

HALIFAX

Review of the Assessment Cap

Committee of the Whole

October 31, 2017

Presentation Outline

- Recommendation
- Background
- How the Provincial Assessment Cap Works
- Impacts:
 - Shifts in Taxation
 - Impact on new homes, sales, renovations
 - Housing Affordability
 - Stability and Predictability
- Recommendation

Recommendation

- It is recommended that Halifax Regional Council direct the Mayor to write the Province of Nova Scotia and request it examine possible solutions to the [unintended consequences](#) of the Assessment Cap, including its detrimental [impact on the economy](#) through declining property sales and its negative impact on [housing affordability](#).

Background

- Provincial Program created in 2005 to
“...protect Nova Scotians from sudden and dramatic increases in property assessments.”
- Municipalities can not alter the program.

How the Provincial Assessment Cap Works

- PVSC determines a “Market Value” Assessment for each property in Nova Scotia.
- Assessment Cap is an additional assessed value. Essentially “Market Value” but with a maximum increase of inflation.

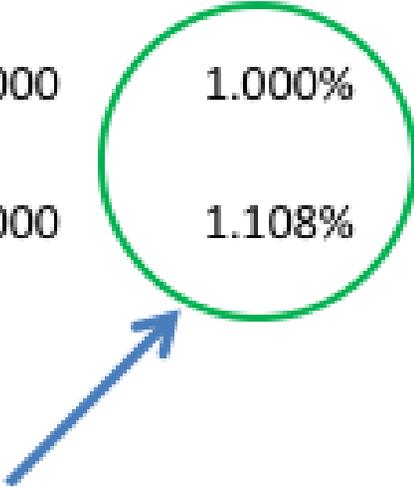
Example of the Assessment Cap: Market and Capped Values

| | Year One | Year Two | +/- |
|--------------|----------|----------|-----|
| Market Value | 100,000 | 113,000 | 13% |
| Capped Value | 100,000 | 102,000 | 2% |

The Capped Value can rise no more than the inflation rate (eg 2%)

Example of the Assessment Cap: Property Tax Rate set by Council

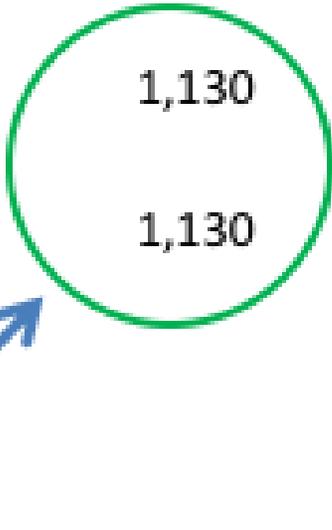
| | Values | Tax Rates |
|--------------|---------|-----------|
| Market Value | 113,000 | 1.000% |
| Capped Value | 102,000 | 1.108% |



In this example, the Capped Values is 9.7% less than the Market Value. A tax rate of 1% on market value raises the same revenues as 1.108% on capped values.

Example of the Assessment Cap: Property Tax Bill

| | Values | Tax Rates | Tax Bill |
|--------------|---------|-----------|----------|
| Market Value | 113,000 | 1.000% | 1,130 |
| Capped Value | 102,000 | 1.108% | 1,130 |



In this example, 1% on market value raises the same revenues as 1.108% on capped values.

How the Provincial Assessment Cap Works

- The Provincial Assessment Cap does not apply to all residential properties:
 - NS ownership
 - Three units or less
 - Owner-occupied condos
- Properties that sell lose their Cap and start again at Market Value.
- Renovations lose all or a part of their Cap
- New Homes come on at full market value and are then capped

How many Homes are Capped/Uncapped

- In 2016:
 - Single Family Homes
 - Capped – 98,300 (83%)
 - UnCapped – 19,800 (17%)
 - Apartments (4+)
 - UnCapped – 58,300 (100%)
 - All Dwellings
 - Capped – 111,100 (58%)
- In 2017, 75% of single family homes and 52% of all dwellings are capped.

Example: Some Save, Some Pay

| | Market Values | Capped Values | Tax Bill under Market (1.000) | Tax Bill under Cap (1.108) | Shift in Taxes |
|-------------|---------------|---------------|-------------------------------|----------------------------|----------------|
| House 1 | 113,000 | 102,000 | 1,130 | 1,130 | 0 |
| House 2 | 105,000 | 104,000 | 1,050 | 1,152 | 102 |
| House 3 | 108,000 | 90,000 | 1,080 | 997 | -83 |
| House 4 | 103,000 | 103,000 | 1,030 | 1,141 | 111 |
| Apartment 1 | 80,000 | 80,000 | 800 | 886 | 86 |

In this example, 1% on market value raises the same revenues as 1.108% on capped values.

Shifts in Taxation

- In Halifax, the Cap has shifted tax away from single family homes and onto Apartments and Condos.
- This assumes that a homeowner continues their eligibility for the Cap:
 - Stays in the same home
 - Doesn't renovate (or hides renovations)
 - Doesn't sell
 - Doesn't buy a new home
- Impacts differ across municipalities but the Cap distorts tax everywhere. Hurts new homeowners, those who renovate.

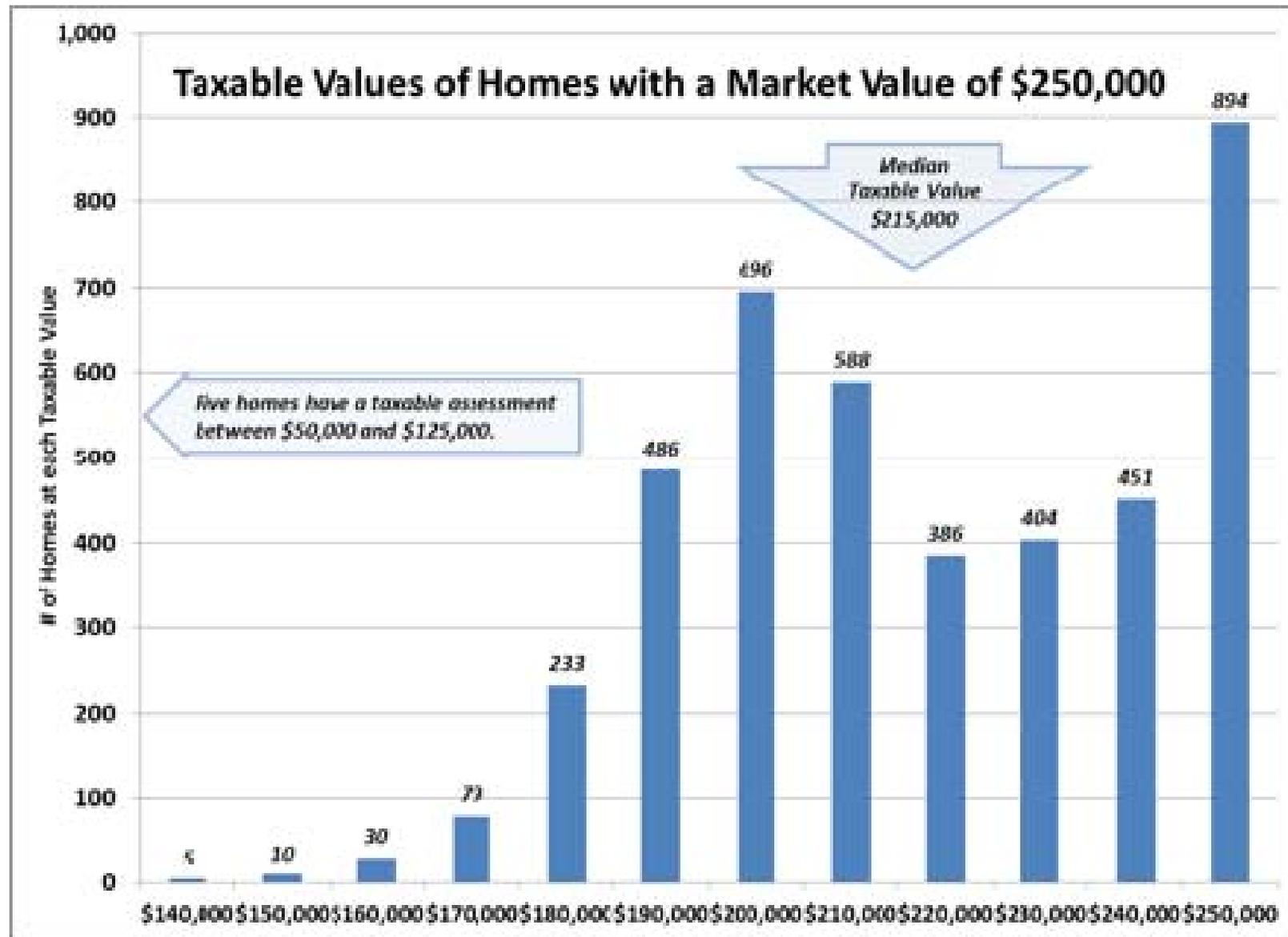
Shifts in Taxation

Property Tax shifts under the Assessment Cap

by Property Type in 2016

| Type of Property | Total Number of Dwellings | Lower Taxes % | Higher Taxes % | Total Average Impact |
|-----------------------------|---------------------------|---------------|----------------|----------------------|
| Single Family Homes: | | | | |
| Single Family Home | 102,710 | 59% | 41% | -\$68 |
| Condos | 10,427 | 29% | 71% | 113 |
| Mobile Homes | <u>5,020</u> | <u>67%</u> | <u>33%</u> | <u>-81</u> |
| Sub-Total | 118,157 | 56% | 44% | -\$53 |
| Multi-Units: | | | | |
| Two-Three Dwellings | 15,207 | 58% | 42% | -\$44 |
| Four+ Dwellings | 58,308 | 1% | 99% | \$118 |

Similar Homes but Different Tax Bills



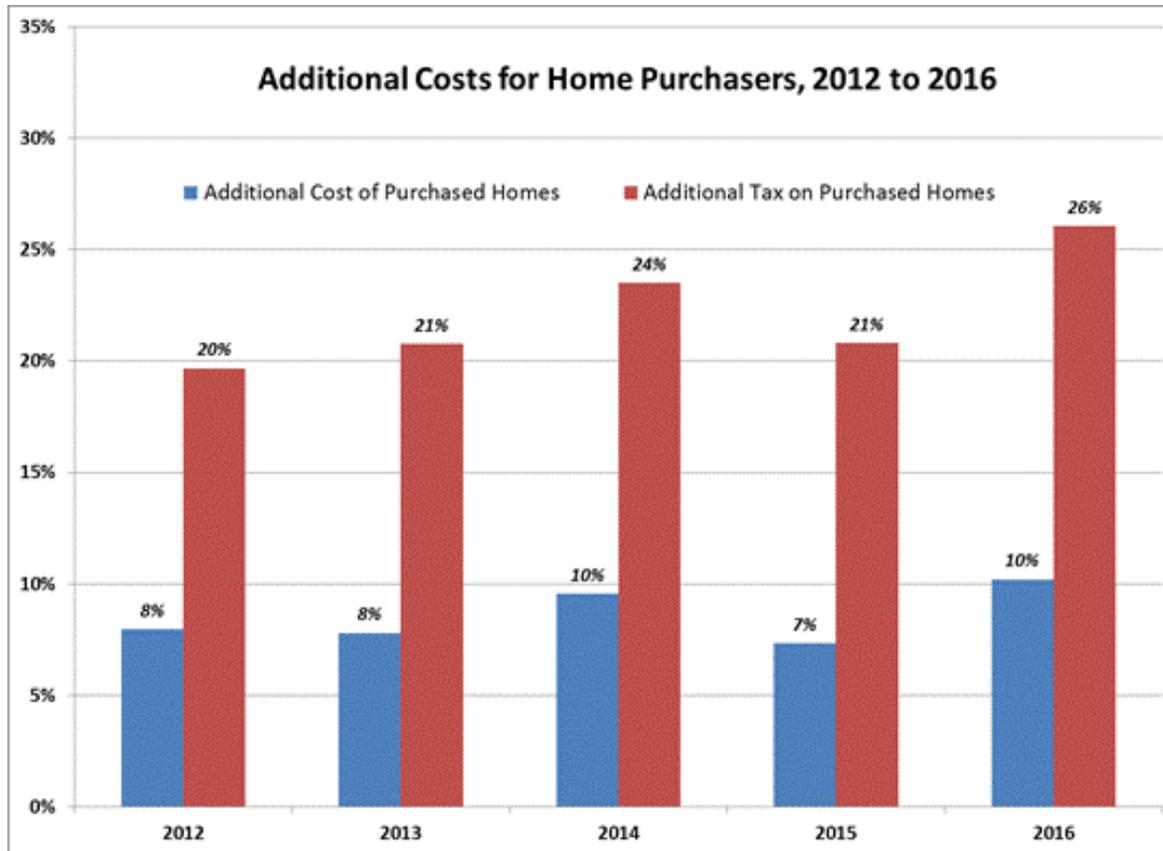
Value of Home not a Factor in Cap

Property Tax shifts under the Assessment Cap

Single Family Homes by Quintile in 2016

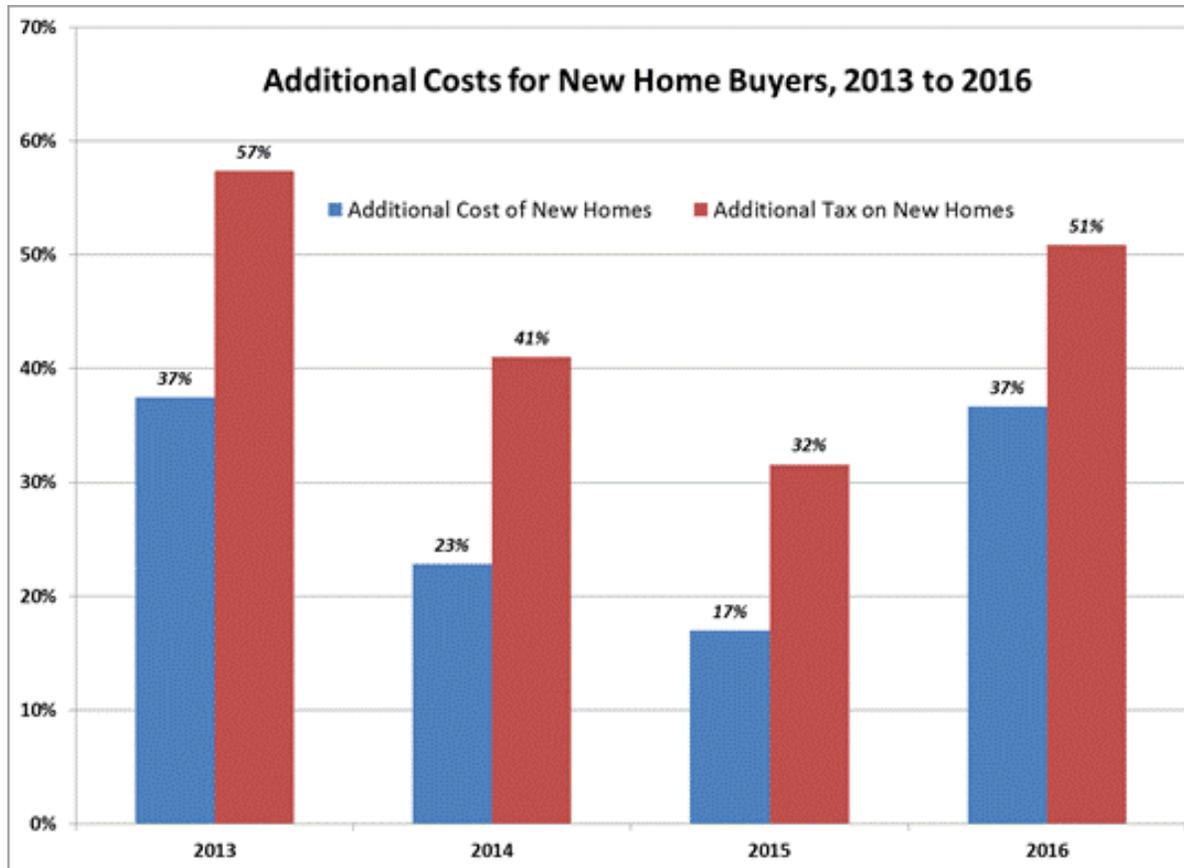
| | Total Number of Dwellings | Lower Taxes % | Higher Taxes % | Total Average Impact |
|---|------------------------------|---------------------|----------------------|----------------------------|
| Single Family Homes by Quintile: | | | | |
| Up to \$159,900 - Quintile 1 | 23,637 | 60% | 40% | -\$54 |
| Up to \$208,600 - Quintile 2 | 23,632 | 61% | 39% | -57 |
| Up to \$260,500 - Quintile 3 | 23,636 | 58% | 42% | -55 |
| Up to \$336,200 - Quintile 4 | 23,633 | 54% | 46% | -40 |
| Over \$336,200 - Quintile 5 | <u>23,613</u> | <u>50%</u> | <u>50%</u> | <u>-58</u> |
| | 118,151 | 56% | 44% | -\$53 |

Impact on new homes, sales, renovations



- Homes just sold are assessed 10% higher than the average, yet the average tax bill is 26% higher.

Impact on new homes, sales, renovations



- Newly built homes are assessed 37% higher than the average, yet the average tax bill is 51% higher.

Impact on Home Sales

"If you were thinking of purchasing a new home... To what extent would the PROPERTY ASSESSMENT CAP ON YOUR CURRENT HOME impact your decision?"

| | <u>Under \$50,000</u> | <u>\$50,000 to \$74,900</u> | <u>Over \$75,000</u> |
|------------------------------------|-----------------------|-----------------------------|----------------------|
| Ratings 8 to 10 (most significant) | 46% | 28% | 17% |
| Make four ratings | 29% | 47% | 40% |
| Ratings 1 to 3 (least significant) | 13% | 22% | 32% |
| NA/Don't know | 12% | 4% | 11% |

"The New Brunswick Property Assessment Program", Ipsos Reid Research Associates Inc., 2011

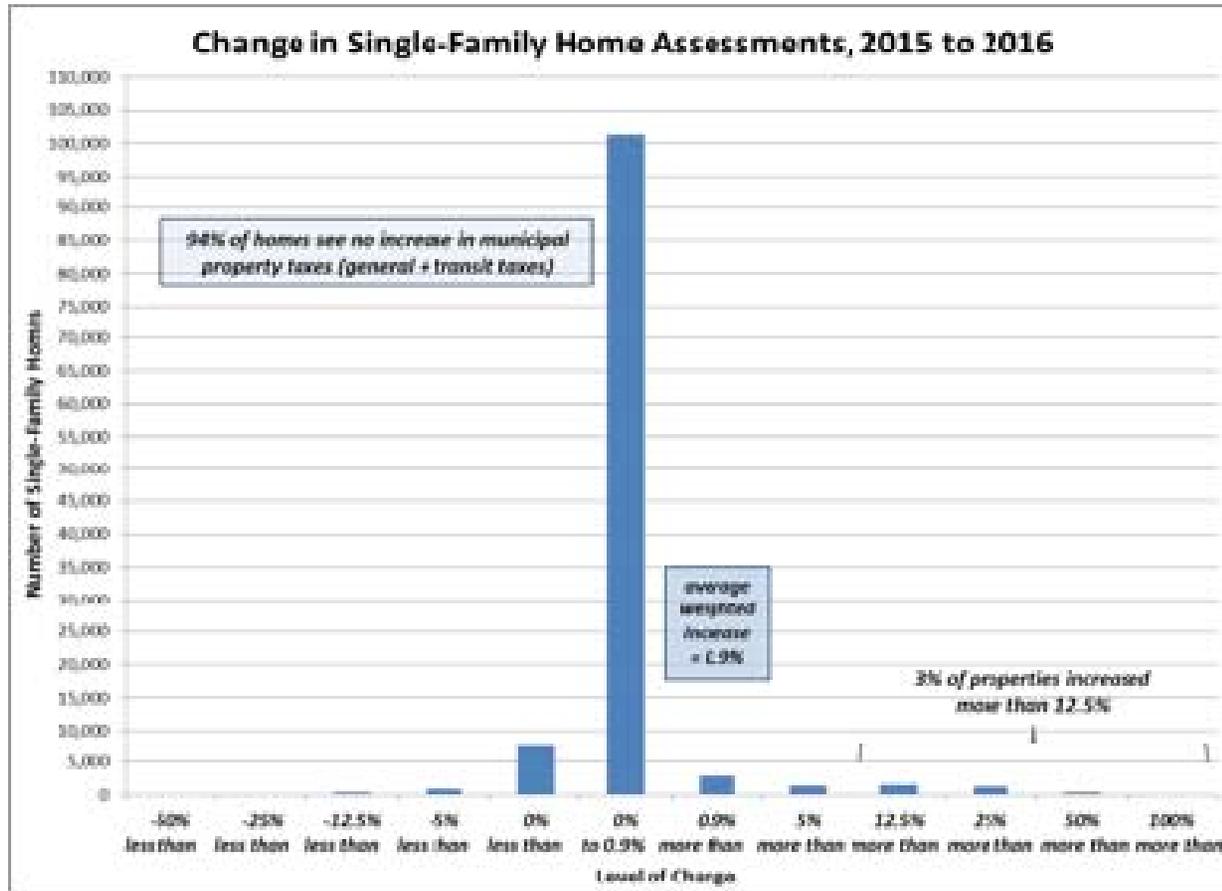
Housing Affordability

- Impact on income levels has several twists
- Apartments (4+ units):
 - Owner of Building pays tax but would raise rent to cover costs
 - Cap raises taxes by \$118 per unit
- Low Income Home Owners
 - appear to stay in home longer.
 - Cap saves them on tax but prevents them from upgrading, moving, renovating
- Cap makes it more expensive to purchase a home

Stability and Predictability

- Cap benefits those who stay in their home.
- Provides predictability for future assessment changes
 - Assessment (presumably tax) can't rise faster than inflation
- Makes it easier for Council's and Citizens to understand budget impacts on tax bills

Setting the Average Tax Bill



- Under Cap, 94% of homeowners saw no change in tax bill.
- Under Market Value, this would have been 58%.

Predictability is Short Term

Seven Year Trend of those who sold and bought homes

Average Taxes under Assessment Cap: Higher vs (Lower)

| | % | First Home 2010 - 2014 | Second Home 2015 - 2016 | Both Homes 2010 - 2016 |
|---|-------------|---------------------------|----------------------------|---------------------------|
| Tax under Cap is Always higher | 43% | \$87 | \$275 | \$141 |
| Tax under Cap Becomes higher after Sale | 24% | -48 | 282 | 46 |
| Tax under Cap is always Lower | 33% | -184 | 193 | -76 |
| Total | 100% | <u>-835</u> | <u>\$250</u> | <u>\$47</u> |

As long as they stayed in their home, nearly 60% saved under the Cap

When they moved to another home, their savings were eliminated. Nearly 70% paid more under the Cap

Conclusions

- Impact of the Cap differs from home to home and will change over time.
- Benefits those who stay in their own home for long periods of time and do not renovate (or hide those renovations from inspectors).
 - Predictability is Cap's chief advantage, but is short-term in nature.
- Disadvantages
 - Those who buy, sell, renovate, downsize
 - Apartment dwellers
 - Discourages those looking to move to Halifax
- Functions as a tax on economic growth. Damage to economy hurts everyone.

Recommendation

- It is recommended that Halifax Regional Council direct the Mayor to write the Province of Nova Scotia and request it examine possible solutions to the [unintended consequences](#) of the Assessment Cap, including its detrimental [impact on the economy](#) through declining property sales and its negative impact on [housing affordability](#).