



Property Tax Reform in Ontario: How did we get here? Where do we go?

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Enid Slack
Institute on Municipal Finance and Governance
Munk School of Global Affairs
University of Toronto
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WHERE DID IT ALL START?



- Ontario Committee on Taxation in 1967 identified inequities in the assessment system:
 - within classes of property
 - between classes of property
 - across municipalities

HOW DID WE GET HERE?



- Provincial takeover of assessment, 1970
- Reassessment at local option, 1978
- Taxing Matters, 1985
- Fair Tax Commission, 1993
- Greater Toronto Area Task Force, 1996
- Who Does What Panel, 1996
- Major property tax reform, 1998
- Subsequent reforms, 1999, 2000, 2001, 2004, 2005, 2006, 2007, 2008

WHERE IS HERE?



- Current value assessment
- Property classes
- Optional property classes
- Graduated tax rates
- Capping
- Phase-ins
- Mitigation measures

WHERE DO WE GO FROM HERE?

- Is the property tax a good local tax?
- Can it be increased?
- How can the property tax be improved?
- Do we need to re-think local government finance?



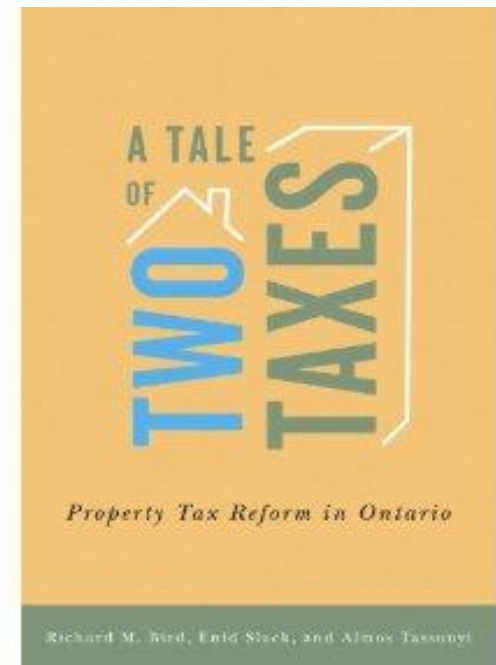
IS THE PROPERTY TAX A GOOD LOCAL TAX?

- Substantial amount of revenue
- Immobile tax base
- Visible tax
- Connection between local services and property values
- Inelastic tax base
- But ... tax base must be estimated

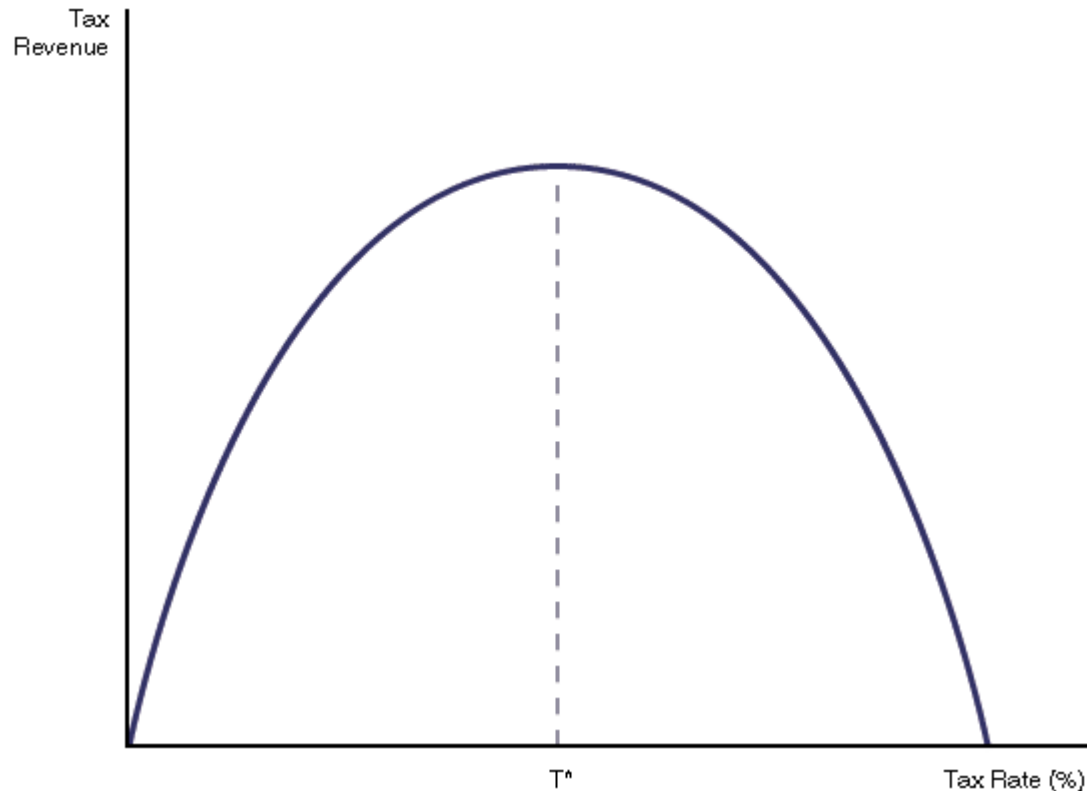


IS THE PROPERTY TAX A GOOD LOCAL TAX?

- Non-residential property tax not as good a tax for local governments:
 - can be exported to other jurisdictions
 - exporting makes the non-residential property tax popular but reduces accountability



HAVE WE REACHED THE PEAK OF THE REVENUE HILL?



HAVE WE REACHED THE PEAK OF THE REVENUE HILL?



- Each tax rate climbs a revenue hill
- Rate-base elasticity tells us how far we are on the revenue hill
- Elasticity = -1 means we are at the peak of the revenue hill
- If elasticity is greater than -1, a small increase in tax rate will reduce revenues

Tax Rate to Base Elasticity, 1977-2005

	Toronto	Durham	Halton	Peel	York
Commercial & Industrial	-0.90	-0.86	-0.56	-0.88	-0.73
		Oshawa	Oakville	Mississauga	Vaughan
		-0.92	-0.53	-0.89	-0.46

	Toronto	Durham	Halton	Peel	York
Residential	-0.83	-1.00	-0.88	-0.96	-0.93
		Oshawa	Oakville	Mississauga	Vaughan
		-1.04	-0.92	-0.98	-0.67

HOW CAN THE PROPERTY TAX BE IMPROVED?

- Abolish education property tax
 - Province fund education from general revenues
 - Tax room for local property taxes
- Uniform tax on all property classes
 - Reduce over-taxation of business
 - Discourage use of property tax incentives
- Reduce exemptions and rate relief
 - Political necessity?



HOW CAN THE PROPERTY TAX BE IMPROVED? EXPLAIN IT TO TAXPAYERS



A NOT SO GOOD IDEA: FREEZING ASSESSMENT



Figure 1: Impact of 5% Capping by Property Value

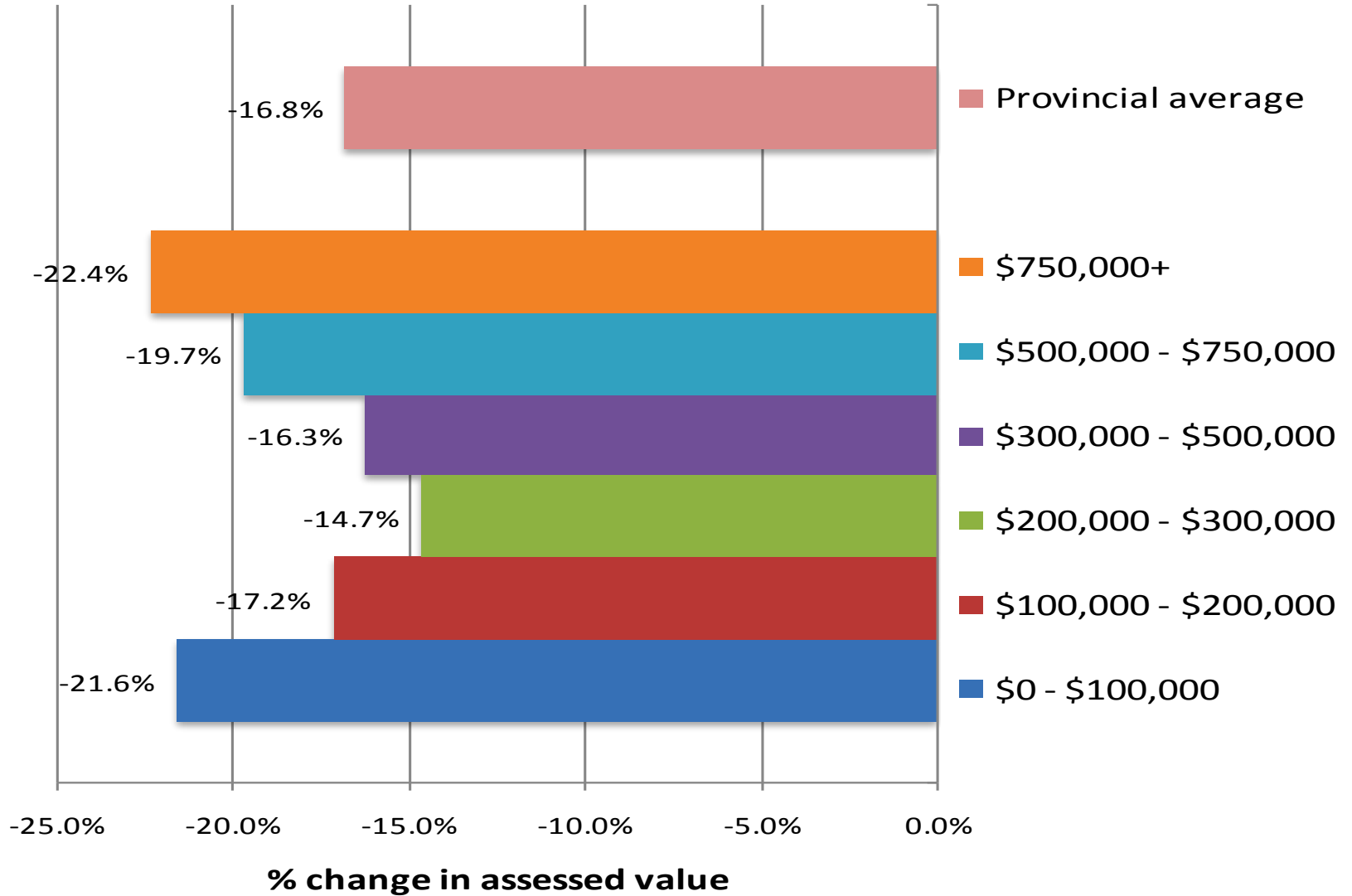


Figure 2 : Impact of 5% Capping by Owners' Age

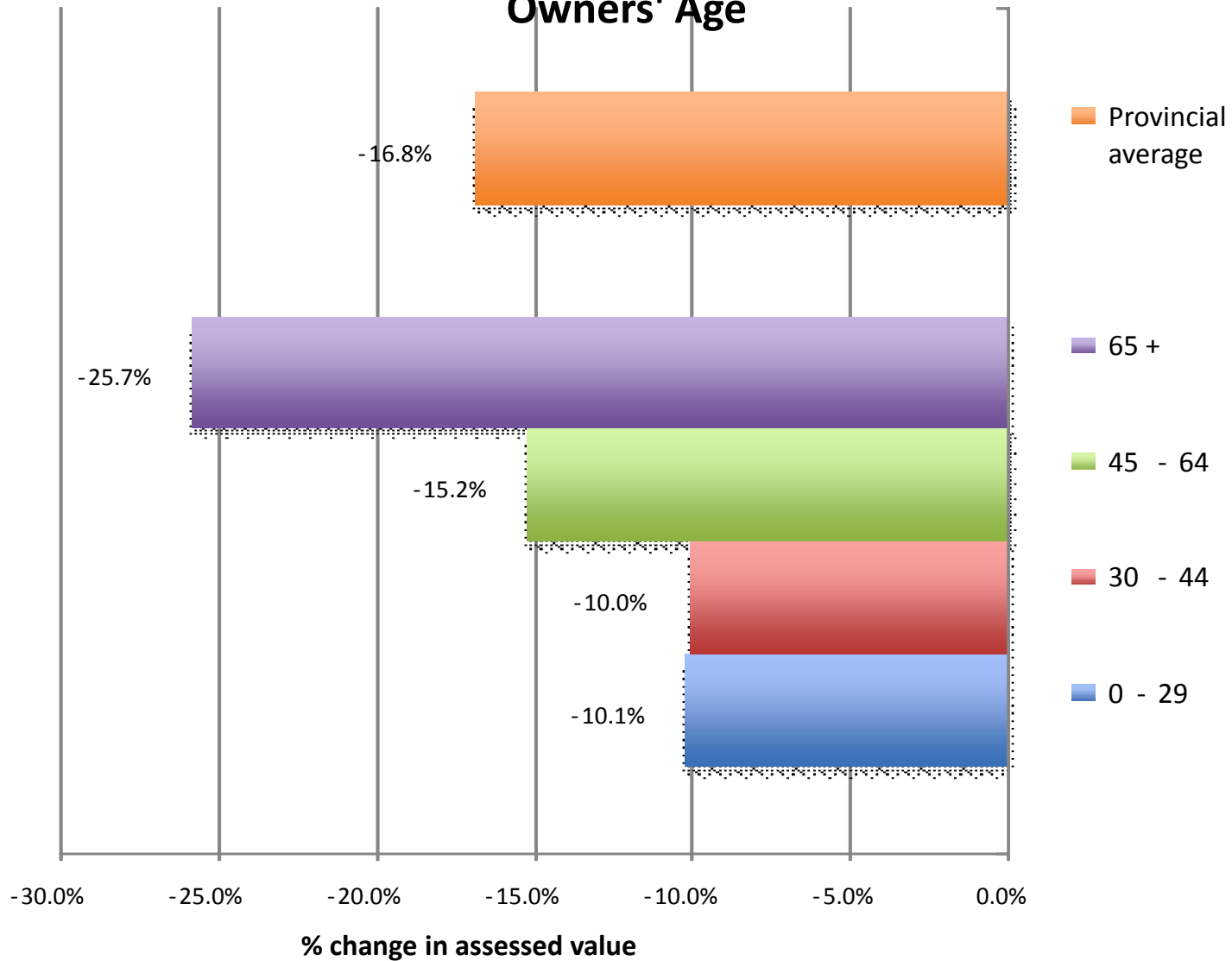
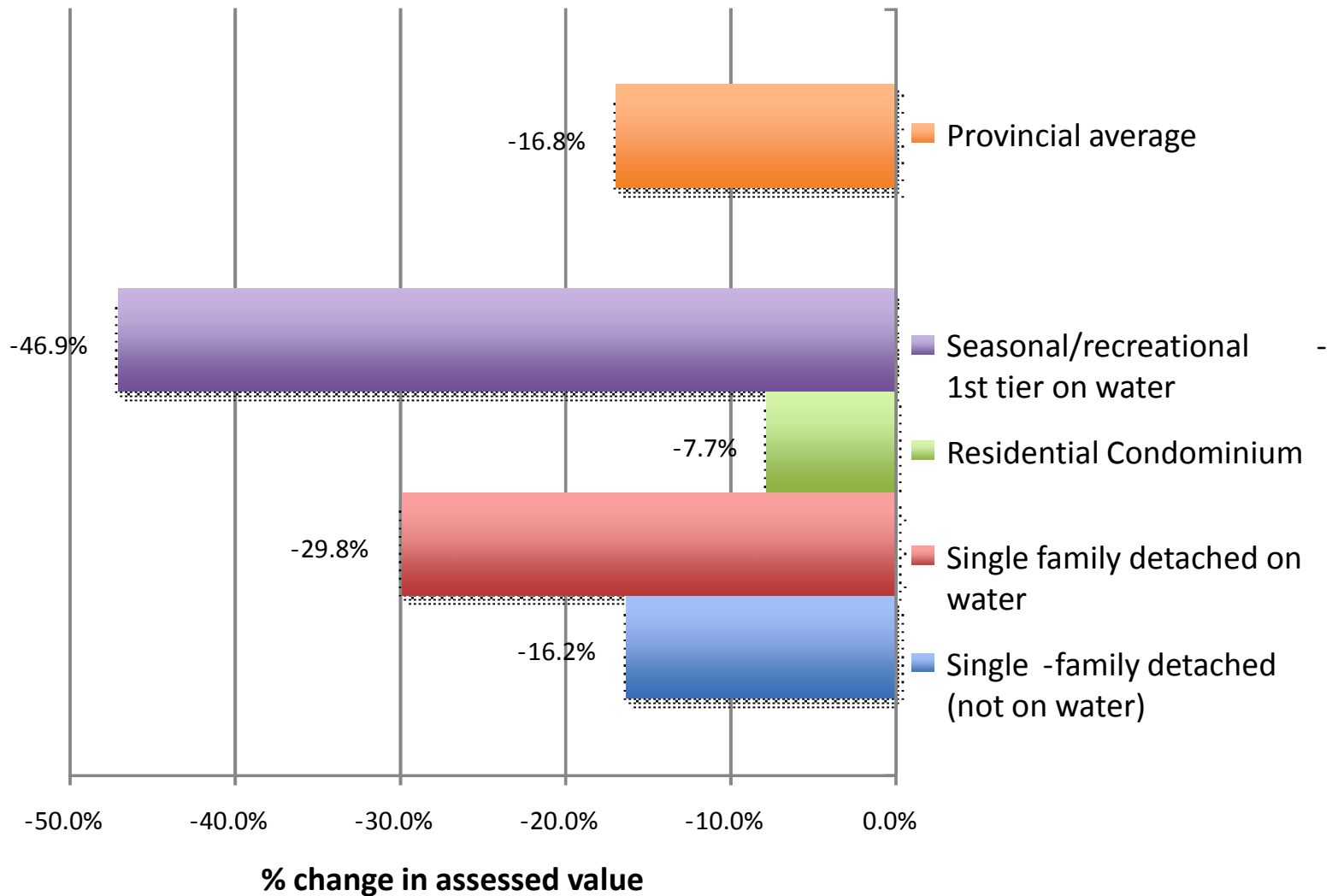


Figure 3: Impact of 5% Capping by Property Type



DO WE NEED TO RE-THINK LOCAL GOVERNMENT FINANCE?

- Less reliance on the property tax
 - business value tax (BVT) to replace non-residential property tax
 - piggyback onto income or sales taxes
- Revenue tools to match expenditure responsibilities



DIFFERENT SERVICES – DIFFERENT REVENUE TOOLS

Private

Water

Sewers

Garbage

Transit

Public

Police

Fire

Local parks

Street lights

Redistributive

Social assist.

Social housing

Spillovers

Roads/transit

Culture

Social assistance



User fees



Property tax

BVT

Sales tax



Income tax



Transfers

A PORTFOLIO OF TAXES



- A mix of taxes is appropriate:
 - One tax may create distortions offset by a mix of taxes
 - Improves flexibility in adapting to local conditions and circumstances
 - Increases revenue elasticity