separate grant programs that address specific challenges of building in the historic urban centre of the City. The grant programs are structured to reduce financial barriers to development and leverage new private sector investment. The main grant offered through the Urban Development Incentives Policy provides a rebate of 5.25% of the cost of construction for approved projects over the course of five years. These projects may also be eligible for two other complementary grants: the Construction Challenges Grant and the Building Permit Rebate Grant.[16]

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. When incentives succeed in attracting new business to a city, they can increase income and employment, expand the property tax base, and revitalize distressed areas (Wagaman, 2017).

Critics of property tax incentives, however, argue that they actually have a poor record in promoting economic development. They are often wasted on firms that would have located there anyway. Lower taxes are offered to new businesses locating in the municipality at the expense of existing residents and businesses. Tax incentives can lead to unfair competition among businesses and can lead to a situation where no major investments occur without them (Wagaman, 2017). Tax cuts 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. Indeed, the extensive US evidence suggests that such incentives often lead to a deterioration of the tax base and lower levels of public services.

5.6 Should municipalities be able to set progressive property tax rates?

Progressive property tax rates are tax rates that increase as the value of the assessment base increases. This idea has recently surfaced and gained some exposure in Vancouver and Toronto. Progressive property tax rates are not currently permitted in New Brunswick nor, for that matter,

[16] For more detail see http://www.saintjohn.ca/en/home/cityhall/developmentgrowth/urbandevelopmentincentives.aspx

in other provinces, but they are used in a few European countries where they are one component of an annual wealth tax. Proponents argue that progressive property tax rates would lead to a progressive taxation of wealth; in other words, it would serve as a partial wealth tax (Piketty, 2014). Although true, this argument needs to be considered in the context of financing municipal services. Local governments in Canada do not and are not permitted to impose an annual tax on wealth.

For good reason, municipalities should not be responsible for taxes that are designed to redistribute income (Youngman, 2016). If income redistribution is attempted at the local level, one jurisdiction might implement progressive taxes while another might not. As long as people can move between the two jurisdictions, high-income people will move out of the progressive tax rate jurisdiction and low-income people will move in, other things being equal. Redistribution breaks down unless it is carried out on a broader geographic scale.

As noted earlier, the major role for property taxes is to pay for goods and services that provide "collective benefits," such as fire and police protection, parks, and street lighting. These services benefit taxpayers but it is difficult or inappropriate to identify the individual beneficiaries and charge them directly so a property tax acts as a benefit-related tax. There is no evidence to suggest that the benefits received from these types of services increase with property value so there is no justification to charge higher tax rates to more expensive properties.

One of the complaints about the property tax is that it hurts those who are asset rich but income poor. For example, seniors on fixed incomes who purchased their properties many years ago face high property taxes because their values have increased but their incomes are low. A progressive property tax would exacerbate the liquidity problem faced by these taxpayers.

Lastly, from an administrative point of view, a uniform tax rate has the advantage of being simple, transparent, and predictable in terms of the amount of revenue that will be collected (Zorn 2013). Taxpayers find one tax rate easier to understand and it is less complicated for tax officials to administer a uniform tax rate than progressive tax rates. Moreover, where property values are divided into different classes by property value, there will be an incentive for those taxpayers at the bottom of a value class to appeal their assessment to get into a lower class. The number of appeals would surely increase.

Although a progressive rate structure is not advised for the property tax, the earlier discussion of concessions for low-income taxpayers identified a number of ways to introduce progressivity for low-income taxpayers.

5.7 Should there be a special tax on vacant land?

Current practice in New Brunswick is to assess vacant land at its market value. The assessed value of vacant land and vacant lots in Saint John amounts to 1.2% to 1.3% of all property assessment.[17]

It has sometimes been suggested that a special tax (higher) should be levied on land to encourage development and expand the local tax base. Because market value generally captures the value of property in its highest and best use, however, the property tax already provides an incentive to encourage development. In other words, the taxes levied reflect the property value as if it were developed so there is an incentive to develop the land to generate the income to pay the tax. Thus, there is no justification for a higher tax rate. Moreover, current legislation does not permit a higher tax rate on vacant land because the property tax is levied on the total value of the property and does not differentiate between the value of land and the value of buildings. Should there be a special tax?

If we go back to the role of property taxes - to fund those services that provide collective benefits to the local community - the vast majority of these services benefit occupied properties. By and large, most public services do not benefit vacant land. To impose a higher tax rate on these properties compared to similarly assessed occupied properties, one could argue, is unfair. If anything, one might suggest that the tax on vacant land should be lower than similarly priced occupied properties. The rationale, then, for a special tax is neither apparent nor justified.

5.8 How should special properties be taxed?

Special or unique properties include oil and gas refineries, linear properties, farmland, and forests. Before considering each of these properties, this section looks at the tax treatment of machinery and equipment (M&E).

5.8.1 Machinery and equipment

[17] This is different than a vacancy tax on residential properties which is permitted in BC and now permitted in Ontario.

Provinces vary in the property tax treatment of M&E: some tax it as long as it is affixed to real property; others tax it if it provides services to the building; and still others partially or entirely exclude it from the tax base (see Appendix Table A-4). In New Brunswick, machinery and equipment that provides a service to buildings is assessed and subject to property taxation, but machinery and equipment in oil and natural gas refineries is not subject to property taxation (see next section). At one time, every province taxed M&E, but concerns over the cost impact on the manufacturing sector two or three decades ago led to some provinces removing or partially removing it from the property tax base.

It may be an open debate as to whether or not excluding one component of the manufacturing sector (M & E) from the property tax base while taxing other components (buildings and land) is the fairest and most effective way to assist the manufacturing sector. A simple example may illustrate the point. Suppose we have two neighbouring industrial properties assessed at $2 million each, but with different assessed proportions of M & E versus land/buildings. In this scenario, the property with the higher percent of M & E pays proportionately less in property taxes compared to the property with the lower percent of M & E (assuming that M&E is tax exempt). It could be argued that this situation is not fair because one property pays less property tax than the other even though each benefits from the same level of public services. Moreover, a policy of exempting taxes on one factor of production creates an incentive for companies, wherever possible, to use more of the non-taxable factor (M&E) and less of the taxable factors (land/buildings), thus distorting their economic decisions and also reducing the local assessment base.

On the other hand, if one were to draw an analogy to the property tax treatment of residential properties, personal property (furnishings, appliances, motor vehicles, and so on) is not taxed while furnaces, air conditioners, and plumbing fixtures that are affixed to property and provide services to the property are factored into property values and hence, are taxed. Taxation of these fixtures is similar to the taxation of M & E that provides services to buildings. Excluding personal property may be similar to excluding M & E that does not provide services to the building.

In any case, exempting machinery and equipment to assist the manufacturing and processing sector is a second-best solution. A fairer and less distorting way of helping the manufacturing and

industrial sector would be to lower the property tax burden on the entire sector as opposed to exempting or partially exempting one factor of production.

5.8.2 Oil and natural gas refineries

Property tax revenue from oil refineries is a major issue in the City of Saint John. Until 2016, Canaport's LNG property was exempt from the City's non-residential property tax. Instead, the City received a payment of $500,000 per year. In 2016, the city requested that the province return the LNG Terminal to the same taxation rules as are faced by all other industrial properties in New Brunswick. Under this scenario, the assessed value of the property was reported to be $299.5 million; an amount that would generate slightly more than $8 million dollars in tax revenue at the current municipal tax rate. A subsequent reassessment, however, lowered the property's assessed value to $98.6 million - this would generate more than $2.6 million in annual property taxes. The difference between the reported assessed value and the reassessed value has stirred up controversy in Saint John. We are not in a position to comment on the accuracy of this reassessment for it is a technical issue that requires the expertise of assessment authorities based on current assessment practices.

A critical issue in the property taxation of oil and natural gas refineries, however, revolves around the treatment of machinery and equipment (M&E) which was discussed above. Table 13 lists the oil refineries in Canada and the tax treatment of M&E, which mirrors the more general treatment of M&E in each province. Briefly, M&E is excluded from the property tax base in New Brunswick and Ontario. It is included in the property tax base for refineries in Newfoundland/ Labrador, Quebec, Saskatchewan, Alberta and British Columbia. As discussed in section 5.8.1, there are two opposing approaches to the property tax treatment of M&E: excluding them has been justified on the basis of encouraging manufacturing and processing and expanding economic activity; including them minimizes incentives to alter production decisions so as to minimize property taxes and is fairer in the property tax treatment of all manufacturing and processing plants.

Table 13: Canadian refineries and property tax treatment of machinery and equipment

Province	Operator	Location	Property tax treatment of M&E	Capacity bbl/day

Newfoundland/Lab.	North Atlantic Refining	Come-By-Chance	Taxed	130,000
New Brunswick	Irving Oil	Saint John	Exempt	300,000
Quebec	Suncor energy	Montreal	taxed	140,000
	Valero (Ultramar)	Lèvis	taxed	265,000
Ontario	Imperial Oil	Nanticoke	exempt	112,000
	Imperial Oil	Sarnia	exempt	120,000
	Shell Canada	St. Clair	exempt	75,000
	Suncor Energy	Mississauga	exempt	15,600
	Suncor Energy	Sarnia	exempt	85,000
Saskatchewan	FCL	Regina	taxed	145,000
	Gibson Energy	Moose Jaw	taxed	19,000
Alberta	Imperial Oil	Edmonton	taxed	187,000
	Shell Canada	Strathcona County	taxed	114,000
	Suncor Energy	Edmonton	taxed	140,000
	Husky Energy	Lloydminster	taxed	28,000
British Columbia	Chevron	Burnaby	taxed	52,000
	Husky Energy	Prince George	taxed	12,000

Source: http://www.oilsandsmagazine.com/projects/canadian-refineries

If one looks at provinces that include M&E in the tax base for oil refineries as the comparator group, one could argue that machinery and equipment should be subject to property taxation in New Brunswick. On the other hand, if one looks at Ontario as the comparator province, one would suggest the opposite - all machinery and equipment in refineries should be excluded from property tax base. Given these opposing practices, there is no clear direction to follow. Perhaps the best that can be said is that if there are concerns about the impact that including M&E in the tax base might have on economic activity or the over-taxation of business properties more generally, a preferred approach and one that was suggested in section 5.8.1, would be to include all M&E in the tax base and lower the tax rate on all non-residential properties.

5.8.3 Linear properties

Linear properties include railway rights of way, pipelines, telecommunications and cable properties, gas and oil wells, and electric power property (including generation, transmission, and distribution). Often these properties cross municipal boundaries, complicating the levying of the

property tax. For this reason, assessment of linear properties in Alberta, for example, is a responsibility of the province.

Depending on the type of linear property, property taxes can be levied on the basis of assessed property value, gross revenue (receipts), pipe length, diameter of pipe, length of track, or tonnage. Each of these methods is intended to measure the value and in every case, the measure chosen is likely the one that is most practical. Using market value for railway rights of way, for example, can mean that property taxes in major cities will be much higher than in the rural hinterland. For this reason, regulated rates are often used instead.

In Ontario, railway rights of way and land used as transmission or distribution corridors owned by power utilities have not been assessed on market value since 1998. As part of the 1998 property tax reform, the Ontario provincial government sets tax rates to be imposed by local municipalities on these linear properties. The tax rates (expressed as dollars per acre) differ for railway rights-of-way and electrical corridors and also by eight geographic regions.

5.8.4 Farmland

Farm properties are favoured in the property tax system across Canada and in many other countries as part of a more general policy of protecting farmland. A common way to favour farm properties is to assess them at their value in current use rather than market value (which reflects the highest and best use). The value of a farm is determined by its selling price if it were to continue to be used as a farm. Alternative uses of the farm, or its speculative value, are not considered in the determination of value. Other ways of favouring farm properties include providing exemptions for part or all of the farm property, lowering tax rates on farms, or providing farm tax rebates.

Taxing agricultural land on the basis of its value in current use was originally designed to reduce development pressure, reflecting the widespread perception that it is unfair to tax farmers for non-farming uses such as real estate development (Youngman 2005). Although protecting family farms is the main justification for current use assessment, these provisions seldom differentiate between family farms, hobby farms, corporate farms, and land being prepared for subdivision: these tax breaks in practice thus often benefit land developers (Youngman 2005).

The extent to which development will be delayed depends on (1) the difference between value in current use as a farm and the market value in its developed use and (2) the rate of property tax. The greater the difference between value in current use and market value, the greater the impact on delaying development. The higher the property tax rate, the more effective is value in current use at delaying development. Value in current use does not benefit farmers in truly rural areas, however, because where farming is the most profitable use of the land, the value in current use is the same as the value in highest and best use.

Even in areas where agricultural owners are free to sell their land for development at any time, current use assessment by itself will not ensure the long-term preservation of farmland. Theoretical research suggests that current use assessment can defer, but not permanently prevent, development of land on the urban fringe (England and Mohr 2002). Preferential property tax treatment is not sufficient to preserve farmland because the resulting tax differential is unlikely, given the generally low effective tax rates on land, to be large enough to compensate for the much higher prices that would be paid if the land were converted to urban use (Maurer and Paugam 2000).

5.8.5 Forest land

Managed forest land is taxed in different ways across the country. In Ontario, for example, the tax rate on forest property is set at 25 percent of the residential property tax rate (as is farm property). In Newfoundland and Labrador, it is a fixed tax per hectare. In Nova Scotia, forest land is taxed on a per acre basis with the tax rate set by the municipality, but the province sets the upper limit for this rate. In New Brunswick, freehold timberland is assessed at a fixed value of $100 per hectare with a tax rate of approximately $1.70 per $100.

There are a couple of problems with a fixed rate per acreage approach. First, the rates often remain fixed from year to year even when commercial and residential property tax rates on other taxable properties are increasing. Second, concerns arise over the increasing hectares of forest land on which these relatively low rates are applied when, in reality, the land is no longer used for forestry.

5.9 Is there a role for provincial property taxes?

With the exception of Newfoundland and Labrador, every provincial government in Canada levies a property tax. The original and ongoing rationale for provincial levies is to fund a portion of public schooling. In practice, however, property taxes are simply part of provincial general revenue.

As noted earlier, the property tax is an appropriate tool for funding a range of municipal services. It is not, however, a good tax for funding provincial services such as education. Provincial service responsibility should be primarily income redistributional in nature and for services that generate significant spillovers. Elementary and secondary schooling qualifies on both counts (Auld and Kitchen, 2006) and should be funded by taxes more closely aligned with ability to pay. Education, therefore, should be funded from revenues generated by income taxes and the HST. Moreover, eliminating provincial property taxes would reduce the pressure on the municipal property tax and increase transparency in the property tax system. Indeed, one of the recommendations in a discussion paper released by the Department of Finance in New Brunswick in June of 2008 (New Brunswick, 2008) called for a reduction in the provincial property tax.

Accountability and transparency could also be improved if provincial property taxes were eliminated. At the moment in New Brunswick, the provincial government sends out the tax bills and collects the property tax for both municipal and provincial purposes. If the province were to vacate the property tax field, it would increase transparency and accountability because the municipality would be responsible for the tax bill. It would also provide municipalities with needed tax room.[18]

5.10 Why is an assessment freeze a bad idea?

The provincial government in New Brunswick recently announced an assessment freeze for 2018 to allow the newly proposed provincial assessment agency a chance to complete a province-wide

[18] One argument that has been made in defense of property taxes for education is that the public education system provides direct benefits to its students along with indirect or collective benefits to residents of the community and the province. This argument assumes, however, that local school boards have the power to set the local education tax rate and retain the revenue for local school needs. Provincial property taxes are not administered in this way. The province sets the tax rate and spends the revenue where it chooses – it may be on schools, but it may not be on schools. In this way, revenue from the provincial property tax is really no different than revenue from the provincial income tax or the Harmonized Sales Tax (HST). Since neither of these taxes is shared with municipalities, one may very well ask why the municipal sector should share the property tax with the province.

reassessment (section 4.5 above). If the freeze is for one year only, the inequities in the treatment of properties will be short term. If, however, it lasts for a longer period, these inequities and harmful effects will increase.

The problem with freezing assessments is not so much a reduction in local tax revenue because municipalities could increase their local tax rate to collect the same amount of revenue; the problem is the inequities between properties that will result because properties with similar market values are not paying the same taxes. Furthermore, the frozen assessment creates a much larger benefit (in terms of taxes saved) for those who are benefitting from increasing property values at the expense of those whose property values are rising slowly or not at all (Kitchen and Slack, 2014).

In addition, assessment limits, such as freezing, result in what Mark Haveman (the executive director of the Minnesota Taxpayers Association) refers to as "phantom tax relief" – the appearance of property tax relief where none actually exists (Haveman and Sexton, 2008). This situation arises because an increase in the tax rate that is required to raise revenues when the size of the tax base has been reduced (by limiting assessment) can offset relatively small reductions in assessed value. The result is that, for some properties, a reduction in market value assessment actually results in higher property taxes.

Freezing assessment until the property is sold reduces the incentive to move and may distort economic decision-making. For example, homeowners may not move if their job location changes because their property taxes would rise even if they move to a house of equal value. Freezing also creates a disincentive for skilled labour to move to the province because new homeowners would pay the full property tax (not capped). It could also discourage new construction which is not included under the freeze, leading to a lower level of economic activity than might otherwise exist.

Finally, it is difficult to remove a freeze if it has been in place for a long time: "once a freeze is imposed, the process of thawing may be too painful to bear" (Youngman, 1999). The not too distant situation with the capping and clawbacks of commercial and industrial properties in Ontario provides an example of this point. It is difficult to go back to a straight market value assessment, even if it is a fairer system, after assessment-related tax increases have been capped

for a period of time. Fortunately, New Brunswick was able to extricate itself from the temporary freeze in 2011 and 2012, but Nova Scotia has had a much more difficult time because its cap has been in place for much longer.

6 The role of the property tax in meeting growth objectives and fiscal sustainability

In addition to the issues around property taxation discussed in section 5 above, there are two other concerns that have been raised in Saint John. First, how does the property tax support the City's current and future growth objectives? Second, what changes could be made to the property tax system to ensure that the City is fiscally sustainable and has the capacity to attract and retain business, people, and investment? Clearly, there is no easy answer or any clear cut response. There are, however, some comments that may be made to shed light on these issues.

Behind any growth plan is the goal of implementing policies that could attract and retain people, businesses, and investment. The City of Saint John, like other cities in Canada, has adopted a population growth plan but, unfortunately, population in Saint John is declining and the growth in the assessment base has slowed dramatically in recent years. More specifically, over the past five years, the growth in the tax base in Saint John has trailed the growth in its neighbouring municipalities and by a fairly large percentage. Part of the explanation lies in the much higher tax rate in Saint John. This begs the question of what can the City do with its property tax that would help to meet its growth objectives. The short answer is that there may not be much that it can do on its own because the municipal property tax is highly controlled by provincial legislation and any change would require provincial approval.

As noted throughout this report, the main role for property taxes is to fund those services that provide collective benefits to the local community. Municipal services are funded largely from local taxes and user fees. As long as revenues are set to cover costs (municipalities cannot budget for operating deficits), it is the cost of services that will largely determine municipal tax rates and user fees. At least part of the explanation for the higher tax rate in Saint John is that it provides services that benefit neighbouring communities. This problem was recognized in 2008 by Commissioner Finn's Report on the future of local government in New Brunswick where he noted that population growth was occurring outside the municipal boundaries of the larger centres in the province and that tax rates were increasing in the larger centres to pay for services used by people

in neighbouring communities. This phenomenon is not uncommon for urban-centered regions in general: research in the U.S. has come up with the same conclusion (Chernick, 2002; Chernick and Tkacheva, 2002).

Addressing the problem of service spillovers in the Saint John region where each municipality has its own independent governing structure is not something that can be resolved with changes to the property tax. Indeed, this issue was identified in the Finn Report where he recommended the creation of regional service districts and the amalgamation of municipalities. The creation of larger municipalities and districts could put all of the beneficiaries of local services within the boundaries of the municipality.

Another option would be to levy taxes that capture the benefits of services used by commuters and visitors (see Kitchen and Slack, 2009, for more detail). The property tax is not an effective tax to pay for services that are used by non-residents (such as roads and police and fire protection). Additional taxes, such as a payroll tax (an income tax that is deducted at place of work and piggybacked onto the provincial income tax) and excise taxes (for example, a tax on fuel or hotel occupancy) would help capture the cost of services used by non-residents (Kitchen and Slack, 2016). Saint John currently has a voluntary hotel tax but the revenues are dedicated to tourism and not used to pay for local services. To minimize cross border impacts, these taxes should be levied on a regional basis. All of these changes, however, would require provincial approval and support.

The City does have the power to make a very few modifications, in particular substituting some user fees for property taxes (Kitchen and Slack, 2009). Not only would an increase in user fees allow the city to lower property taxes, it would give people an understanding of what the services they are using actually cost and could result in a reduction in the demand for services. Other than substituting user fees for property taxes, however, there is not much that local officials can do with the property tax to encourage growth. Although the city may provide some tax incentives to new businesses, it is unclear whether property tax incentives actually play a significant or long lasting role in attracting business and fostering growth (see sections 5.4 and 5.5 above). Moreover, the foregone revenues have to be made up by existing taxpayers which many regard as unfair. In the current governance and property tax structure, tax incentives may not be doing anything more than transferring growth from one municipality to another municipality rather than increasing growth overall.

There are a few things that the province could do to improve the fairness and equity of the property tax and these have been flagged in this report. For example, they could restrict the use of exemptions; include machinery and equipment in the assessment base for industrial properties; and, perhaps most significantly, vacate provincial property taxes leaving more room for municipal property taxes (Kitchen and Slack, 2009; Finn, 2008). These suggestions may be a tall order, but they could help municipalities that are struggling with stagnant growth and a slow growing local tax base.

7. Conclusions

This report has evaluated the fairness and equity of the property tax in the City of Saint John and suggested changes to improve the tax. It also explored whether changes can be made to stimulate economic growth and promote fiscal sustainability. Overall, there is not much that the city can do on its own to improve the property tax because property taxation is governed by provincial legislation. The city does have the power to make some changes in municipal finance, however, such as substituting user fees for property taxes e.g. for solid waste collection and disposal. User fees not only permit the city to lower property taxes, they give users an indication of how much services cost and may result in reduced demand for those services.

Ten specific questions were addressed in the report with the following conclusions:

1. The over-taxation of business properties by municipalities in New Brunswick, which is set by the Province to be 1.5 times the residential rate, is much less than in most Canadian jurisdictions and should not be increased further.
2. Property tax differentials between the City of Saint John and the surrounding municipalities and Local Service Districts likely have an impact on decisions about whether to locate in Saint John or elsewhere in the region. Part of the reason for the differential is that the city is providing services to neighbouring residents without being reimbursed for the cost. This problem is a governance problem, however, and cannot be resolved by changes to the property tax.
3. Property tax incentives have a poor record in promoting economic development and have to be paid for by existing residents and businesses. They are often wasted on firms that would have located there anyway.

4. Including machinery and equipment in the property tax base (for example, for oil and gas refineries) would result in fairer treatment of all manufacturing and processing plants and reduce the distortion in production techniques created by exempting one factor of production. If, by doing so, there is a concern about the impact on economic activity, the non-residential property tax rate could be lowered.
5. Property tax exemptions are unfair and should be removed unless there is a sound public policy reason for the exemption. At the very least, exempt properties should be assessed on the same basis as non-exempt properties so that the foregone tax revenue is made explicit.
6. It is important to protect taxpayers who cannot afford property taxes through tax deferrals and tax credit programs, as is currently done in New Brunswick.
7. A special tax on vacant land is not needed because vacant land is already taxed at its highest and best use. Moreover, the services received by vacant land are less than for land that is occupied.
8. An assessment freeze creates serious inequities in the property tax system and, where implemented, should be removed as quickly as possible. The longer a freeze is in place, the more difficult it is to remove.
9. Progressive property taxes are not a good idea because redistribution is not an appropriate role for local governments.
10. The property tax is a good tax for local government but not necessarily appropriate to pay for the redistributive services provided by the provincial government, such as education and health care. The Province should gradually get out of levying property taxes. This would improve accountability and transparency and provide tax room for Saint John and other municipalities.

Appendix Tables A

Appendix Table A-1: Assessment Categories and Municipal Tax Rate Structure

Province	Assessment Categories	Municipal Tax Rates
Newfoundland and Labrador	Residential, commercial, or part residential and part commercial. Productive farmland and buildings associated with this land are exempt.	Tax rates are set locally. Most municipalities apply uniform rates except for St. John's where there may be 2 rates (residential and commercial). Managed forests are taxed on a per hectare rate. Utilities pay a tax of 2.5% of revenues collected in the municipality.
Prince Edward Island	Commercial and non-commercial. Commercial property excludes farm property and buildings, nurseries and market gardens, and timberland. Farmland is assessed as value in farm production and not at market value. Forest land is assessed at market value.	Each municipality sets two municipal property taxes - one for commercial assessment and another for non-commercial assessment. In some municipalities, the commercial rate is higher than the non-commercial rate and in others it is the same. There are no provincial restrictions on these rates. Provincial property tax rates are levied at a fixed rate - $1.50 per $100 of assessed value on both commercial and non-commercial property. Provincial tax rates are lower for residents than for non-residents – the difference is $0.50 per $100 of assessed residential value. Tax credits are also applied in two cities for roads and all municipalities that provide police services.
Nova Scotia	The following are assessed at market value: residential, commercial, and resource which includes farm properties, forest properties if less than 50,000 acres, community buildings used for commercial fishing boats, and the land of municipal water utilities. Farm land is exempt.	Tax rates are set locally. Property tax rates are differentiated by property class – one rate for residential properties and another rate for commercial properties. Halifax has two basic rates for each property class, (one for urban and one for rural), and many area rates. Municipalities are permitted to levy a farm acreage tax not exceeding $2.10 per acre in lieu of property taxation of agricultural land. For forest property classified as resource property (less than 50,000 acres), the property tax is levied at $0.25 per hectare. For forest property classified as commercial property (more than 50,000 acres), the property tax is levied at $0.40 per acre. Finally, municipalities are permitted to impose a minimum tax per dwelling unit as part of their budget process.

New Brunswick	Residential and non-residential. Special provisions apply to the assessment of farmlands, farm woodlots, freehold timberland, golf courses, charitable and not-for-profit organizations, and horse racing parks – they are assessed at value in current use. Farm properties in excess of five hectares are assessed at their value as farmland; farm buildings and up to five hectares of land are assessed at market value. Freehold timberland is assessed at a fixed value of $100 per hectare with a tax rate of approximately $1.70 per $100.	There are two property taxes. The provincial tax rate is $1.1233 per $100 of assessed value on real property that is classified as residential non-owner occupied housing and $1.2173 for residential other. The non-residential rate is $1.685. Each municipality sets its own municipal property tax rate but the non-residential municipal tax rate must be equal to 1.5 times the residential municipal tax rate – this is a provincial requirement. Owner-occupied residential properties within cities, towns and villages receive a full credit on the provincial tax rate. A property may be eligible for a 100% tax credit on the residential portion of the assessed value if the assessed owner maintains his/her principal residence on the property on January 1st. These properties include a single-family residence, a duplex, a triplex or an apartment building. In the case of a duplex, triplex or an apartment building, only the portion of the property maintained as the owner's principal residence and up to 0.5 hectares of land is eligible for the credit. Owner-occupied residential properties ($1.1233 per $100 of assessed value) outside of these municipalities receive a credit of $0.7118 per $100 while the remaining $0.4115 goes to the province to cover the cost of services provided by the province. The Residential Tenancy Fee is a levy of 0.0486 cents per $100 of assessed value on rented properties classified as residential that does not receive the residential tax credit or that has not been exempted from the levy under the Residential Tenancies Act. Section 87(4) of the *Municipalities Act* permits municipalities to use area rates where service levels differ by area of the municipality.
Quebec	Most municipalities use 6 classifications - residential, multi-residential (minimum of 6 units), industrial, commercial, vacated	The general property tax rate is set by local councils. They have the opportunity to levy up to 6 tax rates depending on the property category. The residential rate is applied to farm properties and the government provides

	service lots, agriculture and forest lands. Farmland is assessed at market value for municipal taxation purposes but there is a ceiling of $375 per hectare at which such land may be assessed for school board taxation.	grants of roughly 75 percent of municipal taxes but it is proposed that this will change to 78 percent in 2017 (excluding the taxable value of the farmer's residence).
Ontario	There are seven main property classes: residential/farm, multi-residential, commercial, industrial, pipe lines, farmlands, managed forests. In addition, the province permits municipalities to adopt additional classes including new multi-residential, office buildings, shopping centers, parking lots, large industrial properties, sports facilities and resort condominiums. Farms, except for the farm house and one acre of land which is assessed at market value, are assessed on the basis of sales of land of different soil productivity classes. Managed forest land is assessed at the same rate as woodlots on farms and is based on farm land sales and soil productivity classes.	Municipalities are permitted to set different tax rates (related to the residential rate) for the different property categories although provincially set limits on the resulting ratio of tax rates constrain a municipality's flexibility in setting differential rates and in increasing the relative burden on multi- and non-residential properties. Where there are two-tier governments (a region or county and lower tiers), the upper tier is required to set the relative tax burden between the property classes. By legislation, farm buildings and agricultural land must be taxed at 25 percent of the residential rate as must managed forests. Farm house and one acre of land are taxed at the residential rate. Sub-classes to which rate reductions apply include vacant commercial (30 percent reduction), vacant industrial (35 percent reduction) and farmland pending development. As well, the commercial class may be divided into three sub-classes according to value with graduated tax rates applied to each sub-class. Registered farm land and forest land are taxed at 25 percent of the residential rate. Municipalities may also choose to apply differential rates to any of the following optional classes; new multi-residential, shopping centres, office towers, parking lots and vacant land, and large industrial.
Manitoba	There are ten property classes: residential 1 (1-4 units), residential 2 (5 or more units), residential 3 (owner occupied condominium and co-operative housing), farm,	Mill rates set by municipal councils. All municipalities may apply differential tax rates to different property types.

	institutional, pipeline, railway, designated recreational property, other. Farm land is assessed as value in agriculture and not at market value. Forested land is assessed at market value.	
Saskatchewan	Properties are classified as agricultural, residential or commercial/industrial. Cities may set additional subclasses of property. Taxable assessment on residential property is set at 70% of property value; on commercial/ industrial property and elevators. Cultivated agricultural land is assessed at 55% of fair value and non-arable land is assessed at 45%, while buildings used for farm purposes in rural municipalities are exempt. Forested land is assessed as non-arable land.	Mill rates are determined locally. Variable mill rates may be applied in urban, rural, and northern municipalities. Cities may also set subclasses of property to which variable mill rates may apply. Finally, municipalities are permitted to impose a minimum tax or a base tax (base plus mill rate levy) for all property classes.
Alberta	Assessments are assigned to the following property classes: residential, non-residential (commercial and industrial), farm land, machinery and equipment. Machinery and equipment includes underground tanks, separators, fuel gas scrubbers, compressors, chemical injectors, and metering and analysis equipment. Most machinery and equipment is assessed by the local assessor, while machinery and equipment forming part of linear property is assessed by the assessor designated by the Minister of Municipal	Municipal councils have the power to levy differential tax rates on different property categories. Municipalities may also impose a business tax, business revitalization zone tax, special tax, well-drilling equipment tax, or local improvement taxes.

	Affairs. Municipal councils may divide the residential class into subclasses on any basis it chooses and it may divide the non-residential class into vacant and improved sub-classes. Farm land is assessed at productivity or agricultural use value. Farm residences and buildings in rural municipalities are exempt. Forested land is assessed at market value regardless of whether it is managed for timber production or is unmanaged.	
British Columbia	There are nine classes of assessable property: residential, utilities, supportive housing, major industry, light industry, business and other, managed forest land, recreational property/non-profit organization, and farm land. Total property value must be apportioned between land and improvements on the assessment rolls. Farm land is assessed at productivity or agricultural use value. Farm improvements, other than buildings, up to an assessed value of $50,000 are exempt from property taxation. Forest land is assessed in a two-step process: first, if the trees have not been harvested, the value of the land without trees is assessed. Second, if the trees have been harvested, the	Municipal property tax (mill) rates are set by local councils. Variable tax rates are allowed for the different classes of property, but rates cannot vary within each class of property.

	assessed value of the trees is added to the bare land value of the land two years after the property owner receives the benefits of the harvest.	

Source: From websites for Provincial and Territorial Departments or Ministries of Municipal Affairs; Canadian Tax Foundation, *Finances of the Nation, 2012*, Canadian Tax Foundation, Toronto, chapter 6; Harry Kitchen and Enid Slack, 2012, "Property Taxes and Competitiveness in British Columbia", a report prepared for the BC Expert Panel on Business Tax Competitiveness; Harry Kitchen and Enid Slack, "Municipal Property Taxation in Nova Scotia", a report prepared for the Property Valuation Services Corporation, the Union of Nova Scotia Municipalities and the Association of Municipal Administrators, April 2014; and provincial websites for municipal property assessment and taxation.

Appendix Table A-2: School Property Tax Structure	
Newfoundland & Labrador	Property taxes are not used to finance elementary and secondary school expenditures.
Prince Edward Island	The province funds 100 percent of education costs from general revenues, which include the revenues generated by a province-wide property tax. This revenue is not earmarked specifically for education, however. The *School Act* allows regional administrative units to levy and collect a local tax for supplementary education programs (upon approval by the Ministry and a plebiscite), but this power has not yet been used.
Nova Scotia	Public schools are financed from the general revenues of the province and municipalities. The provincial share of school financing comes from the province's general revenues. The municipal portion comes from a uniform property tax rate set by the province plus the Halifax Regional Municipality has discretion to levy an additional property tax.
New Brunswick	All public education costs are funded from general provincial revenues. Included in these revenues is a provincial property tax on all properties. The property tax is not earmarked specifically for schools, however. Legislative provision for using local property taxes to raise revenue for supplementary programs is permitted but seldom used.
Quebec	The province funds about eighty-five percent of all public school costs from general revenues and school boards fund the remaining 15 percent from a local property tax levy. There is no provincial property tax. Local school boards must levy a property tax but it cannot exceed $0.35 per $100 of standardized assessment unless referendum approval is obtained from the taxpayers within the school district. No such referendum has ever been held. Local property taxes are used to finance the maintenance of school facilities. The province sets the property tax revenue to be collected by each board (or grouping of school boards on the island of Montreal) as follows: it sets the dollar amount per school board (set annually by Ministry of Education) plus per student dollar amount times the number of students.
Ontario	Education is 100% provincially funded. Part of this funding comes from a property tax. The province sets the property tax rate (residential) or amount to be raised (commercial and industrial) for education. The tax rate on residential/farm and multi-residential properties is uniform across the province. The province sets the amount that is to be raised by the tax on commercial and industrial properties.
Manitoba	Provincial funding comes from the general revenues of the province and from locally generated school board revenues (almost entirely from property taxes on both non-residential and residential property). Local school boards have the power to set local property tax rates and this power is used extensively.
Saskatchewan	The province sets a uniform property tax rate for each of four major property classes - residential, commercial/industrial, agricultural, and resource.
Alberta	The province is responsible for funding education. About half of its funding requirement is supported from general provincial revenues and the remainder from a uniform province-wide

	mill rate on residential property and a higher uniform rate on commercial/industrial property. Municipalities collect the tax and remit it to the province. School boards may also seek elector approval to levy an additional property tax to a maximum of 3 percent of their budget. In 2016-17, the uniform mill rate is $2.48 per $1000 of equalized assessment for residential properties and farmlands and $3.90 per $1000 of equalized assessment for non-residential properties.
British Columbia	Schools are funded entirely by provincial grants generated from provincial government revenue that includes provincially imposed non-residential and residential property taxes. Everyone within a school district pays the same residential tax rate, but the province varies the rate between districts in order to moderate the effects of differences in assessed values across the provinces. If school boards wish to spend more than their provincial grant, the board must seek local taxpayer approval through a referendum for additional expenditures to be financed through local property taxes. This has never been used, however.
Source: Same as Table 1.	

Appendix Table A-3: Frequency of Assessment	
Newfoundland & Labrador	Three year cycle with the lag in assessed values being twenty-two months.
Prince Edward Island	In 2009, the provincial government froze all residential assessment at 2007 values until time of sale. Beginning in 2010, the property assessment freeze was replaced by annual increases based on the change in the CPI to a maximum annual increase of 5 percent. Commercial and industrial property is assessed annually.
Nova Scotia	Annually with each year's assessed value based on the property's value two years prior.
New Brunswick	Annually as of Jan. 1 each year.
Quebec	Three year cycle with the assessed value being finalized before March 1st (for appeals) of the first year of the cycle.
Ontario	Four year cycle.
Manitoba	Four year cycle
Saskatchewan	Four year cycle
Alberta	Annual
British Columbia	Annual
Source: Same as Table 1.	

Appendix Table A-4: Property Assessment and Taxation of Machinery and Equipment	
Newfoundland and Labrador	Machinery and equipment are subject to the municipal property tax.
Prince Edward Island	Only machinery, equipment, and other fixtures that provide services to the buildings are liable for property taxation.
Nova Scotia	All machinery and equipment are excluded from the property tax base.
New Brunswick	Machinery and equipment providing services to buildings are assessed. All machinery, equipment, apparatus and installations other than those for providing services to buildings are exempt from assessment.
Quebec	Machinery and equipment are assessed and taxed
Ontario	All machinery and equipment used for manufacturing, and the foundations upon which they rest are exempt from taxation. However, any item of machinery and equipment affixed to the land that is not used in the manufacturing process, including items such as heating, lighting and cooling systems, are taxable.
Manitoba	Machinery and equipment are taxed.
Saskatchewan	Machinery and equipment are assessed as industrial property and taxed using provincially set regulated rates. Both the municipal property tax and provincial property tax are levied.
Alberta	Machinery and equipment (M&E) is assessed for municipal tax purposes. M&E includes components or equipment within commercial and industrial properties where manufacturing or processing occurs. These properties include refineries, chemical plants, pulp and paper plants, upgraders, food processing facilities, grain and fertilizer handling facilities, bakeries and butcher shops. Within these sites, M&E property includes such things as storage tanks, separators, fuel gas scrubbers, compressors, chemical injectors, metering and analysis equipment, ovens, mixers, grinders, and other equipment and components. Land and buildings are assessed at full market value; whereas, M&E is assessed at 77% of its assessed value. The municipal tax is levied on M&E but the provincial education tax is not levied on M&E.
British Columbia	Machinery and equipment are assessed as major industrial or light industrial and taxed using regulated rates set by the province. Both municipal and education property taxes are levied.

Appendix Table A-5: Property Tax and Assessment Treatment of Linear Properties	
Newfoundland/ Labrador	• Utilities pay a tax of 2.5 percent of revenues collected in the municipality
Nova Scotia	• Transmission lines and distribution assets for telecommunication, cable and electric power systems are not assessed; instead, property owners pay taxes based on special legislation. • Land and buildings are valued and taxed on commercial tax rates. • According to the existing Nova Scotia special legislation, Bell Aliant pays 4 percent of gross subscribers exchange service revenues to each municipality. • Nova Scotia Power Inc. (NSPI) makes a grant in lieu of taxes to the Province with a portion of the grant distributed among municipalities based on the assessed value of NSPI property. • Low pressure natural gas distribution pipelines are exempt from taxation based on assessment, and are taxed based on the amount of gross distribution revenues raised in each municipality (4 percent for 2014-2018 and 5 percent thereafter). • High pressure distribution pipeline or pressure reduction stations are liable for assessment (value determined by pipe size, length, depreciation for high pressure distribution pipelines and value on actual cost less depreciation for pressure reduction station) and taxed on commercial rate, with the exception of serving single end-user, in which case taxation is based on 8% of gross revenue. • Main railway operating rights of way are exempt from taxation.
New Brunswick	• Pipelines are assessed on a cost per sq. ft. that varies by size of pipe. • Wire, cable, pipe, pole, tower, installation equipment, or structures other than buildings, forming part of a television broadcasting, transmission or rebroadcasting or retransmission system including a cable television system, a telephone, an electric light, a telegraph or a telecommunication system or any electric power distribution system, including the New Brunswick Power Corporation are assessed as non-residential property, • Railway rights of way are valued as a rate per mile. This is based on the sales of comparable vacant land. The rate varies across the province.
Quebec	• Operators of electricity, gas or telecommunication networks pay a "public service tax" to the provincial government. The tax is levied, at variable rates, on the net value of assets. The province does not transfer revenues from these properties to municipalities.
Ontario	• Real estate (land and buildings) holdings for telephone, cable, municipal electric utilities and gas companies are assessed and taxed as commercial or industrial properties. • Crown agency utilities are fully taxable but make payments in lieu of taxes. • Utility poles, transmission towers, wires, and underground cables are not valued and taxed. • Underground pipes for natural gas distribution are taxed on a per metre (length) basis. • "Rights of ways" owned by utilities and railways are taxed at a fixed rate

	per acre – the province sets the rate for nine geographic regions and indexes it to average provincial commercial tax rate changes.
Manitoba	• Railway roadways are assessed on the basis of gross tonnes of freight per kilometre. • Gas distribution systems are assessed at market values – based on values of abutting properties. • Pipeline assessment is based on the outside diameter of the pipe.
Saskatchewan	• Railway "rights of way" and pipelines are taxed on 100 percent of assessed values. Assessed values are estimated from values of abutting properties.
Alberta	• Assessment of railway "right-of-way" property is a fixed dollar amount per kilometre based on the annual tonnage transported on the "right-of-way." Each rail company must annually report the type and length of line in each municipality to the local assessor. Tax rates are set by the province. • Linear property is assessed (based on values of abutting properties) and tax rates are set by the province – properties include oil and gas wells; pipelines to transport petroleum products; electric power systems (generation, transmission and distribution); and telecommunication systems and cable TV. Each municipality taxes the assessed value of properties within its jurisdiction.
British Columbia	• Electricity, oil, natural gas and telecommunications pay a gross receipts tax (1 percent) instead of a property tax. • Railway "rights of ways" are assessed on the basis of weighted average assessed values for an area as approximated by assessed values of abutting properties.
Source: Same as Table 1.	

Appendix Table A-6: Provincial Property Tax Relief Schemes	
Newfoundland	No specific property tax relief schemes.
Prince Edward Island	For senior citizens with annual household income of $35,000 or less, 100 per cent of property taxes can be deferred. Deferred taxes must be paid when the property is sold or transferred to someone other than the owner's spouse.
Nova Scotia	Local councils may exempt certain persons from property taxation if their family income is below an amount specified by the local council. Eligible persons include those over the age of 65 or widows or single parents supporting dependents. A provincial property tax rebate program is available for all seniors receiving the guaranteed income supplement. Each recipient receives a rebate equal to 50 percent of the previous year's property taxes to a maximum of $800.
New Brunswick	Property tax relief is provided through grants that are credited against property taxes on the principal residence of low income owner-occupied homeowners. If income is less than $22,000, the maximum grant is $300. For homeowners with incomes from $22,001 to $25,000, the maximum credit is $200 and for homeowners with incomes from $25,001 to $30,000, the maximum credit is $100. There is also a property tax deferral program for eligible seniors who may defer the annual increase in the property tax on their principal residence.
Quebec	The province provides a refundable property tax credit administered through the personal income tax system. It is available to both homeowners and renters. In addition, the province provides a partial reimbursement for local property taxes paid on farm and timber properties.
Ontario	The province provides a refundable provincial property tax credit applied against provincial income tax liability for low and modest income homeowners and renters. As well, there is a property tax grant of up to $500 for eligible seniors. Lower property tax rates (25 percent of the residential rate) are paid by owners of eligible farmlands and buildings. The province reimburses 100 of property taxes paid by owners of eligible managed forests and conservation lands. Municipalities also have the power to reduce, refund, cancel or defer residential and farm property taxes.
Manitoba	The province provides relief to residential homeowners through a combination of income tax credits and the elimination of the provincial education property tax. All homeowners and tenants are eligible to claim a tax credit of up to $700 on their municipal property tax statement or through their personal income tax return as long as they pay the first $250 in property taxes. A senior household with an income of less than $40,000 may be eligible for an additional property tax credit of $470 applied against their education property tax. For incomes above $40,000, the credit is reduced by 2.0% of net family income that exceeds $40,000. The credit is not available for those with an annual income of $63,5000 and higher.
Saskatchewan	No specific property tax relief programs.
Alberta	An income tested transfer program is in place for seniors. A portion of the payment is for assistance with municipal property taxes. Alberta rebates, regardless of income, a portion of school taxes paid by homeowners. This rebate equals the property tax increase that occurs the year prior to a senior's sixty-fifth birthday.
British Columbia	The provincial government's homeowners' grant program reduces property tax liability for owner-occupied principal residences. A basic grant of $570 ($770 if located in a northern or rural area) is available to reduce provincial and local

	government property taxes. Properties valued at $1.6 million or less are eligible for the full grant. For properties of more than $1.6 million, the grant is reduced by $5 for each $1,000 of assessed value over $1.6 million. The grant is not available for properties assessed over $1.714 million ($1.754 million in a northern and rural area). For seniors with a principal residence of $1.6 million or less, the maximum grant is $845 ($1,045 in rural and northern areas). For properties of more $1.6 million, the grant is reduced by $5 for each $1,000 of assessed value over $1.6 million. No grant is available for properties of $1.769 million ($1.809 million in northern and rural areas). Low income seniors may also qualify (principal residence of $1.6 million or less and annual adjusted net income of less than $32,000) for a low income grant supplement. There is also a land tax deferment program. This allows those fifty-five years and older, surviving spouses, and the permanently disabled to postpone payment of the property tax until the property is sold.
Source: Same as Table 1.	

Appendix Tables B

Appendix Table B-1: Tax ratios in Municipalities with Two Property Tax Rates, 2015

City	Commercial/Industrial Tax Ratio
Saint John	1.5000
Fredericton	1.5000
Moncton	1.5000
Sydney (Cape Breton Regional Municipality)*	2.4942
St. John's, Newfoundland	3.2346
Strathcona County, Alberta	1.9842

*Each of the municipalities in CBRM sets its own tax rates; only Sydney appears in this table

Appendix Table B-2: Tax ratios for Regina, 2015

Property Class	Tax Ratio
Commercial and industrial	1.5123
Golf courses	0.9827
Agriculture	1.5123

Note: Residential which equals 1.00 includes condominiums and multi-family residential

Appendix Table B-3: Tax ratios for Prince George, BC, 2015

Property Class	Tax Ratio
Commercial	2.0509
Major Industry	6.0228
Light Industry	3.2980
Utilities	5.1272
Farm	0.6631
Managed Forest	1.0000
Recreational Non-Profit	1.0000
Supportive Housing	1.0000

Appendix Table B-4: Tax Ratios for Three Ontario Municipalities, 2015 – Sarnia, Sault Ste. Marie, Greater Sudbury (Municipal Only)

Property Class	Sarnia	Sault Ste. Marie	Greater Sudbury
Multi-Residential	2.4000	1.2943	2.1845
New Multi-Residential	1.0000	1.2943	1.0000
Farmland	0.2500	0.2500	0.2500
Managed Forest	0.2500	0.2500	0.2500
Commercial	1.6271	2.1404	2.1397
Parking Lot	1.0912	1.5825	2.1397
Office Building	1.5358	3.1262	2.1397
Shopping Centre	2.0835	2.2722	2.1397
Industrial	2.0476	2.9624	3.1038
Large Industrial	3.0035	5.2614	3.5180
Pipelines	1.3424	2.0056	2.1715

Notes:

1. Optional property classes appear in italics. Professional sports facilities are another optional class but is not used in any of these three cities.
2. Provincial legislation requires a tax ratio of 0.25 on farmland and managed forests.
3. Vacant commercial land is taxed at 70 percent of the commercial tax rate. Municipalities are now permitted to eliminate the vacancy rebate for both commercial and industrial properties in Ontario.
4. Vacant industrial land is taxed at 65 percent of the industrial tax rate.
5. Farmland awaiting development is taxed differently depending on the nature of the development, e.g. residential, commercial, industrial, etc. and the phase of development.

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