

Myth vs. Reality: A Small Business Perspective on Local Taxation

Small businesses pay more than their fair share in property taxes in Nova Scotia

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In Nova Scotia, small business owners pay up to four times more in property taxes than residents on properties of the same value¹. This tax unfairness, known as the ‘property tax gap’, affects the well-being of small businesses and is detrimental to the economy because property taxes are neither tied to business or economic realities nor are they reflective of services delivered at the local level. This report will reveal the top ten highest property tax gaps in Nova Scotia and will provide a small business perspective on how the continuing existence of the property tax gap is not based on small business realities but on an outdated system perpetuated by myths.

Introduction

Property tax is one of the oldest forms of taxation in Canada. Before the advent of income and sales taxes, municipal and provincial governments relied almost exclusively on the revenues provided by property-based taxation to fund municipal services and education systems. Canada continues to be more dependent on property taxes than the majority of the industrialized world² and small business owners pay much more than their fair share of the local tax burden.

The difference between what business and residential property owners pay on a property of the same value is known as the ‘property tax gap’. This report examines the property tax system in Nova Scotia from a small business perspective. Specifically, this study looks at the ratio of commercial property taxes to residential property taxes for both municipal and total property taxes³ across Nova Scotia’s towns, municipalities and regional municipalities⁴. This report dispels the myths commonly used to

¹ For a full analysis of Nova Scotia’s commercial/residential property tax gaps see Appendix 2.

² Organization for Economic Co-operation and Development, *Revenue Statistics: 1965 – 2006*.

³ Total property taxes are the sum of municipal and education property taxes. See Appendix 1.

⁴ Nova Scotia Municipal Property Tax Rates 2015-16, Government of Nova Scotia, Municipal Affairs.

justify unfairness in the property tax system and reveals how the property tax gap impacts entrepreneurship.

Among the Atlantic Provinces, Nova Scotia is home to the greatest number of small businesses, totaling 29,298⁵. By understanding how property taxes impact small businesses and developing a plan to reduce the property tax gap and increase fairness between residential and commercial property owners, local governments can encourage economic development in their communities.

The 2015-2016 Nova Scotia data on property tax rates⁶ reveals small business owners pay up to 4.2 times more than residents on the same-value property (See Figure 1). Within the top ten highest property tax gaps in Nova Scotia, the top seven are found in rural areas of the province. The remaining three highest property tax gaps are found within the most urban areas of Nova Scotia indicating that the property tax gap is a concern for entrepreneurs in both rural and urban communities.

Government, at all levels, needs to rethink how they are going to get revenue. They need to stop thinking that property taxes are the answer.

CFIB Member, Kentville

Figure 1:

Top 10 highest property tax gaps in Nova Scotia in 2015/16 for \$200,000 of assessed value

Top 10 Highest Property Tax Gaps	Town/Municipality/Regional Municipality	2015/16 Municipal residential property taxes per \$200,000	2015/16 Municipal commercial property taxes per \$200,000	2015/16 Municipal property tax gap
1	Guysborough	\$1,220	\$5,160	4.2
2	Clark's Harbour	\$3,300	\$11,160	3.9
3	Mulgrave	\$2,580	\$8,840	3.4
4	East Hants	\$1,720	\$5,400	3.3
5	Oxford	\$3,180	\$9,960	3.1
6	Berwick	\$2,420	\$7,000	2.9
7	Cape Breton (Municipal Suburban)	\$3,840	\$11,000	2.9
8	Halifax County Suburban	\$2,360	\$6,720	2.9
9	Halifax Urban Core	\$2,420	\$6,720	2.8
10	Halifax County Urban	\$2,420	\$6,720	2.8

Source: CFIB analysis of Nova Scotia Municipal Property Tax Rates 2015-16, Government of Nova Scotia, Municipal Affairs.

A strong majority of business owners (87 per cent) agree that there should be a maximum cap on the amount that businesses pay compared to residents. The majority don't feel they have flexibility in paying commercial property taxes and also don't feel well informed about how their local government sets the rates. This indicates that property taxes, despite being considered the most salient tax⁷, are

⁵ Government of Canada, Key Small Business Statistics – June 2016

https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03018.html

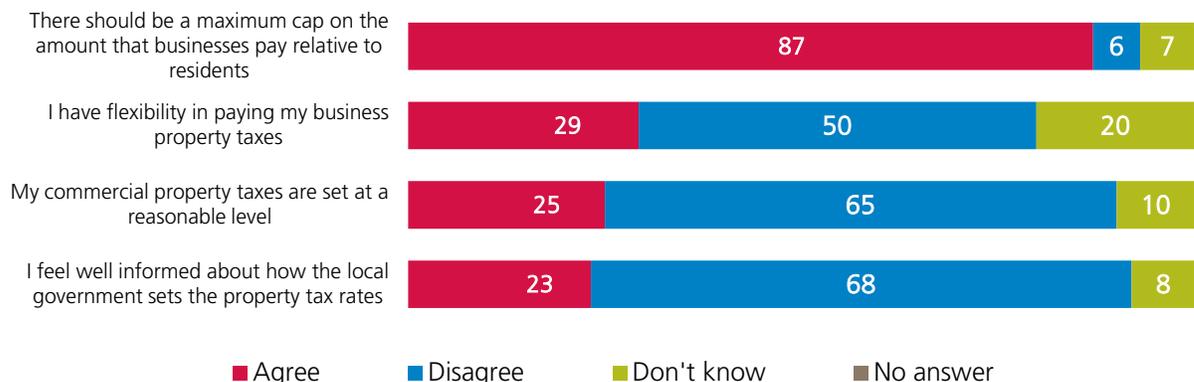
⁶ See Appendix 2 for a full list of property tax gaps across Nova Scotia.

⁷ Slack, E and R. Bird (2014), "The Political Economy of Property Tax Reform", OECD Working Papers on Fiscal Federalism, No. 18, OECD Publishing.

not well understood. When asked if commercial property taxes are set at a reasonable level, 65 per cent of small business owners disagree.

Figure 2:

To what extent do you agree or disagree with the following statements? (% response)



Source: CFIB, Municipal Taxation Survey, March 2017, n=273

The local tax system is not working well for Nova Scotia’s commercial property owners yet the system has remained largely unchanged. By increasing understanding of how the current system affects entrepreneurship, action can be taken by government to address the unfairness that exists.

Top 5 myths surrounding property taxes and small business

There are many myths used to justify why the property tax gap exists. The following provides the small business perspective on these misconceived notions.

Myth #1: Businesses use more public services than residents

Some believe businesses place more demand on municipal services, therefore, higher property taxes on businesses should be paid to compensate for the increase in demand. In fact, small business owners actually place less demand on local services and are provided with fewer services than residents⁸. In some cases, the local government does not provide some services to businesses at all (e.g. garbage collection, recycling). Businesses that don’t receive services from the local government must purchase them from another provider.



Small Business Reality: Small businesses use fewer local services than residents and pay for some local services twice – once through property taxes and once to an independent service provider.

⁸ Kitchen, Harry and Slack, *Enid, Municipal Property Taxation in Nova Scotia*, April 2014.

Myth #2: Businesses pay more but it's a cost of doing business

Some suggest that businesses should pay more in property taxes simply for the opportunity to operate a business within a given community. It is argued that when businesses are required to pay more than their fair share in property taxes cross-subsidization occurs⁹. When property taxes are charged at higher rates to business in order to subsidize lower rates for residents, local services are supplied at a level that is above what is sustainable. Local governments, faced by increasing costs and pressure to meet higher service standards, prefer to provide high levels of services to residents without placing the full burden of payment on them¹⁰. In essence, businesses pay for a level of service well beyond the financial means of local governments and residents.

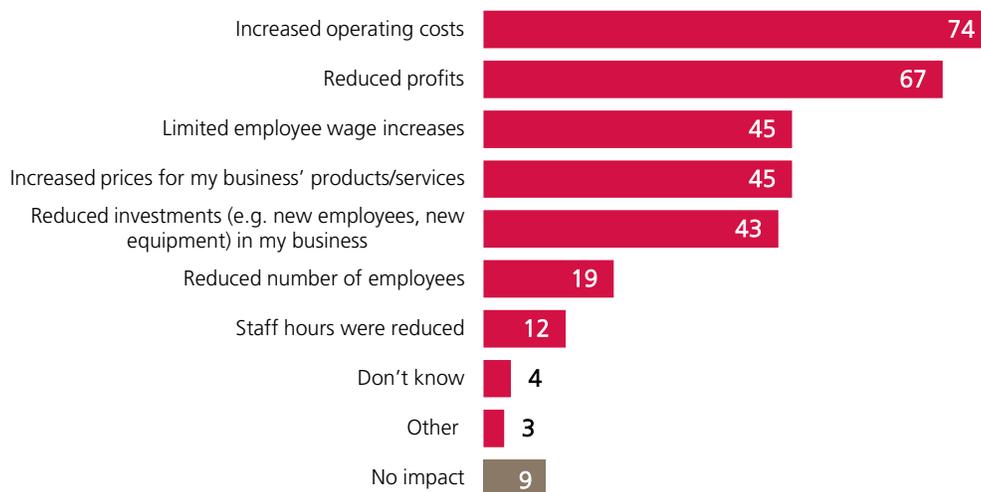
Small Business Reality: The property tax gap is not a real cost of doing business; it's the cost of subsidizing residential services to pay for unsustainable local government spending and higher residential service levels.

Myth #3: Businesses have the ability to pass on the costs to customers

Most small businesses operate within tight margins in extremely competitive markets. While some businesses can increase profitability by raising prices for products or services, most small businesses must set their prices according to market conditions and many compete against businesses in lower taxed jurisdictions (domestic and international) creating even more pressure.

Figure 3:

**What have past increases to municipal property taxes had on your business?
(%response)**



Source: CFIB, *Municipal Taxation Survey, March 2017, n=273*

High property taxes squeeze margins further, causing small business owners to find savings and efficiencies to stay competitive. Recognizing that property taxes increase operating costs and reduce profitability, small businesses look for savings in other areas. If increasing prices and expanding their current market share or customer base are not options, then businesses will consider limiting wage

⁹ Kitchen, Harry, "Municipal Finance in a New Fiscal Environment," C.D. Howe Institute Commentary, No. 147.

¹⁰ Kitchen, Harry, "Municipal Finance in a New Fiscal Environment," C.D. Howe Institute Commentary, No. 147.

increases for employees and/or reducing investment in the business. Reducing the number of employees on the payroll or reducing hours for existing employees (See Figure 3) are potential consequences.

Small Business Reality: The property tax gap squeezes already tight margins. When increasing prices isn't possible, limiting employee wages or reducing investments in the business are likely alternatives.

Myth #4: Businesses have easy access to capital to pay for property tax bills

When a business owner is confronted with a tax bill of \$10,000 on a \$200,000 commercial property despite the business having had an extremely hard year due to uncontrollable circumstances (e.g. extreme weather events, prolonged construction projects) the financial strain placed on the business is onerous. Business insurance can help but may not be available when the property tax bill must be paid.



Our property taxes are very unreasonable and are very hard to pay.

CFIB Member, East Hants

When a commercial property tax bill increases significantly year-over-year due to a spike in the assessed value of the property, despite not having completed any renovations or upgrades to the property¹¹, this creates a financial strain. While the option to appeal assessment is available through Nova Scotia's Property Valuation Services Corporation, few small businesses can afford the time or expense associated with the process¹².

Small Business Reality: Property taxes are profit-insensitive and must be paid in full regardless of the bottom line, even when a business is struggling to survive. Most often, when faced with an unaffordable local tax bill, either due to unforeseen circumstances or a spike in assessment, small business owners will use personal equity/funds/assets or take on more credit card debt to cover the shortfall¹³. This can put the business, or the business owner's personal finances, at risk.

Myth #5: New tax tools will help with the property tax gap

In 2016, the Nova Scotia provincial government introduced changes to the Municipal Government Act and the Halifax Regional Municipality Charter. With the changes came new powers for local governments to use local taxes to encourage commercial development with the promise of protecting small businesses against sharp increases in property taxes due to changes in assessment.

The changes allow local governments to create "zones" where commercial development is taking place and set different tax rates for different amounts of assessed value to off-set sharp increases in property assessments. While the intent is positive, small businesses were not supportive of the change (see Figure 4) and remain uncertain as to how local governments will manage the implementation and negate any unintended consequences.

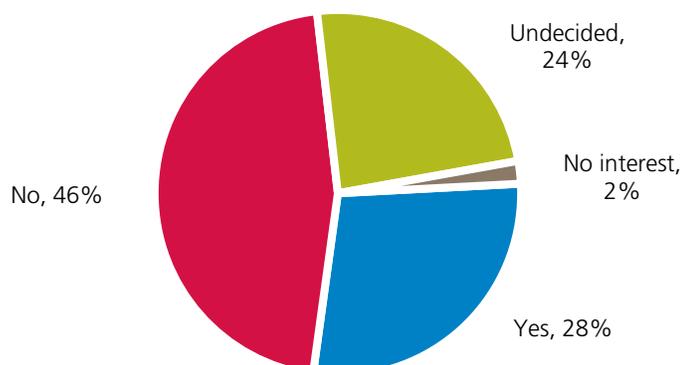
¹¹ Businesses were not included in Nova Scotia's Capped Assessment Program (CAP)¹¹ and therefore are not protected from spikes in assessment. For a full explanation of Nova Scotia's Assessment System and CAP, see Appendix 3.

¹² Slack, E and R. Bird (2014), "The Political Economy of Property Tax Reform", OECD Working Papers on Fiscal Federalism, No. 18, OECD Publishing.

¹³ Government of Canada, Key Small Business Statistics – June 2016
https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03018.html

Figure 4:

Should the Nova Scotia government give municipalities the power to create more commercial property tax zones (i.e. add different commercial property tax rates)?



Source: CFIB: Nova Scotia Mandate 262, September 2016 n=164

Small Business Reality: Despite the uncertainty expressed by small businesses, changes to the Municipal Government Act and the Halifax Regional Municipality Charter were adopted. For small businesses, concerns remain as to how new tax powers will be exercised.

Conclusion

In Nova Scotia, businesses are taxed as much as 4.2 times more than residents on properties of the same value¹⁴. Reducing the property tax gap is necessary for encouraging small business growth and entrepreneurship across Nova Scotia and is essential to encouraging economic development, especially in areas experiencing outmigration.

The small business perspective reveals that assumptions made in support of this continuing unfairness are unfounded. A sustained commitment to reduce the property tax gap by government is needed to eliminate unfairness in the local tax system and support small business growth. It is important local government understands how this problem affects small businesses. It is equally important that a commitment is made to reduce the property tax gap and increase tax fairness at the local level.

Our property taxes are acting as a disincentive for entrepreneurs to move here and set up businesses.

CFIB Member, CBRM

Long-term plans to reduce the property tax gap have been successful in several Canadian jurisdictions. In Saskatoon, a 10-year plan to reduce the property tax gap from 2.36 to 1.75 (a 25 per cent reduction) was achieved in 2010. An 8-year plan to reduce the property tax gap in Toronto from 3.75 to 2.5 was achieved in 2013.

¹⁴ See Appendix 2

Recommendations

Fair local taxation is a cornerstone of economic development. Reducing the property tax gap should be treated as a top priority by government. Fair property taxation for small businesses is a shared responsibility between the local and provincial government, therefore, recommendations are provided for both levels of government to consider.

- ▶ Develop and implement a long-term plan to reduce the property tax gap and increase fairness between commercial and residential property owners in Nova Scotia.
- ▶ Place a maximum cap on what commercial property owners pay relative to residential property owners.
- ▶ Introduce flexibility for businesses to pay their property taxes.
- ▶ Increase communication with the business community on how property tax rates are set.
- ▶ Implement the changes made to the Municipal Government Act and the Halifax Regional Municipality Charter with care ensuring businesses are treated fairly and concerns are addressed.

Appendix 1: Methodology

The property tax gap is calculated by dividing the amount of taxes (i.e. the tax bill) that would be paid on a commercial property, by the amount of taxes that would be paid on a residential property of the same value. In this report an assessed property value of \$200,000 is used in the analysis.

Municipal Property Tax Gap = $\frac{\text{Commercial Municipal Property Tax Bill}}{\text{Residential Municipality Property Tax Bill}}$

What is included in property tax?

The term “property tax” refers to the tax levied by governments on assessed property values. The property tax components in CFIB’s calculations are listed below.

Municipal Rate: It is set individually by each municipal government to pay for municipal services. Rates vary based on property class. For all municipalities outside Halifax there are two rates – one for residential and one for commercial and industrial – Halifax uses two general property taxes – urban and rural plus a number of area rates. Rural municipalities and Regional Municipalities use area rates as well.¹⁵

Education Rate: It is set by the provincial government and is collected by each municipality to be transferred directly to the school boards.

Property Valuation Services Rate: It is set by the provinces to cover the cost of operating the provincial assessment system.

¹⁵ Kitchen, Harry and Slack, Enid, *Municipal Taxation in Nova Scotia*, April 2014, pg. 35

Appendix 2: Nova Scotia's Property Tax Gaps

Nova Scotia's Towns

Municipal property tax gaps and municipal taxes on \$200,000 assessed value (highest to lowest)

<i>Town</i>	<i>2015/16 Municipal residential property taxes per \$200,000</i>	<i>2015/16 Municipal commercial property taxes per \$200,000</i>	<i>2015/16 Municipal property tax gap</i>
Clark's Harbour	\$3300	\$11,160	3.9
Mulgrave	\$2580	\$8840	3.4
Oxford	\$3180	\$9960	3.1
Berwick	\$2420	\$7000	2.9
Amherst	\$3620	\$8900	2.7
Pictou	\$3520	\$8660	2.7
Trenton	\$3980	\$10,880	2.7
Mahone Bay	\$2220	\$5720	2.6
Yarmouth	\$3420	\$8780	2.6
Antigonish	\$2080	\$5140	2.5
Lunenburg	\$2620	\$6560	2.5
Truro	\$3600	\$8940	2.5
Wolfville	\$2860	\$7100	2.5
Bridgewater	\$3300	\$7980	2.4
Kentville	\$2740	\$6660	2.4
Middleton	\$3620	\$8580	2.4
New Glasgow	\$3640	\$8800	2.4
Port Hawkesbury	\$3600	\$8760	2.4
Hanstport	\$3320	\$7640	2.3
Lockeport	\$4620	\$10780	2.3
Stellarton	\$3640	\$8300	2.3
Parrsboro	\$3500	\$7700	2.2
Digby	\$3980	\$8360	2.1
Stewiacke	\$3340	\$6920	2.1
Windsor	\$3800	\$7980	2.1
Annapolis Royal	\$3300	\$6300	1.9
Shelburne	\$4080	\$7720	1.9
Westville	\$4160	\$7380	1.8
Average Tax Gap Towns			2.0
Bridgetown	Not available	Not available	
Springhill	Not available	Not available	

Nova Scotia's Municipalities

Municipal property tax gaps and municipal taxes on \$200,000 assessed value (highest to lowest)

<i>Municipality</i>	<i>2015/16 Municipal residential property taxes per \$200,000</i>	<i>2015/16 Municipal commercial property taxes per \$200,000</i>	<i>2015/16 Municipal property tax gap</i>
Guysborough	\$1220	\$5160	4.2
Hants, East	\$1720	\$5400	3.3
Kings	\$1700	\$4580	2.7
Richmond	\$1560	\$4160	2.7
Barrington	\$2000	\$5100	2.6
Colchester	\$1700	\$4500	2.6
Cumberland	\$2080	\$5260	2.5
St. Mary's	\$1740	\$4360	2.5

Argyle	\$1869	\$4500	2.4
Lunenburg	\$1620	\$3920	2.4
Pictou	\$1620	\$3640	2.3
Chester	\$1380	\$3060	2.2
Clare	\$2080	\$4140	2.0
Hants, West	\$2020	\$3600	1.9
Yarmouth	\$2320	\$4300	1.9
Annapolis	\$1960	\$3600	1.8
Inverness	\$2040	\$3700	1.8
Victoria	\$2400	\$4200	1.8
Antigonish	\$1760	\$2920	1.7
Digby	\$2600	\$3700	1.4
Shelburne	\$2520	\$3640	1.4
Municipality Average Tax Gap			2.2

Nova Scotia's Regional Municipalities

Municipal property tax gaps and municipal taxes on \$200,000 assessed value (highest to lowest)

<i>Regional Municipality</i>	<i>2015/16 Municipal property taxes per \$200,000</i>	<i>2015/16 Municipal commercial property taxes per \$200,000</i>	<i>2015/16 Municipal property tax gap</i>
Cape Breton Regional Municipality			
Cape Breton (Municipal Suburban)	\$3840	\$11000	2.9
Glace Bay	\$4160	\$10440	2.6
Louisbourg	\$4120	\$10500	2.6
Sydney Mines	\$3960	\$10240	2.6
Dominion	\$4120	\$10380	2.5
New Waterford	\$4140	\$10440	2.5
North Sydney	\$4200	\$10460	2.5
City of Sydney	\$4520	\$11260	2.5
Average tax gap CBRM			2.3
Halifax Regional Municipality			
County Suburban	\$2360	\$6720	2.9
Halifax Urban Core	\$2420	\$6720	2.8
Dartmouth	\$2420	\$6720	2.8
Bedford	\$2420	\$6720	2.8
County Urban	\$2420	\$6720	2.8
County Rural	\$2320	\$5960	2.6
Average tax gap Halifax			2.8
Region of Queens			
Queens County	\$1980	\$4140	2.1
Liverpool	\$3740	\$5900	1.6
Average tax gap Region of Queens			1.9
Average tax gap all regional municipalities			2.3

Appendix 3: How is property assessed in Nova Scotia?

Property assessments in Nova Scotia are based on the market value system. Properties with similar market values within a municipality or town are subject to the same amount of taxes and are assessed on the same criteria. There has been discussion around the relative benefits and disadvantages of an area based system versus the market value system¹⁶.

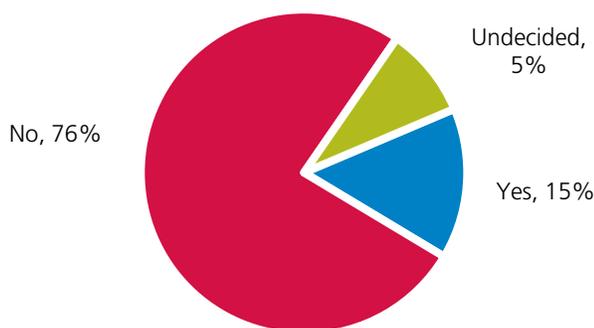
Market-value based assessments aren't free from criticism, as there is no direct relationship between the value of the property and the cost of services received. This is especially true for businesses, which despite paying higher municipal taxes often don't receive some services and must pay additional fees for services such as garbage collection. In effect, the property owner pays for some services twice.

How does the residential CAP affect the property tax gap?

The Capped Assessment Program (CAP) was introduced in the Nova Scotia legislature in 2005; making it the first Atlantic province to do so. The goal of the program was to protect residential property owners from the tax impact of sudden and dramatic increases on property values. The program put a "cap" on the amount that a property value can increase each year. The cap is set at the Nova Scotia Consumer Price Index which fluctuates annually. Commercial properties are exempt from the assessment cap program altogether. The reality is that businesses are just as impacted by sudden or dramatic increases in property values and must find ways to offset the increased operating costs. Despite the inequity that the CAP causes in the municipal property tax system in Nova Scotia, small business owners are not in favour of it being eliminated (See Figure 6).

Figure 6:

Should the Nova Scotia government give municipalities the power to create more commercial property tax zones (i.e. add different commercial property tax rates)?



Source: CFIB, Nova Scotia Mandate 264

The major problem with capping assessment is that it results in uneven tax distribution between capped and uncapped properties. This is because in order to generate the required revenue needed in a system that caps tax increases but does not cap government spending, the burden to support government spending shifts to properties that are excluded from the assessment cap, including businesses¹⁷.

¹⁶ Kitchen, Harry and Slack, Enid, *Municipal Taxation in Nova Scotia*, April 2014.

¹⁷ For a comprehensive overview of how the CAP affects municipal taxation, please view: Kitchen, Harry and Slack, Enid, *Municipal Taxation in Nova Scotia*, April 2014.