

Tax Reform: Do We Know Where We Are Going?

Halifax Regional Council will soon resume debate on residential tax reform; it is an important debate since it could result in substantive changes to the way in which taxes are collected in HRM and who pays how much. As an HRM councillor, I have tried to keep on top of the implications linked to the proposed tax changes. What has been very worrisome in this process is the lack of meaningful public debate on the proposed changes. Depending on how the debate transpires at Regional Council, we could, as a municipality, embrace a new tax assessment system in the next few weeks that has far reaching effects on tax payers. Whether the effect is positive or negative needs to be examined not just from an individual tax payer's perspective but from the perspective of the community as a whole: what will the proposed tax reform mean for our municipality in the years to come?

Here are key issues that I will be considering in this debate.

Definition of equity

There are, I believe, fundamental differences in the understanding of the principle of equity. The tax reform website states that the tax system should apply consistently to all taxpayers and citizens – an approach that taxpayers should pay equally for equal services received. But the principle of equity is not that everyone pays the same - it is that everyone pays according to their means. Fee-for-service removes the principle of equity as it is based on the principle that you pay for what you get, not according to your ability to pay. So how will a move to fee-for-service mean greater equity in this new tax reform proposal?

What will be the impact on people who are at the lower end of the economic scale? If tax reform offers tax relief for those earning under \$25,000, for example, what relief is offered for those earning \$28,000? Should a family who is struggling to pay mortgage rates on a house worth \$150,000 pay the same in taxes as someone whose home is assessed at \$450,000? The tax reform committee seems to recognize this equity discrepancy and is now proposing to have a surcharge tax on properties that have high property assessments. But, is this a band-aid solution to a tax model that is moving us in a direction that is essentially inequitable?

The "We to Me" Approach

The current tax reform proposal troubles me because it encourages our community to move from a "we to me" approach in how we respond to community services and responsibilities. There is a danger in an approach for municipal services that encourages "I am only going to pay for what I get". What does this mean for our personal commitment to the community as a whole? For example, does the new community recreation centre in East Dartmouth directly benefit me or my family? The

short answer is no. But it is positively affecting many families that live in my community and as a result, I can say that my household does benefit. There are benefits to living in a healthier, more productive, more socially engaged, more environmentally sustainable community that may not be a result of services directly on my doorstep.

In the short term, the proposed tax reform will result in lower taxes on properties with higher assessments, but eventually, it is argued by some economists, there will be a lower quality of public services for the whole community. Lower to middle income families who will have to pay higher taxes have less capacity to do so and as a result there will be pressure to reduce public amenities and services. Is this in the best interests of those with higher assessed properties? Is this in the best interests of all residents?

Public Consultation

With any major reform, the question of public consultation is important. The tax reform process included focus groups in 2007, a series of open houses in 2008, and an on-line survey. Having attended two of the open houses, I left with more questions than answers. I sensed a general unease among the people I spoke with at the meetings about the lack of clarity and opportunity to debate the proposal as a community. Wandering from table to table to meet with staff who answered questions individually or in small groups makes it difficult for the public who often want to hear what others in the community are saying. The consultation was followed by an online survey which garnered a couple hundred responses. But again, this is a one-way form of individual communication – residents comment, staff analyze and a report is written. This process did not facilitate a much needed, vigorous public debate or challenge municipal accountability on a major new financial initiative in HRM.

Validity of the data

Recently, several economics professors have commented on the validity of how the data have been interpreted by the tax reform committee. There is disagreement, for example, on the assumption that there is no relation between income and home value (property assessment). The economists argue that this relationship needs to be examined over the long term and, in fact, there is a strong relationship between income and house value – a concept that has been dismissed by the tax reform committee. In light of these concerns about how data are interpreted, I recommend a tax reform public forum that allows residents, municipal staff, members of public who specialize in economics, and elected officials to learn from one another, debate the principles of tax reform and hold each other accountable to the best interests of the municipality as a whole.

Making our Tax System Easier to Manage and Assess

The argument for fee-for-service is that this system makes the collection of taxes more transparent and easier to understand because people will pay for the service that they receive. It sounds simple and fair. However, the recent attempt by Regional Council to change how the transit tax is collected shows that it is not so simple or easy to understand the implications of who actually uses and who benefits from a service. We hurriedly changed the kilometer distance from 2 km to 1 km for those included in the local transit tax when it became apparent, after the fact, that some residents would see a large tax increase for a service that was very difficult for them to use. Hardly an auspicious start to informed tax reform by council. Assessing tax is complex – how do you assess who uses and who benefits?

It has been suggested that all the problems and complexities involved in assessing taxes based on property, will be replaced by all the problems and complexities associated with a fee-for-service model. Everyone will have an opinion of what is fair and how they do or do not benefit from a service. Which begs the question, who will actually benefit from this tax reform?

Environmental Sustainability

A fee-for-service approach can fuel an unsustainable development approach in HRM because it can encourage a mentality that “the further I build from the centre where I have to pay for services, the less tax I pay”; a byproduct being an increase in automobile-oriented demand for highways. We could end up rewarding those who live furthest from the centre by charging them less tax. Is this the direction we want to be going? At the same time, those who live in areas that are less serviced benefit from the services in other areas if, for example, they commute to the urban centre for work.

HRM is committed to the 2006 Regional Plan which is designed to prevent urban sprawl. This tax model could encourage urban sprawl since fewer services in outlying areas will mean paying less tax. A recent tax reform presentation states that the current tax system presents a growing “threat to Halifax’s economy”; but how does this compare to the unfolding environmental crisis we are facing, which is arguably a greater threat to the Halifax economy from a local and global perspective.

Conclusion

We need changes to our tax system and tax reform is important. But is the one model brought forward by the tax reform committee the right model? Does HRM really want to be a leader in developing and implementing a fee-for-service tax model that no other Canadian municipality has undertaken? Is the model and analysis offered to us sufficient to make such a radical change to our tax system? Although the tax reform committee has stepped back from insisting on overall endorsement for this approach,

what appears to be happening at Regional Council is the incremental approval of a fee-for-service tax reform, one tax at a time.

And so, as I head to next Tuesday's council meeting, I find myself looking for an answer to the question, "Will the fee-for-service model make our community a better place to live in the long term?"; and wondering, why such a radical change to our tax system should happen without informed public debate.