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perspectives

Property Taxes in Canada: Current Issues and Future Prospects

Harry Kitchen, Enid Slack, and Tomas Hachard

About IMFG

The Institute on Municipal Finance and Governance (IMFG) is an academic research hub and non-partisan think tank based in the Munk School of Global Affairs and Public Policy at the University of Toronto.

IMFG focuses on the fiscal health and governance challenges facing large cities and city-regions. Its objective is to spark and inform public debate, and to engage the academic and policy communities around important issues of municipal finance and governance.

The Institute conducts original research on issues facing cities in Canada and around the world; promotes high-level discussion among Canada's government, academic, corporate, and community leaders through conferences and roundtables; and supports graduate and post-graduate students to build Canada's cadre of municipal finance and governance experts. It is the only institute in Canada that focuses solely on municipal finance issues in large cities and city-regions.

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Authors

Harry Kitchen is Professor Emeritus in the Economics Department at Trent University. Over the past 20 years, he has completed more than 100 articles, reports, studies, and books on local government expenditures, finance, structure and governance in Canada, and served as a consultant or advisor for municipal and provincial governments in Canada, the federal government, private-sector institutions, and projects in Russia and China. In 2013, he was awarded a Queen's Diamond Jubilee medal for policy analysis and research contributions to municipal finance, structure, and governance in Canada.

Enid Slack is the Director of the Institute on Municipal Finance and Governance (IMFG) at the Munk School of Global Affairs at the University of Toronto. She has written extensively on property taxes, intergovernmental transfers, development charges, financing municipal infrastructure, municipal governance, and municipal boundary restructuring. Recent publications include *Financing Infrastructure: Who Should Pay?* and *Is Your City Healthy? Measuring Urban Fiscal Health* (both co-edited with Richard Bird). Enid consults on municipal finance and governance issues with governments and international agencies such as the World Bank, IMF, UN Habitat, Asian Development Bank, and the Inter-American Development Bank, in Canada as well as in Brazil, China, Colombia, India, Mexico, Mongolia, the Philippines, South Africa, and Tanzania. In 2012, she was awarded the Queen's Diamond Jubilee Medal for her work on cities.

Tomas Hachard is the Manager of Programs and Research at IMFG. Prior to joining the Institute, he was a Senior Policy Analyst at the Council of Ontario Universities, where he led major projects in policy, communications, and government relations. Tomas was previously a journalist and wrote for publications including *The Atlantic*, *The Globe and Mail*, *The National Post*, and *The Guardian*. He worked as an editor, producer, and researcher at the *Toronto Star*, CBC, and *Guernica Magazine*. He was also a regular film critic and book critic for NPR and *Maclean's*. Tomas holds an Honours BA from the University of King's College, Halifax, and MAs from the University of Toronto and New York University.

Institute on Municipal Finance and Governance (IMFG)

Munk School of Global Affairs and Public Policy

University of Toronto

1 Devonshire Place

Toronto, Ontario, Canada M5S 3K7

email: info.imfg@utoronto.ca

<http://www.munkschool.utoronto.ca/imfg>

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Executive Summary

Canadians today pay for local services in the same way that citizens did a century ago – with local property taxes (and user fees) levied by local governments. The rate of increase of property taxes is a source of perennial debate, while other elements of property tax policy get less attention. Residents and businesses in different provinces in Canada may have access to different exemptions and incentives, and to different tax breaks, schemes, and programs meant to address the supposedly regressive and volatile nature of the property tax. Different municipalities may be subject to different policies on how tax rates are set. And in some jurisdictions, policymakers have started implementing new types of property taxes to improve housing affordability.

This paper examines these broader issues through a cross-Canada review of property tax policies. It finds that cities across the country are facing similar issues on when and how to tax different kinds of properties differently, whether to apply progressive property tax rates, the volatility of property taxes, the benefits and drawbacks of using property tax incentives to attract businesses, and the role of provincial property taxes.

The paper further finds that in some cases, existing policies across the country that relate to these challenges are affecting the fairness, accountability, and efficiency of the property tax. This is particularly true when it comes to exemptions, differentiated tax rates, and tax capping. Other proposals, particularly those for progressive property tax rates, clash with the central role of the property tax, namely to fund shared municipal services such as policing, parks, fire services, and roads, rather than to act as a redistributive wealth tax.

The paper proposes five steps that governments in Canada should take to ensure a fair and efficient property tax system:

1. Remove exemptions that do not have a sound and explicit public policy rationale.
2. Reduce the difference between residential and non-residential property tax rates.
3. Remove redistributive services from the property tax base and avoid progressive rates.
4. Avoid capping and land averaging to prevent inequities in property taxation.
5. Eliminate provincial property taxes.

“Property Taxation in Canada: Past, Present, and Future.”

This is the second paper in the IMFG series, “Property Taxation in Canada: Past, Present, and Future.” The property tax has a long history in Canada. It predates Confederation and has long been the country’s central source for municipal revenues. In recent years, governments have also implemented further taxes on property, including foreign buyers’ taxes and vacancy taxes, to address new policy concerns.

“Property Taxation in Canada: Past, Present, and Future” focuses on property taxation in Canada and whether changes are necessary to ensure municipalities can meet 21st-century challenges. Papers by experts from across the country will look at topics that include the role of the property tax in Canadian municipal finance, recent developments in property tax policy, and new challenges that governments face in administering the property tax.



Photo by Maëlick via Flickr (<https://bit.ly/2nWoSOQ>)

Property Taxes in Canada: Current Issues and Future Prospects

Introduction

Every year, as cities prepare to set and approve their budgets, debates begin over whether property taxes should increase by more than the rate of inflation. These debates pit well-rehearsed adversaries against each other: the proponents of affordability, who claim that residents cannot afford the increase, against those who insist that a tax increase is needed to fund city services at an appropriate level. Believers in efficiencies, who argue that a city can achieve savings by reductions and cuts, come up against those who point out that 21st-century cities are dealing with new demands and challenges – such as funding social services, confronting

climate change, and keeping up with growth – that cannot be met without increased revenue.

Whatever the merits of each side of the argument, these debates generally focus on the annual rate of increase. But levying the property tax is more than a matter of rate increases. Different jurisdictions in Canada offer residents and businesses different exemptions and incentives, as well as tax breaks and programs to address the supposedly regressive and volatile nature of the property tax. Policies on how tax rates may be set vary from place to place. Policymakers in some cities have started implementing new types of property taxes to improve housing affordability.

This paper examines these broader issues through a cross-Canada review of property tax policies.¹ We begin by looking at the role of property taxes in municipal finance and general differences in their application across the country. We then identify and analyze common issues with the property tax in cities and provinces. Through this analysis, we identify ways in which Canadian cities may be misusing the property tax. The paper ends with five proposals for improving property tax policy.

Vigorous debates about property tax increases are a healthy part of civic life. But they should not obscure other elements of property tax policy that need improvement. This paper shows how addressing these other elements can improve the fairness and effectiveness of the property tax system, and strengthen the fiscal health of cities as a whole.

The State of Property Taxation in Canada

The property tax has been levied in Canada since at least 1793, when the first *Assessment Act* was passed in what was then Upper Canada. Indeed, prior to the First World War, the only tax that most Canadians paid was the property tax, since most public services – mainly water and roads – were delivered and funded by local governments. Federal and provincial income and sales taxes have since come to dominate the fiscal scene, but Canadians still pay for local services the same way they did a century ago – with local property taxes (and user fees) levied by local governments.

The main role of the property tax in municipal finance is to pay for local services that have collective impact. This role is important because it influences policy decisions. In general, the property tax may be viewed as:

- an excise tax, that is, a duty on the value of property;
- a capital tax, meaning that it taxes wealth;
- a user charge to pay for shared services.

How policymakers see the intended role of a tax affects their policy decisions. The choice of what constitutes a fair application of a tax, for instance, shifts depending on whether the property tax is seen primarily as a way to pay for services or as a tax on wealth.

This paper proceeds on the authors' consensus that the property tax exists to fund shared services such as policing, parks, fire services, and roads.² This role aligns most closely with the historical function of the property tax and with the traditional powers and responsibilities of local government in Canada. It is also reflected in how rates are set in many cities, which determine how much money is needed from property taxes to fund city operations, and then set a rate that will produce that amount. If the property tax were a wealth tax, the rate would be determined not to match a required output, but to reflect how much residents believe wealth should be taxed.

This paper offers policy recommendations for how the property tax can best fulfil its traditional role. However, we note that cities have recently started facing demands (for instance, supplying social housing, addressing climate change, and providing public health programs to address new challenges such as the opioid crisis) that go well beyond their traditional responsibilities. In light of these new demands, the pressure on the property tax is increasing; we need to consider the question of whether other revenue tools are better suited to funding cities' new responsibilities. While this paper does not address that question in detail, the authors have explored it substantively elsewhere.³

Differences in Property Taxation Across Canada

In 2017, municipal property taxes (including payments in lieu of taxes) accounted for almost half of municipal revenues

across Canada and 3.1 percent of Gross Domestic Product (GDP). The average municipal property tax per capita across the country was \$1,132. Between 2008 and 2017, the annual average growth rate in property taxes per capita, adjusted for inflation, was 1.3 percent.

However, because provincial legislation governs property taxation, its application differs from province to province. As Figure 1 indicates, property taxes as a percentage of municipal revenues in 2017 ranged from a low of 32 percent in Saskatchewan to a high of 60 percent in Québec. In per-capita terms, municipal property taxes ranged from \$345 in Prince Edward Island to \$1,732 in Alberta (see Figure 2).

In all provinces, property is assessed at its market value, but the reassessment cycle differs (see Table A-1 in the Appendix). Although there has been a move towards more frequent and up-to-date assessments in most provinces over the last 20 years, three provinces are still on a four-year assessment cycle.

The level of municipal autonomy in setting property tax rates also differs significantly across the country. In some provinces – such as Alberta, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador – municipalities are free to set their own property tax rates without provincial restrictions.⁴ In others, the provincial government directly controls or limits tax rates on some property classes (see Table A-2 in the Appendix).⁵

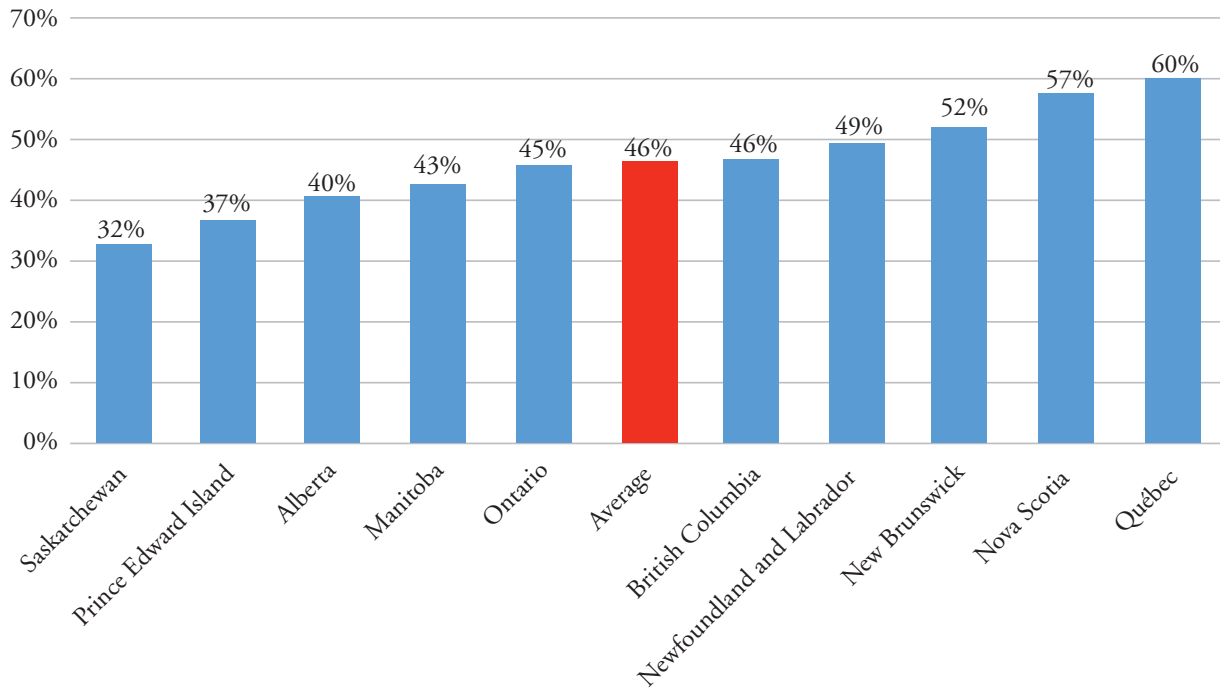
Municipalities in New Brunswick set the municipal residential property tax rate, but the province requires that the non-residential (commercial and industrial) municipal tax rate be 1.5 times the residential rate. Municipalities in British Columbia set their own tax rates, but the province can make special rules about them; it used this power to cap the taxes on the utilities class and impose a maximum municipal tax rate on designated port properties. Saskatchewan has no restrictions on setting municipal property tax rates, but the province can limit mill (tax) rate factors through regulation; it has not exercised this power to date.

In Québec, municipalities can apply different tax rates to different property classes, but the province specifies minimum and maximum differentials. In Ontario, municipalities may set different tax rates for different property categories, but only within provincially determined ranges that limit local flexibility. Wherever differential property tax rates are used, the residential rate (except for farmland and resource properties) is always lower than the commercial/industrial rate.

Finally, all but two provinces levy their own property tax, ostensibly as a source of funding for public schooling, although the revenue from this tax goes directly to the province as general revenue.

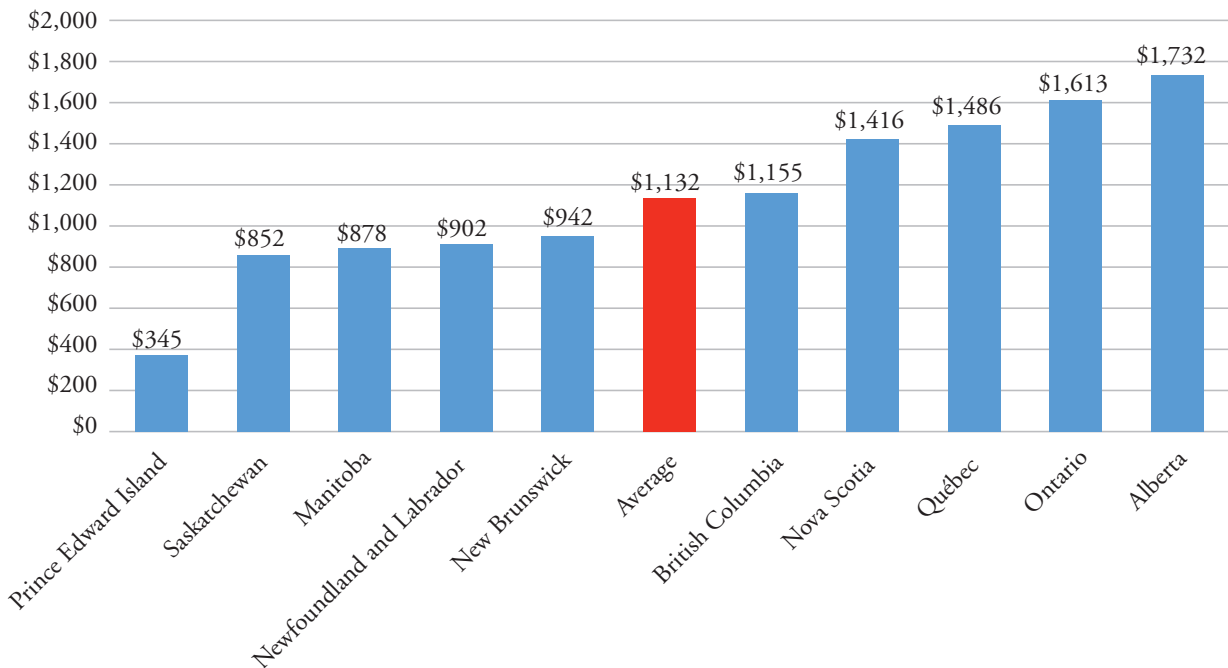
These varied approaches indicate that the property tax policy is far from standardized across the country. Yet

Figure 1: Municipal Property Taxes as a Percentage of Municipal Revenues, 2017



Source: Authors' calculations from Statistics Canada, CANSIM Table 385-0037

Figure 2: Municipal Property Taxes per Capita, 2017



Source: Authors' calculations from Statistics Canada, CANSIM Table 385-0037 and CANSIM 051-0001

provinces and municipalities face common challenges in relation to the property tax. These include, among others, the fairness of property taxes, the impact of differential rates, and the allegedly regressive nature of property taxes.

The rest of this paper examines how these concerns affect municipalities across the country and points to best practices for addressing them.

Issues in Property Taxation

This section looks at five prominent issues in property taxation across the country: differential tax rates; progressive property tax rates; volatility; property tax incentives; and provincial property taxes. Data and information throughout is based on available information at the time of writing.

Taxing Different Properties Differently

Setting different rates for different property types requires balancing different principles and priorities, including fairness, efficiency, accountability, and competitiveness. This section looks at four particularly thorny issues for municipalities in this respect, namely exemptions, the over-taxation of non-residential (commercial and industrial) properties, proposals for special taxation of small businesses, and the taxation of vacant properties.

Exemptions

Some properties are exempt from property taxation in all provinces. For example, local governments do not collect property taxes from properties owned by federal and provincial governments or their enterprises.⁶ 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 and land uses, such as religious buildings, cemeteries, and many charitable organizations, are also exempt. Individual provinces have additional exemptions either from provincial property taxes only or from both municipal and provincial taxes:

- Museums, buildings used by war veterans, and housing for the low-income elderly and infirm are exempt or partially exempt from school taxes in Manitoba.
- Eligible conservation land and small theatres are exempt from both municipal and school property taxation in Ontario.

- Non-profit daycare centres, certain sports and recreational facilities, thrift shops, and sheltered workshops are exempt in Alberta.
- Public libraries are exempt in all provinces except New Brunswick, Nova Scotia, and Prince Edward Island.
- Public hospitals are exempt in every province except New Brunswick, where they pay municipal property taxes at the residential rate.
- Agricultural properties receive some exemption in all provinces except Prince Edward Island and Newfoundland and Labrador.

On top of provincial exemptions, municipal bylaws provide additional exemptions in each province.

Exemptions are difficult to justify on the basis of fairness. Exempt properties use municipal services just as other properties do and, hence, should be taxed. Exemptions narrow the tax base, so that taxes must be higher than they would be otherwise on non-exempt properties, or service levels must be reduced. Differential tax treatment can affect location decisions, choices about what activities to undertake, and other economic outcomes.

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To compensate for forgone property tax revenue on government-owned property (including universities, colleges, hospitals, and penal institutions), the federal and some provincial governments make payments in lieu

of taxes to local governments. The impact on municipal revenues from payments in lieu depends on two factors: (1) the number of federal and provincial government properties or crown corporations in the municipality; and (2) the extent to which these payments reflect the value of property taxes that would otherwise have been paid. In some provinces, payments in lieu are equal to full property taxation; in other provinces, payments fall short.

In Ontario, instead of a payment in lieu or grant based on assessed value, hospitals, prisons, and universities and colleges pay a fixed amount, often referred to as the “heads and beds” tax. 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 postsecondary institutions.

Payments in lieu of property taxes on federal and provincial government properties do not cause problems in municipal revenues if they are equal to what the property tax would have generated; in other words, if the revenue shortfall need not be subsidized by property tax-paying properties. If, however, payments in lieu are not required or set at a level

that is less than the equivalent amount in property taxes, the resulting impact is inequitable.

If there is a sound public policy reason or rationale for an exemption, it should be made explicit. If there is no solid public policy rationale, the exemption should be terminated and the property made subject to the tax rate paid by non-exempt properties. At the very least, exempt properties should 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 know the real cost of the exemptions and be able to judge whether they are acceptable and fair.

Over-taxation of Business (Non-Residential) Properties

Many Canadian municipalities grapple with the question of how to tax non-residential property in relation to residential property. The general practice in Canada and around the world is to levy higher property tax rates on commercial and industrial properties than on residential properties.^{7,8}

The ratio of non-residential to residential property tax rates is legislated at 1.5 in New Brunswick, but municipalities in other provinces are not restricted in the same way. In Montréal, the tax rate on non-residential properties is more than four times the tax on residential properties; in other cities, it is less than two times (see Table 1).

Three basic principles of taxation – fairness based on benefits received from local services, accountability, and efficiency – suggest that governments should tax non-residential properties at *lower* rates than residential properties. These principles are considered below, along with the question of economic competitiveness.

Fairness: When the property tax pays for services that provide collective benefits to the local community, fairness 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 require more services or higher levels of service, the tax rate should be higher.

Several Canadian studies have compared the benefits received by residential properties versus non-residential properties.⁹ In general, they have concluded that the residential sector receives *more* benefits from local government services than the non-residential sector. In many cases, the non-residential sector provides its own security, garbage collection, and fire protection and relies less heavily on libraries, recreational facilities, social services, social housing, and elementary and secondary education than residential properties.

One often-heard argument for higher property taxes on businesses is that business owners can deduct expenses incurred in earning income (including property taxes) for income tax purposes. Owner-occupiers of residential dwellings, by comparison, are not allowed similar deductions. As the argument goes, higher taxes on business are fair because they even out the disparities in taxes that would otherwise exist between residential and business properties. This argument overlooks the fact 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), because both lead to a reduction in taxable economic income.

Table 1: Commercial to Residential Property Tax Rate Ratios, Selected Canadian Cities, 2019

City	Tax rate ratio	What the ratio represents
Vancouver	3.64	Business rate relative to residential rate (municipal, regional, education, and other authorities)
Calgary	3.30	General municipal and education non-residential rates relative to residential tax rates
Edmonton	2.41	General municipal and education non-residential rates relative to residential tax rates
Saskatoon	1.57	Commercial/industrial tax rate relative to residential tax rate (city/library tax plus education tax, not including Business Improvement Areas)
Winnipeg	1.94	Commercial tax rate relative to residential tax rate (municipal plus education)
Toronto	3.70	Commercial general tax rate relative to residential tax rate (municipal plus education)
Montréal	4.22	Municipal non-residential tax rate (>\$500K value) relative to residential tax rate (municipal plus water supply reserve for City of Montréal)
Halifax	3.18	Commercial tax rate relative to residential tax rate (urban general rate plus supplementary education plus provincial tax rates; excludes area rates)

Note: In 2019, Vancouver implemented policies to reduce the business to residential tax ratio, by shifting 1 percent of the tax burden from businesses to residences.

Source: Authors' calculations from information on city websites.

Accountability: Non-residential property owners generally do not have the right to vote in local elections in their capacity as business owners and thus have less ability than residents to hold elected officials accountable for expenditure and tax decisions.¹⁰ In keeping with this principle, residential taxpayers should shoulder a larger share of the tax burden. Businesses may, however, lobby elected officials through institutions such as boards of trade, just as residential property owners can through neighbourhood associations and other advocacy groups.¹¹

Efficiency: If property taxes on business properties are used to subsidize services consumed by the residential sector, service levels will be set at an inefficient level. In other words, since the residential tax rate is less than it would be in the absence of the subsidy, residential taxpayers may over-consume certain services, potentially creating an over-supply of these services. A higher tax on business properties also creates an incentive for businesses to leave the community – businesses are usually more mobile than residents. To minimize this problem, business properties should be taxed more lightly than residential property.

Economic competitiveness: The few studies on non-residential property taxes and economic competitiveness suggest that the impact of property taxes depends on a number of factors, including the nature of the business decision (investment in new facilities, ongoing operations, etc.) and the business in question (pulp and paper, forestry, mining, etc.). One study in British Columbia analyzed the impact of property taxes on business decisions of major industrial facilities in that province.¹² The researchers found that under typical operating conditions, property taxes do not affect business decisions, since property taxes represent a relatively small portion of overall costs. As long as industries are operating profitably, the tax has little impact on business operating decisions.¹³

Property taxes do, however, affect firms with facilities in many different locations. These firms optimize the allocation of capital to projects with the highest returns. Other things being equal, firms thus have an incentive to invest in jurisdictions where industrial tax rates are lower. Finally, for firms in financial distress, property taxes are a major factor in decision-making because they account for a larger portion of the firm's fixed costs.

Some Canadian cities have tried to reduce the tax burden on businesses. For example, from 2008 to 2012, Vancouver

lowered tax rates on business properties so that the business share of total municipal property taxes would not exceed 50 percent. More recently, it shifted another 1 percent of taxes onto residential properties. Toronto, following a study of business competitiveness in 2009, has been implementing a policy of reducing the tax ratio from 4.0 to 2.5. In Saskatoon, the ratio has been lowered to less than 1.6.

Taxation of Small Business

One of the main concerns in determining how much property tax to levy on small businesses has to do with the impact of reassessments on properties in areas where redevelopment is occurring. When zoning regulations change, for example, to allow for the addition of new residential space above an existing business, the market value of the property usually increases. If the property is not re-developed, a portion of the new assessed value is assigned to "air space."¹⁴ The business pays property tax on the entire site, including the "air space." Until the property is re-developed to include residential improvements, the entire assessed value remains in the non-residential property class. Only when the residential units have been constructed does the (lower) residential property tax rate apply.

Businesses that rent their space under standard, triple-net leases – meaning they pay property taxes on top of their rent – can be particularly hard hit by assessment spikes that provide no short- or long-term return to them. Even owner-operators in so-called "hot spots" have to pay higher property taxes out of current funds before future capital gains can be realized, although they do eventually benefit from capital gains.

Toronto and Vancouver have considered ways to protect small businesses from the impact of reassessment. These include establishing a special property class for small businesses and capping tax increases. The first recommendation is discussed in this section; capping is described in a later section.

Establishing a small business tax class is an intuitively appealing prospect, but difficult to implement. The problem in designing a small business property class is the definition of what is small. Does "small" reflect the nature of the business, gross revenues, profits, assessed value, square footage, or some other characteristic? Is a bank branch of a major Canadian bank located on a small retail strip a "small business?" What about a restaurant franchise in a small space? On the basis of square footage, these may be small businesses, but they may not be "small" in terms of revenues or profits.

Establishing a small business tax class is an intuitively appealing prospect, but difficult to implement. The problem in designing a small business property class is the definition of what is small.

Toronto recently created a new commercial property class to provide a tax break to non-profit arts spaces. Owners of buildings used as cultural hubs pay a lower tax rate in exchange for giving artists below-market-rate leases. Qualifying properties, most of which are non-profit organizations, need a minimum of three tenants, must offer space and programming to the public, and must set rental rates below the market average. Montréal has created a differentiated rate for the first \$500,000 of the value of a non-residential building.

Although it may be preferable to subsidize some taxpayers explicitly by setting a different tax rate rather than hiding the subsidy through the assessment system, the real problem is the over-taxation of business properties more generally. If business tax rates were lower, the need to subsidize particular business property owners would decrease.

Taxation of Vacant Property

Rapidly increasing housing prices and the resulting affordability crisis in cities such as Toronto and Vancouver have led these cities to consider taxes on empty homes (as well as on foreign buyers, but those taxes apply to land transfers rather than recurrent property taxes). In British Columbia, the provincial government amended the Vancouver Charter in 2016 to allow the city to levy a tax on vacant homes. The province also introduced a speculation tax in certain cities. Although Toronto has not yet implemented a vacancy tax, it is considering one. The provincial government has amended the *City of Toronto Act* to permit city council to do so.

Under the Vacancy Tax Bylaw, the City of Vancouver levies a 1 percent annual tax on the assessed value of eligible residential properties. Homes used as residences by homeowners or tenants do not pay the tax. The stated purpose of the tax is to increase the long-term supply of rental accommodation by creating an incentive to use empty or under-used properties as long-term rental homes.¹⁵ Properties left vacant for more than 180 days during the year are subject to the tax. Properties that are rented to tenants for six months of the year or more, in periods of at least 30 consecutive days, are not subject to the tax. The vacancy tax operates through a self-declaration process: the owner is required to fill out a declaration form, indicating the vacancy status for the prior year.

The property tax funds a bundle of services provided by local governments. Fairness exists when properties of equal value pay the same amount of property tax, because each of these properties has access to the same municipal services. If vacant properties face a higher tax rate than occupied properties of the same value, fairness is violated. As well,

this over-taxation of vacant properties compared with other occupied properties of the same value can lead to the kind of inefficiencies noted in the over-taxation of non-residential relative to residential properties.

These shortcomings call into question the practice of distorting the property tax to help alleviate a shortage of rental properties. This problem should be addressed using more appropriate policies, which might include zoning changes, policies to encourage increased rental supply, or regulations to drive down rents. If funding for public or affordable housing is the concern, it is important to ask whether other revenue sources, such as an income tax or provincial transfers, are more suited to the task.

Progressive Property Tax Rates

It is common to hear municipal officials, taxpayers, and some analysts say that the property tax is regressive, in that it represents a greater percentage of income for lower-income individuals than for higher-income individuals. Some people have recommended that cities levy progressive property tax

rates – that is, higher tax rates on higher-valued homes. This proposal raises two issues. Is the property tax regressive? Should cities levy progressive property tax rates?

Regressivity: A number of studies have disputed that property taxes

are regressive.¹⁶ The answer depends on how one views the nature of property taxes.

If the property tax is an excise tax on the value of the property, its burden is regressive because it takes a higher percentage of the annual income of a lower-income household than that of a higher-income household. Lower-income households spend a greater proportion of their income on housing.

If it is considered a capital tax on wealth, its burden is likely to be *progressive*, because higher-income households are likely to own a disproportionately large share of the stock of capital.

If it is treated as a user charge or benefit tax, it pays for services that provide collective benefits to the local community. Benefit taxes are not based on ability to pay, which is the commonly accepted base for measuring regressivity, but on the link, sometimes direct but often indirect, between the benefits one receives from local public services and the taxes paid for these services.

Progressive property tax rates: Whether or not the property tax is regressive, the idea of levying progressive property tax rates is building momentum in Canadian cities. Although

Whether or not the property tax is regressive, the idea of levying progressive property tax rates is building momentum in Canadian cities.

progressive property tax rates are not permitted in Canada, they constitute one component of an annual wealth tax in a few European countries where property taxes account for a small share of local tax revenues.

Progressive property tax rates increase as the value of the assessment base increases. The idea of progressive property tax rates is, at first, intuitively appealing. 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.¹⁷ Why not charge higher tax rates to owners of properties with higher property values?

The argument for progressive property tax rates, however, needs to be considered in the context of the property tax's role as a revenue source for municipal services, not as a way to tax wealth. Local governments in Canada are not permitted to tax wealth because, in general, if income redistribution is attempted at too local a 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 needs to be carried out on a broader geographic scale, such as at the federal, provincial, or regional level.

It is also important to consider the role of the property tax when determining what services the tax should fund. Social services, for instance, are best funded by redistributive taxes, like the income tax, but in Ontario, at least, they are funded partially by the property tax. Such redistributive services should be removed from the property tax base.

One complaint often heard 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 property values have increased while property owners' incomes remain low. A progressive property tax would exacerbate the liquidity problem faced by these taxpayers.

Moreover, 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.¹⁹ A single tax rate is easier for taxpayers to understand and for tax officials to administer compared with progressive tax rates. And if property values are divided into different classes by property value, there will be an incentive for taxpayers at the bottom of a value class to appeal their assessment to get into a lower class. The number of appeals would increase.

Many provinces and municipalities have, however, introduced property tax relief schemes or, more generally, income-transfer programs targeted at the most needy property taxpayers. These include:

- “circuit breakers” or property tax credits, which help low-income and elderly residents whose taxes exceed a certain percentage of their income;
- tax-deferral programs that permit property owners to defer some or all of their property taxes each year;
- exemptions from property taxes for certain taxpayers under specific circumstances (for instance, people over a certain age);
- the reduction, cancellation, or refunding of property taxes for people in special circumstances, usually poverty or illness.

Table A-3 in the Appendix lists and describes types of property tax relief by province.

Volatility

Stability and predictability are two desirable characteristics of a property tax system. Taxpayers need some certainty that tax payments will not increase significantly from year to year in response to forces over which they have no control (for example, market changes).

Volatility can be a problem for taxpayers when property values do not rise uniformly. For example, some neighbourhoods will be “hot” in some years and not in others. Even if total local tax revenues remain constant, there may be large swings in the distribution of the property tax burden when property values increase.

Tax volatility arises in two ways: (1) changes in the taxable assessed value of properties and (2) changes in the tax rate. Volatility is a particular problem when significant unanticipated changes in individual assessed values occur.²⁰ This volatility has led to considerable taxpayer agitation and caused a few provincial governments (Nova Scotia, New Brunswick, and Prince Edward Island) to enact policies such as tax capping and land averaging to mitigate its impact.

Tax capping: Capping limits the annual rate of increase in taxes paid, either directly, by capping changes in taxes, or indirectly, by capping changes in total assessed value. Generally, capping is applied to properties that experience an increase in total assessed value of more than a certain percentage above the increase for the class as a whole. The cost of a capping program, measured in terms of forgone tax revenue, is recovered by increasing taxes for the property class as a whole or for the entire tax base.

Capping has been in effect for non-residential and multi-residential properties in Ontario since the late 1990s, but has been phased out in most municipalities. Toronto, however, recently approved a 10-percent cap on property tax increases for multi-residential, commercial, and industrial properties. Nova Scotia introduced a capped assessment program in 2005, retroactive to 2001. The program limits the increase in taxable assessments on eligible owner-occupied residential properties and resource properties, but not commercial

properties. Before 2008, property owners needed to apply to receive the cap. Starting in 2008, however, capping was automatic. The rate of capping has been continuously lowered since its inception. The capping rate is currently tied to the consumer price index (CPI) and was 0.9 percent in 2018. Reassessment to market value for properties whose increase exceeds the annual CPI takes place only when the properties are sold.

Capping breaks the link between taxes and market values. Instead of basing the tax on market value, property taxes are based on an unchanging measure. Breaking this link makes property taxes less uniform and more arbitrary. Capping is inequitable because properties with similar market values do not pay the same taxes. Moreover, the benefits of capping for property owners increase with the length of time the property is owned. In other words, assessment capping shifts the property tax burden from those who have owned property for a long time to recent homebuyers.

It is also not clear that all taxpayers under the cap benefit from lower taxes. Assessment limits (capping) 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.²¹ The increase in the tax rate required to raise revenues when the size of the tax base has been reduced by capping can offset small reductions in tax value. A reduction in market value assessment could therefore actually result in higher property taxes for some properties.

Tax administration is complicated by capping, which creates confusion among taxpayers because the taxes paid are no longer calculated simply as a tax rate multiplied by the tax base. Moreover, there is no incentive to review one’s assessment. If one reason for volatility has to do with assessment errors, these errors will never be corrected.

Capping can discourage the movement of skilled labour, because new homes pay the full property tax and are not capped. Capping until time of sale reduces the incentive to move and distorts economic decision-making. For example, homeowners might not move if their job location changes because their property taxes would rise even if they move to a house of equal value.

Land averaging: Another way of addressing volatility²² is by maintaining a commitment to full market valuations but slowing the speed at which any individual taxpayer’s property taxes can change. Land averaging involves calculating a property’s assessed value based on the average land value over multiple years (for instance, the current year and two prior

years). Averaging means that properties in the same class with the same pre-averaged market values do not pay the same amount of tax. In other words, like capping, averaging results in horizontal inequities.

Averaging also works in both directions: as land values increase, averaging slows the rate of increase; as land values decrease, averaging slows the rate of decrease. Not surprisingly, those who do not see immediate reductions when property values are falling tend not to be as supportive of averaging as those whose property values are increasing.

Averaging is inequitable because taxpayers whose market value assessment goes down subsidize taxpayers whose assessments have increased. In a period of generally rising land values, land averaging reduces the total assessed value for a class of property relative to what it would be in the absence of averaging. Therefore, to raise the same tax revenue

from a class of property, the tax rate applied to the averaged values will be higher than for the unaveraged values. The higher the tax rate, the greater the potential for the distortion of economic decisions.

Like capping, averaging weakens the link between current assessment and taxation. It attempts to increase predictability and provide greater stability for property owners at the expense of equity (properties of equal value do not pay equal taxes) and transparency (taxpayers have trouble understanding how their taxes were calculated).

Finally, it can be difficult to remove capping, averaging, or a tax freeze: as Joan Youngman has put it, “once a freeze is imposed, the process of thawing may be too painful to bear.”²³ It is not impossible to remove capping, however. In 2010, New Brunswick implemented a 3 percent cap on increases in assessment of owner-occupied property as a temporary measure, effective only 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. Property owners who benefited from capping can keep the savings until the house sells or changes use. It was anticipated that the phase-out would take 20 years.

New Brunswick has also adopted “assessment spike protection” to protect homeowners from steep and unanticipated increases in assessment. Any increase greater than 10 percent will be phased in over several years. New construction and major improvements are exempt from this protection.

Averaging is inequitable because taxpayers whose market value assessment goes down subsidize taxpayers whose assessments have increased.

Property Tax Incentives

Municipalities are often eager to provide property tax incentives to attract businesses. A few provinces have passed legislation that permits municipalities to reduce property taxes on business properties to stimulate economic development (see Table A-4 in the Appendix).

Are property tax incentives a good idea? Do they work? There is a significant literature on non-residential property tax incentives in the United States but very little in Canada, because property tax incentives are a fairly new phenomenon in Canadian municipalities.²⁴ Property tax incentives are sometimes used to discourage existing businesses from leaving a city but, in the Canadian context, are designed more to steer new businesses to a particular municipality. The idea behind reducing the property tax is to compensate a business for pursuing an economic activity in the public interest, but that may not necessarily be in its private interest.

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.²⁵ 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.²⁶ If the revenue generated by the business exceeds the cost of services provided to it, then the business generates a fiscal surplus for the city.²⁷ In the best of all cases, attracting a large facility can increase worker productivity and attract other firms to the area, creating agglomeration economies (benefits from firms locating in proximity).²⁸ Finally, tax incentives are an indication that the municipality is pro-business.²⁹

Critics of property tax incentives, however, argue that they have a poor record in promoting economic development. They are often wasted on firms that would have located in the municipality anyway. Lower taxes are offered to new businesses at the expense of existing residents and businesses. Tax incentives can lead to unfair competition among businesses and to situations in which no major investments occur without them.³⁰ And if tax cuts are financed by cutting public services that businesses want, the net effect on economic development could be negative. Indeed, extensive evidence from the United States suggests that these incentives often lead to a deterioration of the tax base and lower levels of public services.

Provincial Property Taxes

With the exception of Québec and Newfoundland and Labrador, provincial governments in Canada also levy a property tax.³¹ The ostensible rationale for provincial levies is to fund a portion of public schooling, but in fact property taxes are often simply part of provincial general revenue – they are not always earmarked for education. For this reason, it is misleading to call them education property taxes, even though that name may make the taxes seem more acceptable to taxpayers.³²

Although the property tax is appropriate for funding municipal services, it is not a good tax for funding provincial services such as education. Like most services provided at the provincial level, elementary and secondary schooling is redistributive and generates significant spillovers.³³ Education should therefore be funded by taxes more suitable for such services, such as income taxes and the harmonized sales tax (HST).

Eliminating provincial property taxes would reduce the pressure on the municipal property tax and increase transparency and accountability, because

municipalities would be responsible for the entire property tax bill. Indeed, it has been suggested that, if provincial governments abandoned the property tax, municipalities would have sufficient revenues to meet expenditure needs and would not have to ask for additional tax tools.³⁴

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Conclusion: Five Ways Forward for the Property Tax

The property tax is widely deemed by economists and public-sector policy analysts to be an appropriate tax for financing local public services that provide collective benefits to the local community. It is fair in its impact on taxpayers. It is based on an immobile tax base and therefore, borne primarily by local residents (not exported). It provides stable and predictable revenues. Its visibility ensures a high degree of accountability and transparency. It is relatively easy to administer locally.

Nevertheless, the property tax is one of our most contentious taxes because of its visibility. Unlike income taxes, which are deducted at source, and sales and consumption-based taxes, which are added to the price paid for goods and services, property taxes are direct payments (through cheques, monthly bank withdrawals, and so on) to the municipality. As a result, property taxpayers can often recall the total amount of their property tax while drawing a blank on their income and consumption-based tax payments.

This visibility fuels arguments that property taxes must not increase, or that if they must increase, the increase must not exceed the rate of inflation. Each year, Canadians pay more in sales taxes due to inflation and a growing economy, but they don't notice those payments as they would an increase to their property tax bill. Arguments to keep increases low or non-existent, while effective politically, may not be good public policy. There is room to increase taxes without serious economic consequences and there may be good reasons for doing so.³⁵ Municipal revenues are needed to fund public services that have an important impact on living conditions and quality of life. Restricting tax increases may lead to a deterioration in or shortage of local services, not a desirable outcome.

The visibility of the property tax, however, extends only to the final amount owed to government. The policies behind that number – exemptions, incentives, relief programs, and more – do not receive the same attention. As a result, taxpayers may not be as aware as they should be about why they pay the amount they do.

This paper has sought to fill this gap by reviewing property tax policies across the country in order to identify shared issues faced by cities and provinces as well as different ways they have tried to address these issues. This analysis reveals five steps that governments in Canada should take to ensure a fair and efficient property tax system.

1. Remove exemptions that do not have a sound and explicit public policy rationale.
2. Reduce the difference between residential and non-residential property tax rates.
3. Remove redistributive services from the property tax base and avoid progressive rates.
4. Avoid capping and land averaging to prevent inequities in property taxation.
5. Eliminate provincial property taxes.

These measures will help improve the effectiveness and transparency of the property tax. They could also help improve the context for debates about property tax increases and help propel broader discussion about the state of municipal finance. By removing exemptions, inequities, and complexities, policymakers and residents alike would be better able to determine whether the amount of taxes paid is matched by a proportionate level of service. Furthermore, keeping the property tax focused on its goal of paying for shared services would expose more explicitly when cities are faced with responsibilities that go beyond the role of the property tax.

In short, the property tax has been and still is the backbone of municipal finance. Maximizing the efficiency, fairness, and transparency of the tax will not only improve cities' fiscal health, it will also help cities determine if their finances need further structural support.

Appendix

Although market value is the base of the property tax in all provinces, the frequency with which reassessments take place varies across the country. Assessment practice over the past two decades has moved towards more frequent and up-to-date assessments in most provinces.³⁶ Table A-1 lists the frequency of assessment in all provinces.

All tables in the Appendix are based on information available at the time of writing.

Table A-1: Frequency of Assessment

Newfoundland and Labrador	Three-year cycle.
Prince Edward Island	Since 2010, increases in assessed residential property values have been based on the increase in the CPI for the previous year to a maximum of 5%. If the CPI falls, assessed values remain constant. When a residential property is sold, its assessed value changes to its market value. Commercial and industrial property is assessed annually.
Nova Scotia	Annually with each year's assessed value based on the property's value 2 years prior.
New Brunswick	Annually as of January 1 each year.
Québec	Three-year cycle with the assessed value being finalized before March 1 (for appeals) of the first year of the cycle.
Ontario	Four-year cycle
Manitoba	Two-year cycle
Saskatchewan	Four-year cycle
Alberta	Annually
British Columbia	Annually

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

The base for the property tax in all provinces is the market value of properties, defined as the price that would be struck between a willing buyer and a willing seller in an arm's-length transaction.³⁷ Properties are taxed differently based on their class. Table A-2 describes the assessment categories and tax rate structure in Canada's 10 provinces.

Table A-2: 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 may be exempt but residences or 0.5 acres of land on which residences are located are not exempt.	Municipalities have the authority to set two real property mill rates, one for commercial and one for residential. It is within the council's discretion to set these rates. Many municipalities also charge poll taxes. 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 timberland, farm property and buildings, and nurseries and market gardens. 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. Some municipalities levy higher residential property tax rates on non-residents vis-à-vis residents. 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. Each household is levied an additional fixed charge (\$205) for garbage collection and disposal. Fire district charges may also be added in rural areas.
Nova Scotia	The following are assessed at market value: residential, commercial, and resource, which includes farm properties, forest properties less than 50,000 acres, community buildings used for commercial fishing boats, and the land of municipal water utilities. Farmland 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, however, has more than two rates. For each property class, there is an urban general rate, a suburban general rate, a rural rate, and specific area rates. Farm buildings and residences are taxed at the residential rate, managed woodlots pay a flat tax of \$0.25 per acre. Land which is identified on the assessment rolls as agricultural is tax-exempt. To compensate for the tax loss from the exempt land, the province pays a grant in lieu of taxes to the municipality. All other land is taxed as resource. The resource rate is the same as the residential rate.
New Brunswick	Real Property is classified as residential property (owner-occupied or non-owner-occupied) or 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 5 hectares of land are assessed at market value. Freehold timberland is assessed at a fixed value of \$100 per hectare.	There is a provincial property tax and a municipal property tax. For residential owner-occupied properties, there is no provincial property tax (owners get a full credit for the tax); for residential non-owner occupied properties, the provincial tax rate is \$1.1233 per \$100 of assessed value; for non-residential properties, the rate is \$2.1850 per \$100 of assessed value. An additional provincial rate of \$0.0194 per \$100 is charged to all taxpayers to help defray assessment costs. Each municipality sets its own municipal property tax rate, but the province requires that the non-residential municipal tax rate be 1.5 times the residential municipal tax rate. Freehold timberland is taxed at the provincial rate of 1.5% of assessed value. A municipal tax is also paid in remote areas, but it is minor.
Québec	Most municipalities use 6 classifications: residential, multi-residential (minimum of 6 units), industrial, commercial, vacated service lots, and agriculture. 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.	The general property tax rate is set by local councils, which may levy up to 6 tax rates depending on the property category. The residential rate is applied to farm properties and the government provides grants of a portion of municipal taxes (excluding the taxable value of the farmer's residence).

Continued

Table A-2: Assessment Categories and Municipal Tax Rate Structure (Continued)

Province	Assessment Categories	Municipal Tax Rates
Ontario	<p>There are 7 main property classes: residential/farm, multi-residential, commercial, industrial, pipelines, farmlands, managed forests. In addition, the province permits municipalities to adopt additional classes, including new multi-residential, office buildings, shopping centres, parking lots, large industrial properties, sports facilities, and resort condominiums.</p> <p>Farms, except for the farmhouse 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.</p> <p>Managed forest land is assessed at the same rate as woodlots on farms and is based on farm land sales and soil productivity classes.</p>	<p>Municipalities are permitted to set different tax rates (related to the residential rate) for 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.</p> <p>Where there are two-tier governments (a region or county and lower-tier municipalities), the upper tier is required to set the relative tax burden between the property classes. By law, farm buildings, agricultural land, and managed forests must be taxed at 25% of the residential rate. Farmhouses plus one acre of land are taxed at the residential rate.</p> <p>Sub-classes to which rate reductions may be applied include vacant commercial and industrial (30% reduction) and farmland pending development. As well, the commercial class may be divided into 3 sub-classes according to value, with graduated tax rates applied to each sub-class.</p> <p>Municipalities may also 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.</p>
Manitoba	<p>There are 10 property classes: residential 1 (1–4 units), residential 2 (5 or more units), residential 3 (owner-occupied condominium and co-operative housing), farm, institutional, pipeline, railway, designated recreational property, commercial, other.</p> <p>Farmland is assessed as value in agriculture and not at market value.</p> <p>Forested land is assessed at market value.</p>	<p>Mill rates are set by municipal councils. Each municipality has one tax rate which is applied to a portion of the assessed property value. This portion varies by property type and it is stipulated by provincial legislation. It is 45% for residential; 26% for farm; 65% for institutional (other than education which is 0%); 50% for pipelines; 25% for railways; 10% for recreational; 65% for commercial other.</p>
Saskatchewan	<p>Properties are classified as agricultural, residential, or commercial/industrial. Cities may set additional subclasses of property.</p> <p>Taxable assessment on residential property is set at 80% of property value; on commercial and industrial property, it is set at 100%.</p> <p>Cultivated agricultural land is assessed at 55% of fair value and non-arable land (range, pasture, and forest) is assessed at 45%.</p>	<p>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.</p>
Alberta	<p>Assessments are assigned to the following 4 property classes: residential, non-residential (commercial and industrial), farmland, machinery and equipment. Municipal councils may divide the residential class into subclasses on any basis they choose and may divide the non-residential class into vacant and improved sub-classes.</p> <p>Farmland is assessed at productivity or agricultural use value.</p> <p>Farm buildings in rural municipalities are exempt.</p> <p>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 Affairs.</p> <p>Forested land is assessed at market value regardless of whether it is managed for timber production or is unmanaged.</p>	<p>Municipal councils have the power to levy differential tax rates on different property categories, but the non-residential rate cannot be more than 5 times the residential rate. Municipalities may also impose a business tax, business revitalization zone tax, special tax, well-drilling equipment tax, or local improvement taxes.</p>

Continued

Table A-2: Assessment Categories and Municipal Tax Rate Structure (Continued)

Province	Assessment Categories	Municipal Tax Rates
British Columbia	<p>There are 9 classes of assessable property: residential, utilities, supportive housing, major industry, light industry, business and other, managed forest land, recreational property/non-profit organization, and farmland.</p> <p>Total property value must be apportioned between land and improvements on the assessment rolls.</p> <p>Farmland is assessed at productivity or agricultural use value. Farm improvements, up to an assessed value of \$50,000 or 87.5% of the total assessed value of farm non-dwelling buildings are exempt from property taxes. Forest land is assessed in a 2-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 assessed value of the trees is added to the bare land value of the land 2 years after the property owner receives the benefits of the harvest.</p>	<p>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.</p>

Sources: See Table A-1

Nine out of 10 provinces provide property tax relief to select residents. Table A-3 outlines these policies. It does not include municipal programs that exist in some provinces.

Table A-3: Provincial Property Tax Relief Schemes

Newfoundland and Labrador	No specific property tax relief schemes.
Prince Edward Island	For senior citizens with annual household income of \$35,000 or less, 100% 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	A provincial property tax rebate program is available for all seniors receiving the guaranteed income supplement. Each recipient receives a rebate equal to 50% of the previous year's property taxes to a maximum of \$800.
New Brunswick	A provincial property tax rebate is available for relief against property taxes on the principal residence of low-income owner-occupied homeowners. If income is less than \$22,000, the maximum rebate is \$300. For homeowners with incomes from \$22,001 to \$25,000, the maximum rebate is \$200 and for homeowners with incomes from \$25,001 to \$30,000, the maximum rebate 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. Deferred property tax and interest amounts constitute a lien against the property and become payable to the Province when the property is sold or transferred.
Québec	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.
Manitoba	The province provides relief to residential homeowners through a combination of income tax credits and a reduction in the provincial education property tax payable. All homeowners and tenants are eligible to claim a tax credit of up to \$700 of the education property tax payable. This may be applied as a credit against their municipal property tax liability or as a credit on their provincial personal income tax return. 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% of net family income that exceeds \$40,000. The credit is not available for those with an annual income of \$63,500 and higher.
Saskatchewan	The Seniors Education Property Tax Deferral Program provides eligible seniors (over 65 and owner with household income below \$70,000) with a repayable loan for the education property taxes on their principal residence.
Alberta	The Seniors Property Tax Deferral Program allows eligible senior homeowners (over 65 but income is not a condition) to defer all or part of their property taxes through a low-interest home equity loan with the Alberta government. The government then pays the property taxes on behalf of the eligible homeowner. The loan does not have to be repaid until the property is sold or transferred.
British Columbia	The provincial government's homeowners' grant program reduces property tax liability for owner-occupied principal residences. A basic grant of \$570 (\$770 for those located in a northern or rural area) is available to reduce provincial and local government property taxes. Properties valued at \$1.65 million or less are eligible for the full grant. Properties of more than \$1.65 million may be eligible for a partial grant. To qualify for the grant, a homeowner must pay at least \$350 in property taxes. For seniors with a principal residence of \$1.65 million or less, the maximum grant is \$845 (\$1,045 in rural and northern areas). Properties of more than \$1.65 million may be eligible for a partial grant. Low-income seniors may also qualify (principal residence of at least \$1.65 million 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 55 years and older, surviving spouses, and the permanently disabled to postpone payment of the property tax until the property is sold or transferred.

Sources: See Table A-1

Many cities and provinces use property tax incentives to attract business or spur certain development. Table A-4 highlights some examples.

Table A-4: Examples of Property Tax Incentives

New Brunswick	The City of Saint John has several Urban Development Incentive Programs for the Central Peninsula area, which target the redevelopment of vacant spaces for new residential development. Three separate grant programs, which address the specific challenges of building in the historic urban centre of the city, 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 5 years. These projects may also be eligible for 2 other complementary grants: the Construction Challenges Grant and the Building Permit Rebate Grant.
Québec	Montréal introduced a program to enable property owners who invest in their industrial facilities to be reimbursed for their property tax increase. The rationale for this incentive is to strengthen the business environment in the face of competition from other major urban centres in North America. The program, 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 Montréal, maintain a diversified economic structure in the city, and increase the value of the stock of industrial buildings. The program offers owners of non-residential buildings 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 5 years. Eligible property owners have 3 years to do the upgrades. The grant covers 100% of the property tax increase in the first 3 years, 80% of the tax increase in the 4th year, and 60% of the tax increase in the 5th year. Eligible activities include: manufacturing in general, film and video production, data processing systems, software, call centres, head offices, and research and development in the physical sciences, engineering, and life sciences. Properties in some locations (e.g., industrial zones that are on the verge of transformation, properties near transit stations, etc.) can receive an additional bonus. In those cases, the grant will cover 100% of the property tax increase for 5 years.
Ontario	Under section 28 of the <i>Planning Act</i> , a municipality can designate an area or the entire municipality as a community improvement project area. It 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 based on the higher property tax generated from development (the tax increment). Such incentives, known as tax increment equivalent grants (TIEGs), are used in many communities in Ontario. TIEGs differ from TIFs (tax incremental financing) because they include a subsidy component. TIEGs apply only to the municipal property tax, not the education property tax. In Toronto, for example, the IMIT (Imagination, Manufacturing, Innovation and Technology) program supports new building construction or building expansion in targeted sectors and areas. Eligible developments receive a grant of 60% of the increase in the municipal taxes attributable to the eligible development over a 10-year period.
Saskatchewan	Regina offers a competitive property tax exemption to attract new business to the region. The policy is designed to encourage businesses that: bring in new investment in one of the key sectors in Regina's economic development; locate businesses in designated locations; are a global or national leader in new technology, have a significant R&D focus, and/or use sustainable technologies or practices in construction or operations. The policy involves full and partial property tax exemptions for up to several years. Each is considered on a project-by-project basis.
Alberta	The Community Revitalization Levy (CRL) came into effect through an amendment to the <i>Municipal Government Act</i> in 2005. Under this program, municipalities can dedicate future property tax revenues in a specific area to pay for a new public facility or new infrastructure in that area. These projects are designed to encourage new development and urban revitalization and encourage private-sector investment. Cities invest in public infrastructure in a particular area and the improvement spurs new development. The property tax revenue from the development plus any revenue from the increment in property values are dedicated to paying the cost of the infrastructure (including financing costs) over the next 20 years. After 20 years, the revenues go back into the city's general tax levy. 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 2019, the provincial government introduced Bill 7, which would allow municipalities to offer property tax exemptions and deferrals to non-residential properties to encourage development or revitalization. The exemptions and deferral can be offered for no more than 15 consecutive years, but can be renewed at the end of the 15-year term.
British Columbia	The Community Charter and the Vancouver Charter give municipalities the authority to exempt property from municipal property taxes. In order to provide the exemption, the municipal council is required to establish a revitalization program, with objectives for the program and a reason for it. 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.

Endnotes

¹ See appendices for the full survey of policies. For a survey that includes U.S. states as well, see Alan S. Dornfest, Jennifer Rearich, T. Douglas Brydon III, and Richard Almy, “State and provincial property tax policies and administrative practices (PTAPP): 2017 findings and report,” *Journal of Property Tax Assessment & Administration* 16,1 (2019): 43–130.

² Enid Slack, *Guide to Municipal Finance* (Nairobi, Kenya: UN Habitat, 2009); Harry M. Kitchen and Almos Tassonyi, “Municipal taxes and user fees,” in Heather Kerr, Ken McKenzie, and Jack Mintz (eds.), *Tax Policy in Canada*, pp. 9:1–9:34 (Toronto: Canadian Tax Foundation, 2012).

³ Harry Kitchen and Enid Slack, *More Tax Sources for Canada’s Largest Cities: Why, What, and How?* IMFG Papers on Municipal Finance and Governance, No. 27 (Toronto: University of Toronto, 2016).

⁴ Although Manitoba has only one municipal property tax rate, it is applied to different percentages of a property’s value depending on the property class. These percentages are stipulated by provincial legislation. See Table A-2 in the Appendix for more detail.

⁵ Properties are divided into at least residential and non-residential classes in all provinces, but some provinces have many more than these two property classes.

⁶ Federal government enterprises generally include crown corporations, while provincial government enterprises are diverse and include provincial housing corporations and provincial liquor control boards.

⁷ Richard M. Bird and Enid Slack, *International Handbook on Property Taxation* (Cheltenham, UK: Edward Elgar, 2004).

⁸ Research on business property taxes in major Canadian cities shows that the overall tax burden is highest in Montréal, Halifax, and St. John’s, and most competitive in Vancouver, Saskatoon, and Toronto. See Adam Found and Peter Tomlinson, *Hiding in Plain Sight: The Harmful Impact of Provincial Business Property Taxes* (Toronto: C.D. Howe Institute, 2012).

⁹ For example, MMK Consulting, “Consumption of Tax-supported Municipal Services” (Vancouver, 2007).

¹⁰ Interestingly, businesses were recently given two votes each in municipal elections in New South Wales, Australia.

¹¹ Alexandra Flynn, *Filling the Gaps: The Role of Business Improvement Areas and Neighbourhood Associations in the City of Toronto*, IMFG Papers on Municipal Finance and Governance, No. 45 (Toronto: University of Toronto, 2019).

¹² Davies Transportation Consulting Inc., Wave Point Consulting Ltd., and Lane Property Advisors Inc., “Major Industrial Property Taxation Impacts,” report prepared for the Union of British Columbia Municipalities and the B.C. Ministry of Community, Sport and Cultural Development, 2011. The sectors examined in the case studies include pulp and paper, sawmills, mining, aluminum and smelting, shipbuilding and repair, and marine terminals and grain elevators.

¹³ The study found that property taxes have an impact on re-investments in existing facilities. In the industries that the study focused on, these investments tend to be undertaken when commodity prices are low in order to maintain production capacity or reduce operating costs, and exemptions from taxation can offer additional certainty (Davies Transportation Consulting et al., “Major Industrial Property Taxation Impacts,” 2011).

¹⁴ City of Vancouver, Property Tax Policy Review Commission, 2014 Report.

¹⁵ Noah Sarna and Zheting Su, “Taxing non-residents’ residences: A critical review of the laws behind the new realty taxes in British Columbia and Ontario,” *Canadian Tax Journal* 66,3 (2018): 553–72.

¹⁶ For a summary of studies, see Kitchen and Tassonyi, “Municipal taxes and user fees,” 2012.

¹⁷ Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge, Mass.: Harvard University Press, 2014).

¹⁸ Joan Youngman, *A Good Tax: Legal and Policy Issues for the Property Tax in the United States* (Cambridge, Mass.: Lincoln Institute of Land Policy, 2016).

¹⁹ Kurt Zorn, “Establishing a tax rate,” in William J. McCluskey, Gary C. Cornia, and Lawrence C. Walters (eds.), *A Primer on Property Tax Administration and Policy*, first edition, pp. 125–140 (Hoboken, N.J.: John Wiley & Sons Ltd., 2013).

²⁰ Tax policy can also impact volatility. In Nova Scotia, for example, there are no restrictions on municipal tax rate increases from year to year in response to an assessment change. In other words, if assessments increase by 10 percent overall, there is no requirement that tax rates fall by 10 percent.

²¹ Mark Haveman and Terri A. Sexton, *Property Tax Assessment Limits: Lessons from Thirty Years of Experience* (Cambridge, Mass.: Lincoln Institute of Land Policy, 2008).

²² Vancouver has used three-year land averaging for several years, but moved to targeted three-year land averaging in 2015, following the recommendation of the Vancouver Property Tax Policy Review Commission in 2014. The Commission actually recommended five-year targeted land averaging rather than three-year, on the grounds that a five-year period more closely approximates a property market cycle (City of Vancouver, Property Tax Policy Review Commission, 2014). The City plans to move to five-year targeted land averaging in 2019.

²³ Joan Youngman, “The hardest challenge for value-based property taxes: Part II,” *State Tax Notes*, April 26, 1999: 1393–97.

²⁴ A study of property tax incentives for business found that in 2010, 37 states allowed for property tax abatements and 42 states allowed Enterprise Zones, “which typically include property tax incentives as part of a larger incentive package and are usually targeted to distressed areas.” Daphne A. Kenyon, Adam H. Langley, and B.P. Paquin, *Rethinking Property Tax Business Incentives* (Cambridge, Mass.: Lincoln Institute of Land Policy, 2012). A 2017 survey found that 32 states offer property tax abatements (Dornfest et al., “State and provincial property tax policies,” 2019).

²⁵ Edward Glaeser, “Comment on ‘Tax Incentives and the City,’” *Brookings-Wharton Papers on Urban Affairs*, 2002, 115–24.

²⁶ Andrew Wagaman, “GASB77: Revealing the cost of property tax incentives for business,” *Land Lines*, July 2017, retrieved from www.lincolnst.edu/publications/issues/land-lines-july-2017; Daphne A. Kenyon, Adam H. Langley, and B.P. Paquin, “Property tax incentive pitfalls,” *National Tax Journal* 65,4(2012): 1011–1021.

²⁷ Robert Wassmer, *The Increasing Use of Property Tax Abatement as a Means of Promoting Sub-National Economic Activity in the United States* (Sacramento: California State University, 2007).

²⁸ Glaeser, “Comment on ‘Tax Incentives and the City,’” 2002.

²⁹ D. Brunori, *Local Tax Policy: A Federalist Perspective*, second edition (Washington, D.C.: The Urban Institute Press, 2007).

³⁰ Wagaman, “GASB77: Revealing the Cost,” 2017.

³¹ The Manitoba government has promised to eliminate the province’s education property tax over 10 years, starting in 2023. It has stated it would make up the tax revenue by finding savings within government. Ian Froese, “Tories promise to gradually phase education tax out of property bills,” CBC, September 3, 2019, retrieved from <https://www.cbc.ca/news/canada/manitoba/tories-education-tax-property-bills-1.5268737>

³² Found and Tomlinson, *Hiding in Plain Sight*, 2012.

³³ Douglas Auld and Harry Kitchen, *Financing Education and Training in Canada*, second edition (Toronto: Canadian Tax Foundation, 2006).

³⁴ Bev Dahlby and Melville McMillan, “What is the role of property and property-related taxes? An assessment of municipal property taxes, land transfer taxes, and tax increment financing,” in Enid Slack, Lisa Philipps, Lindsay M. Tedds, and Heather L. Evans (eds.), *Funding the Canadian City*, pp. 45–73 (Toronto: Canadian Tax Foundation and Institute on Municipal Finance and Governance, 2019).

³⁵ See Richard M. Bird, Enid Slack, and Almos Tassonyi, *A Tale of Two Property Taxes: Property Tax Reform in Ontario* (Cambridge, Mass: Lincoln Institute of Land Policy, 2012); Thomas Davidoff, “Vancouver’s property taxes in perspective,” *Canadian Tax Journal* 66,3(2018): 573–84; Dahlby and McMillan, “What is the role of property and property-related taxes?” 2019.

³⁶ Periodic valuations and revaluations keep assessments up to date and make the assessment system fair. A three- to four-year assessment cycle – common in Canada – is likely to result in persisting inequities between property owners depending on trends and cycles in property prices and whether or not particular properties are sold (or substantially altered) within the three- or four-year assessment period and hence reassessed. Less frequent assessment means that small annual changes in value might be replaced by larger and more dramatic shifts. In short, less frequent assessment promotes stability and predictability at the expense of equity.

³⁷ Responsibility for assessment rests with the provincial government in some provinces; in others, it is the responsibility of an independent provincial agency. These agencies include, for example, the BC Assessment Authority (BCAA) in British Columbia; the Saskatchewan Assessment Management Authority (SAMA) in Saskatchewan (except for Saskatoon and Regina and a few other municipalities, which are responsible for their own assessments); the Municipal Property Assessment Corporation (MPAC) in Ontario; and the Property Valuation Services Corporation (PVSC) in Nova Scotia. In Québec and Alberta, local governments are responsible for assessment, but they use a standard provincial assessment manual. In Newfoundland and Labrador, there are local assessors in St. John’s; the rest of the province relies on provincial assessors. In Manitoba, local assessors are in Winnipeg and provincial assessors elsewhere.

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