

Emerging Issues
Municipal Commercial Tax Reform
Halifax Chamber of Commerce
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Say the words “tax reform” and most members of the business community immediately become concerned. Why do we need to reform our tax system and if we do make changes, how will they impact my business?

Halifax Regional Municipality and the province of Nova Scotia are currently undergoing the process of tax reform. Halifax in particular has garnered much attention, as city staff present complex options to both residential and commercial tax payers. While the details of tax reform can be overwhelming for those of us who aren’t accountants, the basic principles of municipal tax reform are easily understood.

Why do we need commercial tax reform?

Not everyone agrees that tax reform in HRM is necessary. Those that believe it is, say that the system lacks equity and decreases economic competitiveness. It is important to understand that tax reform isn’t about tax payers paying less or more taxes– at the end of the day, the municipality will take in the same revenue in total – the exercise is revenue neutral for the city. However, the aim is for the total municipal tax bill to be distributed amongst tax payers in a more equitable manner. This of course means that some tax payers will pay less, while others will pay more.

The business community in Halifax has been vocal for many years about the fact that commercial tax payers pay four times the residential tax rate. It is commonly accepted that commercial tax payers pay more than residential, as they are expected to contribute to regional and community services. The argument made by those that determine tax rates is that the commercial sector uses and depends more on municipal infrastructure. However, what about the services that individuals use and benefit from?

Regional, Community and Individual Services

Under the serviced based tax reform model, which is being presented as the preferred choice for residential tax reform, all tax payers will pay for regional services – recreation, libraries, regional roads, regional transit, police and fire, whether they are direct users or not. Community services, defined as having benefit to only those living in a particular community include: local transit and local recreational facilities, and will be paid for by residents living in those communities. Individual services which include such things as hydrants, solid waste and local roads – will be paid for by the individuals that use and benefit from these services.

Deed Transfer Tax

The service based model proposes a connection between cost and municipal services provided. Some would argue that the deed transfer tax is a clear example of why a service based tax model is superior. Deed transfer tax is paid when you register a deed (in HRM it is 1.5% of the property value). Most jurisdictions have eliminated deed transfer taxes as in essence, the property owner is paying thousands of dollars to have a deed registered; a task that would take a staff person only a few minutes to do. A fee to register a deed, as opposed to a tax, would increase transparency – the property owner would

clearly understand the value of the service they are paying for and at the same time, remove the economic disincentive to purchase property.

Service Based Model

The service based model, with an ability to pay component to assist low income earners, may be possible for the residential sector; however, on the commercial side, the service based model may not be as easily applied. HRM's position is that the current assessment based model, which is based on property market value, is no longer an accurate measure of wealth and therefore, needs to be modified.

What Can the Business Community Expect As An End Result?

According to page 16 of the report **Creating a Modern Property Tax System for Halifax: Report of the Tax Reform Committee, March 18 2008**, *"The amount paid by the commercial sector towards the Regional Tax Rate has been adjusted up to ensure that the commercial sector as a whole does not pay less than it does now."* However, the next paragraph states *"The (tax reform) committee believes that the relationship between residential and commercial tax rates is critical and needs much closer scrutiny."*

Ultimately, what the business community can hope for from the tax reform process is greater transparency between taxes paid and services received. This does not mean that every business will pay less come tax time. What it does mean is that into the future, politicians will have to clearly justify tax rate increases, as voters, including business owners and employees, will have an increased understanding of the relationship between their tax bill and the services that they receive. A tax model, which is transparent, equitable and competitive, will service our business community well into the future.