

Problematic property tax: why the property tax fails to measure up and what to do about it

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Editor's note: Property taxes are indeed the highest single source of revenue for municipalities, close to 40% of all municipal revenues in Manitoba. However there are inherent limits to the property tax system. The Canada West Foundation has explored the limits of property tax and has agreed to allow us to reprint their work below.

Property tax debates have raged for years. On one side of the street are those who complain that property taxes are too high and the tax burden is growing too rapidly. On the other side of the street stands the municipal administration who responds that property tax revenue does not always grow alongside the economy and incremental increases are needed. Standing in the middle of the street are mayors and councillors confronted with the nasty choice of "raising" taxes or "cutting" services. Given the perennial nature of the property tax debate, the Canada West Foundation has issued this position paper. The paper examines the property tax from a number of different vantage points.

Position

The property tax is the only substantial tax available for local governments in Canada, and critics of the tax are right when they claim it alone is insufficient to meet the needs of today's large modern cities. Defenders of the tax are wrong in asserting that the property tax is the only way — or even the best way — to fund all of our varied civic endeavours. What is more, property taxes across the local government sector are not out of control, and the same can be said for property taxes in most large western Canadian cities as well. In fact, property taxes are currently at some of the lowest levels seen in the past 50 years despite claims to the contrary. The property tax may have served our cities well in the past but it is no longer up to the task. For a variety of reasons — and for better or worse — the property tax will continue to form a key part of the municipal revenue mix. But our cities should not be so singularly reliant and heavily dependent on this one tax source. The amount of property tax collected in our cities should be reduced and the gap filled with different tax options.

Essential data

For each additional dollar paid in tax since 1961, roughly 60¢ has come in the form of more federal and provincial personal income tax and premiums paid to federal and provincial social programs. Another 25¢ has come in the form of additional federal and provincial sales tax. An additional 10¢ has come in the form of corporate income tax and miscellaneous federal and provincial taxes. Only about 5¢ out of every additional tax dollar paid since 1961 has come in the form of local government taxation. In 2007, local government taxes in Canada were 8.9% of all taxes collected. This is much lower than the 16.7% recorded in 1961. From 1961 to 2007, local taxes grew, on average, by 1.7% annually when adjusted for population and inflation. This is one of the lowest growth rates of any tax used by any government in Canada. For example, provincial personal income tax averaged 10.2% annual growth in real per capita terms over

the same time period. Setting municipal property tax against personal disposable incomes is an important measure of the tax burden, because it is out of this income that the tax has to be paid. An analysis of property taxes in Vancouver, Edmonton, Calgary, Saskatoon, Regina, and Winnipeg show that municipal property taxes in 2007 are at the lowest levels relative to personal disposable income since 1990. Municipal property tax has also dwindled relative to each city's per capita share of provincial GDP. In fact, if property taxes had kept pace with provincial GDP growth, the six cities would have collected \$1.3 billion more in property tax in 2007 alone.

Strengths and weaknesses

Historical acceptance, an immobile and stable tax base, reliable and predictable revenues, and high visibility are often cited as positive features of the property tax. But on closer inspection, many of these



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advantages are not as clear and plain as many suppose. Further, the property tax carries numerous inherent disadvantages, such as a tax base that tends to expand slowly and revenue that fails to keep pace with economic and population growth. Of particular concern is the way in which the property tax is currently administered and applied. Serious equity concerns are emerging. This hits on the efficiency of the tax and is negatively affecting the degree of accountability taxpayers can expect from the tax.

Conclusion

Property tax reform is a logical starting point in terms of a policy response, but this may not be possible given the current political dynamic in most cities. Even with fundamental reform, the inherent disadvantages of the tax will remain. The challenge and opportunity is to find a way forward by employing a broader range of tax tools that can supplement the property tax. This reflects the larger international experience of cities that use a wide variety of tax mechanisms to finance local services and infrastructure.

For the full report, visit www.cwf.ca/v2/files/problematic.pdf (published Nov. 2008).

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- 17** Mayors, Reeves and CAOs Meeting – Midwestern District
- 18** Mayors, Reeves and CAOs Meeting – Western District
- 19** Mayors, Reeves and CAOs Meeting – Eastern District
- 20** Mayors, Reeves and CAOs Meeting – Interlake District
- 23** Mayors, Reeves and CAOs Meeting – Northern District
- 24** Mayors, Reeves and CAOs Meeting – Central District

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