Canadian Research Com. on Taxation Completed Study for City of Montreal

A copy has been provided to GroundSwell of the September 1998 Executive Summary and Recommendations of the Canadian Research Committee on Taxation's Two Rate Tax Impact Study for the City of Montreal. Dr. Francis Peddle, Director of Research for the Canadian Research Committee on Taxation, is also a member of the Common Ground-USA Directors. With permission of CRCT, GroundSwell is reprinting the Report's Executive Summary and Recommendations.

Ontario/Quebec Common Ground-USA chapter chair John Fisher reports that the Tax Impact Study for the City of Montreal was submitted in October 1998 to The Quebec Commission on Taxation and the Financing of Public Services. The Commission heard presentations under several headings, including the amalgamation of metropolitan Montreal's 27 municipalities into a mega city of Montreal (similar to the recent metro Toronto supercity amalgamation). So, although the CRCT study was focused on the current City of Montreal, the Commission's recommendations to the provincial government could ultimately apply not only to Montreal but perhaps all municipalities in Quebec. The Commission praised the CRCT presentation as one of the best it heard.

In May 1999 the Commission made their recommendations to the Quebec Government. The taxation recommendations were forwarded almost intact from the CRCT report. A few changes were made such as the omission of Geographical Information System references. The media immediately focused on the Commission's amalgamation suggestions, so how the taxation recommendations are received by the Quebec Government remains to be seen. The next step in this process is the political democratic process at the provincial level.

EXECUTIVE SUMMARY OF C.R.C.T. TWO RATE TAX IMPACT STUDY FOR MONTREAL

The Canadian Research Committee on Taxation (CRCT) has a long history of submissions to municipal governments in Quebec on the issue of how to design more equitable and efficient methods of property taxation. In September, 1962 the CRCT discussed methods of constructive taxation in a report to the Special Investigating Committee on Municipal Taxation of the City of Montreal. The CRCT submitted a report on property taxation to the Belanger Royal Commission on Taxation in the Province of Quebec in December, 1963 and shortly thereafter to the La Haye Commission d'urbanisme du Quebec in September, 1964. More recently it presented a report to the Quebec Commission on Taxation and the Financing of Public Services. The universal and constant theme prevalent in these presentations is the declaration that it is possible to design a property tax system that promotes employment, enhances productivity, reduces municipal government costs and which is compatible with the objectives of sound urban planning and environmental protection. It is towards the design of such an incentive oriented system of property taxation that this Study is directed.

The system of local government finance in Quebec relies on the taxation of immovable property for the provision of municipal services. In this respect Quebec is the same as other provinces in Canada where the taxation of real estate constitutes a significant proportion of overall government services and thereby substantially distorts the economic impacts on individual property owners and business people. Taxes are today the most important and pervasive determinant of economic activity in Canada. Their burden is direct and obvious, ubiquitous and subtle.

A two rate property tax reverses the detrimental and counterproductive tendencies which are presently inherent in our systems of local government finance. The single rate property tax discourages improvements to properties, promotes land speculation and land price increases, fosters urban blight and suburban sprawl and contributes to inadequate housing and homelessness. Two rate property taxation reduces the tax burden on buildings and increases the amount of revenue received from the land value component. This can be achieved by simple and flexible algebraic adjustments to the current property assessment and tax machinery. The beneficial economic and social effects of such adjustments can be profound.

The City of Montreal is an extensive urban mosaic of diverse communities and real estate usages that yield overall revenues of approximately \$1.8 billion per annum. \$940 million of this revenue comes from the general real estate tax which has a taxable assessment base of \$45 billion. The general tax rate is 1.99% (yielding approximately \$900 million) with surtaxes on vacant land and non-residents (yielding \$40 million). A business tax on annual rental value produces another \$218 million in revenue. The balance of the budget comes from water charges, payments-in-lieu from more senior levels of government, fines, fees, government transfers and other non-fiscal measures.

This tax impact study does not adjust for revenues from payments-in-lieu, water charges and non-fiscal measures. It proposes to roll in the business tax on annual rental values and obtain the same amount of revenues from a modified general real estate tax. Total revenue requirements from the property tax under this scenario will therefore be \$1.158 billion with the rolled-in business tax as opposed to the current \$940 billion.

continued on page 9

Canadian Research Com. on Taxation Completed Study for City of Montreal

continued from page 6

However, the modelling in this Study is restricted to the general real estate tax on a revenue neutral basis. A phase-out of the business tax and a roll-in into the general real estate tax base is recommended.

The following three property tax reform options for the City of Montreal are analyzed in this Study.

(1) The first option proposes that 50% of property tax revenues be raised from the building component and 50% from the land value. Currently the taxable assessment base of $45 billion generates 66% of its revenues from the building values and 34% from the land or site value. The average building to land ratio for Montreal is therefore 66/34%. If a property is above this ratio it will receive a tax decrease under this proposal; if it is below there will be a tax increase. The degree of tax decreases and increases will depend on the property's variance from the average building to land ratio.

While a majority (60%) of single family residential properties receive a tax increase under this scenario, overall 63% of the residential sector will receive a decrease. The majority of commercial (60%) and industrial (56%) properties receive increases. These properties are generally underutilized although they receive the benefits of full municipal services.

The cadastral analysis in this Study shows which areas of Montreal and which property types in those areas receive tax increases and decreases under the various two rate tax options. It is possible to generate a two rate property tax bill for any property in Montreal. The analysis in this Study is, however, limited to statistical averages, sub-averages and benchmarks.

The reduction of the tax burden on buildings gives residential property owners an opportunity to reduce voluntarily their property tax by making it easier to elevate individual properties above the average building/land ratio in the community.

(2) In the second tax reform option, the percentage of tax revenues from buildings is 40% while that from the land value is 60%. This option produces more substantial tax increases and decreases in relation to a property's variance from the average building to land ratio but at the same time provides greater scope for the improvement of property without incurring a tax penalty.

(3) The third option is a single rate of 5.852% on the taxable land value component only of all non-exempt land in Montreal which has a 1995 assessed value of $15,452,247,932. This option would be, from the standpoint of tax theory, the most desirable in order to achieve the goals of economic efficiency, equity and enhanced productivity in the region. Adopting this option in one fell swoop would, however, result in significant tax shifting between different regions in the city and between various classes of property. It is therefore recommended that Montreal move towards the third option through a multi-year phase-in utilizing an acceptable combination of the first and second options. These initial options are therefore to be treated as benchmarks for further modelling on potential tax impacts.

The tax impacts, in terms of increases and decreases, are analyzed under each scenario. The statistical summaries in this Study show that the greater the degree of taxation of the land value component the higher the tax savings for those property owners who are above the average in building/land ratio and who thus more constructively contribute to the community as a whole.

This Study concludes with a number of straightforward recommendations, which, if implemented by the Quebec government, would provide the City of Montreal and all the municipalities in Quebec with the fiscal flexibility to create the economic incentives and the social well being necessary for these communities to flourish and prosper into the twenty-first century.

RECOMMENDATIONS OF THE CRCT TWO RATE TAX IMPACT STUDY FOR MONTREAL

1. That the City of Montreal seek provincial authority to adopt a two rate property tax on all taxable land and building values.
2. That the Montreal Urban Community be requested to valuate Montreal for property tax purposes on an annual basis and to continue to separate valuation and disclosure of the land and building values in the property assessment database.
3. That the Montreal Urban Community, along with municipal and provincial authorities conduct extensive digitized spatial modelling of the tax impacts on land utilization and resource allocation using Geographical Information Systems (G.I.S.) software in order to gain greater insights into the correlations between property taxation, land utilization and economic activity.
4. That the surtax on vacant land remain in place.
5. That the valuation of exempt properties by the M.U.C. be continued and further analyzed for accuracy.
6. That the business tax on an annual rental basis be gradually rolled into the general tax rates once a two rate property option has been adopted by the City of Montreal.
7. That the business tax be phased out over a six year period with a 2% reduction in the rate per annum.