

The word "HALIFAX" in a bold, white, sans-serif font, positioned in the upper right corner of the slide. The background features a dark blue geometric shape in the top right and a light blue shape in the bottom right, meeting at a diagonal line.

HALIFAX

Commercial Tax

Objectives and Options

January 2018
Bruce Fisher and
Andre MacNeil (Finance)

Outline

- Introduction
- What “is” and “is not” allowed under property tax law
- Four critical success factors:
 - Hypothetical examples
- Questions for the workshop

What “is” allowed under current property tax law

- Tax on owners of real property
 - Owner may pass tax on to those who lease
- Tax on value of that real property
 - Land and buildings combined
- Tax is on the property, not the business



Example: Office Tower

Assessment: \$26m

* Tax Rate: 3.318%

= Tax Bill: **\$863,000**

What “is not” allowed under current property tax law

- No legal authority to tax by
 - Size of the business (vs property)
 - Type of business (e.g. retail, high tech)
 - Type of property (e.g. warehouse, office tower)
 - Sales, profits or revenues
 - Ownership (local vs elsewhere)
- Cannot tell a landlord how much tax to collect from their tenants.
- Cannot exempt businesses from property tax (Heritage District an exception).

What “is” and “is not” allowed

- Tax is on the physical property, not the business
 - One property may have numerous businesses (e.g. mall).
 - One business may occupy or own numerous properties.
 - There are no associated or affiliated rules.
 - Municipality has some data on the type of property (e.g. Office Tower) but no data on
 - Types of businesses
 - Tenants
 - Local or non-local ownership
 - There are 5,000 commercial properties in the municipality, yet 20,000 businesses.

What “is” allowed under current property tax law

- Municipality has legal authority to tax by:
 - Property values
 - Geographic area
 - Size of property (e.g. square footage, land size)
 - Frontage
 - Combination of above, including:
 - multiple rates
 - surtaxes
 - deductions

Four critical success factors

- 1) Agreement as to an equitable or “fair” way to pay tax.
- 2) Well defined objectives: **How will we know a changed tax system is successful?**
- 3) Options identified for achieving that success.
 - Acceptance that for some properties to pay less tax, other properties must pay more tax.
- 4) Ability to administer
 - Understandable to business

Question 1: What is an equitable or “fair” way for business to pay tax?

- Implicit assumption is that taxing all using the same property tax rate is fair.
- However, businesses come in a very diverse package and may think of fairness using:
 - Size of business
 - Number of employees
 - Sales
 - Profits
 - Local vs non-local
 - Value of land
 - Value of property
 - Size of property or Land
 - Municipal services
 - Cost of municipal services

Question Two: What are well-defined objectives of the tax system?

- The current property tax system uses the value of real property as a proxy for ability to pay. The underlying premise is that the system is fair if everyone pays the same tax rate.



- Are the current tax system's objectives well-defined?
- Are there unacceptable biases within the existing property tax system?

What we have heard as alternative objectives

- The property tax system should encourage or incent
 - All small, local businesses
 - Small, local businesses with very high tax
 - Improved land-use and higher density
 - Development that is has strong design features
 - Development that is efficient for municipalities to service (i.e. low cost)
 - Predictability in tax changes
 - Stronger services for small businesses

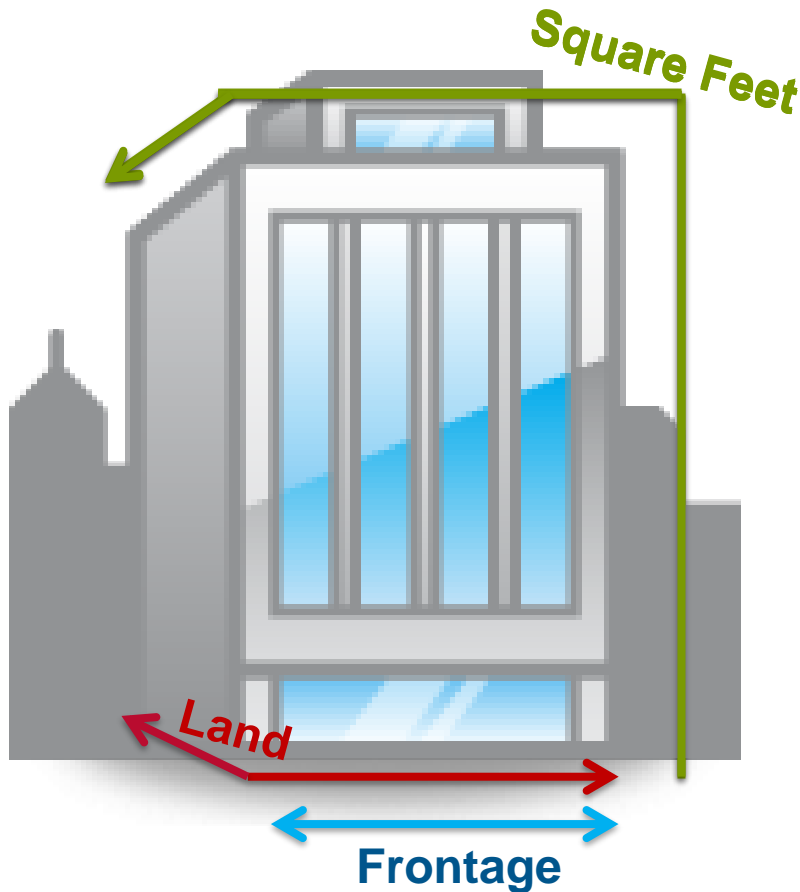
Question Three: Options (Success and Consequences)

- Review a series of hypothetical examples.
 - Situations are purely hypothetical, not official proposals, not viewed by Council
 - The properties and tax rates are fictional.
 - Helps to understand the objectives, their options and other considerations
- Working assumptions:
 - Zero sum game: For one firm to pay less, another firm has to pay more.
 - Other Approaches:
 - Shift commercial taxation to residential sector
 - Lower costs by reducing municipal services

Question Three: Options (Success and Consequences)

- Small Properties (Geographic) >>
 - Special Main Street Tax Rate
 - Special BIDC Tax Rate
 - Special Tax by Zone
- Small properties (Multi-Tier Taxes) >>
 - Lower Taxes for First \$ of Assessment
 - Lower Taxes for Higher Taxed Business
 - Square Footage Tax
 - Max Tax
- Development >>
 - Frontage Tax
 - Land Tax (by Size)

Hypothetical Examples



Example: Office Tower

Assessment: \$26m

Frontage: 250 ft

Sq Ft: 130,000 sq ft

Land: 35,000 sq ft

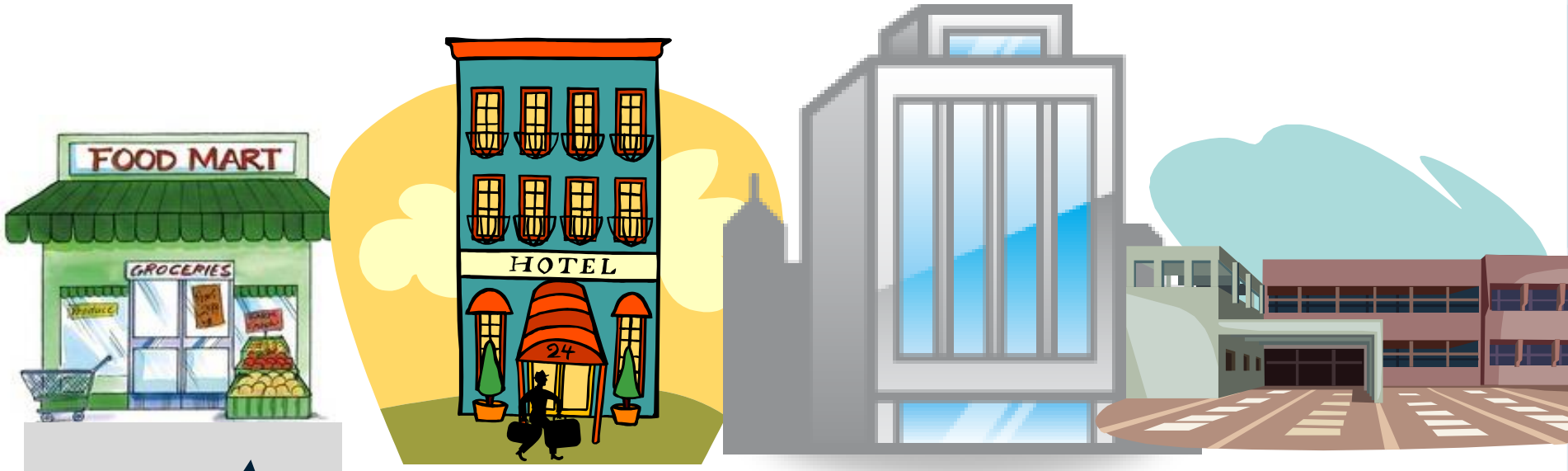
Floor /Area 3.7 (130/35)

Note: May include multiple tenants

HALIFAX

Four Hypothetical Properties

Illustration Purposes Only



Small Business

Assessment = \$230,000
Square Footage = 1,500
Frontage = 50 ft
Lot Size = 2,000 sq ft

Medium Business

Assessment = \$1.4m
Square Footage = 10,000
Frontage = 250 ft
Lot Size = 26,000 sq ft

Office Tower

Assessment = \$26m
Square Footage = 130,000
Frontage = 250 ft
Lot Size = 35,000 sq ft

Large Footprint

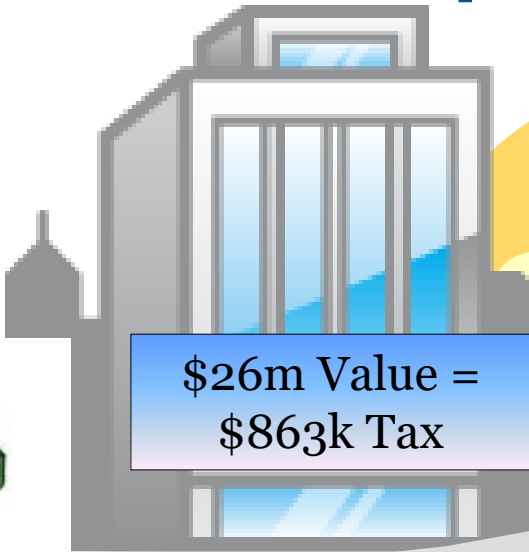
Assessment = \$12m
Square Footage = 130,000
Frontage = 500 ft
Lot Size = 400,000 sq ft

Hypothetical Examples

\$230k Value =
\$8k Tax



\$26m Value =
\$863k Tax



\$1.4m Value =
\$46k Tax

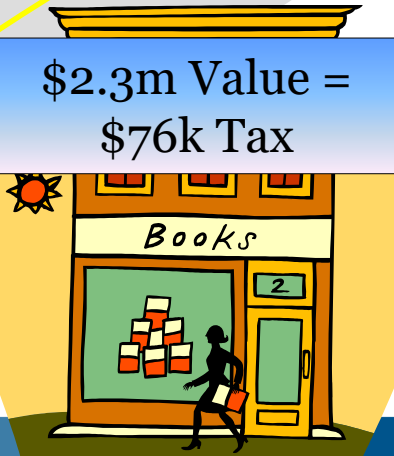


\$12m Value =
\$398k Tax

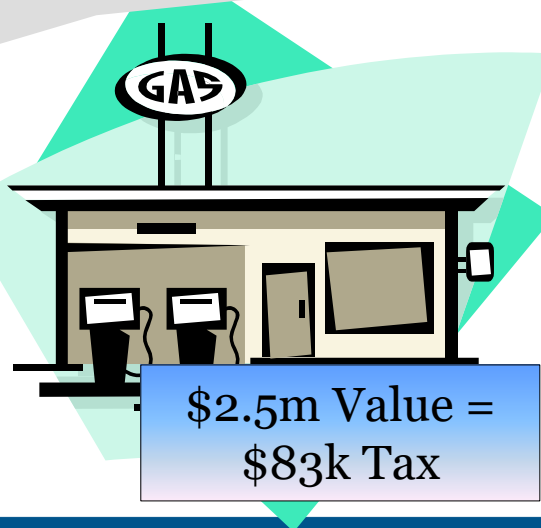
\$230k Avg
Value = \$2,700
Tax



\$2.3m Value =
\$76k Tax



\$2.5m Value =
\$83k Tax



\$750k Value =
\$25k Tax



Success and Consequences: Special Main Street Tax Rate

- What is it and Why Consider It?
 - Lower Taxes for business on Main Street
 - Small Local Business are often on the main street
 - Taxes appear higher on arterial and main roads
 - Links to Vibrancy, Planning
- Considerations:
 - What is a “Main Street”
 - Presumably includes side streets
 - Which properties are “in” vs “out”
 - Those “out” pay higher taxes
 - Requires clear objectives and consistent boundary definition

Small Properties >> Main Street

(Reduce Main Street Taxes by 50%)

\$8k Tax
(\$5.3 per Sq Ft)



\$46k Tax
(\$4.6 per Sq Ft)



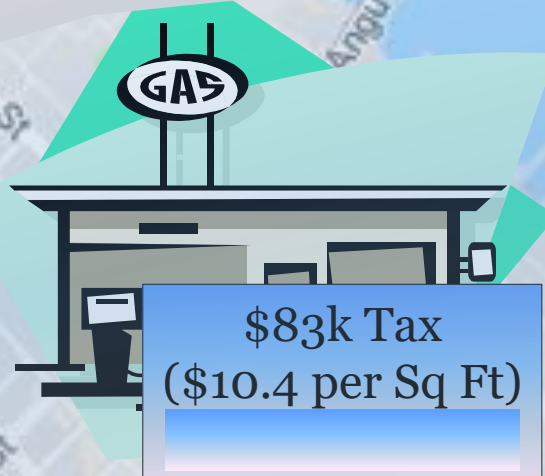
\$398k Tax
(\$3.1 per Sq Ft)

\$863k Tax
(\$6.6 per Sq Ft)

\$76k Tax
(\$7.6 per Sq Ft)



\$83k Tax
(\$10.4 per Sq Ft)



\$25k Tax
(\$2.5 per Sq Ft)



Success and Consequences: BID Tax Rate(s)


- What is it and Why Consider It?
 - Lower tax rate for BIDs only
 - Small Local Business are often BIDC members
 - Links to Vibrancy, Planning
- Considerations:
 - Those outside a BIDC will pay more
 - Many small business are not in BIDCs
 - New BIDCs will be formed
 - Requires clear objectives and consistent boundary definition

Small Properties >> BID

(Reduce BID Taxes by 50%)



\$8k Tax
(\$5.3 per Sq Ft)



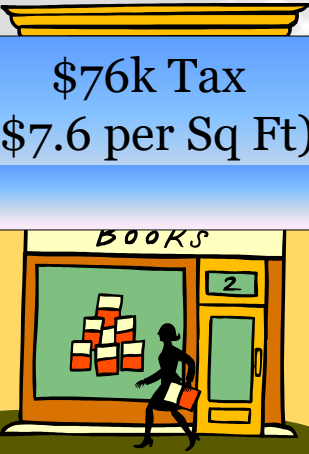
\$46k Tax
(\$4.6 per Sq Ft)



\$398k Tax
(\$3.1 per Sq Ft)




\$863k Tax
(\$6.6 per Sq Ft)



\$76k Tax
(\$7.6 per Sq Ft)



\$83k Tax
(\$10.4 per Sq Ft)



\$25k Tax
(\$2.5 per Sq Ft)

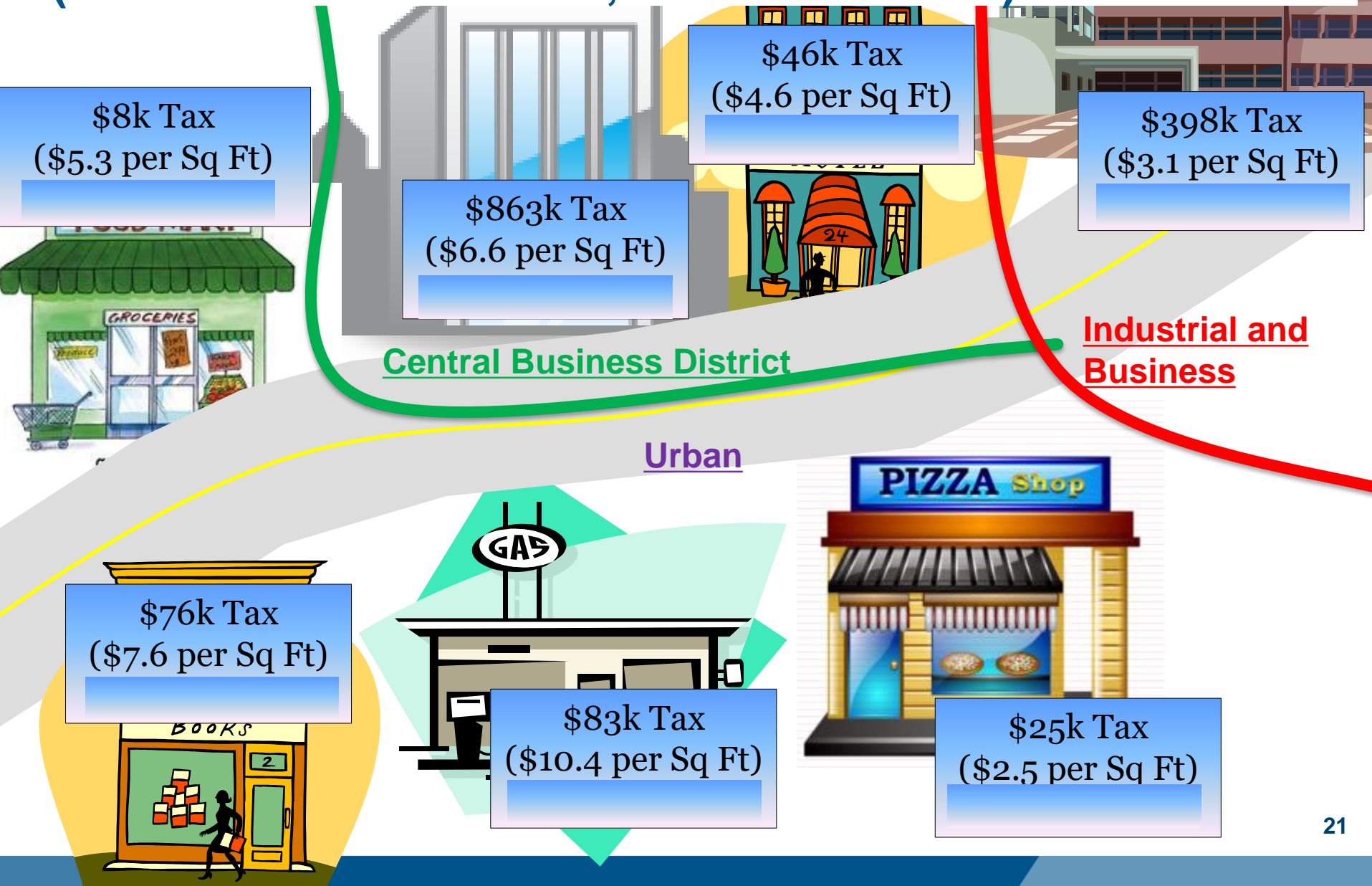
Success and Consequences:

Create Tax Zones

- What is it and Why Consider It?
 - Create Tax Zones and separate tax rates for
 - Industrial and Business Park(s),
 - Central Business Districts
 - Urban
 - Rural
 - Attempt to match zones to taxes
 - Maximize benefit to small firms
 - Instead of choosing whose “in”, choose whose “out”
- Considerations:
 - Set separate tax rate(s) for each Zone
 - Might work better if we could also tax by “type” of property

Small Properties >> Zones

(Urban Taxes reduce 10%, Bus Park Offsets)




Success and Consequences: Multi-Tier (First \$ of Assessment)

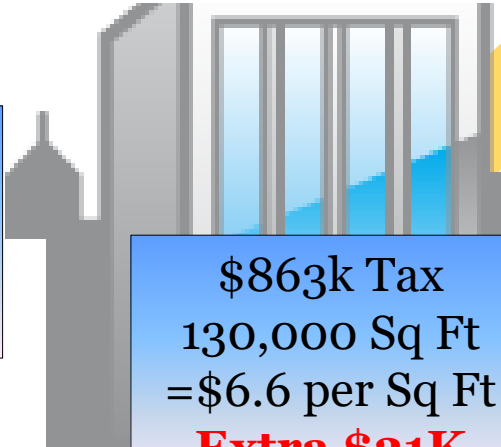
- What is it and Why Consider It?
 - Lower Taxes on First \$ of Assessment
 - Eg, Tax Rate is 0 on first \$200,000 of value
 - All properties receive
 - Higher tax rate over \$200k
 - Benefit more valuable to smaller properties
- Considerations:
 - Leased properties may not get much benefit
 - High value, small properties:
 - Limited Benefit
 - Could see taxes increase

Small Properties >> First \$


No tax on first \$200k of assessment



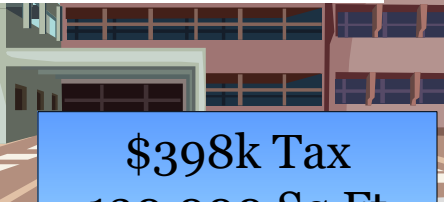
\$8k Tax
1,500 Sq Ft
=\$5.3 per Sq Ft
Saves \$7K



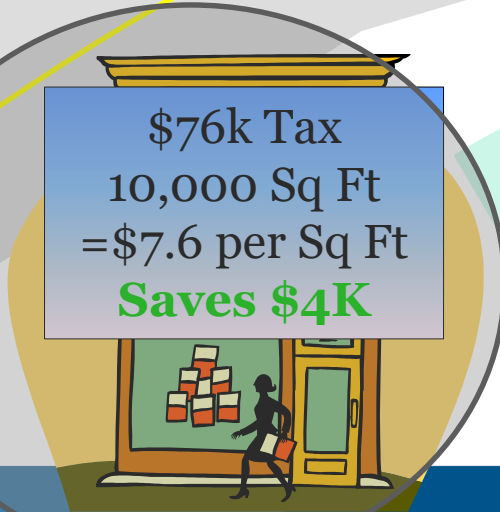
\$863k Tax
130,000 Sq Ft
=\$6.6 per Sq Ft
Extra \$21K



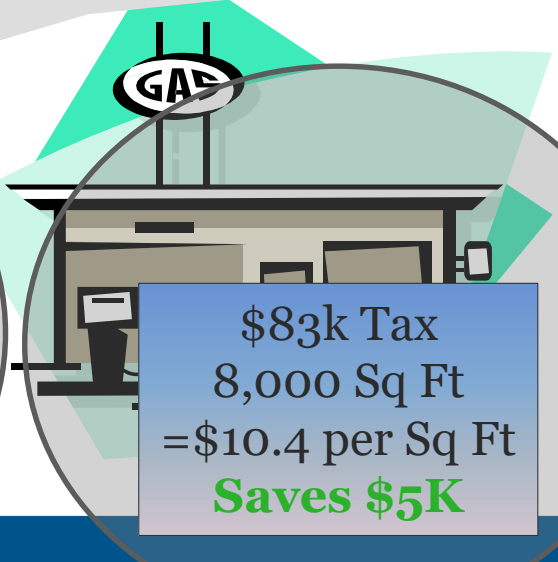
\$46k Tax
10,000 Sq Ft
=\$4.6 per Sq Ft
Saves \$5K




\$398k Tax
130,000 Sq Ft
=\$3.1 per Sq Ft
Extra \$6K



\$76k Tax
10,000 Sq Ft
=\$7.6 per Sq Ft
Saves \$4K



\$83k Tax
8,000 Sq Ft
=\$10.4 per Sq Ft
Saves \$5K



\$25k Tax
10,000 Sq Ft
=\$2.5 per Sq Ft
Saves \$6K


Success and Consequences:

Multi-Tier (Hig Value Assessment)

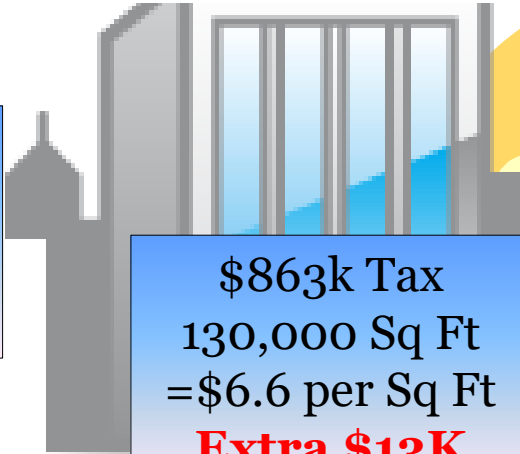
- What is it and Why Consider It?
 - Lower Taxes on Mid-range Assessment
 - Eg, Tax Rate is 0 between \$2m and \$2.2m of value
 - Not all properties receive
 - Higher tax rate over \$2.2m
 - Benefit more valuable to modest-value properties
- Considerations:
 - Leased properties may not get much benefit
 - Should target those with higher tax bills
 - Low value properties shouldn't change
 - Higher value properties increase but not as much as for first \$200k

Small Properties >> Multi-Tier \$

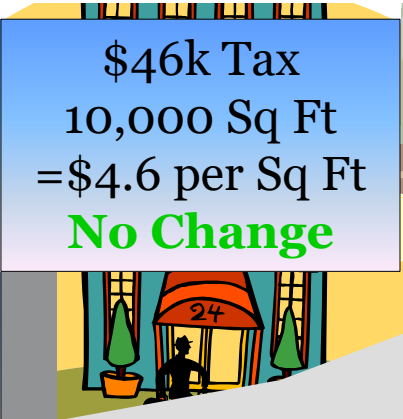
No tax on between \$2m and \$2.2m of assessment



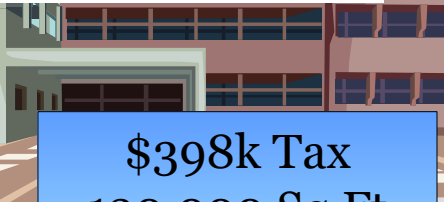
\$8k Tax
1,500 Sq Ft
=\$5.3 per Sq Ft
No Change



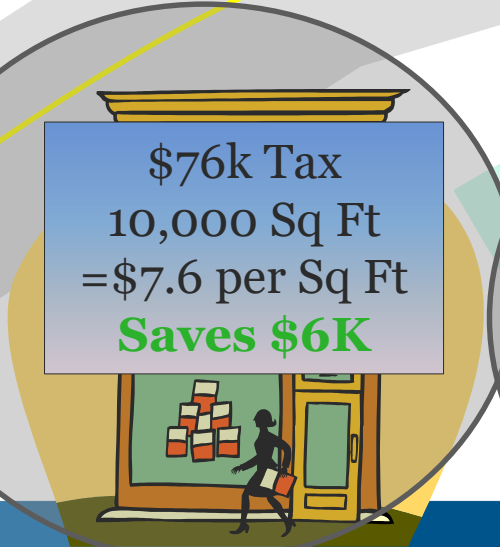
\$863k Tax
130,000 Sq Ft
=\$6.6 per Sq Ft
Extra \$13K



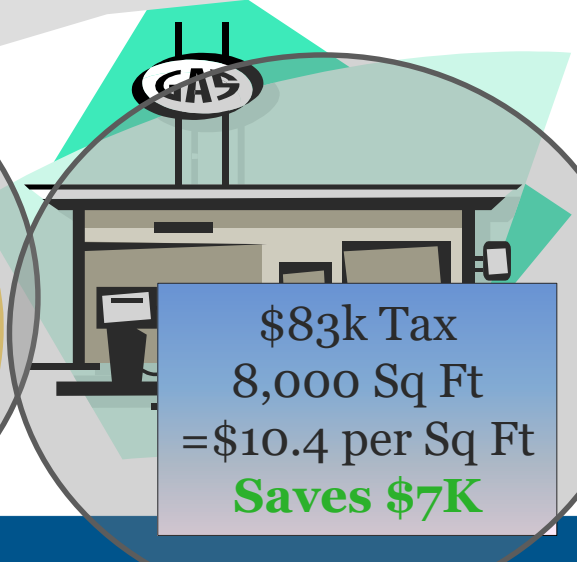
\$46k Tax
10,000 Sq Ft
=\$4.6 per Sq Ft
No Change




\$398k Tax
130,000 Sq Ft
=\$3.1 per Sq Ft
Extra \$2K



\$76k Tax
10,000 Sq Ft
=\$7.6 per Sq Ft
Saves \$6K



\$83k Tax
8,000 Sq Ft
=\$10.4 per Sq Ft
Saves \$7K




\$25k Tax
10,000 Sq Ft
=\$2.5 per Sq Ft
No Change

Success and Consequences: Square Footage Tax

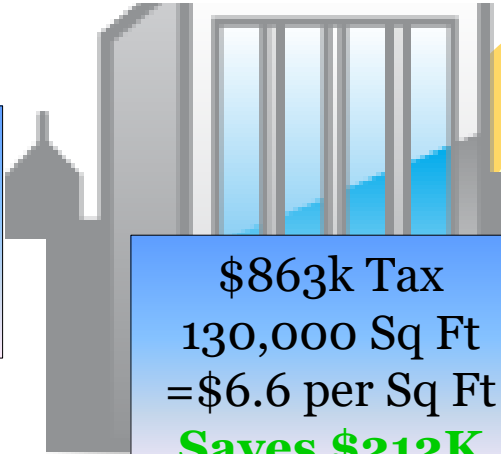
- What is it and Why Consider It?
 - Tax levied on Square Feet of Space
 - Eg, \$5 for each square foot
 - Could combine with zones, other taxes or use deductions, multiple rates.
 - Ties closely to rent costs, sales metrics for retail
- Considerations:
 - HRM has data for nearly 50% of firms
 - Would have to acquire remaining data
 - Tax per Sq Ft not as meaningful for many firms
 - Eg Gas Stations, Warehouses, Brewery

Small Properties >> Sq Ft of Space


Tax all properties at \$5 per sq ft



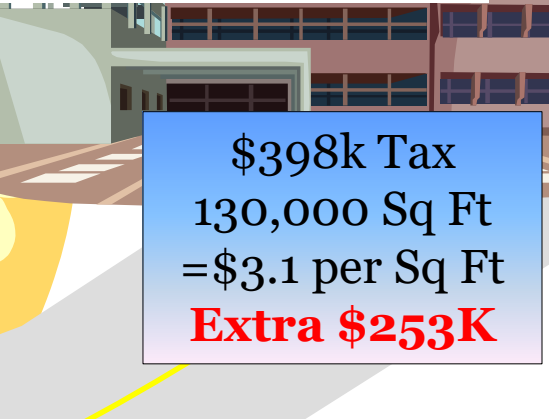
\$8k Tax
1,500 Sq Ft
=\$5.3 per Sq Ft
No Change




\$863k Tax
130,000 Sq Ft
=\$6.6 per Sq Ft
Saves \$212K



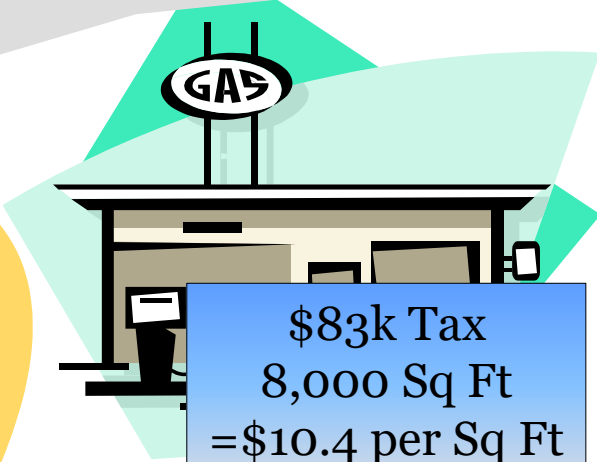
\$46k Tax
10,000 Sq Ft
=\$4.6 per Sq Ft
Extra \$4K




\$398k Tax
130,000 Sq Ft
=\$3.1 per Sq Ft
Extra \$253K



\$76k Tax
10,000 Sq Ft
=\$7.6 per Sq Ft
Saves \$26K



\$83k Tax
8,000 Sq Ft
=\$10.4 per Sq Ft
Saves \$43K



\$25k Tax
10,000 Sq Ft
=\$2.5 per Sq Ft
Extra \$25K

Success and Consequences: Max Tax

- What is it and Why Consider It?
 - Place a max tax on properties
 - Eg, Tax can rise no more than \$7.50 per Sq Ft
 - Shifts taxes from high tax properties onto those paying less.
- Considerations:
 - Square Foot is a good measure for retail, office
 - Benefit could go to those that have a small property but are on large land
 - Limit to those with Floor Area Ratio (SqFt/Land) of 0.5, a measure of density.

Small Properties >> Maximum Tax

No tax above \$7.50 per sq foot of space.

\$8k Tax
1,500 Sq Ft
=\$5.3 per Sq Ft
Small Change



\$46k Tax
10,000 Sq Ft
=\$4.6 per Sq Ft
Saves \$6K



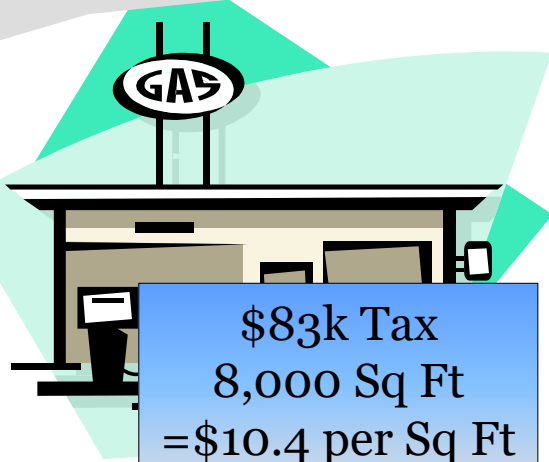
\$863k Tax
130,000 Sq Ft
=\$6.6 per Sq Ft
Extra \$4K

\$398k Tax
130,000 Sq Ft
=\$3.1 per Sq Ft
Extra \$2K

\$76k Tax
10,000 Sq Ft
=\$7.6 per Sq Ft
Small Change



\$83k Tax
8,000 Sq Ft
=\$10.4 per Sq Ft
Small Change



\$25k Tax
10,000 Sq Ft
=\$2.5 per Sq Ft
Small Change



Success and Consequences:

Frontage Tax

- What is it and Why Consider It?
 - Tax levied on length of frontage in front of property
 - Eg, \$900 for each foot of frontage
 - May wish to exclude downtown (ie office towers) and/or use deductions, multiple rates.
 - Stability: Frontage tax increases if Council raises rate or business acquires more frontage
 - Links to Municipal Cost and to Planning
- Considerations:
 - Road frontage is a key “cost driver”
 - Infrastructure Costs, Fuel
 - Impact on built form (sprawl)
 - High density uses proportionately less frontage

Development >> Frontage Tax

Tax of \$900 for each foot of frontage

\$8k Tax
50 Feet
=\$160 per foot
Extra \$38K



\$46k Tax
250 feet
=\$184 per foot
Extra \$185K

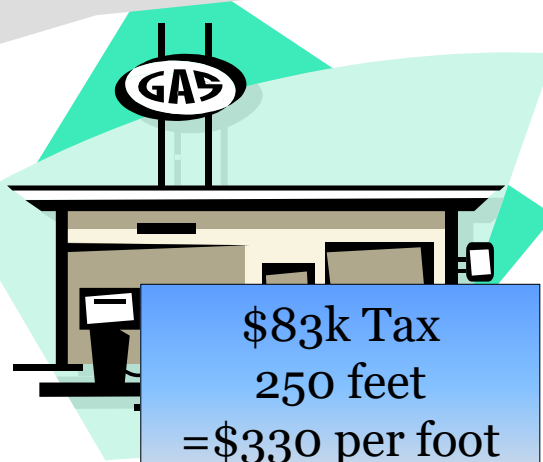
\$863k Tax
250 feet
=\$3,450 per foot
Saves \$632K

\$398k Tax
500 feet
=\$800 per foot
Extra \$63K

\$76k Tax
250 feet
=\$300 per foot
Extra \$155K



\$83k Tax
250 feet
=\$330 per foot
Extra \$148K



\$25k Tax
75 feet
=\$330 per foot
Extra \$44K



Success and Consequences:

Land Tax (Acres)

- What is it and Why Consider It?
 - Tax levied on size of land
 - Eg, \$2.60 for each square foot of land
 - Encourages more intense land use
 - Higher density, environment
 - Stability: Land tax increases if Council raises rate or business acquires more land
- Considerations:
 - Significant land is available for development
 - Undeveloped land of limited value could be taxed

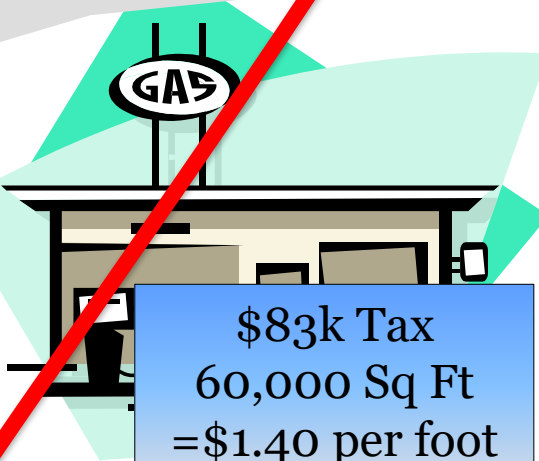
Development >> Land Tax

Tax of \$2.60 for each Sq Ft of Land

\$8k Tax
2,000 Sq Ft
=\$4.00 per foot
Saves \$3K



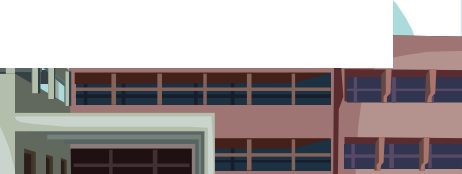
\$863k Tax
35,000 Sq Ft
=\$24.70 per foot
Saves \$771K



\$46k Tax
26,000 Sq Ft
=\$1.80 per Sq Ft
Extra \$22K



\$398k Tax
400,000 Sq Ft
=\$1.00 per foot
Extra \$648K



\$76k Tax
20,000 Sq Ft
=\$3.80 per foot
Saves \$24K



\$83k Tax
60,000 Sq Ft
=\$1.40 per foot
Extra \$74K



\$25k Tax
30,000 Sq Ft
=\$0.80 per foot
Extra \$53K

There are lots of other combinations

- Any of the options can be varied or combined. For example:
 - Deductions, Multiple rates, Surtaxes can all be added
 - Combine different tax methods
 - Assessment, Frontage, Zones, Multiple rates
 - Zones - Benefits can be restricted to Zone
 - Multi-Tier rates applicable only in certain zones
 - Frontage
 - Use for a portion of tax revenues
 - Provide a deduction for first 50 feet, Surtax for large frontage

How Do We Approach

- Examples are there to help understand
 - Properties, tax rates are not representative but demonstrate how options function.
- Tax systems can incent activity (intentional, accidental)
- The larger the incentive, the greater the tax that is shifted onto others.
- Geographic boundaries must be clear, consistent and tied into the objectives.
- The objectives and measures of success are critical. **How will we know a changed tax system is successful?**
 - Outcomes to Achieve, Outcomes to avoid or minimize.

Question Four: Ability to Administer?

- Use existing legislative powers
 - Property Value
 - Property Size (acres, frontage, square footage)
- Do we require new powers and/or new forms of taxation from the Province
- Credible administration:
 - Is it understandable to business?
 - Lead time to communicate
 - Impact on billing systems, software
 - Is Data Available (eg square footage, floor area ratio)
 - Clear, consistent boundaries (eg What is “Main” Street?)

Question Four: Is there an ability to administer?

- Use existing legislative powers
 - Property value
 - Property size (acres, frontage, square footage)
- Do we require new powers and/ or new forms of taxation from the Province
- Credible administration:
 - Is it understandable to businesses?
 - Lead time to communicate
 - Impact on billing systems, software
 - Is data available (e.g. square footage, Floor Area Ratio)
 - Clear, consistent boundaries (e.g. What is “Main Street”?)

Questions for the Workshop

- 1) What is a fair way to pay tax?
- 2) What is your objective(s): **How will we know a changed tax system is successful?**
- 3) What options lead to that success? Do we
 - Accept that for some properties to pay less tax, other properties must pay more tax.
- 4) Is there an ability to administer?
 - Understandable to business