

HALIFAX

Commercial Tax Options for Small Business

**Committee of the Whole
November 10, 2015**

Outline

- 1. Council Request**
- 2. Work Undertaken**
- 3. Small Business Profile**
- 4. Key Principles**
 - Predictability
 - Efficiency/Bias
 - Competitiveness
 - Administration
- 5. Options**
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Council Request (April 28, 2015)

... a staff report and recommendations for **potential changes to the commercial tax structure** and for implementation approaches that shall:

- Address **concerns** regarding small and independent businesses
- Outline **options** to address these issues
- Contain **pros and cons** of various courses of action
- Be returned for Council consideration no later than October 2015, so consideration can be given by Council prior to the 2016/2017 budget.

Work Undertaken

- Consulted with BIDCs, other business organizations and received written submissions
- Consulted with Halifax Partnership and PVSC
- Undertook web survey
- Reviewed tax programs and systems across the country
- A professional survey of business with in-depth interviews
- Examined fifteen various tax options

Small Business Profile

- Consider themselves small due to the number of employees or revenue.
 - Average full-time employees was 11.3.
 - Focused on retail (25%), restaurant and food services (10%), professional services (10%), construction (10%);
 - majority (81%) operate from a single location;
 - half have annual revenues of under \$500k
 - one quarter have revenues above \$1 million/year

Small Business Profile

- the majority of small and independent businesses rent their property (73%)
 - Property Tax works by taxing the owner, who passes on the tax to the occupant.
 - Assessment and other information for the occupant is not available
 - the Business Occupancy Tax provided this info
 - Some businesses own multiple small properties

What's a Small Firm: Size or Value?

The Entire Region

	Under \$750,000 Assessment	\$750,000 to \$5 Million	Over \$5 Million	Total
Under 5,000 Sq Feet	885	85	2	972
5,000 to 25,000 Sq Feet	515	478	5	998
Over 25,000 Sq Feet	20	304	129	453
Total	1,420	867	136	2,423

Only 45% of Accounts have Sq Footage data

Who Pays \$7.50 or more per Sq Ft (Top 10%)

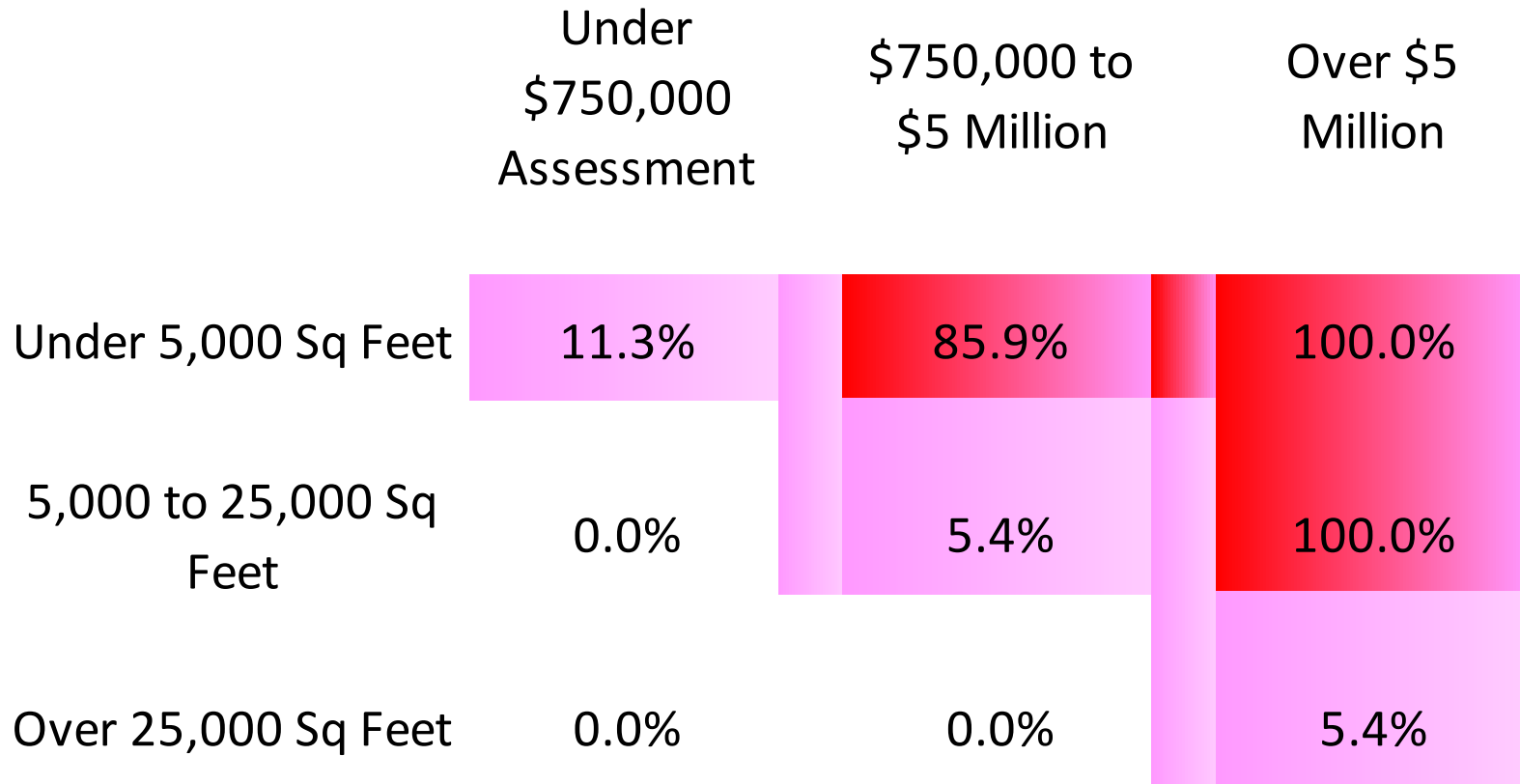
Average Tax is \$3 per Square Foot

	Under \$750,000 Assessment	\$750,000 to \$5 Million	Over \$5 Million	Total
Under 5,000 Sq Feet	100	73	2	175
5,000 to 25,000 Sq Feet	0	26	5	31
Over 25,000 Sq Feet	0	0	7	7
Total	100	99	14	213

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Likelihood of Paying \$7.50 per Sq Ft (Top 10%)

Average Tax is \$3 per Square Foot



Key Principles

- Enormous interest in business community. However, no clear consensus on the issues.
- Staff focused on four key principles:
 - Predictability
 - Efficiency (or Bias)
 - Competitiveness
 - Administration

Predictability

- Predictability
 - Businesses have limited options to adjust costs/revenues within their business cycle. Problematic when increases are substantial.

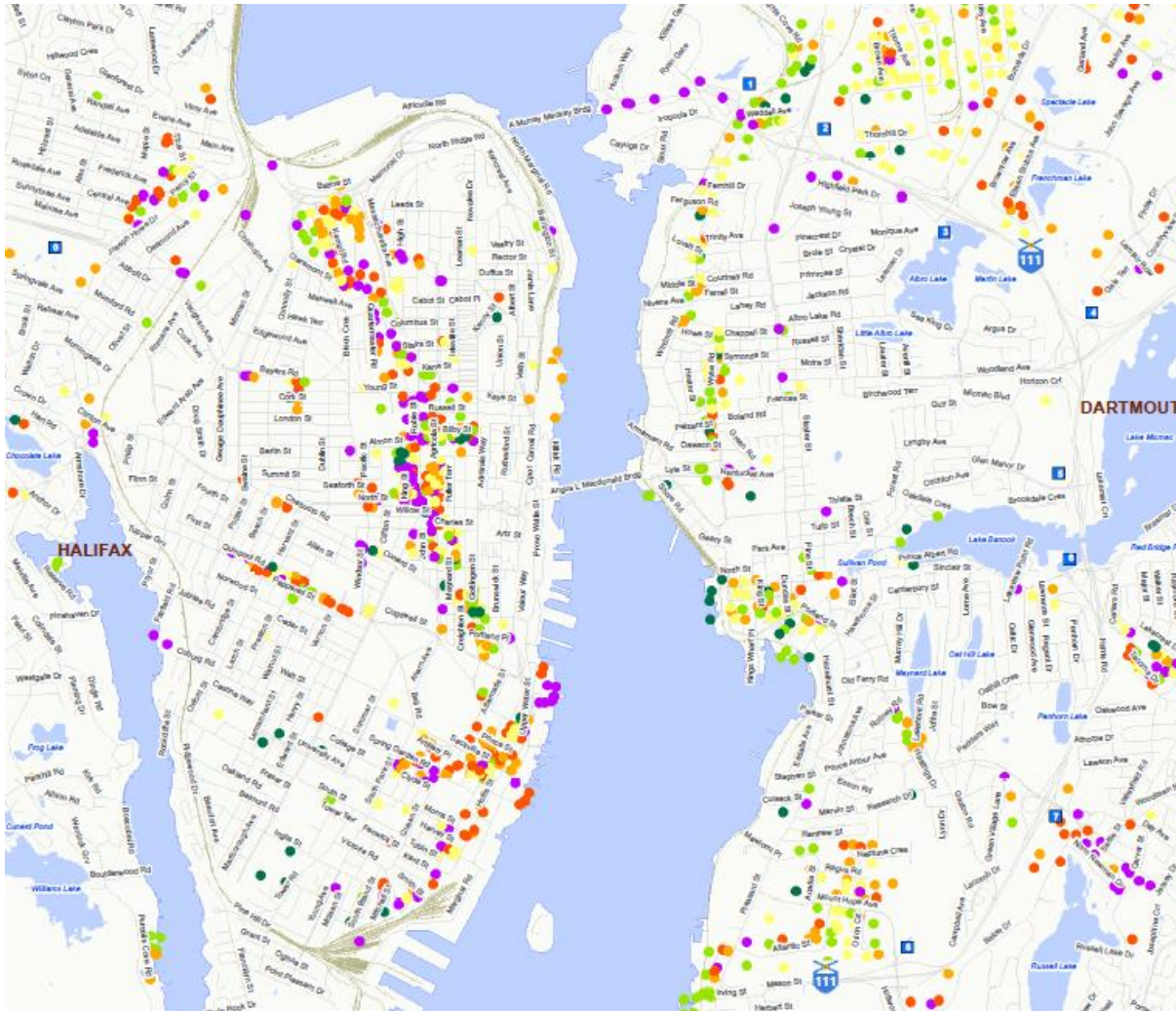
Efficiency (or Bias)

- Efficiency (or Bias). All tax systems have some form of bias either intentional or unintended.
 - Location bias
 - Market value of land
 - Need and use of commercial space
 - Connection to revenue/net income

Location Bias

- Real estate (and assessment) values vary by location, due to the market value of the land
 - even within the Halifax Peninsula, land values range from \$30 to \$270/sq.ft.
 - for a 5,000 sq.ft. piece of land, this \$240/sq.ft. difference would equate to about \$4,200 in property taxes.
- Location bias can have positive aspects
 - better access to clients/customers, better visibility, synergies with other businesses.

Property Tax Varies substantially within the Region.



Legend

Property Tax per Sq Ft. (2014)

- Under \$1.00
- \$1.01 - \$2.00
- \$2.01 - \$3.00
- \$3.01 - \$4.00
- \$4.01 - \$6.00
- Over \$6.00

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Importance of Property Tax in Business Location Decisions (Altus 2013)

Most Important



Least Important

Rank	Downtown Office	Downtown Retail	Suburban Office	Suburban Retail
1	Employer Preference	Proximity Customers	Parking Availability	Parking Availability
2	Image Profile	Image Profile	Parking Cost	Parking Cost
3	Proximity to Clients	Employer Preference	Commute Time	Available Space
4	Transit/Access	Proximity to Retail	Face Rent	Proximity to Retail
5	Prox. to Rest/Serv	Prox. to Rest/Serv	Employee Preference	Employer Preference
6	Employee Prefer.	Available Space	Employer Preference	Face Rent
7	Available Space	Transit/Access	Operating Costs	Proximity Customers
8	Infrastructure	Commute Time	Property Taxes	Image/Profile
9	Commute Time	Employee Preference	Prox. Air/Highways	Property Taxes
10	Parking Availability	Infrastructure	Transit/Access	Commute Time
11	Face Rent	Face Rent	Proximity to Clients	Operating Costs
12	Operating Costs	Operating Costs	Available Space	Proximity Rest/Serv
13	Parking Costs	Property Taxes	Infrastructure	Transit/Access
14	Property Taxes	Parking Availability	Proximity Rest/Serv	Prox. Air/Highways
15	Prox. Air/Highways	Prox. Air/Highways	Proximity Retail	Infrastructure
16	Proximity Retail	Parking Costs	Green Initiatives	Employee Preference
17	Green Initiatives	Green Initiatives		Green Initiatives

Sector Bias – Operational Requirements

- Business Operations require space, but different business may require more or less space than others.
 - E.g. A hotel will require more space per customer, with higher levels of finish (individual bathrooms), than an insurance company.
 - Even within a sector (e.g. service/repair), there can be significant variation of space needs: a watch repair shop vs an auto body shop.

Sector Bias – Property Values are not Tied to Income or Revenues

- Different types of business require different types of space. As a result, some sectors face higher taxes.

Illustrative Example of Property Taxes relative to Revenues

	Revenues per Square Foot	Taxes per Square Foot	Taxes as a percent of Revenues
Dining	44	4.11	9.3%
Consulting	115	6.27	5.5%

Assumes median revenues and average property taxes

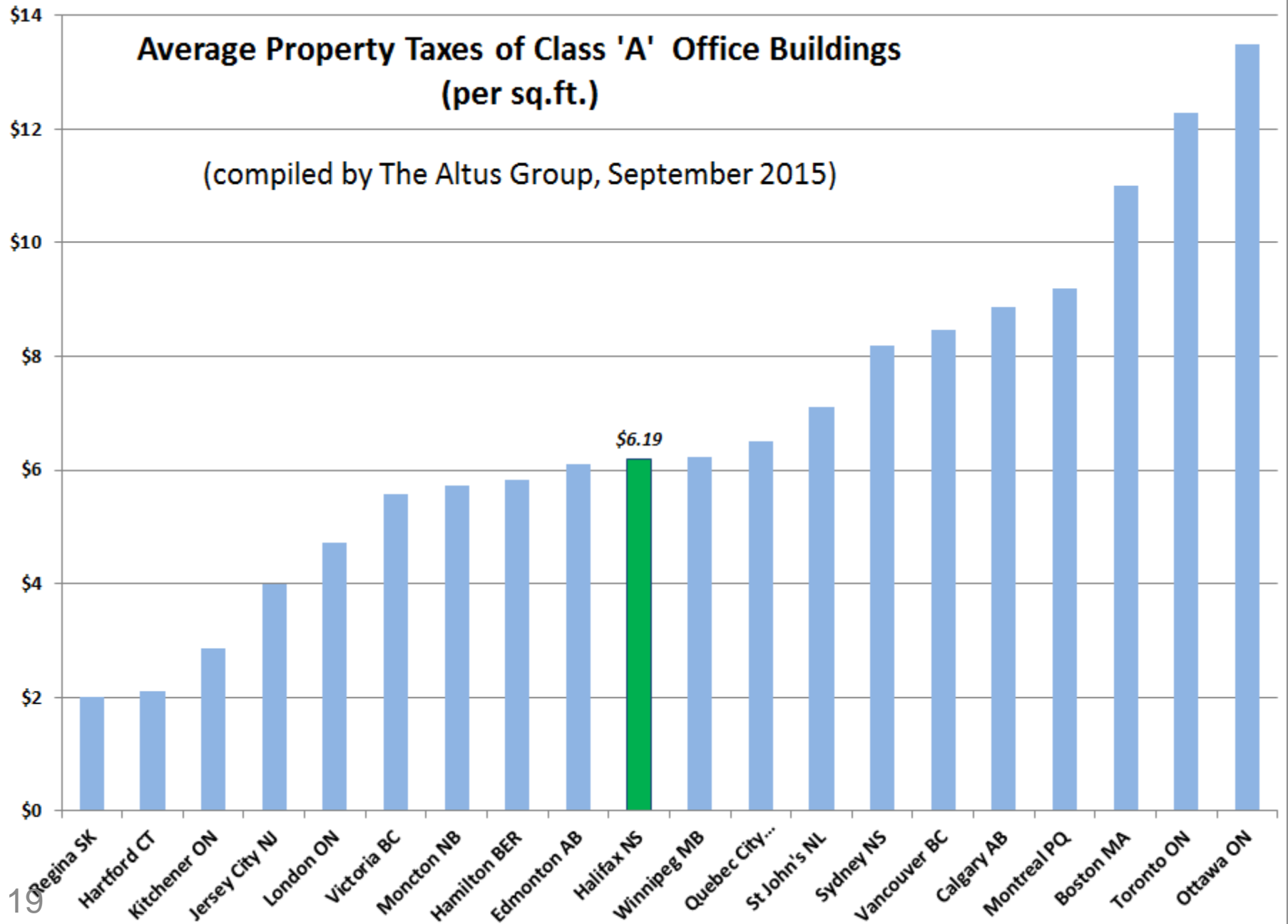
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Competitiveness

- The Region's ability to compete as a group
- Ideally, greater wealth for all businesses and residents.
 - The goal should be to encourage greater wealth, not just shift income from one taxpayer(s) to another.
 - Higher wealth comes from greater exports or increased investment.

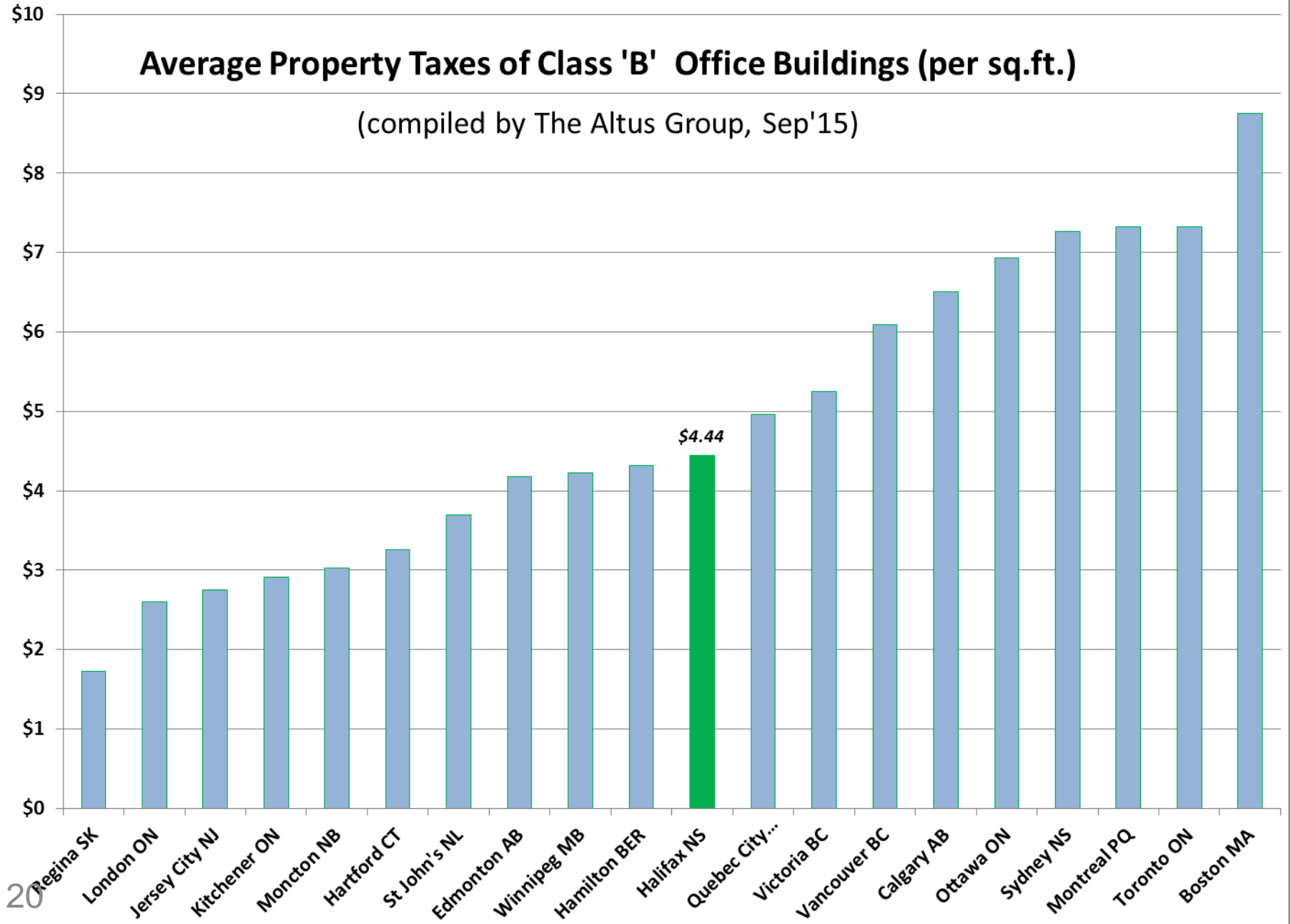
Average Property Taxes of Class 'A' Office Buildings (per sq.ft.)

(compiled by The Altus Group, September 2015)



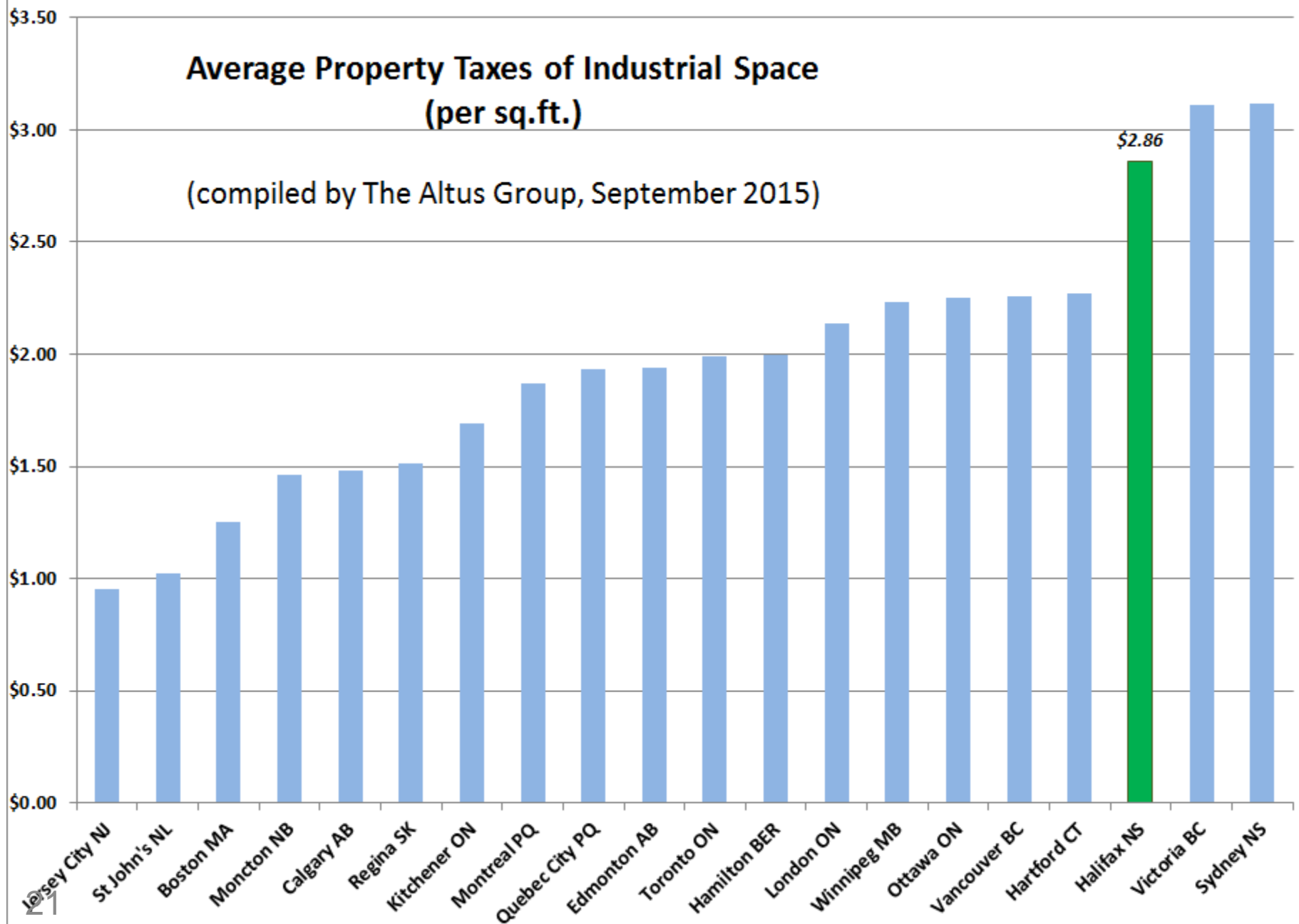
Average Property Taxes of Class 'B' Office Buildings (per sq.ft.)

(compiled by The Altus Group, Sep'15)



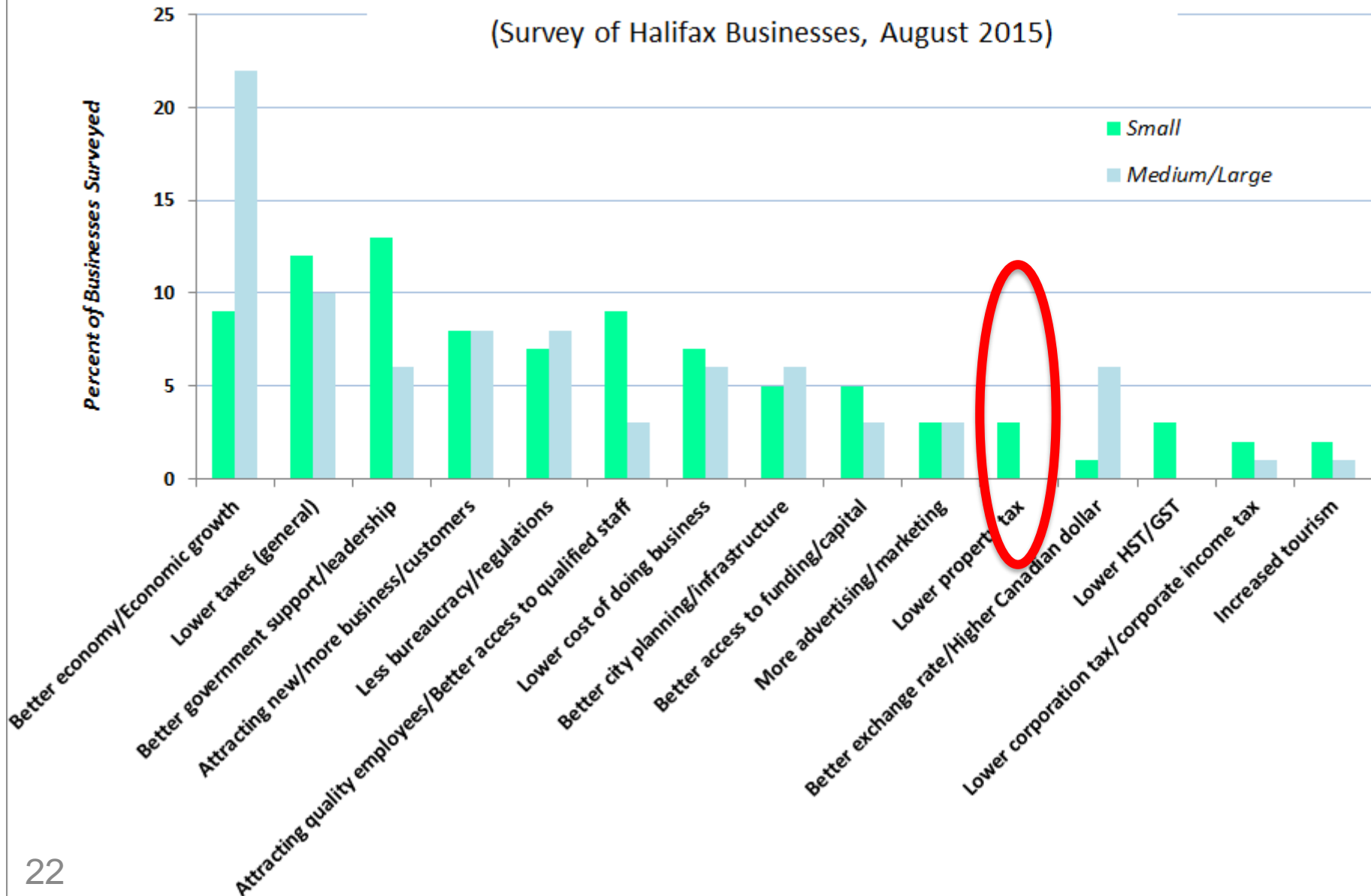
Average Property Taxes of Industrial Space (per sq.ft.)

(compiled by The Altus Group, September 2015)

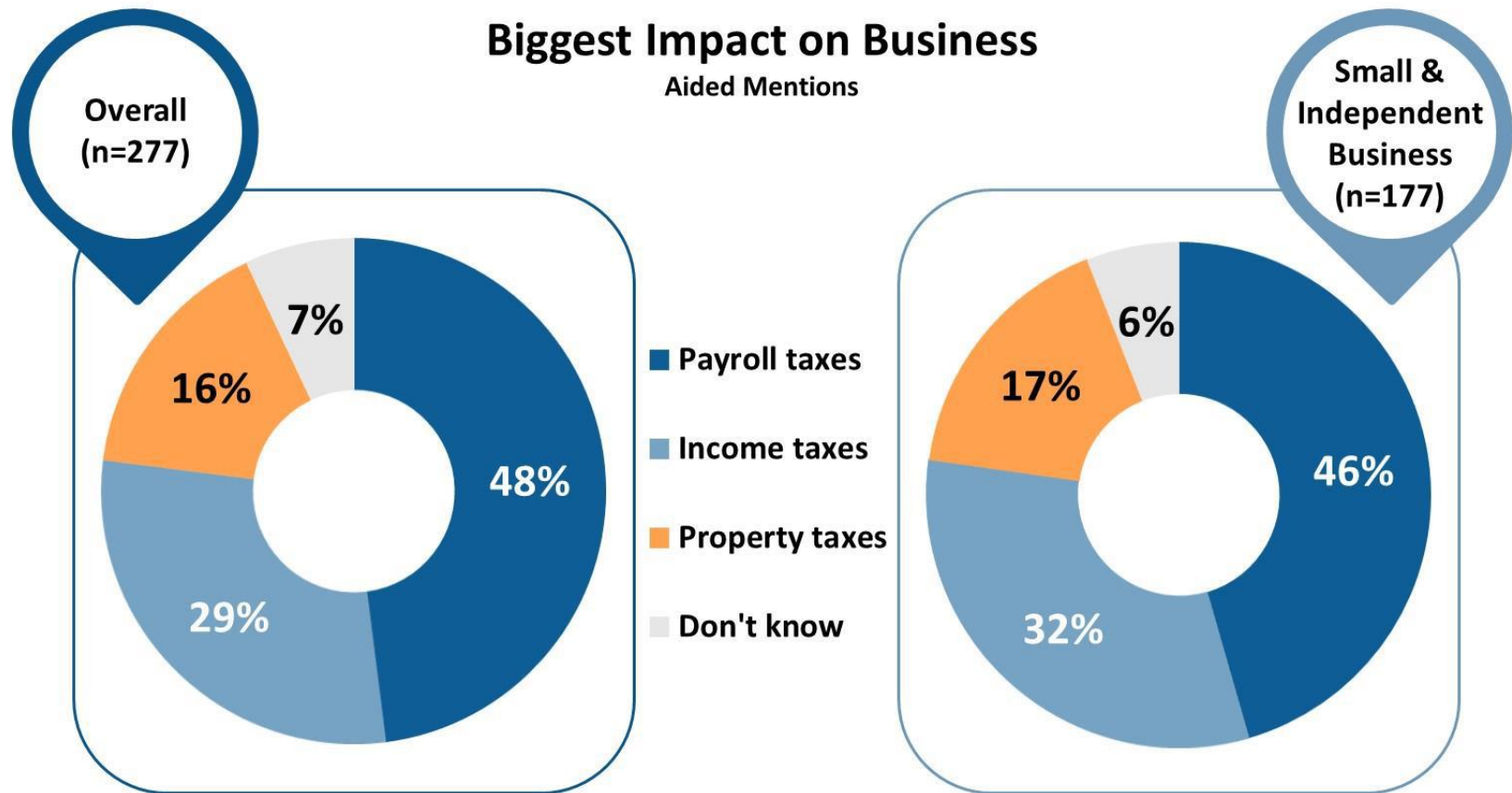


What Changes Would Positively Impact your Business

(Survey of Halifax Businesses, August 2015)



Payroll & Income Taxes are Biggest Impact



One half of business owners indicate that **payroll taxes** (incl. workers compensation, EI and CPP) have the largest impact, three in ten indicate that **income taxes** have the biggest impact; **one in six believe that property taxes have the greatest influence.**

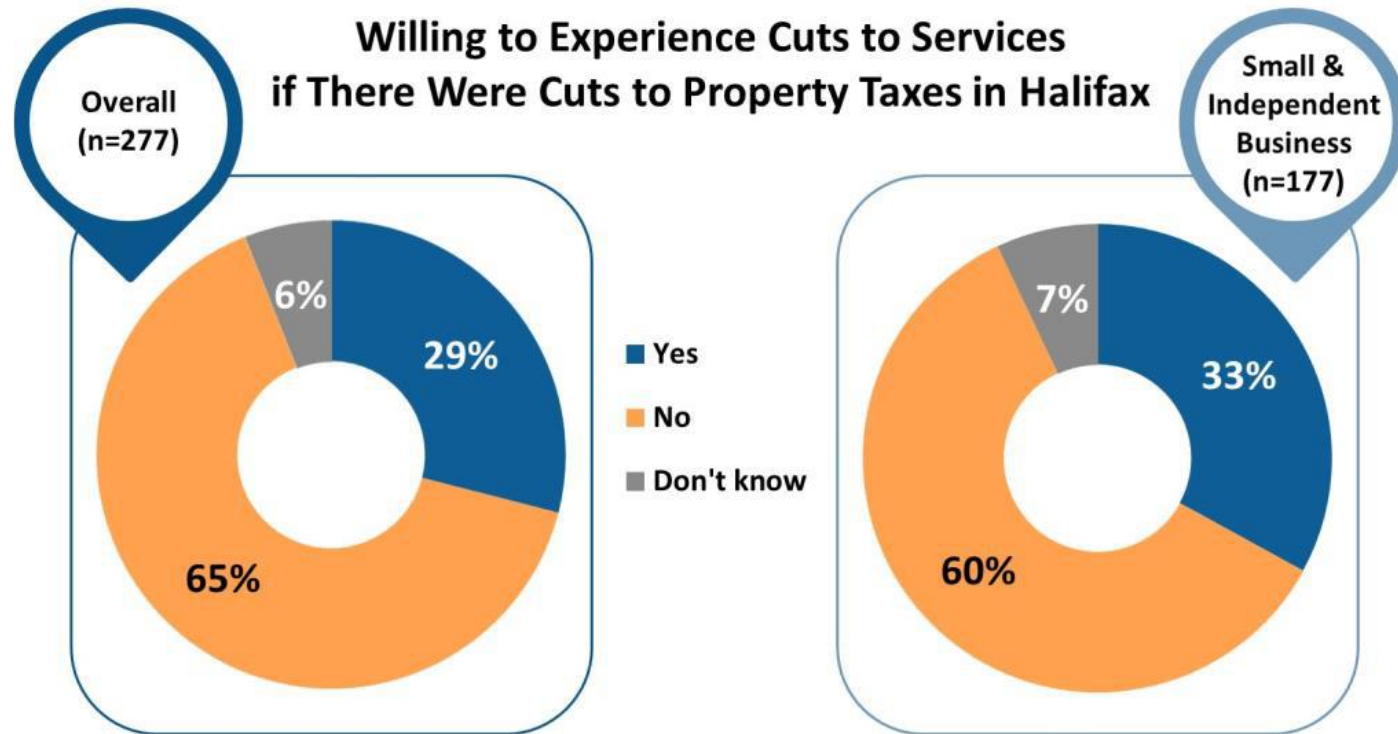
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What Business Said About Important Success Factors

Table 4a-g
Importance to Success of Business

Good traffic and road conditions	64%
Safety on the street?	61%
Low property taxes?	58%
Ease of parking?	57%
Cleanliness and attractiveness of the street?	56%
Ease of dealing with municipal administration?	47%
Access to public transit	38%

Two-Thirds would Not Trade Municipal Services for Lower Taxes



Only three in ten businesses would be willing to experience cuts to services such as public transit, road works or safety and cleanliness of streets, in order to achieve cuts to property taxes.

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Administration

- **Major tax changes will likely take at least two years:**
 - Availability of Data – This is a major issue with taxing by square footage and to a lesser extent with frontage.
 - Administrative Ease/Cost – Systems need to be altered, notice given. Some approaches may require additional costs.
 - Legislative Amendments are required for almost all changes.

Possible Options

- 15 Options were reviewed and included in the report. Nine are possibilities. There are four main approaches:
 1. Assessment Based Changes
 2. Shift Taxes to a Different Type of Tax
 3. Changes to the Current Assessment-Based Tax Structure
 4. General Tax Rate Reductions

Possible Options

Changes to Assessment Timing

- **Issue**: Assessed Values are updated every year. Limited number of sales in 12 months. Business has 90 days to appeal. Full tax bill is due in October.
- **Option**: Average the assessed values or update the roll every third or fourth year.
 - Improves predictability

Possible Options

Alternatives to Assessment

- **Issue**: Assessment is designed to reflect property values. The “bias” that have been identified are to be expected under an assessment system and are difficult to eliminate while still using that system.
- **Options**: Move a portion of taxation to a system based on something other than property values. Best options are a frontage tax or a tax based on square footage of building space.
 - Can improve predictability and eliminate some of the bias associated with assessed values.
 - Administration: Legislative changes, Need for data, system changes.

Possible Options

Changes to Current System

- **Issue**: Eliminate “bias” that have been identified while still using the assessment system.
- **Options**: A small property tax rate or a maximum tax per square foot of space
 - Introduces additional bias. Only small property owners receive. Small business that lease may see higher taxes.
 - Administration: Legislative changes, Need for data, system changes. Max Tax could have considerable administrative issues.

Possible Options

General Tax Rate reductions

- **Issue**: Need to make the region more competitive.
- **Options**: Reduce the tax rate
 - Could increase competitiveness. Could be used in concert with other options.

Possible Options

	Predictability	Efficiency/Bias	Competitiveness
<u>Changes to the timing of the assessment process</u>			
Assessment Averaging	✓	▬	▬
Base Date adjusted every 3 to 4 Years	✓	▬	▬
<u>Alternatives to an assessment based tax</u>			
Frontage Tax	✓	✓	▬
Frontage Tax (over 50 ft)	✓	✓	▬
Square Foot based Tax	✓	✓	▬
		May have different type of bias	
<u>Changes to the current assessment based tax structure</u>			
Small Property Tax Rate (\$750k)	✗	✗	▬
Small Property Tax Rate (\$2,250k)	✗	✗	▬
Maximum Tax (\$10 per SqFt)	✓	✗	▬
<u>General tax rate reductions</u>	✗	▬	✓

Business is an Ecosystem

- Business just doesn't sell to consumers. They buy and sell from each other.
 - “Your sales are my supplies.”
 - “Your employees are my customers.”
- Higher or lower taxes on one local business may be passed on to another local business.
- Tax systems that shift taxes amongst business will have unintended consequences. These biases can be difficult to predict in advance and may affect competitiveness.

Conclusions

- **Small Business cannot be identified and taxed separately through the current assessment system.**
- **The “problem” needs to be clearly defined if the solution is to be successful. No one option will solve all “issues”.
Unlikely to lower tax for all small business.**
- **Predictability is important and can be improved through several options including frontage, square footage tax and adjusting the timing of assessments to three to four years.**
 - These are not mutually exclusive options
 - Considerable change is involved including legislative amendments and system requirements. Not possible for 2016-17.

Recommendation

- ... direct the Mayor to write the Minister of Municipal Affairs to request that the Provincial Government, in order to increase predictability for taxpayers, consider making changes to the legislation governing the assessment process so that
 - the annual valuation is averaged over a three year period or,
 - the full assessment roll is updated every three to four years, as is the current policy in Saskatchewan and Ontario.