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Policy Points

An alternative to property taxes

Municipalities (villages, towns, and even big cities) across Canada have major financial problems – their tax base is (1) inadequate for their responsibilities or for the needs of their citizens, AND (2) almost entirely dependent on the revenues from property taxes.

No one is happy with the property tax.

It is expensive to administer. The property tax is regressive – it puts a heavier burden on people with low incomes than on everyone else. Property tax rates are divisive, varying between classes of property owners - such as residential, commercial, and industrial; and between locations - urban, suburban, and rural. Rates also vary within a class, for example single residences, apartments, and condominiums. The property tax cannot reflect user costs because many local expenditures are for shared services, e.g., public transit, roads, or libraries, and the benefits cannot be identified with any particular class or type of property owner.

Reliance on property taxes is not inevitable. In Northern Europe, local governments receive less than 11 per cent of their funds from property taxes; in Sweden, it is only 2.4 per cent. In Manitoba the provincial government shares income (and other) taxes with local governments.

A provincially levied REfunded Municipal Income Tax (REMIT) could be adopted in Nova Scotia, with low administrative cost to the Province, but with the potential to dramatically reduce our reliance on property taxes.

How would a REMIT work?

A municipal income tax requires one new line

on the provincial income tax form – “Multiply your provincial income tax by x percent to calculate your refunded municipal income tax”. This would be part of your taxes paid to the Canada Revenue Agency (CRA).

The CRA could send all of these new revenues directly to the relevant local government, based on the postal codes of the tax filers.

These new revenues would allow local governments to reduce their property taxes. The new income tax revenues can also be used to reduce the capital debt of local governments or to improve and expand services. These choices would be determined by local politics.

The local income tax is easy for the tax payer to calculate, easy for government to administer, and makes the tax system increasingly progressive as more funds are raised this way. What is stopping it from happening?

What’s in it for the Province?

No level of government wants to take the blame for the taxes of another level. Thus, it should be made clear on your income tax form that this additional tax goes only to local governments. If the local government decides to reduce property taxes by the amount of income tax received, the total tax bill of all taxpayers is not increased. Of course, it would shift taxes toward high income taxpayers, those with the greatest ability to pay – that is why the income tax is progressive.

This shift is desirable because the tax system as a whole takes roughly the same percentage of income from all taxpayers due to the importance of regres-

sive taxes such as property and sales taxes. Moreover, growth for the last several decades has, almost exclusively, increased the incomes of the wealthiest Canadians, even as their income taxes have fallen sharply. This is not a Robin Hood tax; it takes from the rich to finance the services used by everyone.

Of course, the provincial government is concerned with increasing its own revenues; legislating a transfer to local governments is not attractive. However, it could be if the REMIT were used creatively.

For instance, the Province could instruct the CRA to divide the transfer to municipalities between a postal code basis and the Provincial equalization formula, say on an 85/15 percent basis. Thus, the bulk of the REMIT would go automatically to the communities where the taxpayers live. The other 15 percent would be on a per dwelling basis. Larger communities receive more, so why bother? The difference is that larger communities tend to be wealthier and to have a proportionately larger income tax base. They are also more likely to be the primary residence of tax filers who own cottage or other properties in smaller communities. An equalization-based distribution of part of the REMIT revenues would offset some of the financial disadvantages faced by smaller communities.

Thus the Province would benefit from the REMIT because of its equalization help for less prosperous communities. More local equalization is frequently demanded and the equalization effect of the local income tax would take some of that pressure off the Province. Plus, the Province would have the satisfaction of making the tax system more progressive.

How significant could a Refunded Local Income Tax be?

The impact of this proposal depends on the money raised, relative to property tax revenues - currently about \$700 million. Provincial corporate and personal income taxes are roughly \$ 400 million and \$2 billion, respectively. A ten percent REMIT surcharge would generate \$ 240 million – about five times current Provincial grants-in-lieu-of-taxes. Property taxes could be reduced by one third! Economic growth over time would increase the amount raised by the REMIT, further reducing reliance on property taxes.

Of course, a local government may also decide to improve its services – everyone has their own list, better recreation facilities, better roads, etc. Whatever the combination of lower property taxes and improved local services, we all benefit.

If we want municipal finances reformed, it should start with the basics, the tax base. The easiest change also has the largest impact – a shift toward a municipal income tax. It has complexities, but we can learn from other jurisdictions how to make a smooth transition.

Local governments are controlled by Provincial legislation – what are they waiting for?

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