

Municipal Tax Policy – Setting the Non-Residential to Residential Tax Ratio for 2021 and Beyond

ISSUE

Municipal property taxes are used to pay for local public services that largely provide collective benefits to households, individuals, and organizations. Thus, a fundamental role of city government is to distribute the property tax burden among various taxpayers as fairly and efficiently as possible. While this is often a value judgement, cities take different approaches in achieving this. The City of Saskatoon (City), for example, sets an explicit tax ratio between residential and non-residential properties and adjusts it from time to time based on changes in property valuations. Assuming the continuation of a tax ratio policy in 2021, what should the City set the ratio at? What are the implications on various property taxpayers resulting from various tax ratio scenarios?

BACKGROUND

2.1 History

Saskatoon City Council's tax policy approach emerged in 1998, coinciding with the adoption of a new provincial property assessment framework. Saskatoon adopted a fixed ratio municipal tax that applied a higher tax rate to non-residential properties¹ relative to residential properties. More specifically, in 2001, Saskatoon City Council passed a resolution to have a targeted non-residential to residential property tax ratio of 1.75 to 1, meaning that the municipal (and library) tax rate would be set at 1.75 times higher than that for residential properties, phased in over several years. The 1.75:1 tax ratio was achieved in 2010 and remained the policy until 2017.

In 2012, a proposal from business organizations, led by the Greater Saskatoon Chamber of Commerce, recommended a reduction in the municipal tax ratio to 1.43 to 1. Their argument centred on horizontal equity considerations in that the tax policy should treat like properties in like circumstances. City Council suggested that this be addressed after the 2017 property revaluation.

In 2017, after a provincial-mandated reassessment, Saskatoon City Council revisited its municipal tax ratio policy and agreed to reduce the non-residential – residential tax ratio to 1.59 to 1. This decision was the result of a compromise between the status quo ratio of 1.75:1 and the Greater Saskatoon Chamber of Commerce's 2010 proposal of 1.43:1.

¹ The term non-residential is used to mean commercial and industrial (or business) properties. Residential is used to refer to single-family homes, condominiums, and multi-family homes.

Specifically, at its March 27, 2017 meeting, City Council resolved:

- “1. That the policy of utilizing a ratio of non-residential to residential tax rates continue to be used as the City of Saskatoon’s tax policy for 2017;
2. That the Administration report on the development and establishment of key metrics to better evaluate the impacts of Council tax policy and inform City Council on future tax policy decisions and that these metrics include, but not be limited to:
 - a. The impacts of tax policy on fixed and low-income property owners;
 - b. The impact on business investment decisions;
 - c. A comparison of impacts on businesses of various size;
 - d. An evaluation of how equity can be best evaluated in terms of benefits, horizontal equity, and tax share;
 - e. The change over time of revenues received by residential and non-residential property classes and impact on provision of civic services; and
3. That the Administration provide further information, as available, on the rate of local ownership within the property tax classes on other jurisdictions;
4. That the municipal tax ratio be changed to 1.59; and
5. That the ratio be readdressed at the next assessment cycle.”

Resolutions 2 and 3 are addressed as much as possible in Appendix 1. Unfortunately, data limitations and/or quality make it difficult to analyze Resolutions 2 a, b, e, and 3 in any sophisticated way.

2.2 Current Status

Any discussion about tax policy and the distribution of the tax burden also requires an overview of any changes to the tax base. As such, a couple of important points are worth addressing about the status of tax policy.

First, in December 2020, the Government of Saskatchewan announced changes to the “percentages of value” for non-residential properties from 100% of their assessed value to 85% of their assessed value.² This means that for the 2021 property revaluation cycle, the taxable assessment for non-residential properties will be 85% of their value. There were no changes to residential properties and their taxable assessment will remain at 80% of their assessed value. The

² Percentages of value are used to calculate taxable assessments from assessed values determined by assessment appraisers. Taxable assessments are then multiplied by the mill rate, established by municipalities for the municipal portion and the province for the education portion, to determine property tax.

percentages of value changes have no direct impact on the distribution of the municipal tax burden, as the tax rate would simply be adjusted to reflect any Council-approved tax policy, such as the City's 1.59:1 current tax ratio.

Second, in January 2021, the City released the updated assessment roll for the 2021 reassessment year, indicating an overall drop in the taxable assessment and some value shifts among property classes. For example, the 2021 Taxable Assessment Roll fell to \$41.3 billion, compared to \$43 billion in 2020 because of reassessment. Moreover, the typical residential property assessed value in Saskatoon decreased 7% and the typical non-residential property assessed value increased 8%. These values are reflective of market conditions as of January 1, 2019. Given these valuation changes, the City's tax policy may need adjustment to account for potential tax shifts resulting from the reassessment.

2.3 City of Saskatoon's Current Approach

The City uses property tax revenues to generally fund a variety of public services that are said to largely benefit the community as whole: police services, fire services, and road maintenance to name a few. Unless otherwise exempt by legislation, every person or organization that owns property in the city directly pays property taxes to help for these programs and services.

The City distributes the property tax burden among different property classes by using a tax ratio approach that pegs the tax rate for non-residential properties at some point higher than residential properties. For 2020, this ratio is set at 1.59:1. As noted, the City first adopted this approach in 1998 and has maintained it ever since. The original intent of the City's property tax ratio policy was to achieve (horizontal) equity among residential and non-residential properties of similar assessed values (Saskatoon Tax Policy Review Committee, 1997). This was achieved by estimating the amount of property taxes that a business could deduct for income tax purposes. *Canada's Income Tax Act* allows businesses to deduct property taxes as an expense for the purposes of filing their corporate income tax (CIT) returns each year. More on this is explained in Appendix 2.

2.4 Approaches in Other Jurisdictions

In Canada, the approach to both valuing and taxing properties—both residential and business—is governed by provincial legislation. In Saskatchewan, for example, *The Cities Act* provides the legislative framework for valuing properties and sets specific minimum requirements for property taxation. Similar legislative frameworks exist in Alberta and Manitoba, although prescriptiveness of the legislation and flexibility that local governments have varies among them

The legislative frameworks for property assessments is very prescriptive. In other words, local governments have no autonomy with respect to how properties are valued for tax purposes. The reason for this is simply to ensure that similar properties in a province are valued equitably, regardless of where they may be located.

However, the legislative frameworks for property taxation provides local governments with limited autonomy in that they can set their own property tax rates. The result is a property assessment system and property tax regime that is very difficult to compare across jurisdictions.

As to be expected, the local tax policy approaches in other Canadian jurisdictions differ considerably from those in Saskatoon. Research indicates that Saskatoon is the only major city in Western Canada that sets an explicit tax ratio for non-residential and residential property taxes. However, some provinces have legislated such ratios. For example,

- In Ontario, all municipalities must adopt a bylaw that sets tax ratios for each property class. All property tax rates are compared to the residential tax rate. The Province has set “allowable ranges of fairness” for tax ratios. The City of Toronto, for instance, has committed to lower its non-residential to residential tax ratio to 2.5:1, although it was 2.7:1 in 2020.
- In New Brunswick, legislation prescribed that the non-residential property tax must not be greater than 1.5 times the rate on residential property.
- In Alberta, the province’s *Municipal Government Act* sets the non-residential to residential tax ratio at no greater than 5:1.
- In Saskatchewan, legislation limits a municipal council to the highest mill rate factor they can apply to a class of property. The mill rate factor applied to one class of property must not be greater than nine times the lowest mill rate factor applied to any other class of property.

With this context in mind, this report provides a brief description of how selected cities approach local tax policy.

City of Regina:

The City of Regina has no targeted tax rate policy. In other words, Regina does not have a residential to non-residential property tax ratio. The City of Regina has traditionally used a revenue neutral approach, meaning that taxes are not shifted from one property class to another due to variable valuation changes.

City of Calgary:

The City of Calgary does not have a targeted tax rate policy. In fact, Calgary uses what is referred to as a budget based, or tax shares, approach in that it ensures that roughly half of the property taxes collected come from residential properties and half come from non-residential properties. In 2020, the split was 52% residential and 48% non-residential. Because Calgary conducts annual property assessments, real inventory growth and market value changes can be addressed in the budget year, altering the mix. The tax ratio, then, is simply the result of that process.

City of Edmonton:

Edmonton’s approach is very similar to Calgary’s in that it considers real growth, market value changes, and the budget or tax policy of the City³. It is the combination of these factors that will ultimately determine the tax ratio. Like Calgary, Edmonton allocates any budget supported property tax increases on a 50/50 basis, meaning the total tax increase is applied equally to non-residential and residential properties. However, due to value shifts, residential properties accounted for 53% of all local property taxes in 2020.

City of Winnipeg:

Winnipeg also does not have a targeted tax rate policy. In fact, the residential and non-residential tax rates in Winnipeg are the same, as required by provincial legislation, in this case the Winnipeg Charter. However, the difference lies in the fact that non-residential properties are assessed higher than residential properties, resulting in a higher effective tax rate for non-residential properties. Also, Winnipeg collects a business occupancy tax, resulting in a higher non-residential tax burden in some cases.

Given these various tax policy approaches, how does the resulting tax ratios compare among the various cities? Table 1 provides some insight.

Table 1: Non-Residential to Residential Property Tax Ratio in Selected Cities (2020)
Source: City websites, Author Calculations

City	Municipal Tax Ratio	Provincial Education Tax Ratio	Total Tax Ratio
Saskatoon	1.59	1.90	1.70
Regina	1.66	1.90	1.74
Calgary	3.31	1.31	2.58
Edmonton	2.71	1.51	2.40
Winnipeg*	1.44	5.90	1.92

**Does not include Business Tax*

As the table reveals, Saskatoon has the second lowest municipal tax ratio, but the lowest overall tax ratio, after factoring in the provincial education property tax. Although Winnipeg’s tax ratio is 1.44, it does not account for the business taxes that the city collects.⁴ Calgary has the highest local tax ratio among the cities. The prairie average for the municipal tax ratio is 2.15 to 1.

³ To understand how these factors work together, see The City of Edmonton, “The Way We Finance: Property Assessment and Taxation White Paper,” Appendix C. Obtained from https://www.edmonton.ca/city_government/documents/TWWF_Assessment_and_Taxation_White_Paper.pdf

⁴ <http://www.winnipegassessment.com/AsmtTax/English/Business/HowBTcalculated.stm>

OPTIONS

The analysis in the preceding section illustrates the differing approaches cities take to distribute the local tax burdens. These differences in assessment and property taxation approaches emerge because provinces set different standards with respect to property valuations and give cities various degrees of autonomy to implement their own tax policies, provided they meet the minimum standards as set out in legislation (or regulations). As a result, it is very difficult to perform standard comparisons to determine whether one approach or system is better than any other.

Nonetheless, this section of the report offers five options for consideration. The options are all based on the overall tax ratio approach, but they differ in terms of property tax implications for the various property classes. Given that framework, the common elements, or assumptions, for all options are as follows:

- The overall tax burden is fixed, given City Council's approved budget for 2021. As a result, there are no financial implications to the City resulting from any of the options. However, the distribution of the tax burden on residential and non-residential properties will change depending on the option. These implications are explained in each option.
- The advantages and disadvantages of the tax ratio approach are largely similar regardless of what the ratio is. However, the distribution of the tax burden over the two primary property classes may slightly alter this analysis. That said, this section does not evaluate the advantages and disadvantages for each option, but rather, illustrates the differing tax implications for each property class. The pros and cons of the tax ratio approach are explained in Appendix 2.
- Implementation of any one option requires the passage of the Property Tax Bylaw, which typically occurs at the end of April.
- The section offers a comparative analysis for each option in two ways: (1) from the changes in assessment only; and (2) from the changes in assessment and the 2021 budgetary tax increase. These are shown in Tables 2 and 3 respectively. To explain the differences between the two tables, Saskatoon City Council approved an overall property tax increase of 2.83% for 2021. Table 3 applies this overall tax increase to the analysis of the various tax policy options.

Table 2: Municipal Property Tax Changes Resulting from 2021 Reassessment (Excludes Budget Changes)

Characteristics	Residential	Non-Residential
Assessed Value (x 1,000)	\$ 400	\$ 400
Taxable Assessment (x 1,000)	\$ 320	\$ 340
Tax Policy Options		
<i>Status Quo (1.59)</i>	\$(119.10)	\$ 379.94
<i>Revenue Neutral (1.36)</i>	\$ -	\$ -
<i>Chamber Proposal (1.43)</i>	\$ (36.01)	\$ 115.94
<i>Compromise Proposal (1.5)</i>	\$ (73.12)	\$ 233.65
<i>Prairie Average (2.15)</i>	\$(370.53)	\$1,179.08
() means reduction		

Table 3: Municipal Property Tax Changes Resulting from 2021 Reassessment and Budget Changes

Characteristics	Residential	Non-Residential
Assessed Value (x 1,000)	\$ 400	\$ 400
Taxable Assessment (x 1,000)	\$ 320	\$ 340
Tax Policy Options		
<i>Status Quo (1.59)</i>	\$ (49.08)	\$ 491.34
<i>Revenue Neutral (1.36)</i>	\$ 73.82	\$ 100.47
<i>Chamber Proposal (1.43)</i>	\$ 36.45	\$ 219.61
<i>Compromise Proposal (1.5)</i>	\$ (1.75)	\$ 340.78
<i>Prairie Average (2.15)</i>	\$(307.87)	\$1,313.88
() means reduction		

Option 1: Maintain the Status Quo Tax Ratio of 1.59

This option proposes that the City keep its existing tax ratio of 1.59 to 1. This ratio is one of the lowest in Canada and is also well below the prairie city average of 2.15. As noted in Table 2, the relative distribution of the tax burden changes because of reassessment only. Thus, a residential property assessed at \$400,000 would see an average tax decrease of \$119 before applying any budgetary changes. On the other hand, a non-residential property assessed at \$400,000 would see a tax increase of \$323 before budget.

Adding the 2021 budget change alters the impacts somewhat. As Table 3 shows, adding the budget increase results in an average tax decrease of almost \$50 for a residential property with an assessed value of \$400,000. On the other hand, non-residential properties with the same assessed value see an increase of \$491.

Option 2: The Revenue Neutral Proposal, Ratio of 1.36

This option proposes that the City adjust the tax ratio to the revenue neutral rate of 1.36 to 1. That is, the non-residential property tax rate would be set at 1.36 times higher than the residential property tax rate. This would, by far, result in the lowest tax ratio in Western Canada. Revenue neutral means that any tax shifts among property classes are mitigated and changes in property tax burdens result from the budget process.

Thus, under this option, as noted in Table 2, the relative distribution of the tax burden does not change as a result of reassessment only. On the other hand, Table 3 shows that including the 2021 budgetary change results in almost \$74 tax increase for a residential property assessed at \$400,000. Non-residential properties assessed at the same value would see a tax increase of approximately \$100.

Option 3: Chamber of Commerce Proposal, Ratio of 1.43

This option proposes that City Council adopt the long-standing Chamber of Commerce proposal of 1.43 to 1 for the non-residential to residential municipal tax ratio. Again, this ratio would be the lowest in Canada among major cities. Table 2 shows that under this option, the relative distribution of the tax burden changes because of reassessment only. Here, a residential property assessed at \$400,000 would see an average tax decrease of \$36 before budget. On the other hand, a non-residential property assessed at \$400,000 would see a tax increase of \$115.94 before budget.

Adding the 2021 budget change alters the impacts somewhat. As Table 3 shows, the budget increases the tax burden for a residential property with an assessed value of \$400,000 by slightly above \$36. On the other hand, non-residential properties with the same assessed value see an average increase of \$219.60.

Option 4: The Compromise Proposal, Ratio of 1.5

This option proposes that City Council adopt a non-residential to residential municipal property tax ratio of 1.5 to 1. Termed the “compromise” or New Brunswick proposal, this ratio would again be among the lowest in Canada. Table 2 shows the relative changes in the tax burden from reassessment for this option. Here, a residential property assessed at \$400,000 would see an average tax decrease of about \$73 before applying the budget increase. Conversely, a non-residential property assessed at \$400,000 would see a tax increase of about \$234 before budget.

As Table 3 shows, adding the budget increase results in an average tax decrease of \$1.75 for a residential property with an assessed value of \$400,000. On the other hand, non-residential properties with the same assessed value see an average increase of about \$341.

Option 5: The Prairie Average Proposal, Ratio of 2.15

This option proposes that City Council set the non-residential to residential tax ratio to the five-city prairie average of approximately 2.15 for municipal property taxes. This would certainly result in a higher tax ratio on non-residential properties than under the status quo, but it would still be competitive among major Canadian cities. However, the implications of this tax ratio would see some large tax shifts.

For example, Table 2 reveals that under this option, residential properties with an assessed value of \$400,000 would see an average tax decrease of about \$371. By contrast, non-residential properties with the same assessed value would see an increase of \$1,179 simply from reassessment.

Indeed, adding the 2021 budget change alters the impacts even more. As Table 3 shows, the budget increase results in an average tax decrease of \$308 for a residential property with an assessed value of \$400,000. On the other hand, non-residential properties with the same assessed value see an average increase of \$1,314.

RECOMMENDATION

That the Standing Policy Committee on Finance recommend to City Council that it adopt Option 1 and maintain the current non-residential to residential tax ratio of 1.59 to 1 effective for the 2021 tax year and beyond.

RATIONALE

As illustrated in the previous section, the tax policy options are very similar in style, but the incremental tax burdens are varied among the options. The literature review and supporting data in Appendix 2 concludes that business property taxes, especially at the levels proposed in this report, have minimal effects on business investment and are likely favorable. In other words, the literature is inconclusive in terms of the impact that a tax ratio policy has on business decisions and whether there is an optimum tax ratio. While the literature cites that high business property taxes will discourage business development, there is no consensus on what high means.

In fact, annual reports produced by the C.D. Howe Institute on the business property taxes shows that Saskatoon is consistently the most competitive city in Canada when it comes to the marginal tax burdens on business investment. To that end, cities such as Calgary or Toronto with much higher statutory tax ratios than Saskatoon are deemed to have favourable investment climates as well. That said, the literature does also suggest that investment responds to differences in marginal effective tax rates applied to capital income.

Since 2013, Saskatoon has seen substantial increases in commercial assessment values, but according to the literature, this may or may not be related to having one of the lowest effective tax rates in Western Canada. It is likely a result of several macro-economic factors, such as commodity prices to name one. As such, there is no standard practice amongst municipalities when it comes to differential taxation for business properties, as it appears that tax policies depend on community values.

Ultimately, the choice of the option comes down to how well they support public policy principles. Appendix 2 explains such principles and indicates that there are trade-offs that emerge in the decision-making process. For example, a fundamental principle in Saskatoon's tax policy approach is tax fairness or equity. Here, it implies that the burden of a tax should be shared fairly among individuals so that there is an equitable distribution of the cost of government to society.

In 1997, Saskatoon's Local Tax Review Committee was concerned by the tax rate differential and believed that there was no basis for charging businesses higher tax rates when in fact the residential properties received more services for the taxes than paid. This, combined with the ability for business property owners or non-residential property owners to deduct property taxes from their corporate income tax requirements, formed the basis for the adoption of a targeted non-residential to residential tax ratio of 1.75 to 1, which has since fallen to 1.59.

Given the analysis in the report and Appendix 2, the Administration is recommending that the City stay the course and maintain the existing tax policy ratio. This option appears to minimize the policy trade-offs among the tax policy concepts, while maintaining Saskatoon's tax competitiveness. Although non-residential properties will see an average tax increase slightly higher than the revenue neutral option, the status quo municipal tax ratio still results in a competitive tax environment for Saskatoon businesses relative to status quo. Moreover, given City Council's decision in 2017, where the 1.59 was the result of a compromise between the status quo and the long-standing position of business organizations for a ratio of 1.43, this recommendation continues with that approach.

ADDITIONAL IMPLICATIONS/CONSIDERATIONS

The analysis in this report does not include the impacts from provincial education property taxes. In Saskatoon, provincial education taxes represent almost 40% of the total property tax burden for residential and non-residential properties. The changes to the provincial percentage of value may result in education property tax shifts for residential and non-residential properties as the province does not use a revenue neutral calculation from one cycle to the next. The provincial education property tax will not be known until the provincial budget is released on April 6.

The 2021 property revaluation shows that residential and non-residential property values went in different directions. Residential properties fell in aggregate by 7% while non-residential properties grew by 8%, in aggregate, relative to the previous assessment cycle. The 2021 assessment values do not reflect the potential impact from COVID-19 as this will become more evident in the next assessment cycle in 2025.

The uneven effects of COVID-19 on some types of local business suggests that a stable and predictable tax rate policy would help to minimize any potential downsides from the disruption of the pandemic. As a result, the Administration suggests that City Council consider maintaining the City's tax ratio over a longer period so that analysis can be conducted on the effectiveness of such policy. In other words, if City Council adopts the proposed recommendation, then perhaps it should be maintained as permanent policy

(subject to future City Council decisions) to help determine the policy effectiveness in achieving policy outcomes and minimizing its residual effects.

Also noteworthy is that the Administration in partnership with the Johnson Shoyama Graduate School of Public Policy at the University of Saskatchewan is conducting an empirical review and modeling the effectiveness of business property tax incentives in Saskatoon and other cities. The results of this review could have tax policy implications depending on the results and recommendations emerging from the research (in 2022).

COMMUNICATION ACTIVITIES

Comprehensive communication materials accompanied the release of this report. They were developed to create awareness and understanding of the various options that will be considered for the 2021 municipal tax ratio policy. Communication activities include:

- A news release to highlight the tax policy options within this report; subsequent news release(s) will be issued once City Council adopts the municipal tax ratio policy for 2021.
- To ensure transparency, administrative reports and related documents, such as Discussion Paper on Business Property Taxation by Cities and Frequently Asked Questions, regarding the municipal tax ratio policy will be available on the City's website.
- City Council's ultimate tax policy decision will be widely communicated in April once the property tax bylaw is passed and tax notices are sent to property owners. The City's website will be further updated to ensure access to information on the matter.

APPENDICES

1. Peripheral Issues Relating to Local Tax Policy
2. Discussion Paper – Business Property Taxation by Cities: What We Know, What We Don't, and What We Should

REPORT APPROVAL

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