A path forward to municipal property tax fairness in Alberta

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Contents

Key Takeaways

- Businesses pay a significantly higher property tax rate than residents and this burden is greater in the larger cities. Across 20 assessed municipalities, the property tax rate ratio in Alberta's four largest cities (Calgary, Edmonton, Red Deer & Lethbridge) averages 2.99, meaning that businesses pay almost three times the property tax rate of residents. In the other 16 smaller assessed municipalities, the rate ratio is 1.79.
- Alberta's municipal property tax distributions are unfair, especially in larger cities. The average property tax fairness ratio in Alberta's four largest cities sits at 2.1. This means that the share of total property taxes paid by business properties is more than double their share of total property assessment. In the other 16 smaller assessed municipalities the fairness ratio is 1.55.
- Property taxes are expected to grow at a faster rate than municipal spending in most of the analyzed municipalities, suggesting a growing reliance on already unfair property tax distributions.
- The tax rate ratio and tax fairness ratio are projected to keep rising until 2027 in all analyzed municipalities due to higher growth in residential assessment compared to business assessment.
- CFIB estimates that a 2% property tax shift over a period of four years (8% total) in Alberta's two largest cities (Calgary & Edmonton) from business to residential properties would save the typical business property assessed at $3 million, over $28,000 on average over four years.
- In contrast, an average residential property would see an increase of just over $1,000, which is 29 times smaller than the forecasted savings of the average business property. This difference is because there are far greater residential properties than business, allowing municipalities to spread property taxes across a larger property base.

Introduction

Small businesses are the cornerstone of local communities, providing employment opportunities, donating to local charities and sports, and purchasing goods and services from other small businesses. The Canadian Federation of Independent Businesses (CFIB) estimates that for every dollar spent at small businesses across the country, 66 cents is recirculated in the local economy[1] compared to 11 cents for a larger multinational. With strong personal connections between small business owners, employees, and customers, these businesses form an integral part of our social fabric, fostering a sense of community and belonging. While small in size, they contribute greatly to the province's economy. In 2021, small businesses with under 100 employees accounted for three quarters of Alberta's private sector employment.[2]

As businesses grapple with increasing costs, property taxes remain a critical issue for Alberta small businesses. Rising property taxes lead to higher operational costs which not only affects businesses directly through delayed expansion plans and closures, but also burdens consumers through higher prices and contributes to economic stagnation, particularly in productivity growth.

This report ranks the severity of the imbalance that exists between business and residential property taxes across Alberta's 20 largest municipalities. Further, it demonstrates how this existing imbalance can be reduced through a shift in property taxes from business to residential properties.

Primer on Alberta's property taxes

Municipal property taxes in Alberta are determined in the following manner:

1. The government assesses every property (business[3] and residential[4]) to determine the value of each property.
2. The municipal government establishes a budget, deciding how much money they plan on spending, followed by how much money they will then have to raise through property taxes.

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[1] CFIB (2023), Small Business, Big Impact: Small Retailers' Local Contributions.
[2] Innovation, Science and Economic Development Canada (2022) Key Small Business Statistics.
[3] While the official term used by governments is "non-residential" (comprising commercial, retail, industrial and other miscellaneous properties), this report will use the term "business" for clarity as non-residential properties are defined as a property whose [primary use is for business purposes.](#)
[4] Some municipalities make a distinction between different types of residential property (e.g., residential & high density residential) and taxes them at different rates. This report only considers the basic residential subclass as that class makes up the vast majority of the residential category.

3. The government then determines what share of property taxes will come from business (officially called non-residential) and residential property classes based on Council's and the municipality's priorities.
4. Based on the share of property taxes split between the two classes, the municipality calculates the mill rate[5] for each property class needed to raise the required amount of money.

$$Property\ taxes\ paid = \frac{Mill\ Rate}{1000} \times Assessment\ value$$

5. The mill rate (the amount of money paid for each dollar of property assessment value) is then applied to the value of every property owner's property as assessed by the government.

It should be noted that higher assessed value does not necessarily translate to higher property taxes. This is because, business and residential tax rates are determined independently of each other and are ultimately driven by spending priorities and tax revenue shares set by municipalities.

Small business owners' views on property taxes

Alberta small businesses continue to struggle from the impacts of the pandemic and face new economic challenges in the form of lower consumer demand for goods and services, inflation, labour shortages, and high interest rates. They also face cost increases from all levels of government, with property taxes representing the most direct cost coming from municipal governments. Over half (53%) of small business owners identify business property taxes as the most harmful tax or cost to their business.[6]

"I am unable to pay myself due to property taxes."

- Professional Services, Edmonton, Alberta

Property taxes are significantly challenging because they are profit insensitive, meaning businesses must pay them regardless of revenue. Of the Alberta small businesses that pay property taxes directly, 75% report that their property taxes have increased by at least 3% in the last year alone (see Figure 1).[7] Increases like these are disproportionately damaging to businesses. An increase of just 3% adds over $2,150 to the annual property tax bill of the average business property valued at $3.9 million in Calgary compared to just $63 for the average residence valued at $483,000. The situation is similar in Edmonton with an increase of three percent costing the average business property valued at $2.1

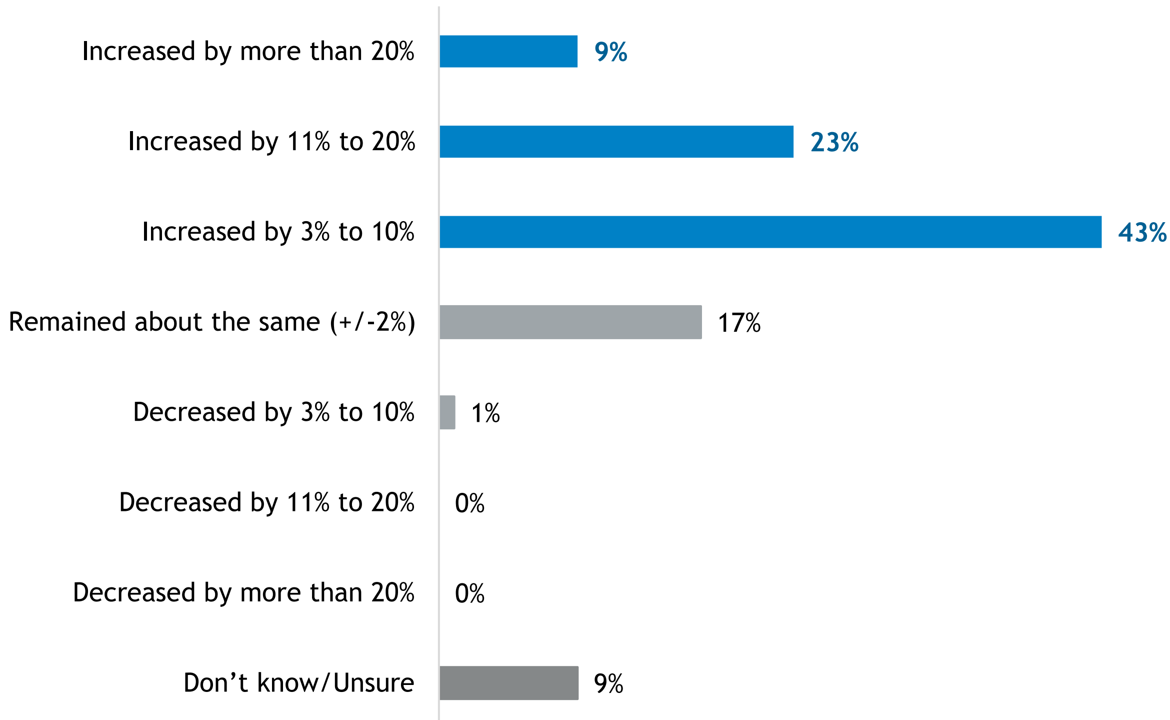
[5] *The mill rate has been converted to a simple percentage tax rate by dividing the mill rate by 1000 in the report for clarity in various calculations.*
[6] *CFIB, Your Voice Survey – November 2023, November 2 – 16, Final Results, AB n = 417.*
[7] *Figures may not add to 100% due to rounding.*

million $1,344 compared to just $71 for the average residence valued at $336,000.[8] Given how slim profit margins are for small businesses increases like these can harm their bottom line.

Figure 1

Three quarters of Alberta small businesses have seen property tax costs rise over the last year.

Over the last year, how have your businesses' property taxes or lease/rent bill changed?



Source: CFIB, Special Alberta Post-Election and Municipal Survey, July 18 – August 3, final results, n=272.

Property taxes can also have a negative impact on municipal investments. A recent study by the University of Calgary's School of Public Policy[9] analyzed 17 Alberta municipalities over the last two decades and found that increasing business property tax rates by 10% reduced commercial investment in building construction by 7%. This link is particularly relevant in the context of housing affordability.

"Property taxes are much too high compared to other municipalities. Since 2013, our taxes have tripled… I have not been able to give my employees a raise in over 5 years because of the increase in rent and taxes."

- Professional Services, Calgary, Alberta

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[8] *CFIB calculations. See Appendix for more details.*

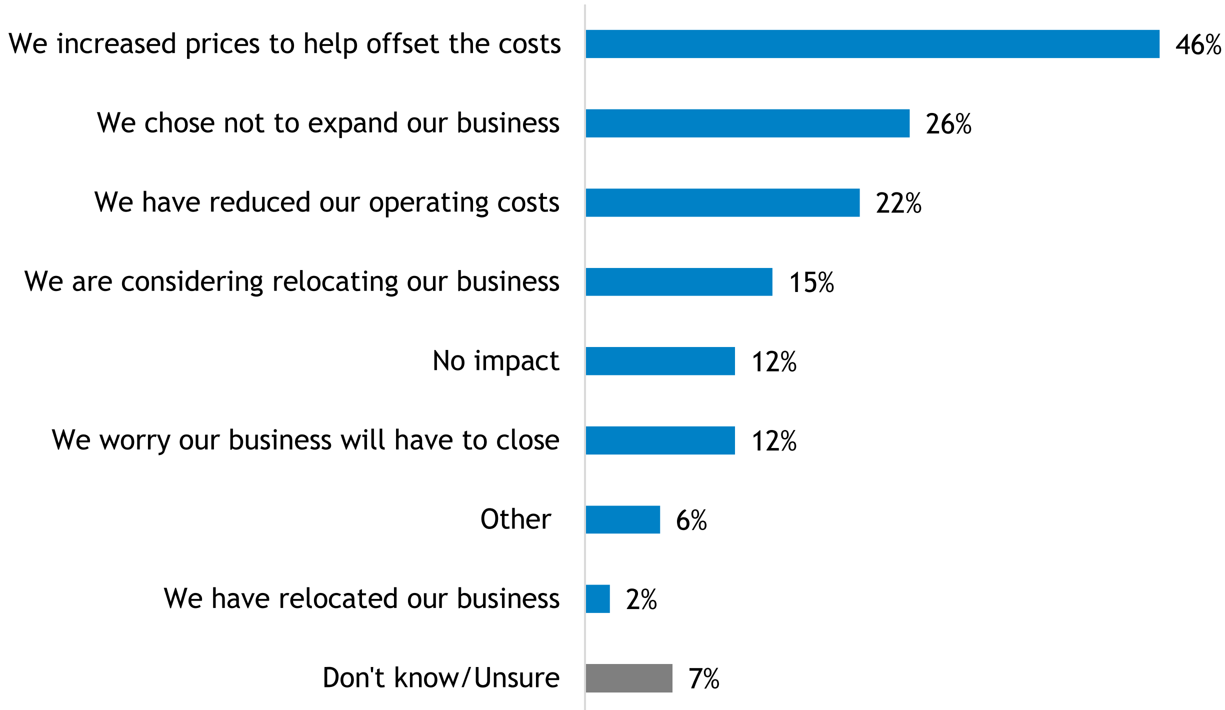
[9] *Dahlby, B., Ferede, E., & Khanal, M. (2021). The Impact of Property Taxation on Business Investment in Alberta, 14(1),* *https://ssrn.com/abstract=3834589*

Additionally, businesses that do not own the property may still pay property taxes as part of the contract negotiated between them and their landlord, which is the case for almost a third (31%) of Alberta small businesses.[10] Property taxes can also be passed through indirectly in the form of higher rents and other costs.

Figure 2

Rising property taxes are contributing to higher prices for goods and services.

How have rising property taxes impacted your business? (Select all that apply)



Source: CFIB, Special Alberta Post-Election and municipal survey, July 18 – August 3, final results, n=201.

Property taxes have led almost half (46%) of Alberta small businesses to raise their prices to help offset cost increases, thereby increasing the cost for goods and services (see Figure 2). Higher property taxes can also prevent small businesses from expanding their business, resulting in lost economic benefits. Most troubling is that 15% of Alberta small businesses are considering relocating while 12% worry their business will be forced to close due to increasing property taxes. The possibility of small businesses relocating or closing raises concerns for host municipalities with high property tax rates.

Due to ongoing cost increases from inflation, rising interest rates and other taxes that make managing their businesses more expensive, many business owners have already been forced to close or relocate, hurting the local economy. While some municipalities have property tax support programs for

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[10] *CFIB, Special Alberta Post-Election and municipal survey, July 18 – August 3, final results, n=394.*

residents, there are none for businesses. As small businesses struggle to stay afloat amid the high cost of doing business, municipal governments need to deliver cost relief and lower property taxes for businesses.

Ranking the Property Tax Burden and Fairness in Alberta's largest municipalities

To gauge the property tax burden on small businesses, CFIB has measured tax rate ratios and tax fairness ratios for Alberta's 20 largest municipalities. CFIB's Alberta Municipal Watch Report in 2021 previously recommended municipalities set targets to achieve a tax fairness ratio of 1:1 (i.e. the share of property tax revenue from business properties is equal to the share of property assessment made up by business properties).[11] These rankings highlight the scale of relative burden and tax fairness between the different municipalities.

2023 Tax rate ratio

Businesses face a tax rate ratio that measures the difference between the tax rate (mill rate divided by 1000) for business properties relative to residential properties. This ratio serves as an indicator of the relative burden of property taxes for businesses. For example, a tax rate ratio of 2:1 means that business properties pay a tax rate 2 times higher than residential properties.

$$Tax\ rate\ ratio = \frac{Business\ tax\ rate}{Residential\ tax\ rate}$$

Key Findings (Table 1)

- Calgary ranks worst in this indicator with the highest tax rate ratio of 4.26, meaning Calgary's businesses pay a municipal property tax rate over four times higher than residents.
- Leduc ranks best with the lowest tax rate ratio of 1.27.
- The average tax rate ratio is higher in the four largest cities (Calgary, Edmonton, Red Deer, Lethbridge) at 2.99 compared to the remaining 16 smaller assessed municipalities at 1.79.
- The tax rate ratio has risen in 15 out of 20 of the ranked municipalities over a five-year period since 2018 with an average increase of 6% in the four largest cities.

[11] *CFIB (2021), Alberta Municipal Watch Report: Property Tax Fairness and Trends in Operating Spending.*

Table 1

Businesses pay a property tax rate significantly higher than residents in Alberta municipalities
Ordered by Tax Rate Ratio, highest (worst) to lowest (best)

Municipality	Business tax rate	Residential tax rate	Tax Rate Ratio	5-Year change in tax rate ratio
Calgary	1.84%	0.43%	4.26	8%
Canmore	0.67%	0.21%	3.28	1%
Edmonton	2.09%	0.70%	2.98	5%
Lethbridge	2.11%	0.82%	2.58	9%
Medicine Hat	1.59%	0.67%	2.38	4%
Red Deer	1.56%	0.73%	2.13	3%
Airdrie	0.94%	0.45%	2.10	2%
Chestermere	0.72%	0.36%	2.01	6%
Fort Saskatchewan	0.97%	0.53%	1.82	2%
Lloydminster	1.29%	0.72%	1.80	0%
Grande Prairie	1.78%	1.00%	1.78	10%
Sylvan Lake	1.17%	0.69%	1.71	-1%
Cochrane	0.75%	0.46%	1.64	16%
Okotoks	0.87%	0.55%	1.59	7%
Camrose	1.34%	0.86%	1.56	-4%
Spruce Grove	0.99%	0.65%	1.52	6%
St. Albert	1.28%	0.85%	1.51	8%
Beaumont	0.95%	0.68%	1.40	-1%
Stony Plain	0.84%	0.64%	1.32	0%
Leduc	0.96%	0.75%	1.27	6%

Source: CFIB analysis of Alberta government property tax data 2018 – 2023. See Appendix B – Sources for more details.

2023 Tax Fairness Ratio

The tax fairness ratio measures the difference between what business properties are assessed at versus the share of property taxes that business properties pay. This is an indicator of the level of property tax fairness for businesses. For example, a tax fairness ratio of 2:1 would mean business properties' share of property taxes paid is two times higher than their share of property assessment. A higher number means a more disproportionate amount of taxes paid.

$$Tax\ fairness\ ratio = \frac{Business\ share\ of\ tax\ revenue\ (\%)}{Business\ share\ of\ property\ assessment\ (\%)}$$

Key Findings (Table 2)

- Calgary ranks worst in this indicator with the highest tax fairness ratio of 2.68. This number means that the share of Calgary's property taxes paid by business properties is over 2.5 times higher than their share of the city's total property assessment.
- Leduc ranks best with the lowest tax rate ratio of 1.18.
- The tax fairness ratio is higher in larger cities with the average in the four largest cities (Calgary, Edmonton, Red Deer, Lethbridge) equal to 2.1 (see Figure 3). The average tax fairness ratio in the remaining 16 smaller assessed municipalities is equal to 1.55.
- The last five years have seen a general rise in the disproportionate distribution of the tax burden in Alberta, with the tax fairness ratio rising in 12 out of 20 of the measured municipalities with an average rise of 7% in the largest four cities.

Figure 3

Businesses pay a greatly disproportionate share of municipal property taxes in Alberta's four largest cities (Calgary, Edmonton, Red Deer & Lethbridge)

Source: CFIB analysis of Alberta government property tax data 2023. See Appendix B – Sources for more details.

Table 2

Property tax distribution significantly unfair in most of Alberta's largest municipalities[12]
Ordered by tax fairness ratio, highest (worst) to lowest (best)

Municipality	Share of assessment (%)		Share of tax revenue (%)		Tax Fairness Ratio	5-Year change in the tax fairness ratio
	Residential	Business	Residential	Business		
Calgary	82%	18%	52%	48%	2.68	13%
Canmore	81%	15%	56%	35%	2.27	-4%
Edmonton	69%	22%	48%	45%	2.06	6%
Lethbridge	75%	19%	57%	38%	1.97	7%
Medicine Hat	71%	20%	58%	38%	1.95	4%
Chestermere	95%	4%	90%	7%	1.91	N/A
Airdrie	85%	14%	74%	25%	1.84	3%
Red Deer	68%	25%	53%	41%	1.66	2%
Sylvan Lake	87%	13%	80%	20%	1.57	-1%
Cochrane	90%	10%	85%	15%	1.54	14%
Okotoks	86%	14%	82%	20%	1.50	N/A
Grande Prairie	68%	30%	55%	43%	1.45	6%
Camrose	75%	22%	69%	31%	1.42	-2%
Lloydminster	66%	34%	52%	48%	1.42	N/A
St. Albert	85%	15%	79%	21%	1.40	6%
Spruce Grove	79%	17%	71%	24%	1.38	5%
Beaumont	93%	7%	90%	9%	1.36	-1%
Fort Saskatchewan	55%	19%	40%	25%	1.33	1%
Stony Plain	81%	17%	76%	21%	1.24	-3%
Leduc	67%	32%	62%	37%	1.18	6%

Source: CFIB analysis of Alberta government property tax data 2018 - 2023. See Appendix B - Sources for more details.

[12] *Percentages may not add to 100% due to the presence of other smaller assessment categories (e.g., high density residential).*

Shifting the property tax distribution as a solution to the tax imbalance

Reducing the tax rate ratios and tax fairness ratios would create a more competitive tax environment in Alberta's municipalities, saving small businesses thousands of dollars annually and allowing them to reinvest savings into their employees and business. This can be done by reducing the share of property taxes borne by business properties and redistributing this reduction marginally on residential properties through a tax revenue shift.

Another advantage of the tax shift is that it would offset expected increases in the tax rate ratio and tax fairness ratio. These indicators are expected to increase for both assessed municipalities as residential assessments have historically risen faster than business assessments. This disparity means the business share of the city's total property assessment will continue to shrink while business properties continue to pay the same share, making the tax rate ratio and tax fairness ratio grow over time regardless of if spending rises. Given this, it is important municipalities stop this growth before it becomes unbearable for more small businesses, as it already has for many others.

A tax shift has been done to great effect in the city of Vancouver over the last several years and served to reduce the tax burden on businesses and their inequitable property tax distribution. The following is an example of what the effects of a 2% tax revenue shift onto residential properties over four years would look like in the province's two largest cities, Calgary and Edmonton.[13]

For the purposes of the analysis, property assessments over the analyzed time period (2024 – 2027) are forecasted to change based on the average yearly rate from 2013 – 2023.[14] The amount of property taxes collected by cities are further assumed to increase at an average annual rate that has been outlined in each city's own budget documents.[15] Since forecasts for the year 2027 are not available for any of the assessed municipalities, property taxes for that year are assumed to stay flat.

Given these assumptions, a tax revenue shift would have a marginal impact on the increase of residential property tax bills compared to that of business properties. For example, with only 14,798 business properties compared to approximately 540,000 residential properties,[15] Calgary's business properties are paying close to half of the city's property taxes with the average business property paying roughly 34 times the amount the average residential property pays.[16] Therefore, a tax revenue

[13] Examples for the cities of Lethbridge and Red Deer are provided in Appendix A – Additional Tax Revenue Shift Simulations
[14] See Appendix C – Methodology for more details.
[15] See Appendix B – Sources for more details.
[16] Own calculations, see appendix C – Methodology for more details.

shift will have a more significant impact on business properties than residents since there are fewer business properties to disperse the tax across. This difference is true for all municipalities and as such, business savings from a tax shift will be significantly greater than residential cost increases.

Calgary

Calgary ranks the worst in the tax rate ratio with business owners paying more than four times more in property taxes for a business property than a residence with the same property value. The city also ranks worst in the tax fairness ratio with business properties paying 48% of the city's property taxes despite accounting for 18% of the city's property value. During 2023 budget finalization, Calgary City Council, recognizing that the current tax share distribution is a problem, approved an annual 3 year tax shift of 1%. It was a good first step toward property tax fairness, but Calgary should have a long-term plan toward greater property tax fairness.

In Calgary, total property tax revenue is expected to grow by 4.8% on average annually over the next three years (2024 – 2026) compared to municipal operational spending increasing by a 1.5% yearly average over the same period. To finance this difference, businesses will be faced with higher annual property tax bills.

Simulations: Key Findings

1. **The property tax burden will increase on business properties while the residential property tax burden will remain unchanged without a tax revenue shift.**

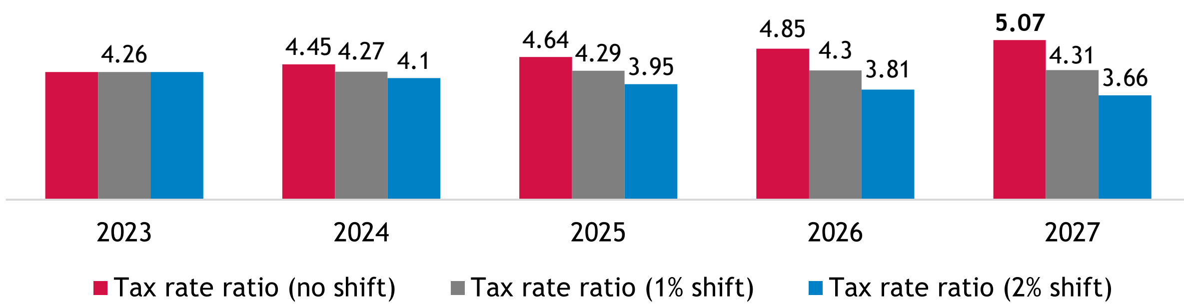
Under the current tax revenue split (52:48), the business tax rate in Calgary will increase to 2.15% by 2027 from the current tax rate of 1.84%. By contrast, the residential tax rate will stay flat at 0.43%. This difference is because the city's total property tax is growing (+4.8%) at a similar rate to the growth in residential assessment (+4.2%), unlike business assessment which is expected to stay relatively flat (-0.3%). As a result, residential tax rates do not have to rise to compensate for slower assessment growth, unlike business tax rates.

2. **The tax revenue shift would achieve a notable reduction in the tax rate ratio.**

A 2% shift over four years to a new tax revenue split of 60:40 would decrease the tax rate ratio from 4.26 to 3.66 (see Figure 4). Without any tax shift, the tax rate ratio is forecast to grow to 5.07 in 2027. Under the *Municipal Government Act*, Alberta municipalities must maintain a maximum tax rate ratio of 5:1. With this in mind, some form of correction is necessary before 2027 to avoid the provincial government stepping in. Assuming Calgary's current 1% shift lasts four years, the tax rate ratio is still forecasted to rise to 4.31 by 2027 due to residential assessment values growing at a significantly faster rate than commercial assessment. Therefore, the City of Calgary's plan merely delays provincial intervention and does not tackle the root of the problem, thus requiring a significantly larger tax shift.

Figure 4

Simulated change in the tax rate ratio in Calgary



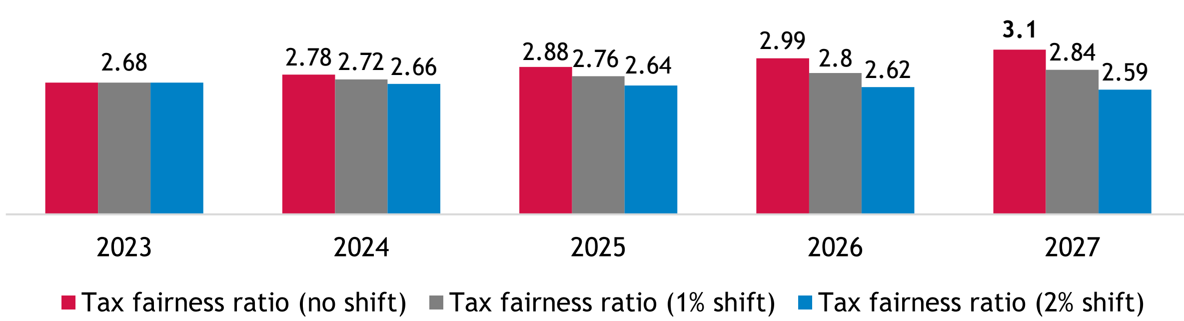
Source: CFIB analysis of Calgary and Alberta government property tax data 2013 - 2023, own calculations. See Appendix C - Methodology for more details.

3. The tax revenue shift would achieve a small decline in the tax fairness ratio.

A 2% shift to a new tax revenue split of 60:40 in 2027 would gradually decrease the tax fairness ratio from 2.68 to 2.59 (see Figure 5), lowering the high level of property tax unfairness in the city. Even with these changes Calgary business properties would still pay well above a 2:1 fairness ratio. Without any tax shift, the property tax fairness ratio in the city will continue to grow substantially eventually reaching 3.10 by 2027. Assuming Calgary's current 1% shift lasts four years, the tax fairness ratio will still rise to 2.84 by 2027. Calgary already has the worst tax fairness ratio of any Alberta municipality and the largest forecasted rise over the next few years, greatly increasing the cost of doing business if further action is not taken.

Figure 5

Simulated change in the tax fairness ratio in Calgary



Source: CFIB analysis of Calgary and Alberta government property tax data 2013 - 2023, own calculations. See Appendix C - Methodology for more details.

4. A typical small business will have saved over $33,500 over four years from the tax revenue shift.

If the city chooses to implement a tax shift of 2% over four years (8% total), the business tax rate will decrease to 1.79% from 1.84%, as opposed to growing to 2.11% without a tax shift. As a result, the average business property assessed at around $3.9 million will save $33,671 over four years, meanwhile the cost increase for residential properties would be comparatively marginal (see Table 3). The average residential property valued around $483,000 would pay $916 more over four years, an increase 37 times smaller than average business savings over the same timeframe.

Table 3

Simulated savings and cost increase for the average business and residential property in Calgary, 2024-2027.

Shift quantity	Savings and cost increases	2024	2025	2026	2027	4-year cumulative cost change
1% annual shift	***Business savings***	$1,561	$3,272	$5,144	$6,859	$16,836
	Residential cost increase	$42	$89	$140	$187	$458
2% annual shift	***Business savings***	$3,121	$6,544	$10,288	$13,718	$33,671
	Residential cost increase	$85	$178	$280	$373	$916

Source: CFIB analysis of Calgary and Alberta government property tax data 2013 – 2026, own calculations. See Appendix C – Methodology for more details.

Edmonton

Edmonton has the third worst tax rate ratio, with business owners paying three times more in property taxes for a business property than a residence with the same property value. The city also ranks third worst in the tax fairness ratio with business properties paying 45% of property taxes despite only making up 22% of the total assessment. Municipal operating spending is expected to grow 3% on average annually over the next three years (2024 – 2027), overwhelmingly funded by a 6.2% average yearly property tax revenue growth over the same period. Like Calgary, this will mean higher property tax bills for businesses over the coming years to finance the difference.

Simulations: Key Findings

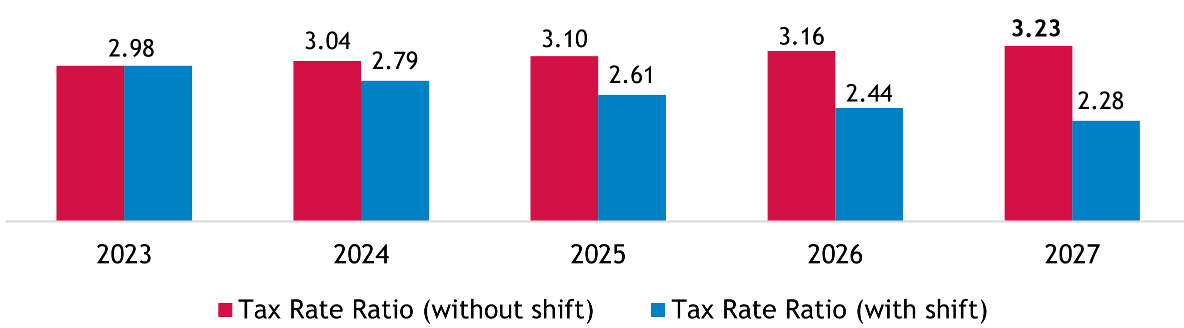
1. **The property tax burden for business properties will increase faster and more disproportionately than for residential without a tax revenue shift.**

Under the current tax split (48:45), the business tax rate in Edmonton will increase to 2.4% by 2027 from the current tax rate of 2.09%. This is the largest increase of any assessed municipality and would result in Edmonton having the largest business tax rate (currently the second highest). The residential tax rate is expected to see a small increase from 0.70% to 0.74%. This difference is because residential assessment is growing significantly faster (+3.1%) than business assessment (+1.1%), meaning residential tax rates don't have to increase as much to keep up with the high property tax revenue increase (+6.2%).

2. **The tax revenue shift would achieve a large reduction in the tax rate ratio.**

A 2% shift to a new tax revenue split (56:37) would decrease the tax rate ratio from 2.98 to 2.28 (see Figure 6). Without a tax shift, the tax rate ratio is forecast to continue growing, reaching 3.23 in 2027.

Figure 6
Simulated change in the tax rate ratio in Edmonton



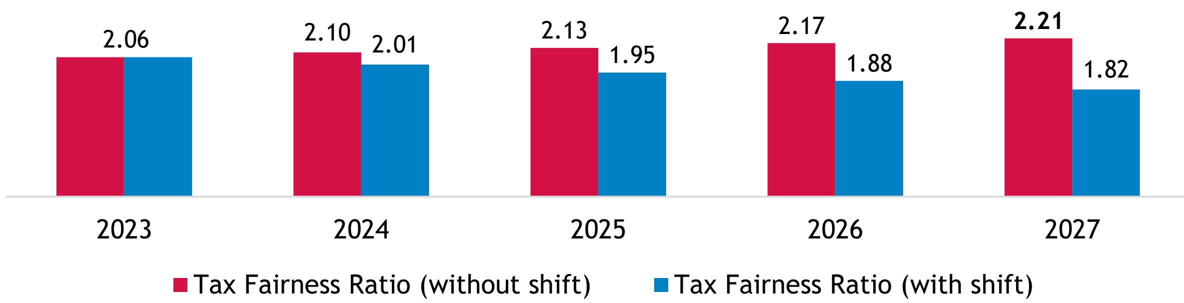
Source: CFIB analysis of Edmonton and Alberta government property tax data 2013 – 2023, own calculations. See Appendix C – Methodology for more details.

3. The tax revenue shift would achieve a modest decline in the tax fairness ratio.

A 2% shift to a new tax revenue split (56:37) would decrease the tax fairness ratio from 2.06 to 1.82 (see Figure 7), lowering the high level of property tax unfairness in the city. Without a tax shift, the tax fairness ratio in the city will continue to grow, eventually reaching 2.21 by 2027.

Figure 7

Simulated change in the tax fairness ratio in Edmonton



Source: CFIB analysis of Edmonton and Alberta government property tax data 2013 – 2023, own calculations. See Appendix C – Methodology for more details.

4. A typical small business will have saved over $23,000 dollars over four years from the tax revenue shift.

If the city chooses to implement a tax shift of 2% over four years (8% total), the business tax rate would decrease to 1.97% from 2.09% instead of rising to 2.4% without the tax shift. As a result, the average business property assessed at around $2.1 million would save $23,159 over four years (see Table 4). Like Calgary, the cost increase for residential properties in Edmonton would be comparatively marginal. The average residential property valued around $336,000 would pay $1,146 more over four years, an increase 20 times smaller than average business savings over the same timeframe.

Table 4

Simulated savings and cost increase for the average business and residential property in Edmonton, 2024 – 2027.

Savings and cost increases	2024	2025	2026	2027	4-year cumulative cost change
Business savings	$2,102	$4,464	$7,111	$9,482	$23,159
Residential cost increase	$104	$221	$352	$469	$1,146

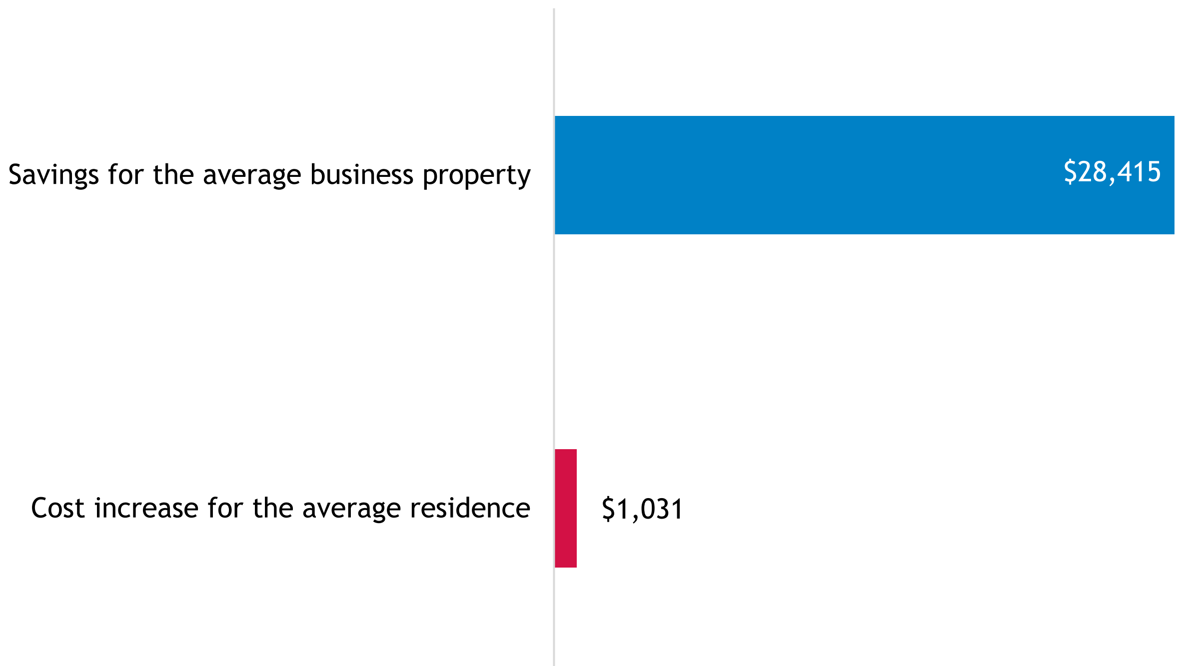
Source: CFIB analysis of Edmonton and Alberta government property tax data 2013 – 2026, own calculations. See Appendix C – Methodology for more details.

Expected cumulative savings for Calgary and Edmonton

In the previous overview highlighting the effects of a tax shift in Calgary and Edmonton, a typical business property would see property tax savings of $28,415 over four years on average, compared to a cost increase of $1,031 for the typical residential property over the same timeframe (see Figure 8). As such, business savings would be 28 times larger than the cost increase for the average residence, greatly minimizing the negative impact on a per household basis.

Figure 8

Average cumulative savings and cost increases in Alberta's two largest municipalities (2024 – 2027)



Source: Source: CFIB analysis of municipal and Alberta government property tax data 2013 – 2026, own calculations. See Appendix C – Methodology for more details.

How businesses will use expected savings

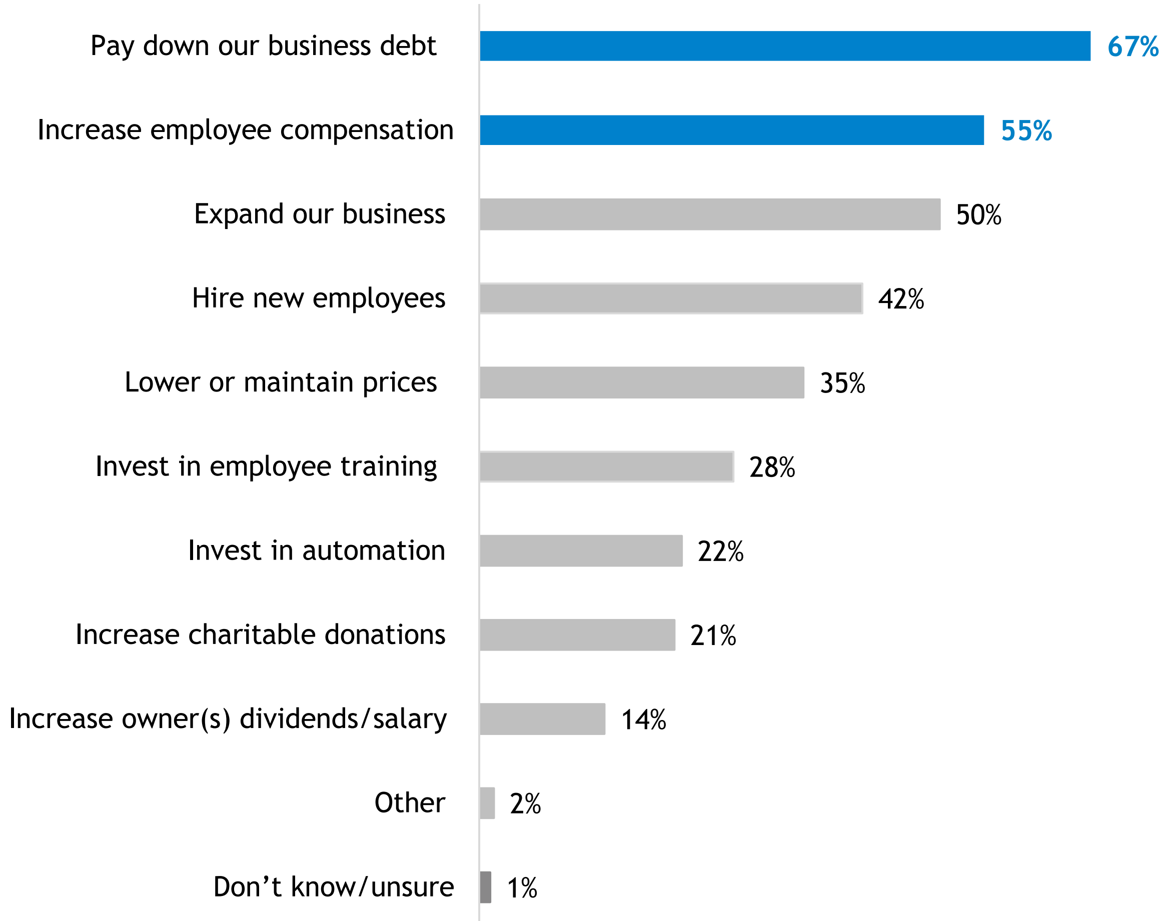
Savings from the tax shift for businesses in 2027 would continue to accumulate every year in the future (potentially growing with changes in spending) due to the absence of a portion of the tax burden, proving long term relief. It is also worth noting that many municipalities have support programs to help residents pay their property taxes but have none for businesses.

Alberta small businesses report that they would use any savings to pay down their debt and reinvest back into their employees (see Figure 9). These actions mean municipalities would benefit from increased investment in addition to the unaffected municipal spending due to the tax revenue shift.

Figure 9

Most small businesses would decrease their debt and increase wages for employees if taxes were reduced.

If governments were to reduce the overall burden of taxes and fees, what would your business do with the savings generated? (Select all that apply)



Source: CFIB, Your Voice Survey - July 2023, July 6 - 25, final results, AB n=248.

Municipal spending trends – growing reliance on property taxes

The spending trends of municipalities are also worth addressing. In both Calgary and Edmonton, property taxation is growing at a faster rate than municipal spending. This difference suggests a growing reliance on property taxes to fund municipalities growing budgets - a property tax distribution that is already disproportionately damaging to businesses. In summary, the relative burden of property taxes on businesses will grow as the tax rate ratio rises, unfairness will grow with a higher tax fairness ratio, all while business property taxes fund a larger share of increasing municipal budgets. While municipal spending is important to ensure thriving and growing communities, governments need to find internal cost savings and efficiencies rather than relying solely on increasing spending.

Recommendations & Conclusions

Small businesses are grappling with substantial debt, inflationary pressures, rising interest rates and overall lower consumer spending. Governments need to provide financial relief for businesses and not increase costs. Furthermore, the property tax system's inherent inequity places a disproportionate burden on business properties, exacerbating their challenges. Municipalities must take steps to resolve both these issues. CFIB recommends the following:

1. **Reduce property taxes:** Property taxes can be reduced through restraint in municipal operating spending and finding internal efficiencies.

   - Cost savings should include limiting spending in several areas, such as: the scope of government to core services, aligning public sector wages, salaries and benefits to their private sector equivalents, and contracting out services.

   - Municipal employee wages make up one of the largest line items in municipal budgets. Municipal governments should limit their number of full-time employees.

2. **Commit to a yearly 2% tax revenue shift over four years (8% total)**: This action would increase fairness in the property tax distribution and provide significant cost savings to businesses with minimal impact to residents.

3. **Lower the maximum tax rate ratio:** Currently, the provincial government mandates municipal governments adhere to a maximum limit of 5:1 between the highest business tax rate and lowest residential tax rate. Given that 90% of small businesses think the provincial government should work with municipalities to lower the rising cost of property taxes[17], lowering this threshold would decrease the burden.

4. **Engage in sustainable spending practices**: Limit year-over-year operating spending growth to no more than inflation and population growth.

"Municipalities need to stop spending frivolously on non-essential services and items and focus on just taking care of the core operations of the city again."

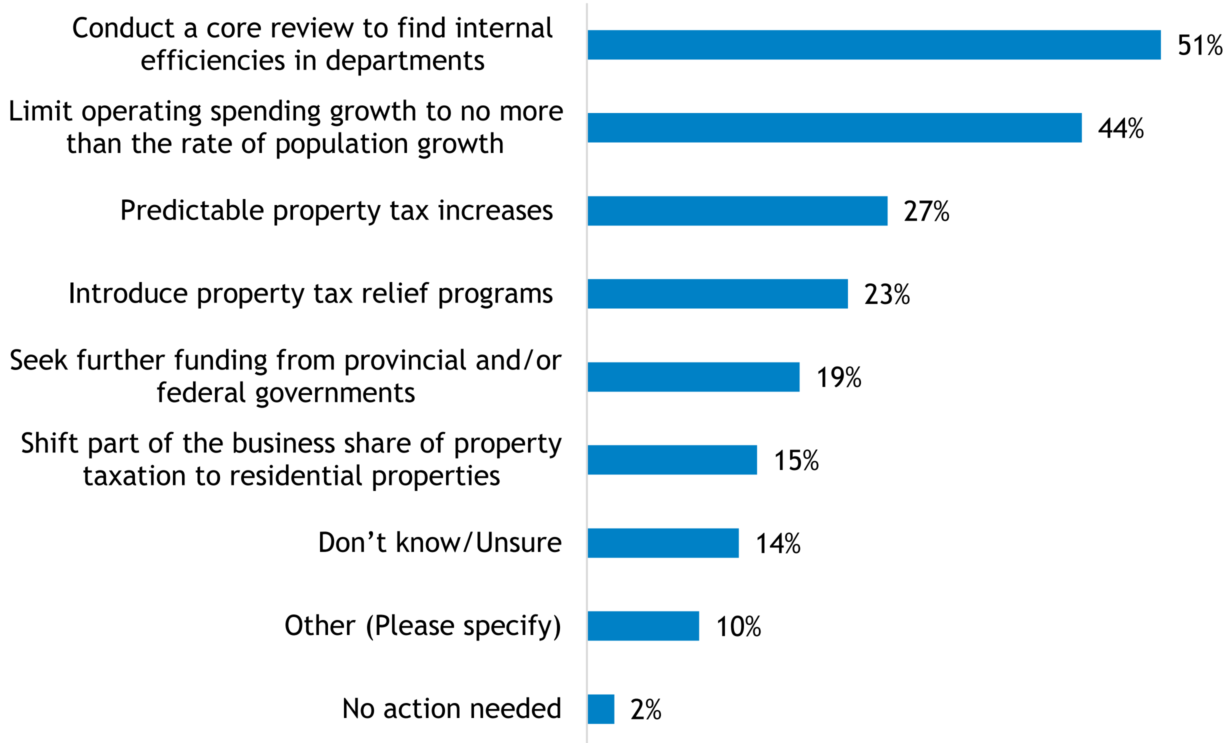
- Retail, Edmonton, Alberta

[17] *Source: CFIB, Special Alberta Post-Election and municipal survey, July 18 – August 3, final results, n=376.*

Figure 10

Small businesses want to see spending reduced to decrease the burden of property taxes.

How should your municipal government mitigate the impact of business property taxes? (Select all that apply)



Source: CFIB, Special Alberta Post-Election and municipal survey, July 18 – August 3, final results, n=367.

Municipal property taxes are unfair for businesses and are a large cost burden, something that has historically gotten worse in most Alberta municipalities and will only continue to grow worse in those same municipalities. A tax revenue shift would make the property taxes fairer and alleviate this burden, potentially saving thousands of dollars a year for the cornerstone of our local economies: small businesses. This gain would enable them to maintain their positive role and reinvest those savings back into their municipalities. Small businesses must continue to be able to serve their communities, it is up to municipal governments to recognize this as a priority, something that has been neglected for too long.

About the author

Bradlee Whidden is the Policy Analyst, Western Canada for the Canadian Federation of Independent Business (CFIB). Since joining CFIB in 2023, Bradlee has worked on various files on a range of topics, including regulation, property taxes, and agriculture. Bradlee holds a Bachelor of Arts (BA) from the University of Calgary in Economics and Political Science.

About the Canadian Federation of Independent Business

The Canadian Federation of Independent Business (CFIB) is Canada's largest association of small and medium-sized businesses with 97,000 members across every industry and region. CFIB is dedicated to increasing business owners' chances of success by driving policy change at all levels of government, providing expert advice and tools, and negotiating exclusive savings.

Additional resources
All CFIB research: cfib.ca/research
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Appendix A: Additional Tax Revenue Shift Simulations

Red Deer

Red Deer ranks sixth worst in the tax rate ratio with business owners paying more than two times more in property taxes for a business property than a residence with the same property value. The city ranks eighth worst in the property fairness ratio with business properties paying 41% of the city's property taxes despite only making up 25% of the city's total assessment. Over the last five years (2018 – 2023), the total revenues from this unbalanced property tax distribution grew by 2.3% yearly on average.[18]

Simulations: Key Findings

1. **The property tax burden will increase on business properties while the residential property tax burden will remain unchanged without a tax revenue shift.**

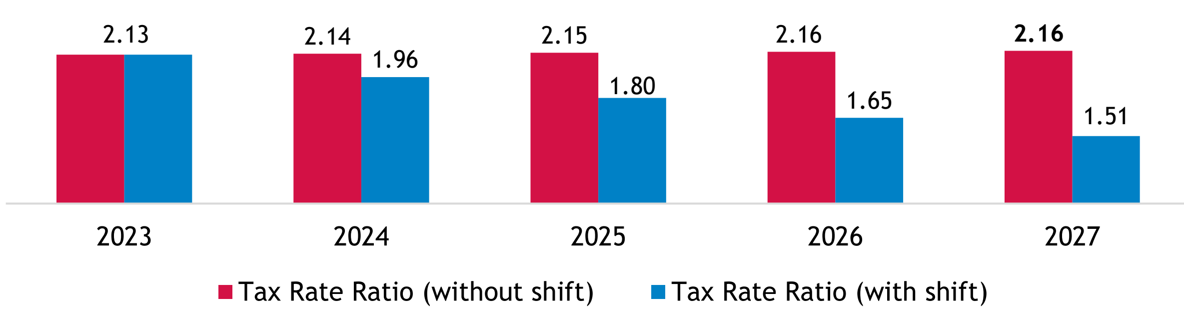
Under the current tax revenue split (53:41), the business tax rate in Red Deer will increase to 1.6% by 2027 from the current tax rate of 1.5%. By contrast, the residential tax rate will stay flat at 0.73%. This difference is because the growth in residential assessment (+1.3%) is closer to the expected growth in overall property taxation (+2.3%) than the growth in business assessment (+1.0%) is. Therefore, the residential tax rate does not increase to compensate for slower assessment growth, unlike the business tax rate.

2. **The tax revenue shift would achieve a large reduction in the tax rate ratio.**

A 2% annual shift to a new tax revenue split (61:33) would lower the tax rate ratio from 2.13 to 1.51 (see Figure 11). Without a tax shift, the tax rate ratio will continue growing, reaching 2.16 in 2027.

Figure 11

Simulated change in the tax rate ratio in Red Deer



Source: CFIB analysis of Red Deer and Alberta government property tax data 2013 – 2023, own calculations. See Appendix C – Methodology for more details.

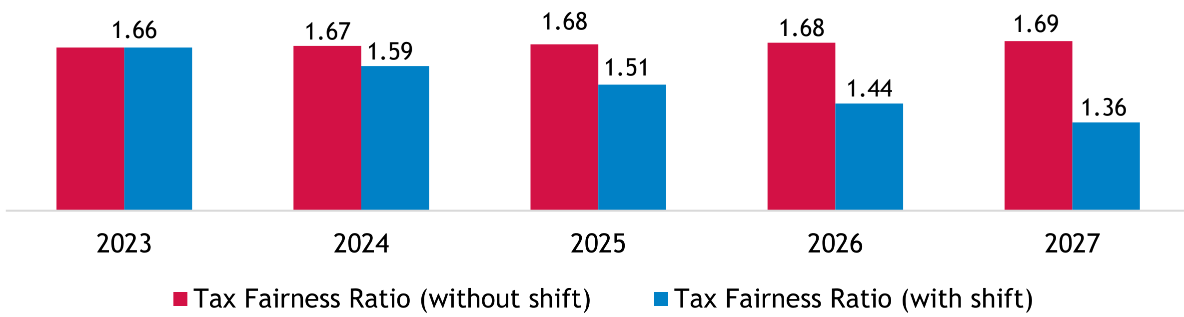
[18] *Due to a lack of taxation projections from the city, these historical numbers are used in the Red Deer tax shift simulations.*

3. The tax revenue shift would achieve a significant decline in the tax fairness ratio.

A 2% shift to a new tax revenue split (61:33) would decrease the tax fairness ratio from 1.66 to 1.36 (see Figure 12). Without a tax shift, the tax fairness ratio in the city will continue to grow slowly, eventually reaching 1.69 by 2027.

Figure 12

Simulated change in the tax fairness ratio in Red Deer



Source: CFIB analysis of Red Deer and Alberta government property tax data 2013 – 2023, own calculations. See Appendix C – Methodology for more details.

4. A small business with property worth $1 million will have saved around $8,000 over four years from the tax revenue shift.

If the city chooses to implement a tax shift of 2% over four years (8% total), the business tax rate will decrease from 1.56% to 1.29%, as opposed to growing to 1.6% without the tax shift. As a result, small businesses with business property valued at $1 million dollars in Red Deer would save around $8,054 over four years (see Table 5).

Table 5

Annual small business savings on a $1 million assessed property value from tax revenue shift, 2024 – 2027.

Municipality	2024	2025	2026	2027	4 year savings
Calgary	$800	$1,677	$2,637	$3,516	$8,630
Edmonton	$978	$2,078	$3,310	$4,414	$10,780
Red Deer	$777	$1,589	$2,438	$3,250	$8,054
Lethbridge	$1,173	$2,490	$3,963	$5,284	$12,910

Source: CFIB analysis of municipal and Alberta government property tax data 2013 – 2026, own calculations. See Appendix C – Methodology for more details.

Lethbridge

Lethbridge ranks fourth worst in the tax rate ratio with business owners paying over 2.5 times more in property taxes for a business property than a residence with the same property value. The city also ranks fourth worst in the tax fairness ratio with business properties paying 38% of the city's property taxes despite only making up 19% of the property value. Lethbridge also has the highest business property tax rate of any assessed municipality, making the property tax burden unreasonably high. Total property tax revenue is expected to grow by 6.1% over the next three years (2024 – 2027) compared to a 3.8% average yearly increase in municipal operational spending over the same period. Like in Calgary and Edmonton, Lethbridge businesses will be faced with higher annual property tax bills to pay fund a larger share of this increasing budget.

Simulations: Key Findings

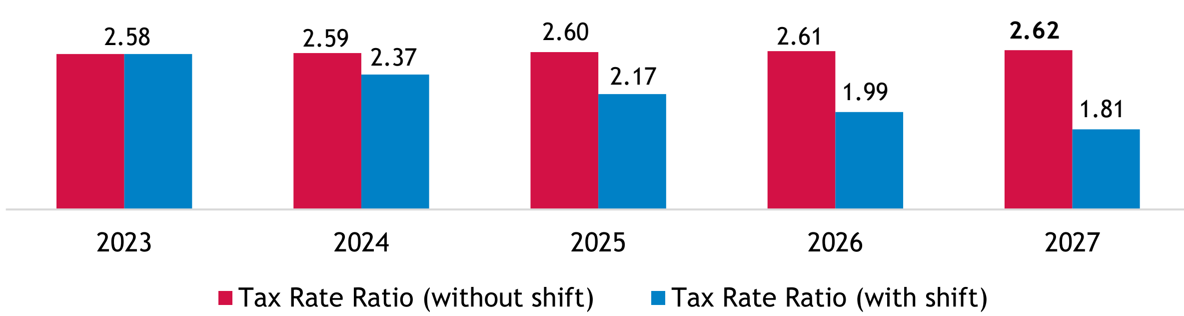
1. **The property tax burden for business properties will increase faster and more disproportionately than for residential.**

Under the current tax revenue split (57:38), the business tax rate in Lethbridge will increase to 2.22% by 2027 from the current tax rate of 2.1%. By contrast, the residential tax rate will see a marginal uptick, increasing to 0.85% from 0.82%. The larger increase in the business tax rate is because business assessment (+3.3%) is growing slower than residential assessment (+3.6%). Considering Lethbridge already has the highest business tax rate of all assessed municipalities this increase could be unmanageable for many small businesses.

2. **The tax revenue shift would achieve a large reduction in the tax rate ratio.**

A 2% annual shift to a new tax revenue split (65:30) would decrease the tax rate ratio from 2.58 to 1.81 (see Figure 13). Without a tax shift, the tax rate ratio is forecast to continue growing, reaching 2.62 in 2027.

Figure 13
Simulated change in the tax rate ratio in Lethbridge



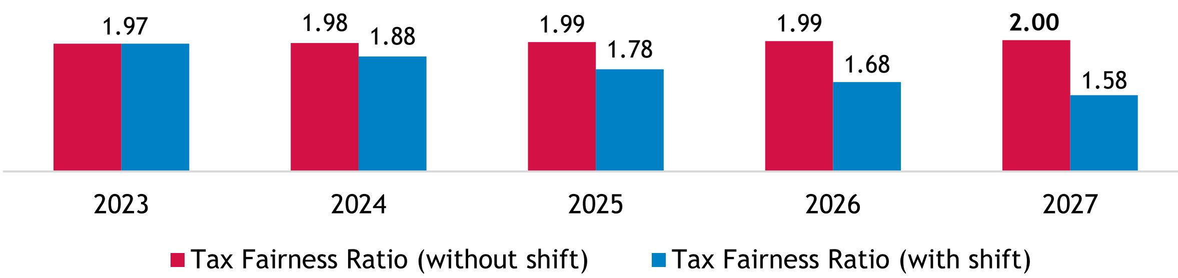
Source: CFIB analysis of Lethbridge and Alberta government property tax data 2013 – 2023, own calculations. See Appendix C – Methodology for more details.

3. The tax revenue shift would achieve a large decline in the tax fairness ratio.

A 2% shift to a new tax revenue split (65:30) would lower the tax fairness ratio from 1.97 to 1.58 (see Figure 14). Without a tax shift, the tax fairness ratio will continue to grow, eventually reaching 2.0 by 2027.

Figure 14

Simulated change in the tax fairness ratio in Lethbridge



Source: CFIB analysis of Lethbridge and Alberta government property tax data 2013 – 2023, own calculations. See Appendix C – Methodology for more details.

4. A small business with property worth $1 million will have saved almost 13,000 dollars over four years from the tax revenue shift.

A small business with business property valued at $1 million has the most gain in Lethbridge out of all assessed municipalities. If the city chooses to implement a tax shift of 2% over four years (8% total), the business tax rate will decrease to 1.76% from 2.11%, as opposed to rising to 2.22% without the tax shift. As a result, a business with property valued at $1 million will save $12,910 over four years (see Table 5). This improvement would give small businesses breathing room in a city that currently has the largest property tax burden from a tax rate perspective.

Table 5

Annual small business savings on a $1 million assessed property value from tax revenue shift, 2024 – 2027.

Municipality	2024	2025	2026	2027	4 year savings
Calgary	$800	$1,677	$2,637	$3,516	$8,630
Edmonton	$978	$2,078	$3,310	$4,414	$10,780
Red Deer	$777	$1,589	$2,438	$3,250	$8,054
Lethbridge	$1,173	$2,490	$3,963	$5,284	$12,910

Source: CFIB analysis of municipal and Alberta government property tax data 2013 – 2026, own calculations. See Appendix C – Methodology for more details.

Appendix B: Sources

The data used to calculate the property tax burden indicators (tax rate ratio and tax fairness ratio) and assessment forecasts in this report are based on general municipal property taxation.[19] This information is collected from municipal tax rate bylaws supplied by the government of Alberta. Older tax rate bylaws from 2013 for the four largest municipalities were provided by the municipalities themselves.

- City of Calgary (2013), Council and Committee Meetings and Bylaws, https://publicaccess.calgary.ca/searchCCProc/index.htm
- City of Edmonton (2013), City of Edmonton Archives, https://cityarchives.edmonton.ca/bylaw-16377
- Government of Alberta (2023), Audited Financial Statements and Tax Rate Bylaws, Municipal Affairs: Audited Financial Statements and Tax Rate Bylaws (gov.ab.ca)
- Personal communication (2023), City of Lethbridge
- Personal communication (2023), City of Red Deer

Tentative projections of how municipal spending and property taxation will change in Calgary, Edmonton and Lethbridge are provided through each city's 2023 – 2026 financial plans and budgets. For Red Deer, this information has been estimated using property taxation outlined in that city's 2018 and 2023 tax rate bylaws due to a lack of information. To calculate savings for an average business property and cost increases for an average residential property, the average assessment for both classes was retrieved from data provided by the cities of Calgary and Edmonton.[20]

- City of Calgary (2022), 2023 – 2026 Service Plans and Budgets, https://www.calgary.ca/content/dam/www/cfod/finance/documents/plans-budgets-and-financial-reports/2023-2026-service-plans-budgets/service-plans-budgets-highlights.pdf
- City of Calgary (2022), 2023 – 2026 Service Plans and Budgets, https://www.calgary.ca/our-finances/2023-2026-service-plans-budgets.html?service-line-budget-bar-chart-serviceplanbudget-

[19] *The report does not include education property taxes which are collected on a separate basis.*
[20] *For Calgary, the taxable assessment of each class was divided by the number of properties to obtain an average assessment while for Edmonton this data was explicitly provided.*

xview=2023&service-line-budget-bar-chart-serviceplanbudget-view-open=&horizontal-bar-graph-operatingbudgetrevenuesperyear-xview=4

- City of Calgary (2022), 2023 Property Assessment Market report, https://www.calgary.ca/content/dam/www/pda/assessment/documents/publications-and-forms/property-market-report.pdf

- City of Edmonton's Open Data Portal (2023), Property Assessment Data (Current Calendar Year), https://data.edmonton.ca/City-Administration/Property-Assessment-Data-Current-Calendar-Year-/q7d6-ambg

- City of Edmonton (2022), Operating Budget and Plans 2023 – 2026, https://www.edmonton.ca/sites/default/files/public-files/2023-2026OperatingBudget.pdf?cb=1692492529

- City of Lethbridge (2023), Operating Budget 2023 – 2026, https://www.lethbridge.ca/media/hvuc4c1m/2023-2026-operating-budget.pdf

Appendix C: Methodology

Assessed municipalities

The (i) tax rate ratio and (ii) the tax fairness ratio were measured and ranked for the following 20 largest municipalities in Alberta, listed by population (largest to smallest). Various aspects of the property tax system with and without a property tax shift were simulated over the next four years (2024 – 2027) for the largest four.

- Calgary
- Edmonton
- Red Deer
- Lethbridge
- Airdrie
- St. Albert
- Grande Prairie
- Medicine Hat

- Spruce Grove
- Leduc
- Cochrane
- Okotoks
- Fort Saskatchewan
- Chestermere
- Beaumont
- Lloydminster
- Camrose
- Stony Plain
- Sylvan Lake
- Canmore

Data Projections

To estimate how property assessment will change in the future, the average yearly growth over the last ten years (2013 – 2023) has been calculated, then projected into the next four years (2024 – 2027). For Calgary, projected increases in total assessment are instead determined by combining forecasted business and residential assessment due to the absence of any other statistically significant category in that city. Municipal spending and property taxation has been averaged over the next three years to calculate the expected average growth of yearly spending and the property levy. Due to a lack of information, projections of property taxation for Red Deer have been averaged using data over the last five years. Exponents in the averages are divided by the number of years being measured to find an estimated yearly change. For example, since business assessment is being averaged over a period of 10 years (2013 – 2023), the exponent is divided by 10.

- Average yearly growth in business assessment: $(\frac{2023\ business\ assessment}{2013\ business\ assessment}\wedge\frac{1}{10}) - 1$

- Average yearly growth in residential assessment: $(\frac{2023\ residential\ assessment}{2013\ residential\ assessment}\wedge\frac{1}{10}) - 1$

- Average yearly growth in total assessment: $(\frac{2023\ total\ assessment}{2013\ total\ assessment}\wedge\frac{1}{10}) - 1$

- Average yearly growth in municipal spending: $(\frac{2026\ municipal\ spending}{2023\ municipal\ spending}\wedge\frac{1}{3}) - 1$

- Average yearly growth in property taxation: $(\frac{2026\ property\ taxation}{2023\ property\ taxation}\wedge\frac{1}{3}) - 1$

- Average yearly growth in property taxation (Red Deer): $(\frac{2023\ property\ taxation}{2018\ property\ taxation}\wedge\frac{1}{5}) - 1$

Calculations

Tables 6 to 9 serve as templates for each municipality, using equations and variables such as tax rates, assessments, and growth rates to simulate the tax shift in Calgary, Edmonton, Red Deer and Lethbridge. The variable T in each equation denotes the year that the result is being calculated with T - 1 representing the previous year.

Calculations for the expected changes in the tax rate ratio and tax fairness ratio are detailed in table 6. Business savings and residential cost increases due to a tax shift are outlined in table 7. Calculations for the average property taxes paid by businesses and residences involved multiplying their respective tax rates by their average property value, with a 3% tax hike calculated by further multiplying this value by 3%.

Table 6

Property tax ratios with and without a tax shift

		Tax fairness ratio (with shift)	Tax fairness ratio (without shift)	Tax rate ratio (with shift)	Tax rate ratio (without shift)
Current	***2023***	Share of property tax borne by Business (2023) / (Business assessment (2023) / Total assessment (2023))	Share of property tax borne by Business (2023) / (Business assessment (2023) / Total assessment (2023))	Business property tax rate (with shift, 2023) / Residential property tax rate (2023)	Business property tax rate (2023) / Residential property tax rate (2023)
Forecast (Simulation)	***2024-2027***	Share of property tax borne by Business (T) / (Business assessment (T) / Total assessment (T))	Share of property tax borne by Business (2023) / (Business assessment (T) / Total assessment (T))	Business property tax rate (T) / Residential property tax rate (with shift, T)	Business property tax rate (without shift, T) / Residential property tax rate (without shift, T)

Table 7

Business savings and residential cost increases from a tax shift

		Assessment for a business property valued at $1 million	Business property assessed at $1 million saves	Assessment for the average Business property	Average business property saves	Assessment for the average residential property	Average residential property has payment increase of
Current	***2023***	1,000,000	0	Provided by the municipal government	0	Provided by the municipal government	0
Forecast (Simulation)	***2024-2027***	(Property assessment (T - 1) x Average yearly growth of Business assessment) + Property assessment (T - 1)	(Business tax rate (with shift, T) x Property assessment (T)) - (Business tax rate (without shift, T) x Property assessment (T))	(Property assessment (T - 1) x Average yearly growth of Business assessment) + Property assessment (T - 1)	(Business tax rate (with shift, T) x Property assessment (T)) - (Business tax rate (without shift, T) x Property assessment (T))	(Property assessment (T - 1) x Average yearly growth of residential assessment) + Property assessment (T - 1)	(Residential tax rate (with shift, T) x Property assessment (T)) - (Residential tax rate (without shift, T) x Property assessment (T))

To determine changes in the tax rate ratio, current and future tax rates for both business and residential properties were calculated, as detailed in table 8. Additionally, the share of tax revenue that comes from each class (i.e., residential, business) and each class' assessed value is to needed to calculate the tax fairness ratio. The methodology for calculating this can be found in table 9.

To calculate business savings and residential cost increases with a tax shift, current and future tax rates from each class (i.e., residential, business) with and without a tax shift are needed. The methodology for calculating this can be found in table 8.

Table 8

Assessments and tax rates with and without a tax shift

		Total assessment	Business assesment	Residential assesment	Business tax rate (with shift)	Business tax rate (without shift)	Residential tax rate (with shift)	Residential tax rate (without shift)
Current	***2023***	Provided by Alberta government	Provided by Alberta government	Provided by Alberta government	Provided by Alberta government	Provided by Alberta government	Provided by Alberta government	Provided by Alberta government
Forecast (Simulation)	***2024-2027***	(Total assessment (T - 1) x Average yearly growth in total assessment) + Total assessment (T - 1)[21]	(Business assessment (T - 1) x Average yearly growth of Business assessment) + Business assessment (T - 1)	(Business assessment (T - 1) x Average yearly growth of Business assessment) + Business assessment (T - 1)	Tax paid by Business properties (with shift, T) / Business assessment (T)	Tax paid by Business properties (without shift, T) / Business assessment (T)	Tax paid by Residential properties (with shift, T) / Residential assessment (T)	Tax paid by Residential properties (without shift, T) / Residential assessment (T)

[21] *For Calgary, forecasted total assessment = forecasted business assessment + forecasted residential assessment due to the absence of any other statistically significant category.*

Table 9

Property tax revenues with and without a tax shift

		Business share of tax revenue	Residential share of tax revenue	Total property tax collected	Tax paid by Business properties (with shift)	Tax paid by business properties (without shift)	Tax paid by residential properties (with shift)
Current	***2023***	Tax paid by Business properties (T) / total property tax collected (T)	Tax paid by residential properties (T) / total property tax collected (T)	Provided by Alberta government	Business tax rate (T) x Business assessment (T)	Business tax rate (T) x Business assessment (T)	Residential tax rate (T) x Residential assessment (T)
Forecast (Simulation)	***2024-2027***	Tax paid by Business properties (with shift, T) / total property tax collected (T)	Tax paid by residential properties (T) / total property tax collected (T)	(Total property tax collected (T - 1) x Average yearly growth in property taxation) + Total property tax collected (T - 1)[22]	(Share of property tax borne by Business properties (T - 1) - 2%) x Total property tax collected (T)	(Share of property tax borne by Business properties (2023)) x Total property tax collected (T)	(Share of property tax borne by Residential properties (T - 1) + 2%) x Total property tax collected (T)

[22] *Total tax revenues for 2027 are assumed to stay flat due to the absence of forecasts for that year from all assessed municipalities.*