

COMMERCIAL ASSESSMENT AVERAGING & TIMELINES

Halifax Regional Council
May 4, 2021

Introduction

- Since 2015 extensive discussion at Regional Council and in the business community over impact of commercial taxation.
 - taxes paid by small business (both in total and relative to other businesses)
 - sudden “spikes” (or lack of predictability) that can occur in commercial assessment.
- July 2019 Council direction on averaging:
 - three-year rolling assessment average,
 - target properties with assessment growth 5 percent above the average,
 - start in fiscal year 2021-22,
 - with renewal requirement and program review beyond 2023-24.

Assessment Averaging

Currently property owners pay tax on the most recent assessed value. Under assessment averaging they would pay on the three-year average assessment. This change will be administered by HRM using assessment values from the Property Valuation Services Corporation (PVSC).

Purpose

To reduce impact of unexpected spikes in commercial assessments to property owners.

Principles

Increase **stability** and improve **predictability** for commercial property owners.

Current Assessment/Tax System

$$\text{Property Tax} = \text{Assessment} \times \text{Rate}$$

A commercial property assessed at \$1,000,000 in 2020 would pay \$30,000 in general urban property taxes:

$$\text{Property Tax} = \$1,000,000 \times \$3.000 \text{ (per } \$100)$$

$$\text{Property Tax} = \$30,000$$

If the above property were to see a 30% assessment increase in 2021, that would directly impact its property tax the following year, increasing it by more than \$8,000:

$$\text{Property Tax} = \$1,300,000 \times \$2.953 \text{ (per } \$100)$$

$$\text{Property Tax} = \$38,400$$

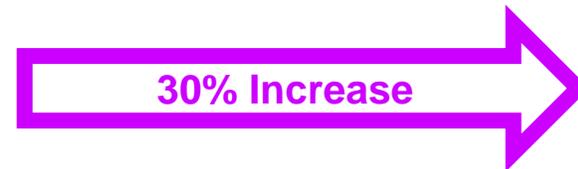
How Assessment Averaging Works

If a commercial property value increases more than the **annual threshold**, the assessment increase will be phased-in or “**averaged**” over three years.

In July 2019, Regional Council approved an **annual threshold at 5 percent above the HRM average**. (In 2021, the HRM average commercial increase was 2.6%.)

Example 1 – Property increases in value more than annual threshold

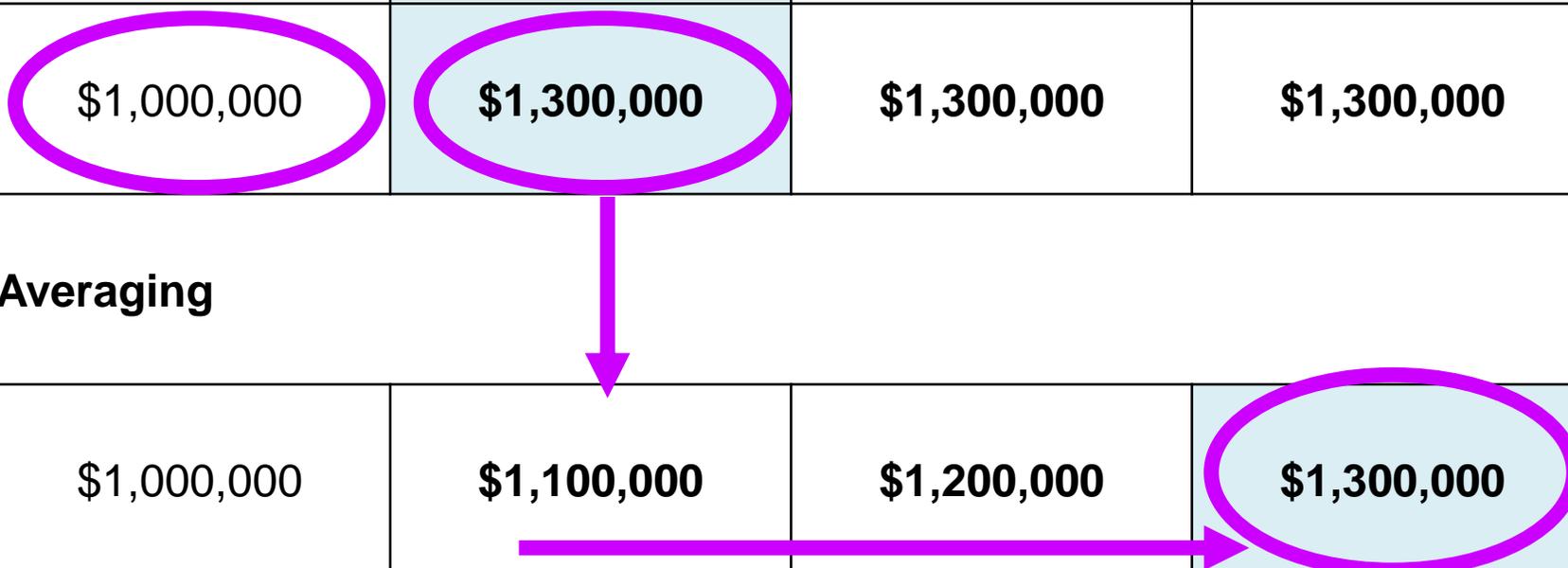
	Base Year	Year 1	Year 2	Year 3
Market Value	\$1,000,000	\$1,300,000	\$1,300,000	\$1,300,000



Example 1 – Property Increases \$300,000 (30%)

If the property value increases more than the **annual threshold**, the increase will be **“averaged” over three years.**

	Base Year	Year 1	Year 2	Year 3
Market Value	\$1,000,000	\$1,300,000	\$1,300,000	\$1,300,000
After Assessment Averaging				
Taxable Value	\$1,000,000	\$1,100,000	\$1,200,000	\$1,300,000



Example 2 – Property Increases \$300,000 (30%), \$375,000 (29%) and \$450,000 (27%)

Base Year	Year 1	Year 2	Year 3	Year 4	Year 5
\$1,000,000	\$1,300,000	\$1,675,000	\$2,125,000	\$2,125,000	\$2,125,000



Example 2 – Property Increases **\$300,000 (30%)**, **\$375,000 (29%)** and **\$450,000 (27%)**

Base Year	Year 1	Year 2	Year 3	Year 4	Year 5
\$1,000,000	\$1,300,000	\$1,675,000	\$2,125,000	\$2,125,000	\$2,125,000
Value added from Year 1	\$100,000	\$100,000	\$100,000		
Value added from Year 2		\$125,000	\$125,000	\$125,000	
Value added from Year 3			\$150,000	\$150,000	\$150,000

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Value added from Year 2		\$125,000	\$125,000	\$125,000	
Value added from Year 3			\$150,000	\$150,000	\$150,000
Taxable	\$1,100,000	\$1,325,000	\$1,700,000	\$1,975,000	\$2,125,000

Example 3 – Property increases less than annual threshold

	Base Year	Year 1	Year 2	Year 3
Market Value	\$1,000,000	\$1,050,000	\$1,100,000	\$1,150,000



Example 3 – Property increases less than annual threshold

	Base Year	Year 1	Year 2	Year 3
Market Value	\$1,000,000	\$1,050,000	\$1,100,000	\$1,150,000
Assessment Averaging does not apply				
Taxable Value	\$1,000,000	\$1,050,000	\$1,100,000	\$1,150,000

Commercial Tax Averaging Will be Revenue Neutral

- The commercial general tax rate will increase to offset the lost taxes from averaging
- HRM collect's the same total commercial property taxes
- Some properties will **pay less tax**,
 - due to averaged assessments
- Some properties will **pay more tax**
 - those with low or no assessment increases
- The commercial property tax system will become more complex

Options for Commercial Development Districts

Package A Only

Centre Plan Package A currently allows for establishment of Commercial Development Districts within that plan area (in accordance with Section 92C of the HRM Charter).

Pros

Averaging by-law could proceed at any time

Cons

Includes only certain properties in Regional Centre (e.g. downtown Halifax excluded)
Only 18% of all commercial properties

Recommendation

Promptly amend the Regional Plan (RP) to allow **100% of those with water and wastewater services** to participate in the Assessment Averaging program.

Pros

74% of all commercial properties would be eligible for Assessment Averaging program by 2022

Cons

Requires extra staff time
Public could confuse with larger RP Review

Key Steps for Implementation

- **Amend Regional Municipal Planning Strategy** for those areas of the Municipality serviced by wastewater facilities and a water system;
 - Approval to initiate process requested today; expect Ministerial approval in Fall 2021.
- Approve required **Assessment Averaging By-law** (including Ministerial approval);
 - Initial draft complete. Awaiting Regional Plan amendment.
- Implement revenue component of the **new SAP system**;
 - Targeted to be live February 2022.
- **Communicate** the final assessment averaging program to the business community
 - Ongoing
- Agreement with **PVSC** on management and communication of assessment information.
 - Underway
- **Issue first tax bill** using assessment averaging. Fall 2022.

Next Steps (with Council)

Assessment Averaging

- Following approval of the Regional Plan amendment,
 - return to Regional Council with Assessment Averaging By-law in late 2021
 - confirm specific features of new program

Small Business Taxation

- Return to Regional Council with requested information on Small Business (October 2021)
 - including definitions for small business taxation and cross-jurisdictional scan
- Provide information to Council for further discussion of commercial tax options

Recommendation

It is recommended that Halifax Regional Council direct the Chief Administrative Officer to:

- 1) implement commercial assessment averaging, starting in fiscal year 2022/23 with 2021/22 as the base year, conditional on a successful upgrade of HRM's tax billing system to the SAP Tax and Revenue Module;
- 2) initiate a process to consider amendments to the Regional Municipal Planning Strategy to establish a Commercial Development District for all areas serviced by wastewater facilities and a water system, and adopt the public participation program as outlined in the Community Engagement section of this report; and
- 3) return to Halifax Regional Council with a jurisdictional scan of Canadian municipalities, an analysis of small business definitions and a review of commercial taxation options – including the five-zone, four-tier commercial tax rate structure – in fall 2021.