

City of Saskatoon's Business Property Taxes in Comparative Perspective

ISSUE

The City of Saskatoon is unique among major Canadian cities in that it is one of few who explicitly sets the statutory non-residential property tax rate at a level relative to statutory residential property tax rate.¹ In 2023, Saskatoon's statutory non-residential property tax rate is set 1.59 times higher than the statutory residential property tax rate. Given this policy approach, how does Saskatoon's non-residential property tax system compare to other Western Canadian cities? Based on several measures, Saskatoon's non-residential property taxes are among the lowest in Western Canada.

BACKGROUND

At its September 13, 2023, meeting, the Governance and Priorities Committee considered a Notice of Motion and resolved:

"That the Administration provide a report to the 2024/25 Preliminary Corporate Business Plan and Budget deliberations in November regarding Saskatoon's business tax ratio and any other related business property tax measures, including comparisons to other jurisdictions."

At its April 2023 Regular Business Meeting, City Council passed Bylaw No. 9887, *The Business Improvement District Levy Bylaw, 2023*; Bylaw No. 9888, *The Saskatoon Property Tax Bylaw, 2023*; and Bylaw No. 9889, *The School Division Property Tax Bylaw, 2023*. These bylaws set the statutory property tax rates and levies that are applied to the taxable assessed value for all eligible properties for the 2023 tax year.

At its March 22, 2021, Regular Business Meeting, City Council resolved:

"That City Council adopt Option 1, as outlined in the report of the Chief Financial Officer dated March 8, 2021, and maintain the current non-residential to residential tax ratio of 1.59 to 1 effective for the 2021 tax year and beyond."

This resolution effectively maintained a previous decision from City Council to set the municipal non-residential property tax ratio 1.59 times above the residential ratio. The 1.59 ratio was a compromise position between the previous ratio of 1.75 and a position

¹ For the purposes of this report, non-residential properties refer to commercial and industrial properties. This will also be referred to as "business property taxes." Residential properties refer to single family homes, townhouses, and condominiums as they are all taxed at the same statutory rate. A statutory tax rate is referred to the tax rate established by legislation or bylaw and is the tax rate applied to a property's taxable assessed value.

taken by local business organizations to lower the tax ratio to 1.43 times the statutory residential tax rate.²

CURRENT STATUS

Cities are required to value properties, where applicable, and tax them in accordance with the relevant legislative framework in their province.³ In Saskatchewan, for example, provincial legislation mandates that properties are revalued for taxation purposes every four years. In Manitoba, it is every two years. In Alberta and British Columbia (BC) it is annually. In Saskatchewan's case, a province wide revaluation was last conducted in 2021, based on market conditions prior to January 1, 2019. Despite the different valuation approaches, these all refer to assessed values and are determined using methods, such as "mass appraisal" and other techniques as prescribed by provincial regulations.⁴

For taxation purposes, Saskatchewan sets what is called "percentages of value", meaning properties are taxed at a percentage of their full assessed value. These are set after each province-wide property revaluation. As a result of the last revaluation, non-residential properties are taxed at 85% of their assessed value while residential properties are taxed at 80% of their assessed value.⁵ This is referred to as the taxable assessment. Manitoba is the only other province who mandates a percentage of value, 65% for non-residential properties and 45% for residential properties. In Alberta and BC residential and non-residential properties are each taxed at their full assessed value. In jurisdictions that use these methods, the statutory tax rate is set higher to generate the revenue required to pay for tax-supported expenditures, all else equal.

In most provinces and cities, the total property tax payable by a property owner is subject to different tax levies set by different taxing authorities, such as a city, provincial government, school board, library board, or transit authority. A city council is responsible for setting the city (or municipal) tax rates, while the provincial government sets the education property tax rates.⁶ The other taxing agencies will have the authority to levy a property tax. These tax rates are then multiplied by the taxable assessed value which yields the full statutory tax burden for the property owner.

For example, in Saskatoon, City Council sets the statutory municipal tax rates, the Saskatoon Library Board sets the statutory library tax rate, and the Government of Saskatchewan sets the provincial education property tax rate. In BC, especially metro Vancouver, the transit agency, Translink, levies a property tax to pay for its services. BC Assessment, the provincial property valuation body, does the same. These tax levies

² A discussion about the history and rationale for this is found here, <https://pub-saskatoon.escribemeetings.com/Meeting.aspx?Id=c042f0ca-8b92-450f-9f74-b26656045721&Agenda=Merged&lang=English&Item=54&Tab=attachments>

³ In provinces such as British Columbia, a provincial agency assesses property values.

⁴ For more see, <https://www.sama.sk.ca/property-owner-services/understanding-assessment#:~:text=The%20Concept%20of%20Mass%20Appraisal,standard%20methods%20and%20statistical%20analysis.>

⁵ See, <https://www.saskatchewan.ca/government/news-and-media/2020/december/04/property-tax-percentages-of-value-updated-for-2021>

⁶ All provinces except for Quebec and Newfoundland levy an education property tax.

are added to the tax roll for all properties and affects the total tax burned for a property. In Winnipeg, business properties pay both local school property taxes and provincial education property taxes, which can be substantial (see next section) and certainly changes the effective tax burden on business properties.⁷

In addition to the non-residential property tax, some cities will also use a business tax, which is typically levied on the annual rental value of the property. The use of a business tax effectively reduces the statutory non-residential tax burden but can alter the effective tax burden for taxable businesses. This is not a tax on real property, but rather a tax on business occupancy. The City of Winnipeg is the only major city in Western Canada to levy a business tax, generating about \$60 million in 2023.⁸ Cities that have eliminated the business tax have simply folded it into their non-residential property tax base.⁹

DISCUSSION/ANALYSIS

The summary in the previous section explains the fundamental features, key similarities, and differences about how property taxes are set in various jurisdictions. In this section of the report, the analysis compares relative measures of business property taxes between Saskatoon and eight other Western Canadian cities, with populations of at least 100,000, and belonging to their own Census Metropolitan Area (CMA).¹⁰ Table 1 in Appendix 1 provides some general statistics for the sample cities across 10 variables, including population, business counts, and taxable assessment per person and property taxes collected per person. It also includes some descriptive statistics (e.g., average and standard deviation) for each variable for each city.

One of the variables included in the table is the municipal non-residential to residential tax ratio, which is simply a measure of the statutory property tax rate difference between the two tax classes. Chart 1A (next page) shows that Saskatoon has the third lowest tax ratio among the nine cities at 1.61, 0.84 points below the sample average.¹¹ Calgary has the highest ratio, 2.6 times larger than Saskatoon's. Winnipeg's ratio excludes the business tax as it is subject to a different rate and assessment. Regina's low ratio is simply a reflection of its policy to collect one-third of the municipal property tax requirements from non-residential properties. After each revaluation, it simply adjusts the tax rate so that the new revaluation is revenue neutral.

Chart 1B changes the perspective and the order by using the combined tax ratio, which includes the statutory tax rates from the other taxing authorities.¹² Here, Saskatoon's ratio stays the same while Regina's (slightly) and Winnipeg's increase. At the other end Calgary's combined tax ratio falls. While the non-residential to residential tax ratio can

⁷ One way to measure the effective tax burden or effective tax rate can be defined as the residential or non-residential property tax per \$1,000 of assessed value.

⁸ For more details please consult: https://assessment.winnipeg.ca/AsmtTax/English/Business/Bus_asmt_info.stm

⁹ For example, the City of Calgary recently did this. <https://www.calgary.ca/for-business/taxes/business-tax-consolidation.html?redirect=/btc>

¹⁰ A CMA is formed by one or more adjacent municipalities centred on a population centre (known as the core). A CMA must have a total population of at least 100,000 of which 50,000 or more must live in the core. For more see, <https://www12.statcan.gc.ca/census-recensement/2021/ref/98-304/index-eng.cfm>

¹¹ Saskatoon's ratio is slightly higher than 1.59 due to an appeal contingency for non-residential properties.

¹² See table 2 in Appendix 1 for more on how the taxes are levied by each jurisdiction.

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be a useful measure, it does have limitations. The main one being it assumes the residential tax property rate is set at an optimal level relative to the size of the tax base. Thus, a lower ratio does not necessarily mean a lower effective tax burden.

Chart 1A: Municipal General Non-Residential / Residential Tax Ratio (Based on 2023 rates)

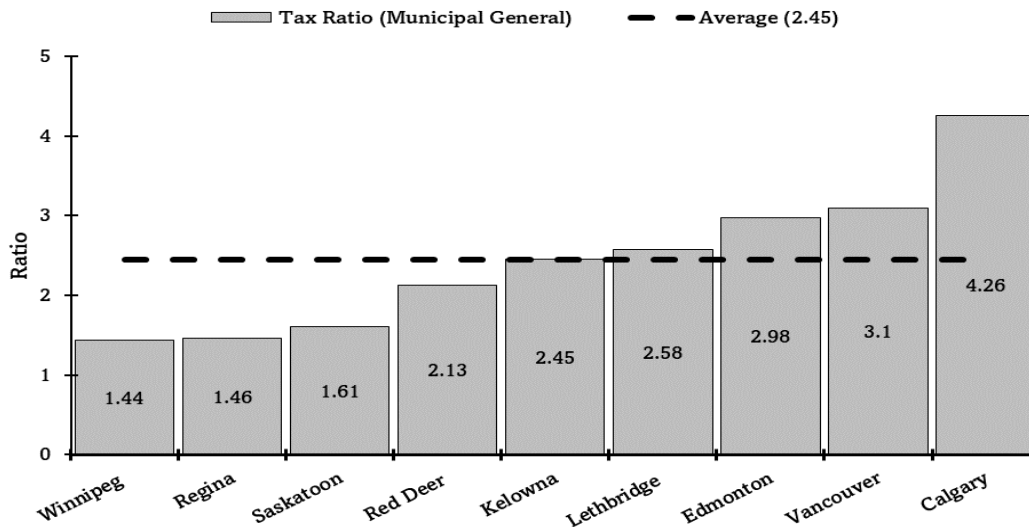
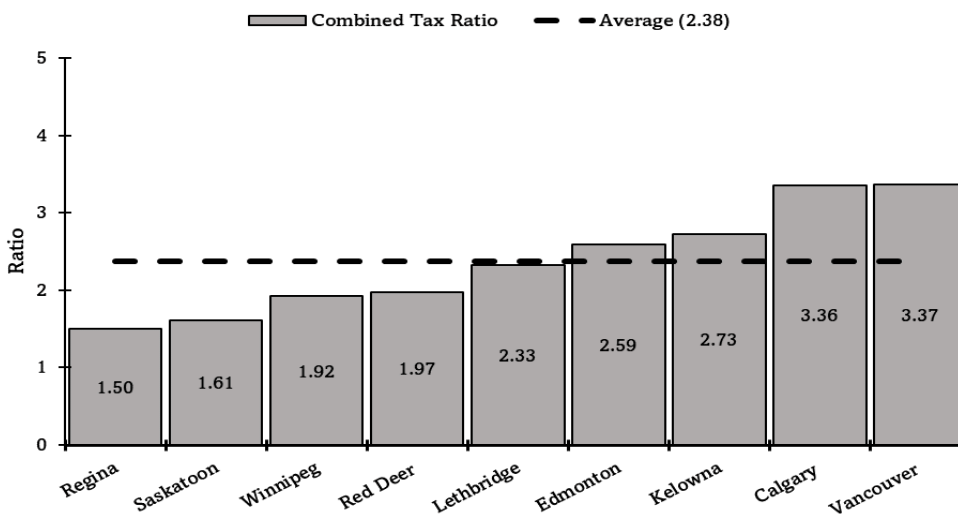


Chart 1B: Combined Non-Residential / Residential Tax Ratio (Based on 2023 rates)



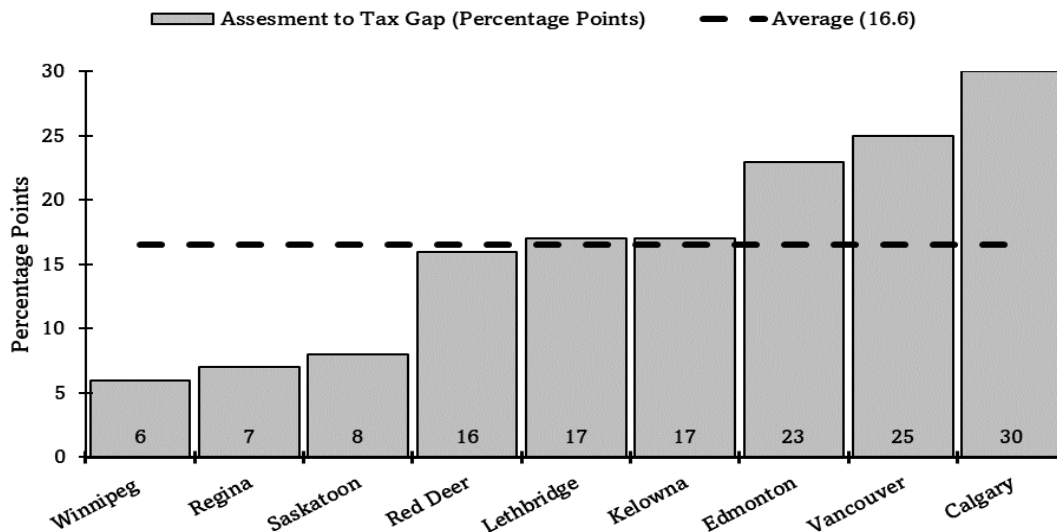
The property tax burden for any property is a function of three main elements: (1) the tax base, (2) the budgetary requirements, and (3) tax policy. The tax base is simply the taxable assessed value of the jurisdiction. Cities with larger tax bases can offer lower statutory tax rates, all things equal, to generate the revenue needed to fund the city's tax supported operations. The budgetary requirements are what cities decide they need to deliver the projects, programs and services to the residents and business in their

community. Finally, tax policy addresses how property taxes are distributed among the property classes (i.e., residential, and non-residential). Tax policy can be addressed by setting a relative tax ratio (like Saskatoon) or by setting budgetary tax requirements by property classes.

For example, most cities have an approach where the property classes pay for a share of the budgeted tax requirements. It could be (hypothetically) that residential properties pay 50% and non-residential properties pay 50% of the total tax requirements. In such cases, the tax rates are set to reflect this revenue split and the tax ratio is simply the outcome of that tax policy choice. This latter approach is the most common. However, this can lead to a substantial effective tax burden on non-residential properties, meaning they pay higher effective taxes relative to their share of the tax base.

To explore this, Chart 2 shows the difference between the share of taxable assessment and the share of taxes levied on non-residential properties. What this chart is illustrating is the relative difference between the taxable assessment attributed to non-residential properties, relative to its share of the budgeted tax revenue collected for municipal purposes. Winnipeg, Regina, and Saskatoon have the smallest gap, between 6 and 8 percentage points, while Calgary has the largest at 30. This means, that non-residential properties in Calgary pay property taxes at about 30 percentage points higher than their share of the tax base. In other words, the non-residential sector accounts for 18% of the tax base but pays 48% of the total municipal property taxes in Calgary.

Chart 2: The Non-Residential Property Assessment to Property Tax Gap - Municipal General Only

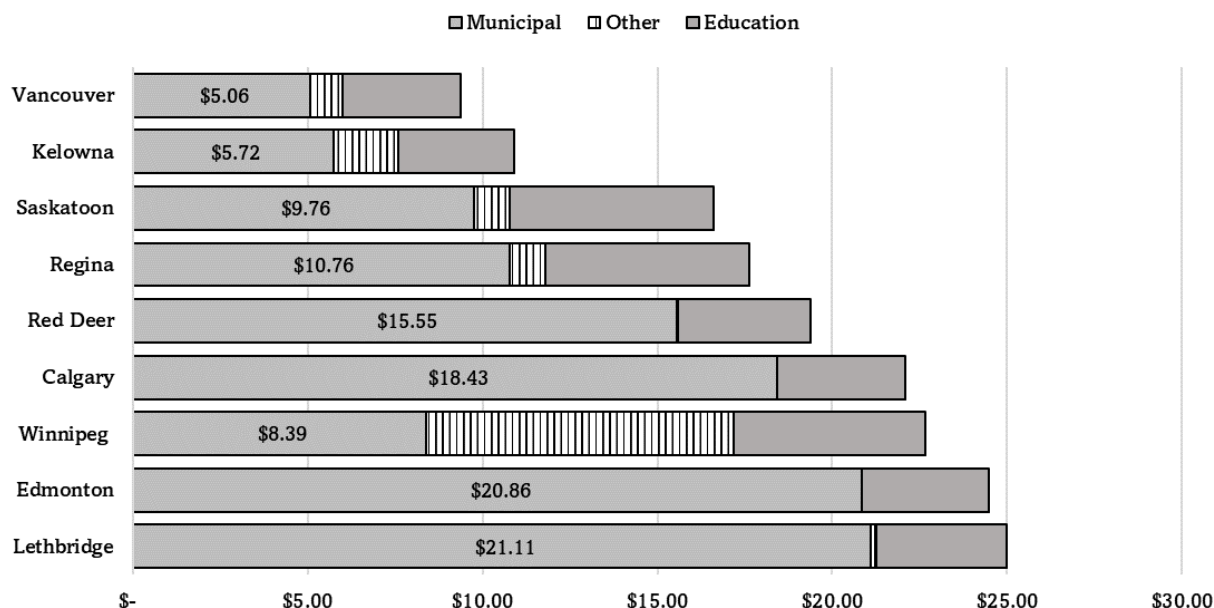


Given those tax policy approaches, it is useful to look at the effective tax burden for a non-residential property. Chart 3 shows the municipal and total effective tax burden for non-residential properties among the sample cities.¹³ The other category is a catch all

¹³ More details are in Appendix 1.

and includes the special tax levies for library, transit, property assessment, housing, and local school boards. The Education category is for provincial education.

Chart 3: Total Non-Residential Property Taxes per \$1,000 of Taxable Assessment (Based on 2023 Tax Rates)



Vancouver and Kelowna have the lowest non-residential effective tax rates among the sample cities, between \$5 and \$6 on the municipal side and between \$9 and \$11 combined. This is largely due to having highly valued tax bases. The per-capita non-residential assessment in Kelowna is 1.7 times higher than Saskatoon’s while Vancouver’s is 4 times higher. Saskatoon sits third and among the cities with an effective municipal tax burden under \$10 and total effective tax burden of just under \$17 per \$1,000 of non-residential taxable assessment.

The consensus in the economics literature is that property taxes are the least distortionary relative to other taxes because they do not substantially alter behaviors from individuals or firms.¹⁴ However, empirical studies have found that business property taxes are a tax on mobile capital (the capital tax view).¹⁵ As a result, jurisdictions that have high effective business property tax burdens, may see lower relative business investment, all things equal.

Based on the comparative analysis in this report and the accompanying appendix, Saskatoon, by any measure, has one of the most favourable business property tax environments in Western Canada. This has been confirmed by industry benchmark

¹⁴ Johansson, Åssa, Christopher Heady, Jens Arnold, Bert Brys, and Laura Vartia. 2008. “Tax and Economic Growth.” Economics Department Working Paper No. 620. Paris: OECD

¹⁵ For a recent review in the Canadian context, see Dahlby, Bev and Ferde, Ergete and Khanal, Mukesh, The Impact of Property Taxation on Business Investment in Alberta (March 2021). The School of Public Policy Publications, Volume 14:8 March 2021, Available at SSRN: <https://ssrn.com/abstract=3834589>

reports. It has a low tax ratio, a low assessment to tax gap, and one of the lowest effective tax rates on business properties generally.

FINANCIAL IMPLICATIONS

There are no known financial or other implications resulting from the information provided in this report and its accompanying appendix.

OTHER IMPLICATIONS

There are no privacy, legal, social, or environmental implications identified.

NEXT STEPS

The Administration has no plans for additional reporting on this specific issue topic in 2023 or 2024. However, in keeping with past practices, the Administration will report to the Standing Committee on Finance in early 2025 on the results of 2025 province wide property revaluation and potential tax implications so that City Council can consider potential tax policy changes.

APPENDIX

1. Supplementary Information

Report Approval

Written by: Mike Jordan, Chief Public Policy and Government Relations Officer
Reviewed by: Clae Hack, Chief Financial Officer
Approved by: Jeff Jorgenson, City Manager