

AN ECONOMIC ANALYSIS OF THE HALIFAX REGIONAL MUNICIPALITY COMMERCIAL TAX



PREPARED BY CANMAC ECONOMICS LTD.

JANUARY, 2018



STUDY PURPOSE

TO EXAMINE
HRM'S NEW
TAX OPTIONS
FROM AN
ECONOMIST'S
PERSPECTIVE.

OVERVIEW OF PRESENTATION

What are the objectives of tax policy?

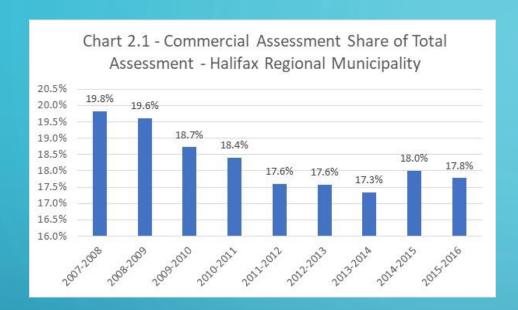
How should the commercial tax system respond to these objectives?

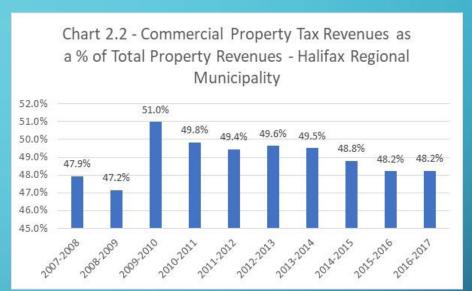
How does the existing system respond?

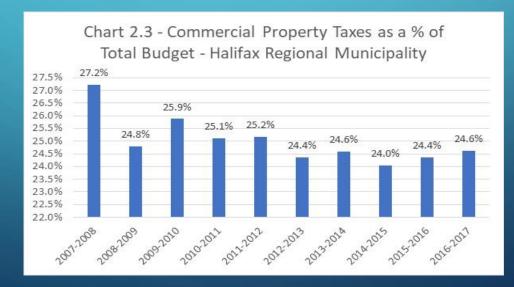
Economic Impacts

Moving Forward

Commercial Taxes are Important to HRM







TAXATION OBJECTIVES

Equity

Benefits

Economic Development / Competitiveness

CANMAC RECOMMENDATIONS COMMERCIAL TAXES PRINCIPLES

Equity - No

Benefits - Yes

Economic
Development/Competitiveness Selective Yes

EQUITY

Important taxation goal but HRM Commercial Tax setting can not accomplish this objective easily.



HRM Commercial tax is tax on business input

– different taxes say on size of business given
that owners in large businesses have
proportionally higher incomes could have
unintended consequences.

Example: Tim Hortons

IKEA

Increase taxes may decrease income of lower income workers at large establishments.

EQUITY

Equity is concerned with a fairer distribution of income than exists.

Most effective way to accomplish this <u>subjective</u> goal is by changing personal income taxes directly.

BENEFITS

She/he who gets benefits pays cost of benefit – user pay principle.

Optimal approach for allocating resources most effectively. Allows for businesses to max benefits versus costs and society to allocate resources in most effective manner.

ECONOMIC DEVELOPMENT/COMPETITIVENESS

Type of benefit but data show that changing commercial tax to achieve this benefit is a weak policy tool in general – but may have selective benefits/costs.



COMMERCIAL TAX BURDEN

COMMERCIAL TAX PAYERS HRM PROPERTY TAX BILL IS A SMALL **PORTION OF** TOTAL SALES/OPERATING COSTS.

Business Taxes, Licenses and Permits as a % of Total Operating Expense Canada

Industry	2013	2014	2015
Accommodation services	3.9	3.7	3.9
Accounting services	0.6	0.9	0.8
Consulting services	0.4	0.4	0.5
Consumer goods rental	0.6	0.6	0.6
Engineering services	0.3	0.3	0.2
Real estate agents, brokers and appraisers and other real estate activities	2.9	2.7	2.8
Travel arrangement services	0.5	0.6	0.6
Source: Statistics Canada			



COMMERCIAL TAX BURDEN

HRM
COMMERCIAL
TAX METR IS
ABOVE OTHER
JURISDICTIONS.

Marginal Effective Tax Rates Halifax vs National Average

	Halifax		National Average		
Year	Total	Municipal Business Property Tax	Total	Municipal Business Property Tax	
2013	73.3	52.2	56.2	30.2	
2014	67.4	46.8	55.5	29.5	
2015	67.7	46.9	54.4	27.9	
2016	67.9	46.8	53.6	26.9	
2017	72.8	51.2	54.3	27.1	

Source: CD Howe Institute – Business Tax Burdens in Canada's Major Cities: The 2017 Report Card

COMMERCIAL TAX BURDEN

Studies elsewhere show that changing commercial property rates as incentives for business location/development is not generally effective.

- "Rethinking Property Tax Incentives for Business" Lincoln Institute of Land Policy, 2012.
- "The Reform of Business Property Tax in Ontario: An Evaluation" Institute of Municipal Finance & Governance, 2012.
- "The Effective Use of Property Tax Incentives for Economic Development" Lincoln Institute of Land and Policy, 2013.

COMMERCIAL TAX BURDEN

Canmac's Economic model simulation confirm weak economic impact.

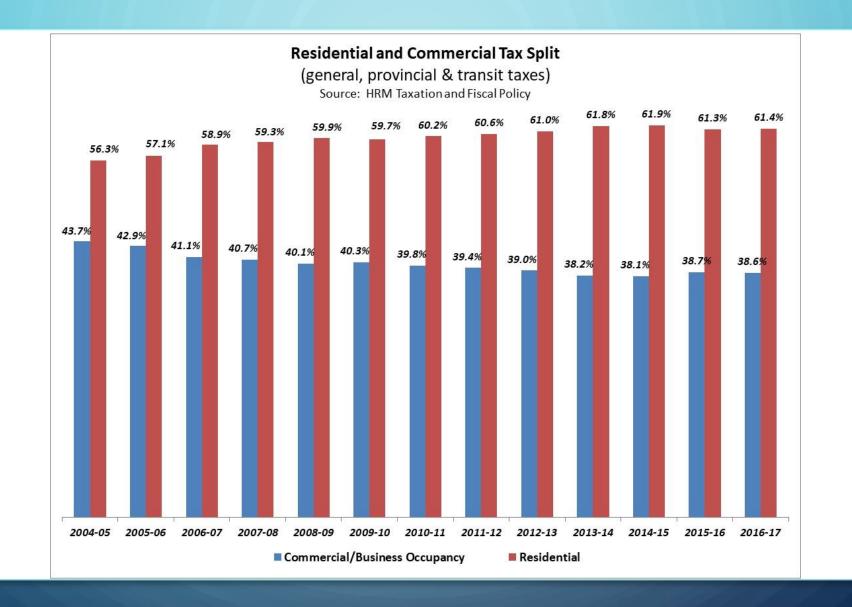
Commercial tax \downarrow 50% =>

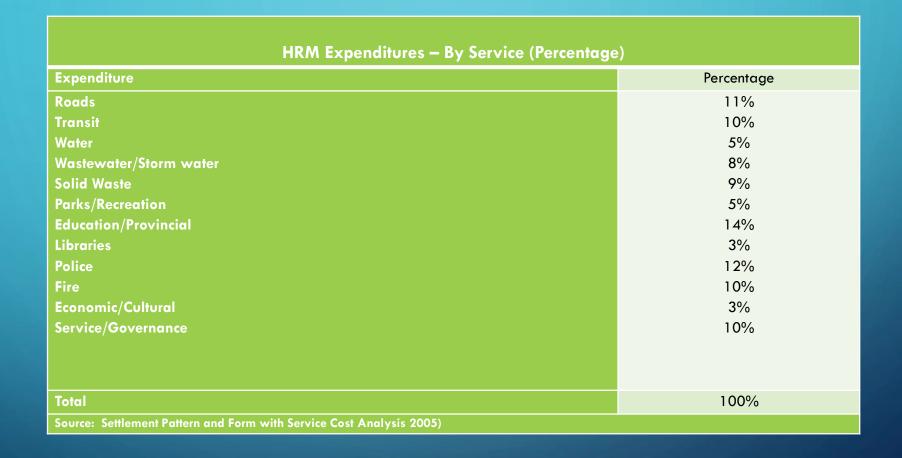
New Office Construction ↑ 2.3%



COMMERCIAL TAX BURDEN

COMMERCIAL TAX
PAYERS PAY MORE
THAN TWICE AS
MUCH FOR LESS
BENEFITS.





POLICY DESIGN

Given acceptance of the benefits principle enables good policy development.

Yardstick for fairness – Taxpayer *i* benefits per cost should be the same as for taxpayer *J*.

Benefits/costs vary throughout HRM for various services.

- Fire Protection
- Police Services
- Etc.

New tax options allow HRM to respond to these differences once the cost drivers are properly identified.

CURRENT SITUATION REVIEW

Taxbill = tax rate * commercial assessment value

 Has element of max benefits to costs based on market adjustments.

COMMERCIAL TAX BURDEN

Traditional businesses located in periphery of CBD likely pay higher taxes than warranted.

Land values ↑ due to future CBD pressures.

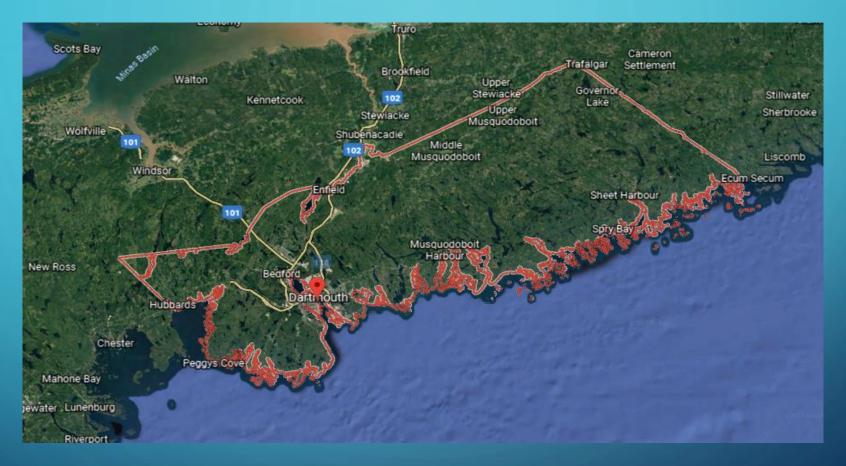
ECONOMIC DEVELOPMENT BENEFITS

A selective approach to commercial property tax incentives should be adopted to support economic development. Target areas are:

- Clean technology/energy efficiency
- Ocean cluster
- New immigrant population

Approach suggested is property tax relief for new business start-ups in the target areas.

THANKS FOR YOUR TIME!



QUESTIONS?