

Tax Equity: Narrowing the gap between residential and non-residential property taxes

Issue: *Non-residential properties continue to pay a greater proportion of property taxes than residential rate payers, even though it is not clear that they use a greater proportion of the benefits received from property tax revenues.*

EXECUTIVE SUMMARY

Property taxes vary widely across municipalities in Alberta. This reflects differences in assessment bases as well as the latitude given to municipalities to raise revenue in different ways under the Municipal Government Act, such as different classes of property taxes, user fees, etc. Nonetheless, there is a tendency to place a greater proportion of the tax burden on businesses than on residents. Although it is very difficult to measure and compare the public services received by businesses versus those accessed by residents, it seems unlikely that the cost of providing municipal services to businesses can be double, or higher, as some tax rates show. Efforts should be made to narrow the residential vs. non-residential tax gap to a more equitable ratio that can be defended with data to justify why one class would pay more than the other.

BACKGROUND

Economic research indicates that tax rates affect people's behavior. The most important conclusion is that high taxes contribute to lower rates of economic growth, reduced rates of personal income growth, lower rates of capital formation, and reduced entrepreneurship.¹ In our regional municipalities, businesses continue to pay a disproportionate amount of taxes compared to their residential counterparts and although the gap between residential and non-residential tax rates has narrowed in recent years a formal policy should be adopted to ensure all tax payers in Medicine Hat, the Town of Redcliff and Cypress County pay a proportionate share of taxes.

One way to compare business burden to residential burden is the property tax rate ratio. This ratio is calculated by dividing the non-residential property tax rate by the residential property tax rate. For comparison purposes the average tax gap ratios by type of municipality in Alberta can be reviewed in the table below:

2017 Tax Gap Ratios by Type of Municipality		
Type	Amount in Calculation	Average Tax Gap Ratio
City	18	1.95
Specialized Municipality	5	5.68
Municipal District	64	4.61
Town	107	1.71
Village	90	1.83
Summer Village	51	1.60
Improvement District	7	1.79
Special Area	1	1.42
Total Alberta	343	2.34

Source: http://www.municipalaffairs.alberta.ca/municipal_financial_statistical_data.cfm (current as of Feb 7, 2018)

In Medicine Hat, this ratio had slowly narrowed, falling from a ratio of 3.16 in 2008 to 2.25 in 2015.² This trend has started to reverse in recent years with the ratio edging up. In speaking with city administration there is no current policy in place to ensure the narrowing of the tax gap continues into the future, nor is there a policy to state what the preferred ratio may be.

¹ Charles Lammam, Milagros Palacios, Niels Veldhuis, *Submission to British Columbia's Expert Panel on Business Taxation*, 2012

² City of Medicine Hat, *History of Municipal Tax Rate (SF vs Non-Res)*

While completing an annual review of property tax rates across Alberta, it was revealed that out of the 18 cities, Medicine Hat placed amongst the highest, with a tax gap ratio of 2.34. Only 4 of the 18 cities had a tax gap ratio higher than Medicine Hat with Lethbridge at 2.39, Edmonton at 2.81, Airdrie at 3.23 and Calgary at 3.5. Jurisdictions in close proximity to Medicine Hat, with the exception of the Town of Redcliff: 2:45, all ranked lower, including Cypress County: 1.79, Brooks: 1.58, and Town of Bow Island: 1.33. Similar sized municipalities (based upon population of 50,000 to 70,000) also had a lower tax gap ratio with Grande Prairie showing a 1.56 gap ratio and St. Albert showing a 1.37 gap ratio.

In addition, Medicine Hat sits in 236th position, out of 343 municipalities in Alberta in relation to the non-residential municipal tax rate. Comparatively Redcliff ranks in at 196th and Cypress County comes in at the 52nd spot across Alberta. Out of the 18 cities specifically in Alberta, Medicine Hat ranks 14th; only Grande Prairie, Edmonton, Lethbridge and Wetaskiwin have a higher non-residential municipal tax rate than Medicine Hat.

The 2017 Municipal Non Residential Tax Rates for Alberta Cities is provided below:

Municipality	Non Residential Municipal Tax Rate	Linked tax ratio: NR divided by Residential/farm land
Chestermere	7.7579	1.438
Airdrie	7.9822	3.232
Leduc	8.0600	1.189
Lloydminster	8.4632	1.600
Spruce Grove	8.4886	1.525
Lacombe	8.5264	1.136
Fort Saskatchewan	8.9055	1.782
St. Albert	10.7690	1.373
Cold Lake	11.6995	1.730
Brooks	12.2966	1.581
Camrose	12.3632	1.632
Red Deer	13.4570	2.119
Calgary	13.8819	3.503
Medicine Hat	15.0271	2.343
Grande Prairie	15.4850	1.555
Edmonton	16.8561	2.806
Lethbridge	19.1846	2.390
Wetaskiwin	19.4934	2.145

Source: http://www.municipalaffairs.alberta.ca/municipal_financial_statistical_data.cfm (current as of Feb 7, 2018)

Property taxes have important implications for economic competitiveness. In jurisdictions across Canada, studies have shown various ways in which businesses pay a disproportionate share of the tax burden. This problem is not Alberta's alone and others have tried to solve it. For example, some jurisdictions have opted to recommend a rate ratio cap, effectively preventing the ratio from getting too large.³ Others have followed this trend, but singled out small business to benefit from a lower tax gap ratio at a quicker rate than they were able to implement for all business.⁴

ANALYSIS

In a time when economic competitiveness is not only regional, or provincial, but world-wide, we need to ensure that Medicine Hat and our region is viewed as not only competitive, but a leader when it comes to attracting new business to our area. Although we can appreciate that the tax gap has been narrowing in recent years, we must ensure that the downward trend continues and that business can be confident in the path the City is taking in regards to business taxation.

Explicitly considering policies and objectives has at least three benefits: it enhances financial transparency, accountability and prudence. Setting out objectives in a public document enhances transparency, allowing businesses and other stakeholders to see why a municipality is seeking revenue from those sources. In enhancing transparency it makes it easier for voters and other concerned parties to hold politicians accountable. Principle-based revenue sourcing encourages prudent decisions that will enhance equity and competitiveness. Accountability is important for businesses because they have no direct influence in municipal politics. They cannot vote, but are subject to taxation. Municipalities that engage all stakeholders in budget planning and sufficiently report on the collections and expenditures are more accountable to ratepayers (citizens and businesses alike). Enhanced accountability helps ensure ratepayer dollars are prudently spent.⁵

RECOMMENDATIONS

The Medicine Hat & District Chamber of Commerce recommends the City of Medicine Hat, the Town of Redcliff and Cypress County:

1. Adopt a policy that works towards narrowing the residential and non-residential tax gap to a reasonable ratio, which is at least as low as the provincial average, and respective of the services each receives.
2. Include within a tax ratio policy a specified time frame that the desired ratio could be reached.

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³ British Columbia, *Community Charter*, 2003, http://www.bclaws.ca/Recon/document/ID/freeside/03026_00

⁴ City of Toronto, *Enhancing Toronto's Business Climate*, 2005, <https://web.toronto.ca/wp-content/uploads/2017/08/947e-Enhancing-Toronto-Business-Climate.pdf>

⁵ Principles are drawn from: Harvey Rosen, Beverly Dahlby, Roger Smith and Paul Boothe, *Public Finance in Canada*, 2003; Vancouver, *Tax Policy Review*, 2007; and Kate Berniaz, *Municipal Property Tax in BC: Principles and Provincial Strategies to Shape Local Tax Distribution Policy*, 2009.