

City of Saskatoon Property Tax Policy Submission

Greater Saskatoon Chamber of Commerce

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Background

The purpose of this paper is to promote a competitive property tax policy for Saskatoon that will create a more attractive business and investment environment for the City of Saskatoon. Through the implementation of this policy the City of Saskatoon will experience several benefits. These benefits will extend to both non-residential and residential taxpayers. Currently, non-residential property owners pay a premium on property taxes of 1.75 times that of residential property owners. This paper will examine how lowering that differential to 1.43 can provide benefit to Saskatoon's business environment while also positively impacting the residential community through lower tax rates and enhanced career options for Saskatonians.

Creating a competitive property tax policy is important for Saskatoon because it will create more employment opportunities for our residents derived from incremental business investments. In order to attract investment to Saskatoon, it is important to be more competitive than other municipalities in the region. This paper will show that despite an improving property tax policy, Saskatoon still falls behind other prairie municipalities.

This examination will look at how the process of creating a more competitive property tax policy has already been taking place in Saskatoon as well as in the province of Alberta.

Lowering Non-Residential Property Taxes

Property Tax Equity

There are two main ways to measure the equity of tax laws. The first through the tax payer's ability to pay and the second is a measure of how much benefits they receive as a result of that tax.

In regard to the business's ability to pay, property taxes are levied as a fixed cost that do not take into consideration whether that property is generating high, low, or no profits for the company. Therefore, property taxes do not reflect an ability to pay. Businesses are able to deduct property taxes from their corporate income tax while this frequently is presented as a justification for a premium on business over residential. This "tax adjusted" premium is quite a bit lower than the current levels of 175%, as a 30% Corporate Income Tax rates can only justify a non-residential property tax premium of 1.43 times that of the residential rate. Many businesses, particularly small businesses, have a corporate tax rate below 30%. A large corporation with a 25% tax rate could justify a local premium of only 133%, well below the 143% proposed by this submission.

While it is difficult to measure the level of benefits received from public services from taxes, it is still possible to get an approximate answer. A 1968 study came to the conclusion that Canadian businesses received only 60% of the benefits that their residential counterparts received (Gilchrist and St. Louis, 1997). A more recent study by Kitchen and Slack (1993) measured that Canadian businesses paid 41.1% of total property taxes, but only accounted for 17.9% of the service expenditures. This means that the non-residential sector is paying for 2.3 times more public benefits than they actually receiving. One of the reasons for this service differential comes from businesses paying for private services instead of

relying on general property tax funded services. An example of this is private waste disposal. Regardless, these studies and several others recently show that any premium on non-residential tax payers is not justified on grounds of benefits received.

Through these two measures it is seen that the highest justifiable premium that can be levied on non-residential property owners is still below the 1.43 times that of residential rates our Chamber is suggesting. This figure will be used as the differential for the analysis of this paper.

Competitiveness

Property taxes are an important aspect in determining profitability and investment decisions. While they are not the only aspect, a poor property tax policy can offset the benefits of an otherwise positive investment environment while a competitive property tax policy can make a mediocre investment environment more attractive. A simple example of business sensitivity to property tax rates is the prevalence of property abatements as inducements for new business investment. As stated earlier, property taxes are not a function of profitability so business is heavily influenced by property tax competitiveness. Therefore, creating a competitive property tax policy will help attract new investment to Saskatoon through a higher propensity for existing businesses to maintain or expand investment and a higher likelihood of securing new business investors. Attracting new investment happens primarily in two ways. First, when companies are determining where they want to open a new location (plant, distribution centre, etc.) they will focus on areas where they will receive a higher return on their investment. Making property taxes in Saskatoon more competitive will make Saskatoon a more desirable location for this new investment. Kitchen and Slack (2012) show that while these location decisions are not impacted on an interregional basis, property tax does effect intraregional location decisions. For Saskatoon, this means that property tax may not effect a company's decision between Saskatoon and Toronto, but it will influence companies who have decided to locate somewhere within the prairie region.

Secondly, companies that rely on equity financing will be more likely to receive this financing if they can show a higher rate of return. Once again, this occurs because financiers are looking for the best possible rate of return for their investment.

In this way, investment moves away from communities that generate a low return on investment and towards communities that generate a higher return. Attracting more investment to Saskatoon through a competitive property tax policy generates investment that will increase the non-residential property assessment base in the city. As long as the assessment base grows at a rate in excess of the decrease of the business property tax rate, revenues collected from non-residential property tax revenues will rise. This analysis is shown later in this paper in Table 1.6. In fact this growth in assessment has the effect of reducing the residential tax burden as shown in Table 1.2.

In addition to attracting new investment, the cost of property taxes also impacts the investment decisions of established companies. Since property taxes are a fixed cost that is not directly determined by the level of business activity, a more competitive property tax policy would free up cash that could be used for a capital investment to increase production and profitability within the company.

Entrepreneurs look for ways to grow, invest, and capitalize on market opportunities, but they need the financial resources in order to seize these opportunities when they come around. In this way, a competitive property tax policy empowers entrepreneurship. Therefore, this increased profitability would contribute to the propensity of an already established business to expand more rapidly and to a greater extent than it otherwise would have. Similarly, a poor property tax policy restricts a company's ability to make new capital investments. In competitive industries these companies are forced to cut costs in response to higher property taxes. These cuts may come in the form of shifting the cost burden onto suppliers or cutting wages. In either case, the local economy suffers the burden of the uncompetitive tax policy.

Positive effects of competitive policy

- Increased investment on capital and property, leading to increased productivity and efficiency
- Increased wages due to more jobs and increased efficiency
- Overall increase in non-residential property assessment leading to increased property tax revenues
- Overall efficiency gains for local economy
- More efficient allocation of resources
- Potential to lower residential property rates so long as the non-residential assessment base per capita grows more than the reduction in the property tax premium

Negative effects of uncompetitive policy

- Burden of tax costs transferred to customers and employees
- Property investment is discouraged
- Reduce efficiency and competitiveness of companies
- Discourages companies from expanding operations locally, and may expand elsewhere within the region
- Lower job creation rates
- Smaller property assessment base
- Slower employment growth due to reduced business investment

Who Is Affected?

Gilchrist and St. Louis (1997) looked into which types of companies are impacted more by the effect of property taxes. These findings demonstrated that **small businesses** are hurt disproportionately because they do not benefit as much from the corporate income tax savings, as they generally pay a lower rate and therefore deduct less of their property tax payment. In the same way, companies that are highly profitable reduce their own property tax burden and companies that are **less profitable** are not able to deduct as much. Therefore, a non-competitive property tax policy is especially harmful to small and start-up or struggling businesses, making them even more vulnerable to business failure.

The forecast profitability of new investments is more impactful for companies looking to expand to new regions. A competitive property tax policy is an important factor in attracting **outside companies** to Saskatoon.

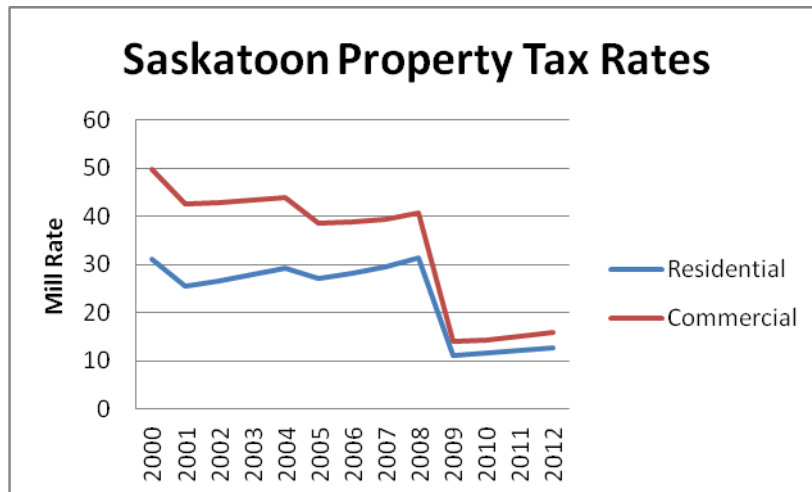
Property Tax in Saskatoon

In recent years, Saskatoon has made significant changes to its property tax policy to make it more competitive. In 2001, the City committed to a reduced effective non-residential property tax rate to 1.75 times that of the residential rate instead of the previously held 2.41. As a result, the non-residential

property assessment base grew from \$7, 540 per capita in 2001 to \$13, 255 in 2007 and is expected to reach \$24,392.83 with the 2013 re-assessment (Greater Saskatoon Chamber of Commerce, 2009).

Because the non-residential assessment base grew at a rate in excess of the premium reduction, the residential tax burden decreased compared to the rate that would have occurred in the absence of the scale of growth of the non-residential assessment base.

Table 1.0 – Saskatoon Property Tax Rates (2000-2012)



Source: City of Saskatoon

Regional Competitiveness

Despite this reduction in property taxes, Saskatoon’s non-residential tax costs compare unfavourably to nearby alternatives. KPMG’s Competitive Alternatives analysis tool allows us to compare Saskatoon against 6 other prairie cities (Appendix A). Saskatoon currently rates as being less competitive than Winnipeg or Edmonton in the analysis. A 2011 report from Altus Group (2011) verified this by rating Winnipeg as the having the most competitive property tax costs in Canada. This is an important factor because property taxes have been shown as being a factor in company location decisions within regions (Kitchen and Slack, 2012).

Saskatoon also faces competition from the smaller surrounding municipalities. Warman, Biggar, and Dalmeny currently have non-residential property tax premiums of 162%, 143%, and 120% respectively, which makes Saskatoon’s premium of 175% less competitive (CFIB, 2012).

Table 1.1 – 2012 Property Tax Figures

	Non-Residential	Residential**	Total
2012 Assessment	\$2,960,000,000.00	\$12,488,024,000.00	\$15,448,024,000.00
2012 Taxable Assessment	\$2,960,000,000.00	\$8,741,616,800.00	\$11,701,616,800.00
2012 Mill Rate*	15.80595264	12.594**	
2012 Effective Mill Rate	15.80595264	8.816	
2012 Tax Revenues	\$46,785,619.81	\$110,093,466.10	\$156,879,085.91

*City and Library Rate multiplied by class Mill Rate Factor

**includes Residential and Condominium classes

Source: City of Saskatoon

Disclaimer: these figures currently show an effective mill rate premium on non-residential properties of 1.792886743 instead of the 1.75 cap for Saskatoon. This is due to an additional premium on non-residential reserved for commercial appeals.

2013 Re-Assessment

In 2013, the city of Saskatoon will undergo a re-assessment of property values, something that occurs every 4 years. During this re-assessment, the Residential property assessment base is expected to rise by 83%, while the Non-Residential property assessment base is expected to rise by 93%. To compensate for this overall rise in property values, mill rates will be reduced to achieve the same level of tax revenues. However, because non-residential mill rates are pegged to be 1.75 times that of effective residential mill rates, the overall burden of tax revenues will shift more towards the non-residential tax payers. The higher that non-residential values rise in comparison to residential values, the more of the tax burden falls to the non-residential taxpayers. An example of this movement with current Saskatoon growth figures is shown below:

Table 1.2 – Reduction of Residential rates through Non-Residential growth

	Year 1		Year 2		
	<u>Residential</u>	<u>Non-Residential</u>	<u>Residential</u>	<u>Non-Residential</u>	
Assessment	\$100,000	\$100,000	Assessment	\$183,000	\$193,000
Taxable Assessment	\$70,000	\$100,000	Taxable Assessment	\$128,100	\$193,000
Mill Rate	14.286	17.500	Mill Rate	7.543	9.241
Effective Mill Rate	10.000	17.500	Effective Mill Rate	5.280*	9.241*
Taxes Due	\$100.00	\$175.00	Taxes Due	\$96.63	\$178.36

*Mill Rates adjusted to maintain \$275 of tax revenue and 1.75 non-residential to residential differential

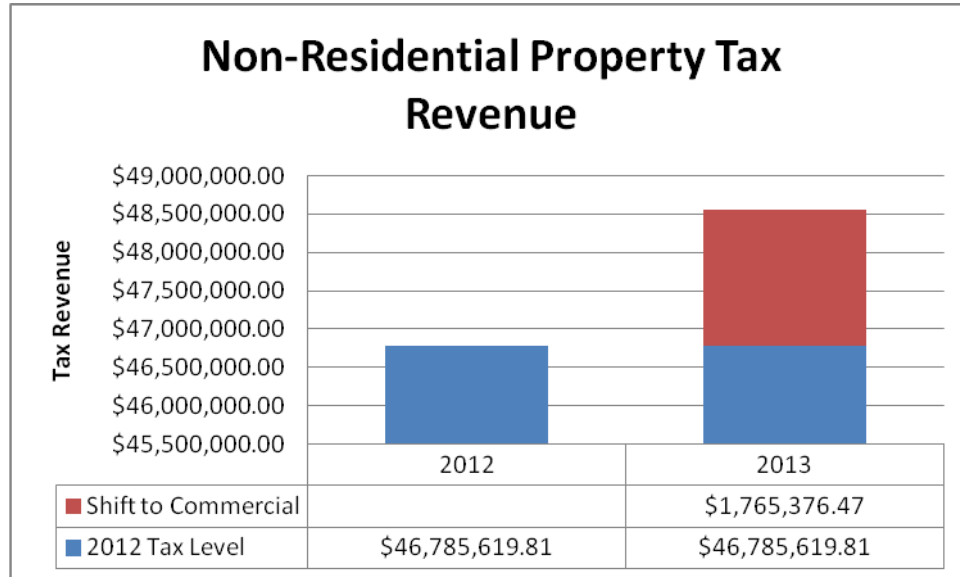
As shown above, the excess growth in non-residential assessment (either through new investment or an increase in property values) results in a tax savings for the residential property.

To illustrate this impact, if tax revenues in Saskatoon are fixed at 2012 levels, residential property taxes are reduced because of the larger growth in non-residential assessment values. Non-residential property taxpayers take on more of the overall tax burden. This shift in the tax burden is demonstrated below:

Table 1.3 – Non-Residential Property Tax Figures

	2012	2013
Taxable Assessment	\$2,960,000,000.00	\$5,712,800,000.00
Mill Rate	15.80595264	8.498633993
Tax Revenues	\$46,785,619.81	\$48,550,996.28

Table 1.4 – Shift of Property Tax Burden to Non-Residential



This 2013 property value re-assessment brings an opportunity to begin a process of reducing non-residential property tax rates in such a way that will induce more investment in the city of Saskatoon without any rise to the residential property tax burden. The following chart shows these proposed changes.

Table 1.5 – Proposed 2013 Property Tax Figures

	Non-Residential	Residential**	Total
2013 Assessment	\$5,712,800,000.00	\$22,853,083,920.00	\$28,565,883,920.00
2013 Taxable Assessment	\$5,712,800,000.00	\$15,997,158,744.00	\$21,709,958,744.00
2013 Mill Rate*	8.344123380829	6.8820637378055	
2013 Effective Mill Rate	8.344123380829	4.8174446164638	
2013 Tax Revenues	\$46,785,619.81	\$110,093,466.10	\$156,879,085.91
+\$882,688.235 premium			

*City and Library Rate multiplied by class Mill Rate Factor

**includes Residential and Condominium classes

Instead of the growth of non-residential property values bringing about an immediate reduction to the residential property tax burden, the residential tax burden can be partially reduced while improving

non-residential property tax competitiveness. This will allow the non-residential assessment growth to bring about an immediate reduction to non-residential property taxes while reducing residential mill rates. As shown earlier, this reduction in non-residential property taxes will create more investment into Saskatoon. This will not only create a better economy and job market for Saskatoon residents, but will also create an even larger non-residential property assessment base. Using this approach over the long-run the burden of property taxes will shift away from residential property tax payers in the process shown earlier. These changes would help both residential and business investors, as reduced non-residential property taxes would help position Saskatoon as a more attractive business investment environment and would also alleviate the residential tax burden.

Reducing residential property tax revenues by a lower amount while increasing non-residential tax revenues by a lower amount would split the \$1,765,376.47 of additional revenue generated by the excess growth of non-residential property assessment in 2013 so that both categories of tax payers would benefit. The changes proposed by this paper suggest lowering non-residential property tax rate premium to generate half of the revenue shift. By only partially reducing the residential revenues, the tax burden is still achieved with a shift towards non-residential. However, under this proposal since non-residential rates are lowered it makes Saskatoon a more attractive investment environment which will in turn increase investment, then increase the non-residential property assessment base, and therefore lower residential property tax rates in the long run.

This proposal produces a \$882,688.24 premium on non-residential taxes over 2012, which can be used as an immediate reduction in the residential tax burden.

Break-Even Analysis for the Policy Shift

In order to make Saskatoon an increasingly desirable investment opportunity, the mill rate differential for non-residential property should continue to decrease. With sufficiently increasing non-residential investment, this can be accomplished without reducing the amount of tax revenue received from non-residential property taxes and can indeed even increase this revenue source. The following table shows the levels at which the Non-residential assessment base would have to grow in order to maintain the 2013 level of non-residential property tax revenue shown in Table 1.4.

Table 1.6 – per capita assessment levels required to maintain current tax revenues

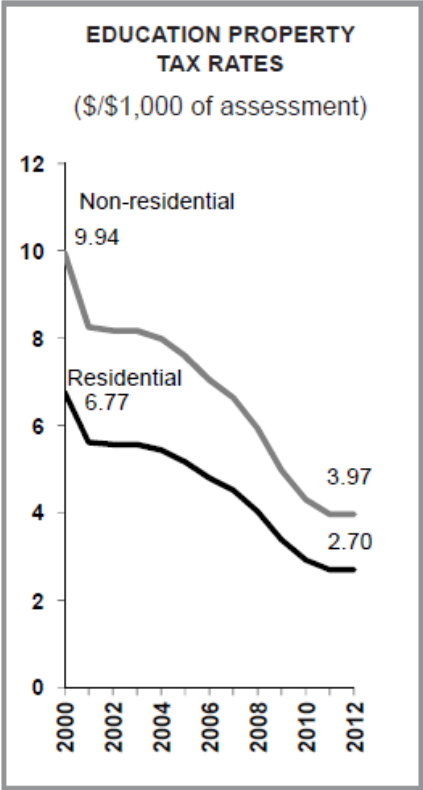
Mill Rate Differential	Non-residential Assessment Base	Non-residential Assessment per capita
1.75	\$5,744,660,048.26	\$24,528.86
1.70	\$5,913,620,637.92	\$25,250.30
1.65	\$6,092,821,263.31	\$26,015.46
1.60	\$6,283,221,927.79	\$26,828.45
1.55	\$6,485,906,506.10	\$27,693.88
1.50	\$6,702,103,389.64	\$28,617.01
1.43	\$7,030,178,380.74	\$30,017.84

This analysis shows us that a **23%** non-residential assessment growth is required to break-even on overall property tax revenues for a 20% reduction in property tax rates. In comparison, Saskatoon’s non-residential assessment base grew **75.8%** between 2001 and 2007, and with the 2013 re-assessment will grow **84.0%** between 2007 and 2013. This recent history shows that the non-residential assessment base can grow at a rate faster than the required neutral growth level of 23%.

With Saskatoon’s current non-residential growth, in addition to the new investment that will be attracted through a more competitive property tax policy, this policy will generate **additional** non-residential property tax revenue that could be used for residential programs or residential tax decreases.

The Alberta Example – Showing It Works

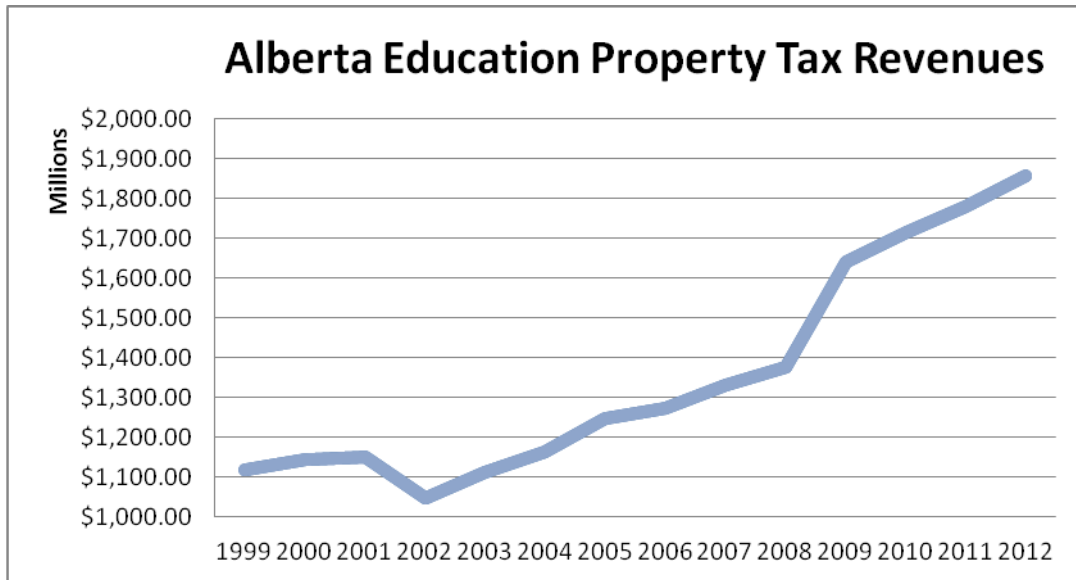
Over the past 19 years, the province of Alberta has taken on the task of creating a more competitive education property tax policy. In that time, the province has frozen or lowered both non-residential **and** residential education property tax rates in every year (Alberta Treasury Board and Finance).



Source: Alberta Fiscal Budget 2012-2015 – Tax Plan

As a result of this policy, increased investment has brought the non-residential property assessment per capita up to \$35,347.11 (Alberta Education) per capita and the province has increased the overall amount of property tax revenue. Looking at Table 1.5, we can see that a tax rate reduction for non-

residential property tax can be self-funding with an assessment per capita of approximately \$30,000. The Alberta example shows that this is more than feasible that Saskatoon can generate additional revenue by creating a more competitive property tax policy.



Source: Alberta Ministry of Education

Canada West Foundation Recommendations

In October 2010, the Canada West Foundation published a paper titled 'A Tax Framework for Saskatchewan's Continuing Prosperity' which applied earlier research to Saskatchewan's specific situation. The framework established from this paper consisted of 7 recommendations related to taxation in Saskatchewan, two of which were specifically for municipal property taxation. The first related to the process of assessments and recommended that the assessment cycle be reduced from 4 years down to 2 years and to apply a program of simplified administration regarding percentages of value. The second recommended that the tax differential between non-residential and residential properties be capped at 1.43 times, which is consistent with the recommendations of this paper.

The Canada West Foundation stated that these reforms would be 'quite sustainable in terms of the fiscal impact to the government' and that it is 'very practical'. The framework recommended that the differential slowly be lowered in accordance with the growing non-residential assessment base and therefore would no fiscal impact on the government. (Vander Ploeg and Vicq, 2012)

Tax Policy Leadership

Implementing these recommendations gives Saskatoon the opportunity to lead property tax policy reforms in Saskatchewan. Saskatoon has already established itself as a leader in larger centres by eliminating the business tax in 1997 and establishing a 1.75 differential of non-residential properties over residential. By lowering that differential to 1.43, Saskatoon will not only create a more competitive

tax policy, but it will also encourage the provincial government to introduce much need reforms to the assessment policy and education property tax policy and become more competitive at the provincial level. The previously mentioned CFIB report also recommended reforms to the Provincial Education property tax rates. As shown by the Alberta example, the Alberta provincial government was able to reduce provincial property tax rates and increase overall revenues through the assessment base growth. This means that Alberta municipalities currently have a competitive advantage over Saskatchewan municipalities due to provincial education property tax rates. Saskatoon may not be able to directly change provincial rates, but by implementing the recommendations of this paper Saskatoon can lead the implementation of the Canada West Foundation recommendations. The Canada West recommendations would create a more competitive tax environment throughout Saskatchewan and an added competitive advantage for Saskatoon.

Benefits

This proposal yields benefits for both non-residential and residential taxpayers. The following is a list of benefits received by both parties:

<u><i>Residential</i></u>	<u><i>Non-Residential</i></u>
Mill Rate reduced from 12.594 to 6.882	Mill Rate reduced from 15.806 to 8.344
\$882,688.24 contribution	Mill Rate differential reduced from 1.79 to 1.71
Better economy and job market	Reduction in property taxes per sq. ft.
Long term reductions for property tax	More attractive business environment
	Increased investment and larger assessment base

Recommendations

In addition to the above recommendations, this paper also makes the following recommendations for changes to the Provincial property tax policy:

1. Transparency

In order to determine the effective tax rate for their property, property owners currently have to go through a series of steps and calculations. After going through the assessment process to determine the value of the property, they have to adjust this to determine the taxable assessment. Finally they must determine the annual city, library, and provincial education rates. This rate then needs to include the multiplier for its class of property and also take into consideration the percentage of the property value assessment which is taxable. A move to greater transparency would improve taxpayer confidence in their taxation system.

This makes it so that tax payers are subject to different mill rates and percentages and do not immediately see what the effective tax rate (the end percentage that taxpayers pay) actually is. This paper recommends a tax policy that displays the effective property tax rate as opposed to each of the individual steps used to calculate property tax rates.

2. More frequent reassessments

In Saskatoon, property assessments are conducted every 4 years, compared to the annual reassessments that are conducted in Alberta. This delay between reassessments means that assessed property values do not always accurately reflect the actual property value. In Table 1.0, we can see the history of property tax rates and how they have large changes every 4 years. This is due to the market changing rapidly over the 4 years between reassessments. Without having more frequent reassessments, accurate information is not as readily available which makes decision making processes more difficult.

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