

Re: Item No. 5

Commercial Taxation Research and Options

Regional Council

February 15, 2022

Outline

Motions

Background and Context on Commercial Tax

Taxes on Land, Building and Frontage

Jurisdictional Scan and Small Business Definitions

What Makes a Successful Small Business Tax program

- Problem Definition

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- Proposals, Impacts and Advantages/Disadvantages:
 - Tax relief to BIDs with above average taxes
 - Tiered Tax Relief for Small Properties
 - Tiered Tax Relief combined with Tax Zones

Conclusions

- Conclusions & Recommendations

Motions

Motions

February 9, 2021

- What “defines” a small business

May 4, 2021

- Jurisdictional Scan
- Analysis of small business definitions
- Review of options

January 11, 2022

- Referral
- Invite Groups to “present on the impacts”
- More Information on Option 3
- Layering on of tax rates on “square footage of land, square footage of building and frontage”

Background and Context on Commercial Tax

Taxes Significant for all Firms

Commercial Tax Rate nearly Three Times the Residential Tax Rate



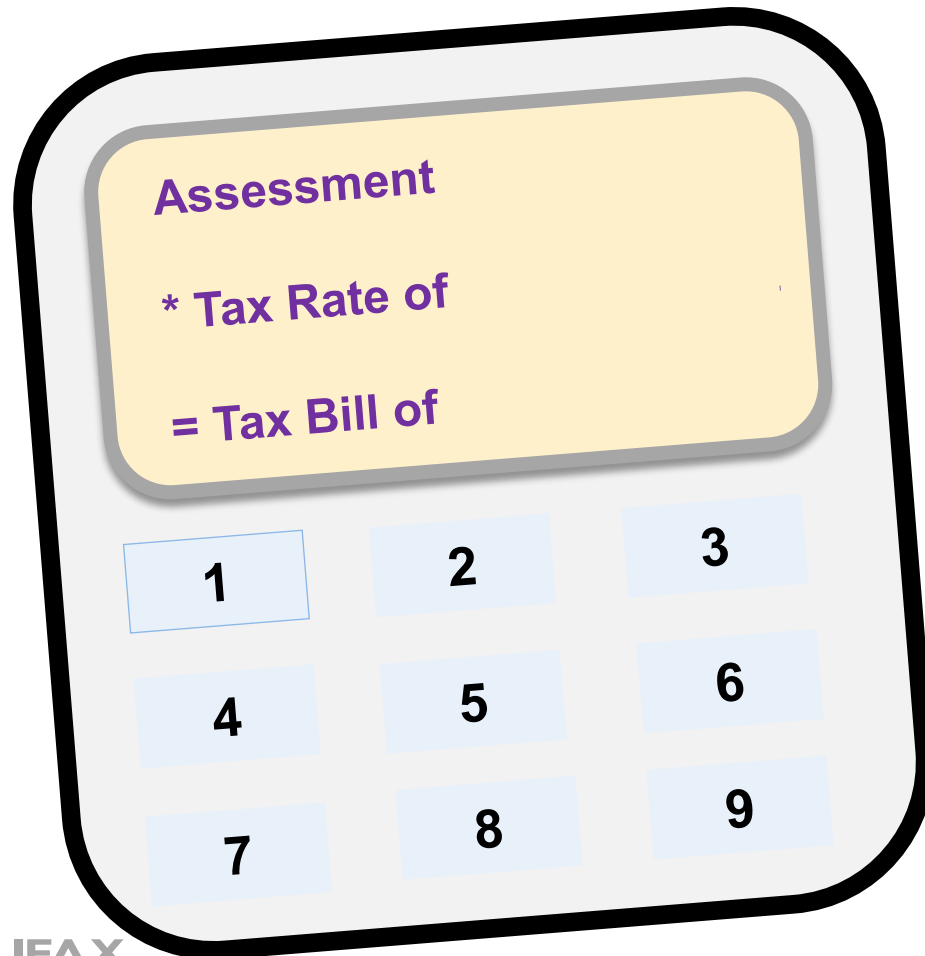
Tax Rate of \$1.189



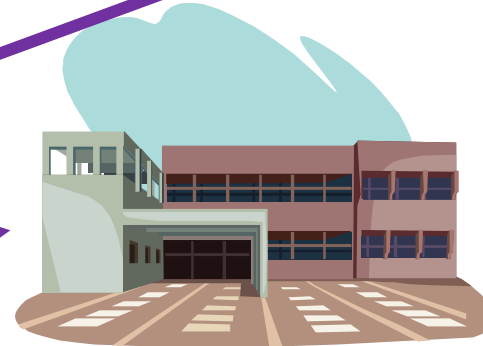
Tax Rate of \$3.394

The Status Quo is a Simple System:

Assessment * Tax Rate = Tax Bill



Tax Bills Increase with Property Value



Tax Bills:

\$15K (\$500K Value)

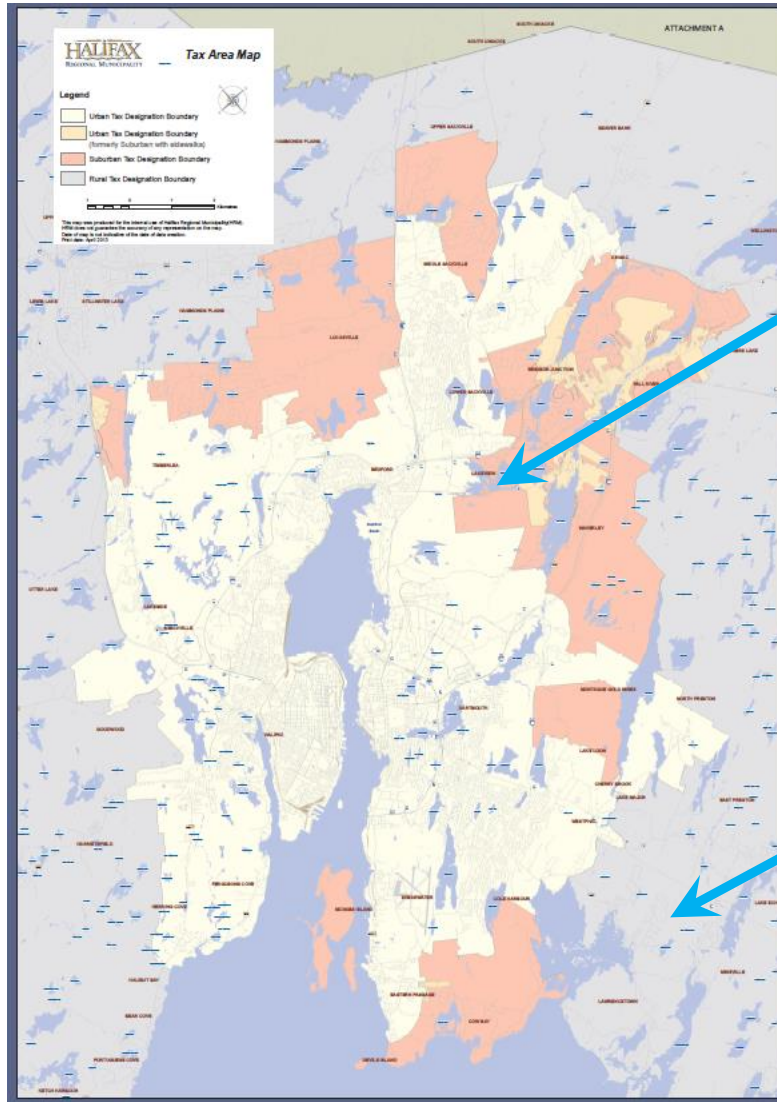
\$30K (\$1M Value)

\$60K (\$2M Value)

\$300K (\$10M)

\$1.5M (\$50M)

Commercial Tax has only a few Tax Rates

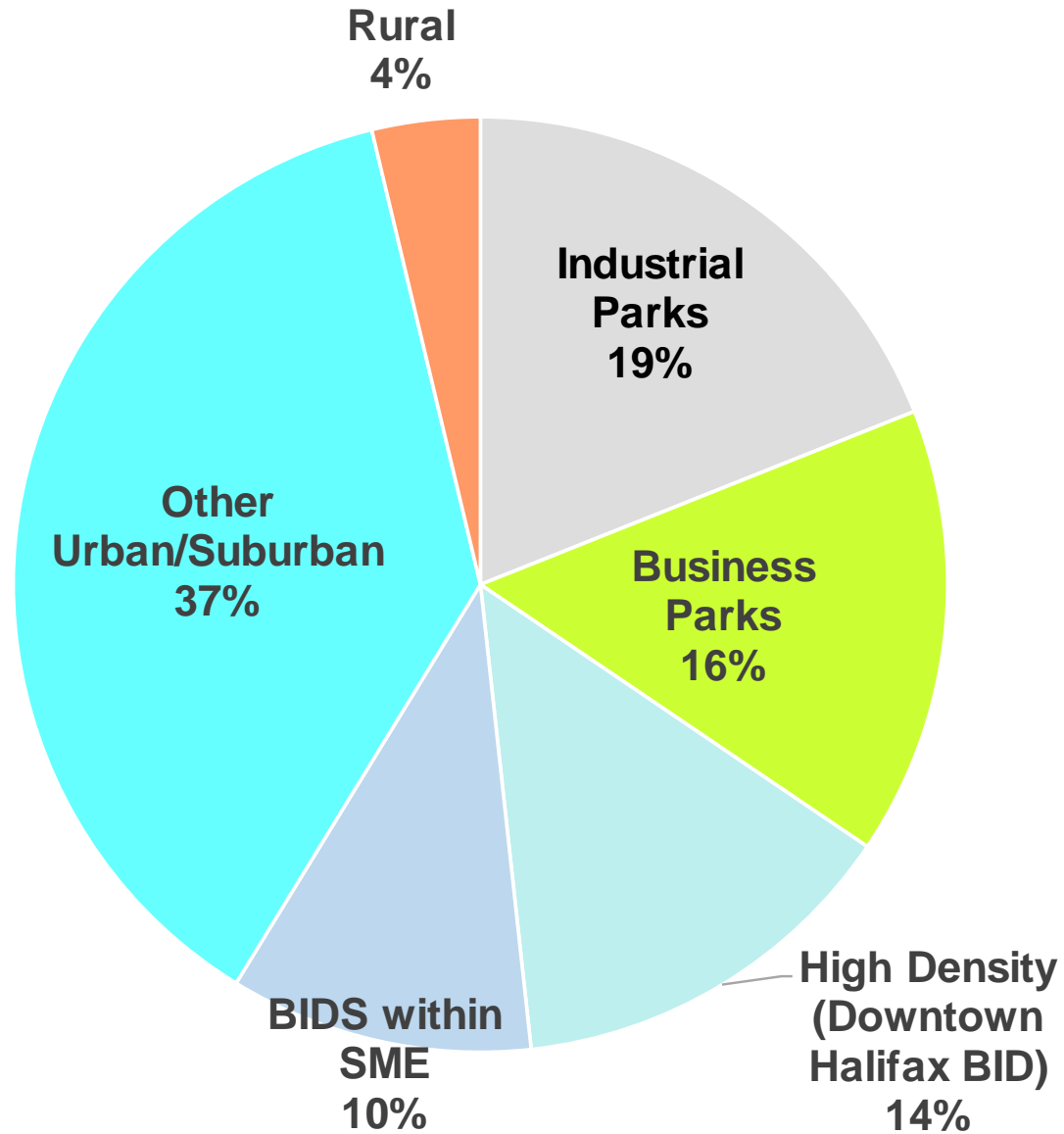


The Commercial General Tax Rate is the same (\$2.953) for all of Urban and Suburban HRM.

There is a separate General Tax Rate (\$2.616) for Rural HRM.

There are separate Area Tax Rates for Mandatory Provincial Costs (\$0.341), Supplementary Education (.063) and Hydrants (.037).

\$8.6 Billion in Commercial Assessment



Property Tax: Purpose is a Wealth Tax

Premise is that Assessment correlates to wealth/ability to pay



- **However, many factors affect Assessment**
 - Value of Land
 - Condition of Building
 - Age of Building
 - Size/Quality of Building
 - Income Stream
 - Municipal Services
 - Location, Location, Location
- **Tax is paid by the Owner but often included in Rent or Lease.**
- **Properties are Reassessed every Year**
 - HRM Averaging By-law to be introduced

Value (and thus Taxes) Will Vary by Building Type

But all are important cogs in the Economy



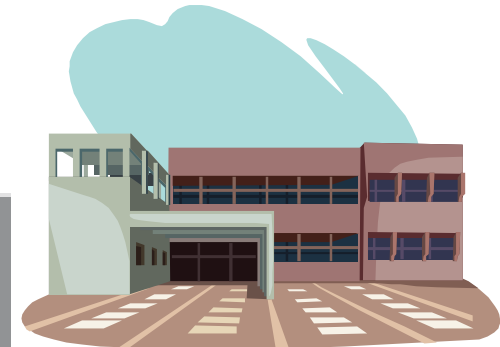
Restaurant taxes per sqft range from \$0.24 to \$10.98. **Average of \$4.26**



Vet Clinic taxes per sqft range from \$0.17 to \$9.59. **Average of \$2.50**



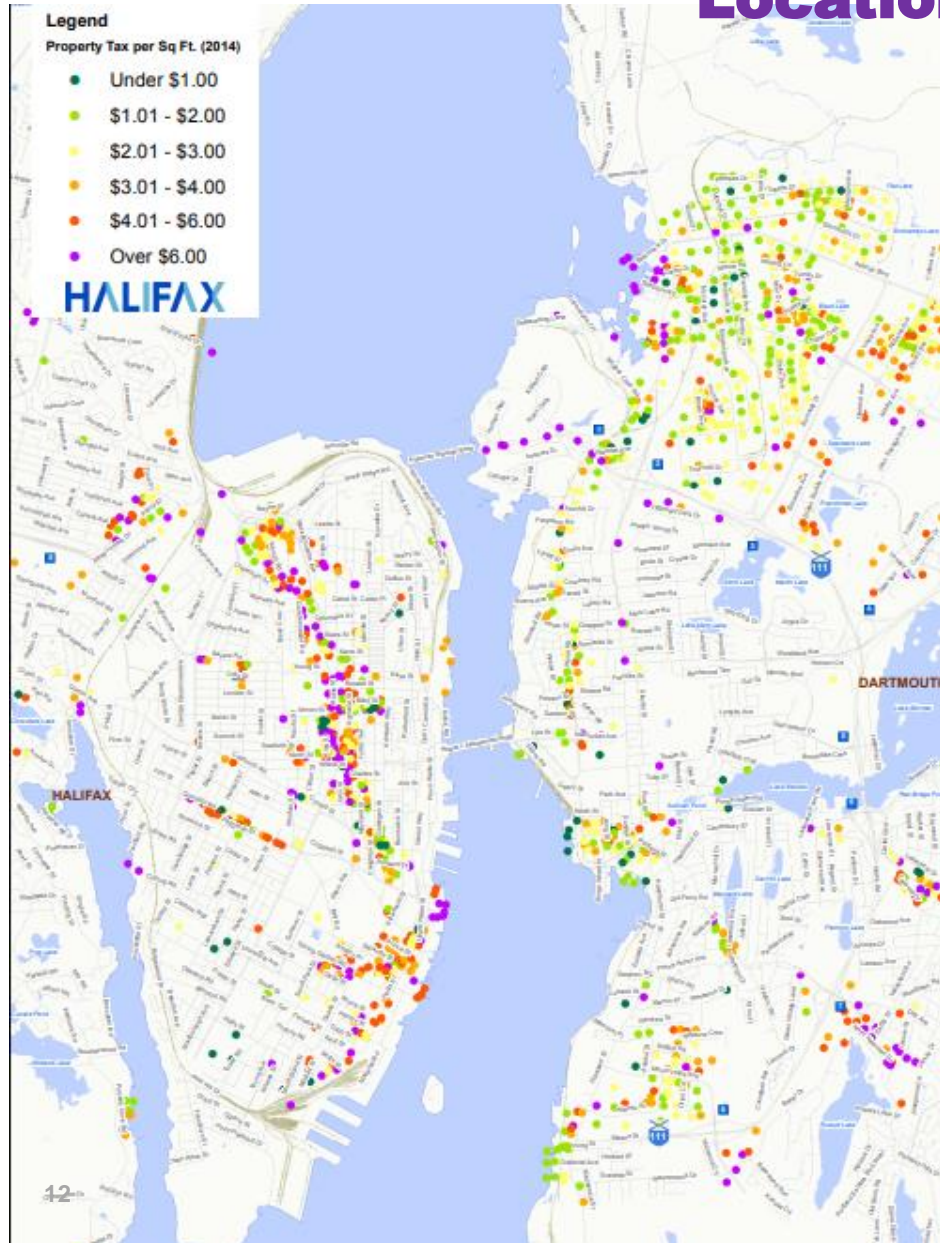
Downtown Office Building taxes per sqft range from \$0.59 to \$5.90. **Average of \$3.14**



Warehouse taxes per sqft range from \$0.06 to \$8.56. **Average of \$2.22**

Value (and thus Taxes) Will Vary by Location

Location, Location, Location



- **Location is a Factor**

- Downtown tends to be higher
- Key Locations on Arterials/Collectors higher
- Altus Study finds no evidence that business moved to business parks for tax reasons
- Economic Study concludes commercial tax is not significant factor in real estate investments

- **Equity/Fairness is Subjective.**

- **IF** assessment accurately represents ability to pay, than tax system can be considered 100% fair. **If Not**, than what is considered fair?
- Multiple factors, Difficult to benchmark and summarize.
- Many comparisons are anecdotal or involve two-three individual properties. But there are 5,550 properties and an estimated 24,700 businesses (ie including tenants).

Average General Tax per square foot, 2021



Types of Taxes for Business

Provincial and Federal

- CPP, Employment Insurance
- Corporate Income Tax
- Harmonized Sales Tax (impacts some)
- Capital Tax
- Payroll Tax

Municipal

- Property Tax
- User Fees
- Frontage
- Square Footage
- Land
 - Size of Land (authority)
 - Value of Land (no authority)

Taxes on Land, Building and Frontage

Square Footage Tax



Current Downtown Office Building average tax is \$3.14 per square foot of building.



Current Vet Clinic average tax is \$2.50 per square foot of building.

Purpose:

- Tax commercial entities relative to their size.

Considerations:

- Charter allows for a tax on square footage. Data is available for 50% of properties.
- Square footage is commonly used metric for retail and office sectors. Would help ensure equity amongst different size properties.
- Would require a manner to tax vacant properties.
- Small businesses that currently have low tax per square foot would see tax increases.

Land Tax



Current Downtown Office Building average tax is \$12.80 per square foot of Land.



Current Vet Clinic average tax is \$0.24 per square foot of Land.

Purpose:

- Encourage development of vacant land and densification.

Considerations:

- Charter allows for a tax on Land Area (but not land value). Data is available.
- Practice will likely differ from theory. Many properties can't always easily be developed or densified. E.g. zoning, no road access, wet lands.
- Specific conclusions require extensive work. Land tax would likely increase taxes on properties with large land holdings such as in rural areas in favour of high density properties. Will likely disadvantage many small properties.

Frontage Tax



Current Downtown
Office Building
average tax is
\$587 per foot of
Frontage.



Current Vet Clinic
average tax is
\$14 per foot of
Frontage.

Purpose:

- Tax properties according to how much it costs the municipality to service them. (Road Length drives many municipal costs).

Considerations:

- Charter allows for a tax on Frontage. Data is available.
- Frontage is a major driver of municipal costs but other factors can be significant.
- Specific conclusions require extensive work but smaller properties with modest assessments would appear to pay more.

Jurisdictional Scan and Small Business Definitions

Which Jurisdictions Tax Small Business Differently

- **Ottawa** – based on Property Category Taxation/Size
 - uses land/property categories (e.g. retail under 10,000 sq.ft. vs Neighbourhood Shopping Centre)
 - 41 land uses qualify (land use info provided with assessment)
- **Toronto** – based on Assessment
 - All properties under \$1,000,000 (across municipality)
 - Properties under \$7,000,000 and 7,500 sq.ft. land (in downtown & Plan corridors)
- **Alberta** – based on full-time employees nationally (maximum 50)
 - Requires application from each small business
 - No municipality larger than 12,000 population has implemented
- **Winnipeg** – Refunds Business Occupancy Tax (under \$45,000 in assessment)

Definitions of Small Business as Basis of Taxation or Threshold Measure

Of the seven possible definition types, HRM has legal authority for only two:

- 1) Assessed Value – Data available
- 2) Size (building square footage or lot area) – Only 50% of SqFt data is available

Other possible definition types are:

- 3) Land/Property Category (e.g. Retail/Office, Dining, Animal Clinics.)
- 4) Net Income Threshold (e.g. \$500,000 under income tax small business tax rates)
- 5) Revenue Threshold
- 6) Employment Threshold (e.g. up to 99 employees)
- 7) Salaries/Wages Threshold

What Makes a Successful Tax Program

What Makes a Successful Small Business Tax Program?

- Does it Address the Problem?
 - Common Agreement?
- Does it assist Small Businesses who lease?
- Does it assist Small Businesses who own?
- Does it Create Inequities between Businesses?
 - Consistencies?
- Are there Strong Boundaries?
- Are there “Unintended Consequences”?
- Is it Sustainable?
- Does it make Halifax more competitive?

What Are the Options

What Are the Options?

- Multitude of options (with variations) reviewed since November 2015.
- Consultations with Business and BIDs.
 - Options 1 and 2 discussed at Business Workshops
 - Option 3 - request from June 2019 Regional Council. Not discussed at Business consultations.
- Focused on approaches that (1) allowed by Charter, (2) can be administered. Presenting three options:
 - 1) Tax Relief to BID areas that have taxes above the BID average
 - 2) Tiered Tax Relief for Small Properties
 - 3) Tiered Tax Relief combined with Tax Zones
- All options are revenue neutral, i.e., they will not change total overall commercial tax revenues.
- All options focus on the property owner, not those leasing.

1) Tax Relief to BID Areas with above average taxes

Purpose: Support small businesses with highest tax levels.

Some commercial areas have:

- higher land values and higher market rents >> higher property taxes

In many cases, these areas may have:

- high proportion of small businesses and/or smaller commercial properties.

Proposal

Focus on the business improvement districts (BIDs) to target tax relief to those areas with high commercial taxes by:

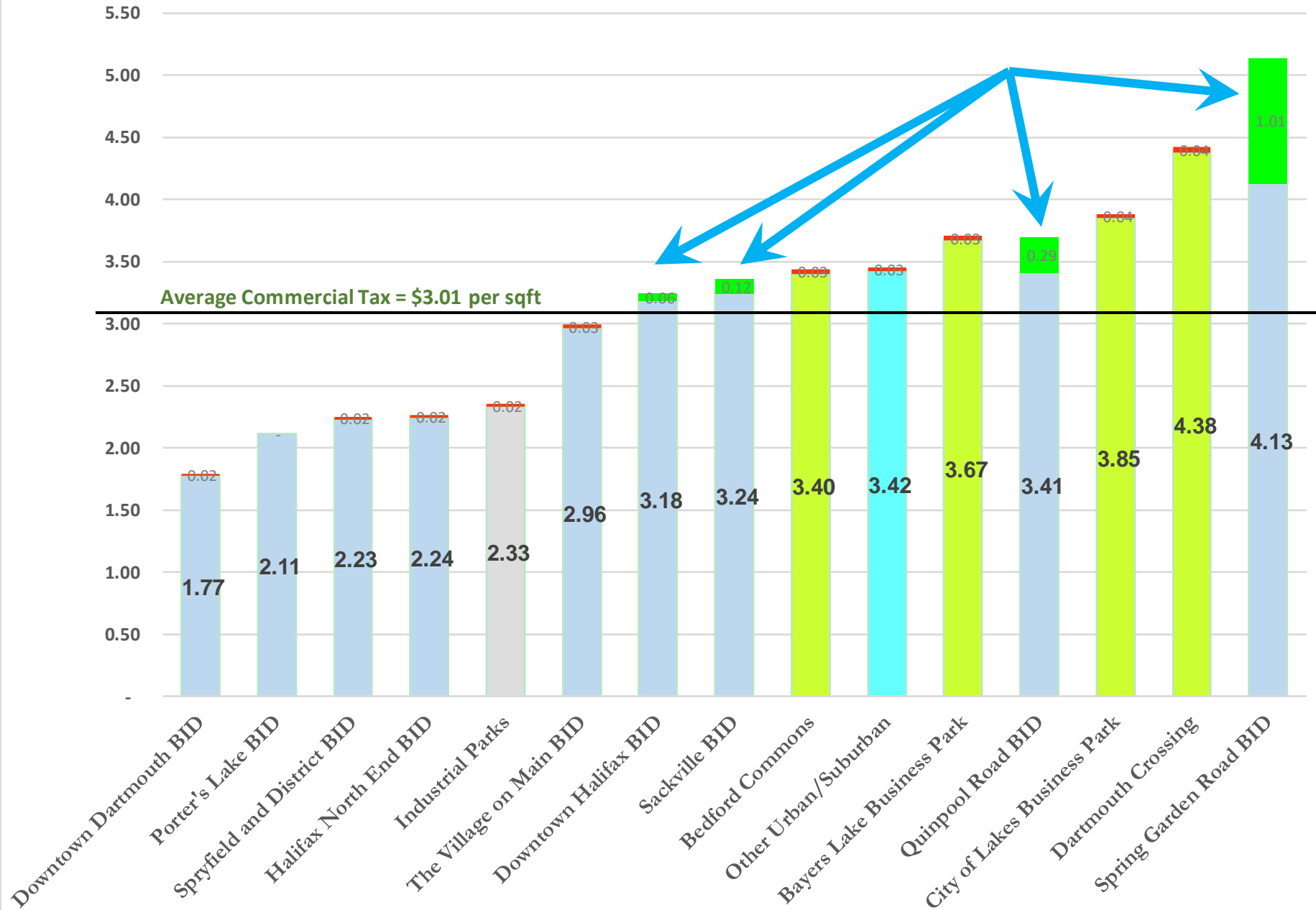
- reducing tax rates by 50% of the amount by which they exceed average commercial taxes (per square foot)

1) Tax Relief to BID Areas with above average taxes

BIDC	Tax per Square Foot	Current Tax Rate	Revised Tax Rate	Percent Change
Downtown Dartmouth	1.77	2.953	2.953	0.0%
Porter's Lake	2.11	2.616	2.616	0.0%
Spryfield and District	2.23	2.953	2.953	0.0%
North End	2.24	2.953	2.953	0.0%
Main Street Dartmouth	2.96	2.953	2.953	0.0%
Downtown Halifax	3.24	2.953	2.898	-1.9%
Sackville	3.36	2.953	2.848	-3.6%
Quinpool Road	3.70	2.953	2.722	-7.8%
Spring Garden Area	5.14	2.953	2.373	-19.6%

Average General Tax - Option 1

per square foot building, 2021



1) Tax Relief to BID Areas with above average taxes

Advantages

- Tax Relief provided to those businesses with the highest tax level
- Eligible BIDs would change from year to year as average assessments rose and fell.
- Most BIDs are located in growth centres or main corridors that align with Centre Plan and Regional Plan mixed use areas.
- Tax relief for owners and those leasing in the area.

Disadvantages

- All businesses within the BID would be eligible for the relief, including large properties/businesses.
- Business outside of a BID, including small businesses, would not be eligible and would pay slightly higher taxes to fund the relief.
- Could encourage the development of BIDs with sole purpose of a potential tax reduction.

2) Tiered Tax Relief for Small Properties

Purpose: provide tax relief to all small properties across the Municipality

Highest taxed small commercial properties (\$/sq.ft.) are typically those with assessed values between \$1,000,000 and \$2,000,000.

Proposal

Under this program there would be three tiered rates in the Urban and Suburban areas.

- First \$1 million of value – rate 15 cents lower
- Between \$1 million and \$2 million – rate 30 cents lower
- Over \$ 2 million – rate 15 cents higher

Commercial properties below \$5 million in value (the breakeven point) would pay less. Larger commercial properties would pay more on value over \$5 million.

2) Tiered Tax Relief for Small Properties

Tax Rates under Tiered Tax Rates

Example of a \$5M Property

	<u>Assessment</u>	<u>Tax Rate</u>	<u>Change from \$2.953</u>
First \$1M	1,000,000	\$2.803	15 cents down
Next \$1M	1,000,000	\$2.653	30 cents down
Additional \$	<u>3,000,000</u>	\$3.103	15 cents up
	\$5,000,000		

Impact of Option 2 on Taxes

<u>Assessed Value</u>	<u>Current Tax Rate</u>	<u>Current Tax</u>	<u>Resulting Tax</u>	<u>% Change</u>
\$500,000	\$2.953	\$14,765	\$14,015	-5.1%
\$1,000,000	\$2.953	\$29,530	\$28,030	-5.1%
\$1,500,000	\$2.953	\$44,295	\$41,295	-6.8%
\$2,000,000	\$2.953	\$59,060	\$54,560	-7.6%
\$3,000,000	\$2.953	\$88,590	\$85,590	-3.4%
\$5,000,000	\$2.953	\$147,650	\$147,650	0.0%
\$10,000,000	\$2.953	\$295,300	\$302,800	2.5%
\$25,000,000	\$2.953	\$738,250	\$768,250	4.1%

2) Tiered Tax Relief for Small Properties

Advantages

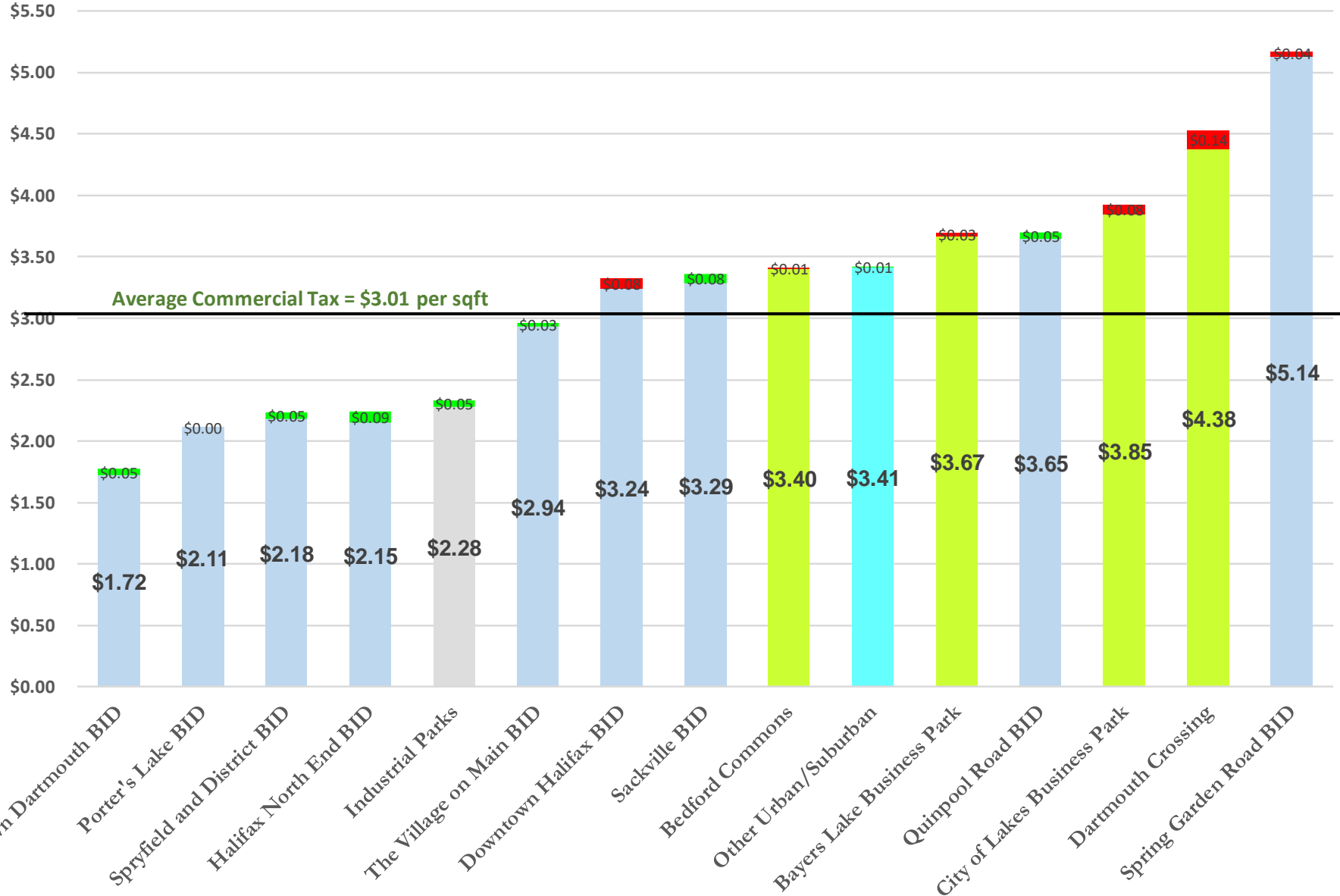
- Taxes on small properties (\$1M to \$2M) decline
- Taxes decline as value increases, removing disincentive for small firms to expand
- Applies to all small properties in urban/suburban areas
- Easy to communicate
- No additional data required, software can be configured to administer.
- Treats all properties consistently and does not discriminate against any area.

Disadvantages

- May discourage smaller firms from relocating into larger structures
- Larger properties (over \$5 million) will see property taxes increase. For \$25M firm it is 4.1% increase.
- Will likely increase costs of small business leasing in large properties

Average General Tax - Option 2

per square foot building, 2021



3) Tiered Tax Relief with Tax Zones

Purpose: Support small and large properties across the Municipality, except larger properties in the Business and Industrial Parks.

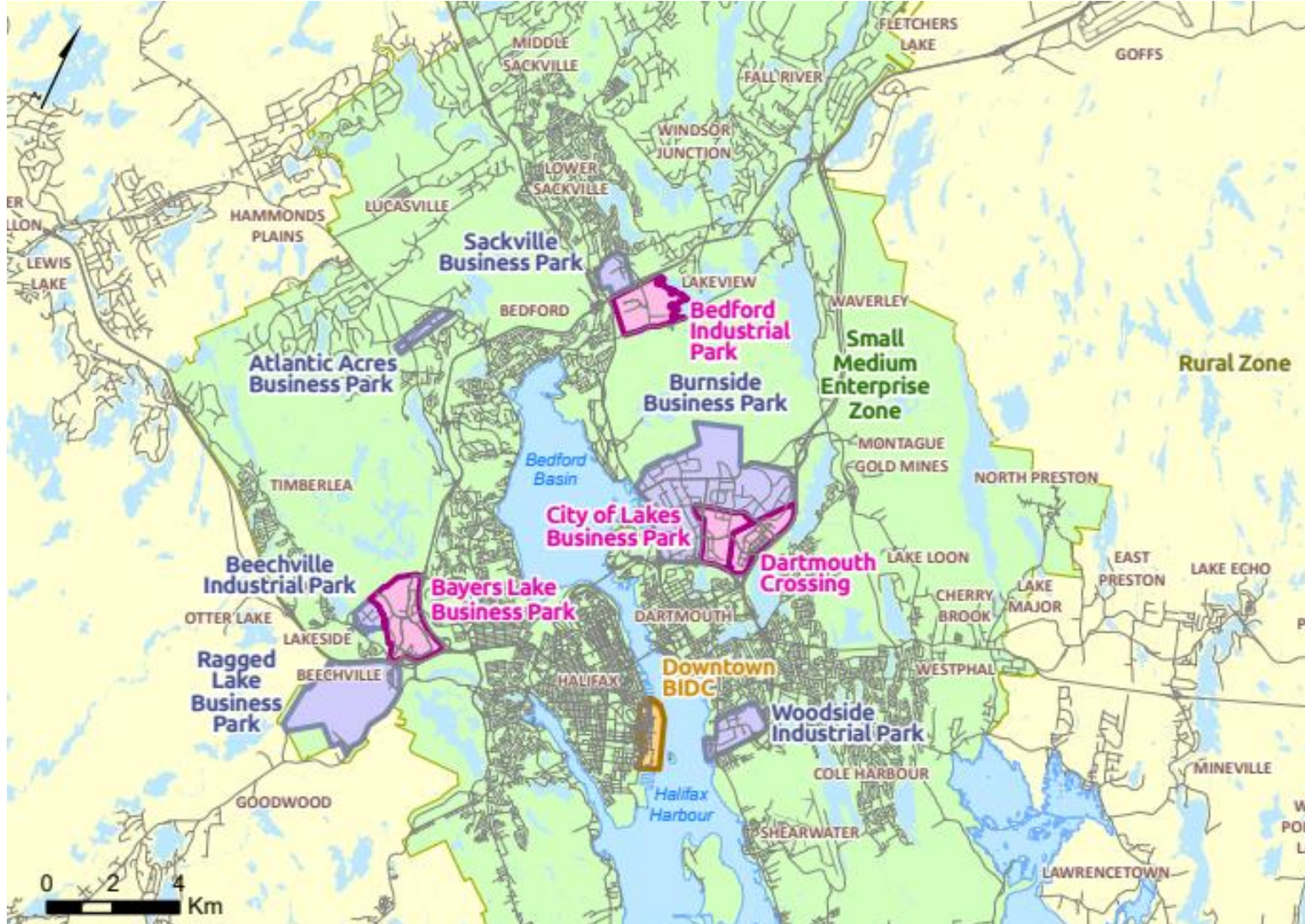
Assumes that properties in the selected business and industrial parks have the ability to pay higher taxes than properties elsewhere.

Proposal:

Establishes five commercial tax zones for with rates by both tier and zone:

- 1. **High Density**, which reflects the area of the Downtown Halifax Business Improvement District,
- 2. **Business Parks**, with retail focus,
- 3. **Industrial**, covering industrial parks,
- 4. **Small-Medium Enterprise (SME)**, all commercial properties not in the other zones, and,
- 5. **Rural**, which includes all properties in the current “rural” general tax area.

Tiered Tax Relief with Tax Zones



- **Business Parks:**
 - Dartmouth Crossing
 - Bayers Lake
 - City of Lakes
 - Bedford Industrial Park
- **Industrial Parks**
 - All other Business and Industrial Parks in Urban area

3) Tiered Tax Relief with Tax Zones

Table Four
Tax Rates under Five Zones with Tiered Tax Rates

	Up to \$1M	\$1M to \$2M	Over \$2M
Current (Urban/Suburban)	2.953	2.953	2.953
Business Parks	\$2.803	\$2.653	\$3.513
High Density	\$2.803	\$2.653	\$2.953
Industrial	\$2.803	\$2.653	\$3.103
Small Medium Enterprise	\$2.803	\$2.653	\$2.953
Rural	\$2.616	\$2.616	\$2.616

Impact of Option 3 on Taxes

<u>Assessed Value</u>	<u>SME & High Density</u>		<u>Industrial Parks</u>		<u>Business Parks</u>	
	Tax	% Change	Tax	% Change	Tax	% Change
\$500,000	\$14,015	-5.1%	\$14,015	-5.1%	\$14,015	-5.1%
\$1,000,000	\$28,030	-5.1%	\$28,030	-5.1%	\$28,030	-5.1%
\$1,500,000	\$41,295	-6.8%	\$41,295	-6.8%	\$41,295	-6.8%
\$2,000,000	\$54,560	-7.6%	\$54,560	-7.6%	\$54,560	-7.6%
\$2,800,000	\$78,184	-5.4%	\$79,384	-4.0%	\$82,666	0.0%
\$3,000,000	\$84,090	-5.1%	\$85,590	-3.4%	\$89,693	1.2%
\$5,000,000	\$143,150	-3.0%	\$147,650	0.0%	\$159,959	8.3%
\$10,000,000	\$290,800	-1.5%	\$302,800	2.5%	\$335,624	13.7%
\$25,000,000	\$733,750	-0.6%	\$768,250	4.1%	\$862,619	16.8%

3) Tiered Tax Relief with Tax Zones

Advantages

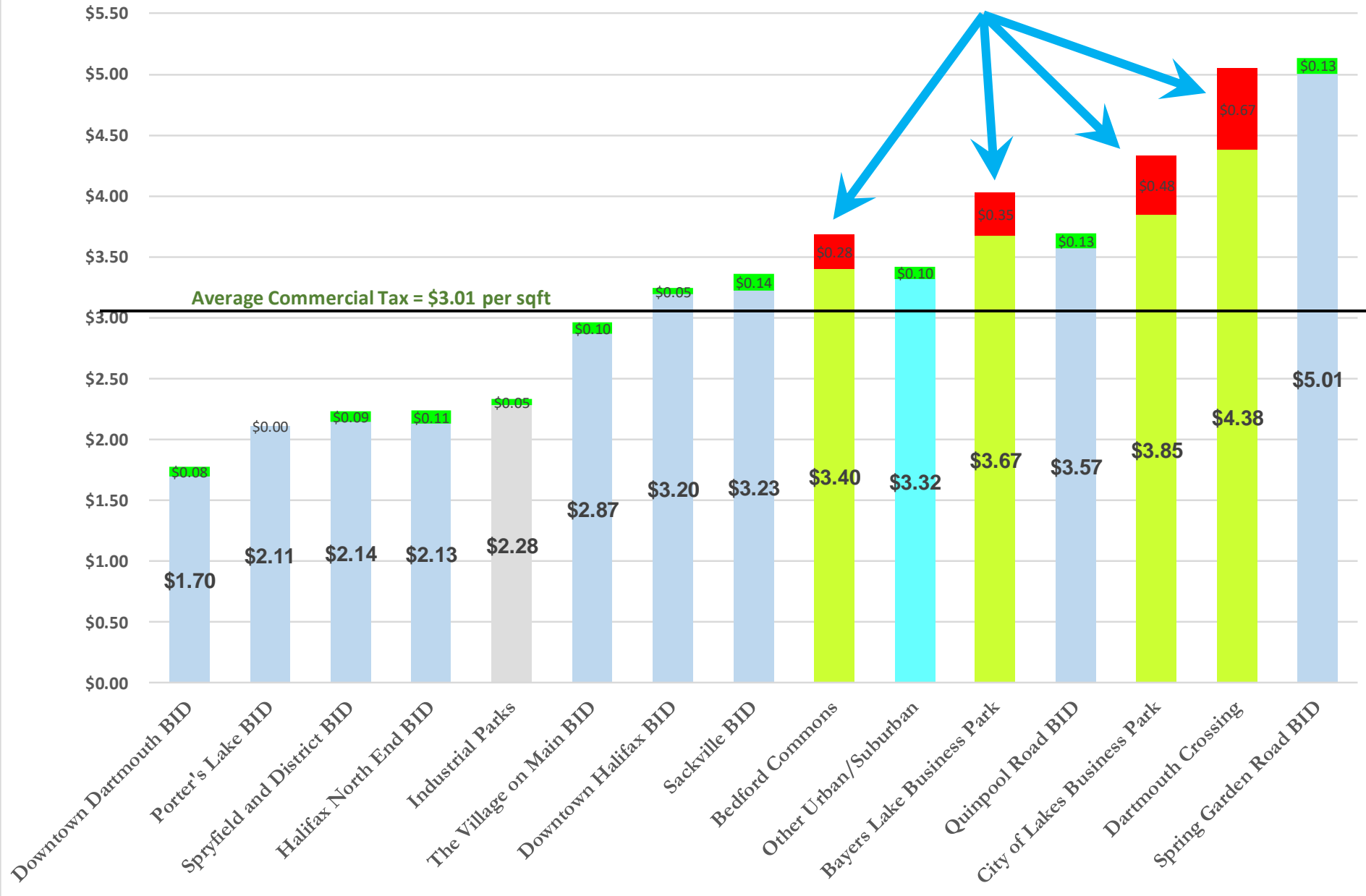
- Taxes on small properties (\$1M to \$2M) decline
- Taxes decline as value increases, removing disincentive for small firms to expand
- Applies to all small properties in urban/suburban areas
- Provides some tax relief to larger firms in “SME” and “High Density” Areas
- No additional data required, software can be configured to administer.

Disadvantages

- May discourage smaller firms from relocating into larger structures
- Larger properties (over \$5M) in “Industrial” and “Business Park” zones will see property taxes increase. For \$25M firm it is +4.1% and +16.8%.
- “Industrial” and “Business Park” boundaries include a mix of uses and there are Big Boxes outside those areas. Boundaries have no direct link to Economic Strategy or Regional Plan.
- Pits one area of municipality against another.
- New and existing firms can locate elsewhere and avoid tax. Disincentive for Business Parks, including those owned by HRM.
- Will likely increase costs of small business leasing in large properties
- More complex, less transparent.

Average General Tax - Option 3

per square foot building, 2021



Conclusions

Properties that Gain/Lose by Options

Number of Properties and Percent Increasing/Decreasing

	Winners		Losers		
	Number	Tax Decrease	Number	Tax Increase	
1 Tax Relief to BID areas that have taxes above BID average	11%	-2% to -20%	72%	1%	Small Tax increase creates large benefit for those with the highest taxes
2 Tiered Tax Relief for Small Properties	77%	up to -8%	6%	Up to 5%	Maximize tax relief for small properties while minimizing tax increases elsewhere.
3 Tiered Tax Relief combined with Tax Zones	80%	up to -8%	3%	Up to 20%	Large Tax increase but benefit is similar to Option 2.

Conclusions

- All three options suffer from common weaknesses
 - Additional complexity
 - Lessees may not benefit
 - Risk of unintended consequences
 - “Fairness” remains subjective.
- Decision depends on how the “problem” is defined.
 - Agreement on clear objective and outcomes.

Conclusions

- Option 1 provides significant tax relief to those small properties with the highest tax level.
- Option 3 increases taxes significantly on business parks without providing additional relief for small properties.
 - Will pit one part of Region against another.
 - Serious risk of creating disincentives and inequities.
- Recommended Option 2: Tiered Tax Relief (properties under \$2M)
 - Provides significant relief for smaller properties
 - Tax increase is significant (more than Option 1 but less than Option 3)
 - Treats all Small Properties the same and all Large Properties the same.

Recommendation

COMMERCIAL TAX POLICY

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

- 1) Draft an administrative order to implement the Tiered Tax Relief for Small Properties (Option 2), as described in the Discussion section of this report, effective with the commencement of the 2023/24 fiscal year, and return to Council with the resulting draft for its consideration; and,
- 2) Review the program following the 2023 final tax bill and report back to Council.