The City of Calgary

Property Tax Policy Options

Corporate Planning and Financial Services
22 September 2022

1. Current Tax Policy Options

There have been many processes and decisions over the years that form the basis of a de facto tax policy, however, The City of Calgary does not currently have a Council Policy outlining our overall policy related to taxation. This paper serves to present different policy options that can be considered. An explicit policy is beneficial in developing transparent communication and understanding, as well as to serve as a clear point for debate and challenge of the status quo.

In this section, options that are immediately available to Council are explored and evaluated.

1.1. Tax Rate Setting Policy Options

Property tax is essentially an asset or wealth tax, in that it is based on the value of capital property (i.e., a stock measure) rather than any income derived (i.e., a flow measure). It does not, however, factor in true wealth (i.e., equity of ownership vs market value). Property value can be used as either an absolute measure used to generate property taxes, or a relative measure of wealth used to distribute a given level of property taxes:

> **The budget-based approach (the current approach).** In this approach, assessment is used only to distribute tax revenue. Tax revenue is set by Council as part of the budgeting process. The tax rate is adjusted with each reassessment (revenue neutral) with only changes to the revenue neutral tax rate communicated as tax rate increases or decreases.
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> **The rate-based approach.** In this approach, the tax rate is constant and tax amounts depend entirely on the assessed value with each reassessment. Essentially, property values determine the total amount of tax collected. Any changes to the tax rate are communicated as tax increases or decreases. This produces more volatility in both total tax revenue and taxes paid by individual property owners but is more understandable for taxpayers, as taxes vary directly with movements in property value.

Tax Rate Setting Policy Summary & Analysis

The City's current tax policy and process (i.e., the budget-based approach) uses property value as a relative measure for the distribution of property tax responsibility. To accomplish this, The City follows a revenue neutral process where tax rates are reset each year so that market changes in assessed values do not impact the total amount of tax revenue collected, but they do impact the distribution of that revenue amongst taxpayers. The "revenue neutral tax rate" is the rate that would be required to generate the previous year's tax revenues using the next year's market value assessments, not including physical growth from development and redevelopment. Tax revenue changes only with physical growth and Council tax rate decisions. This is a policy choice, as the legislation only dictates the use of market value as the standard for assessment and the frequency of reassessments, not how values are used to generate revenue.

The City could choose to follow a policy of using property values as an absolute measure for generating tax revenue (i.e., the rate-based approach). With no revenue neutral calculation each year, property tax revenue would change with the changes in market assessments as well as with growth and Council changes to the tax rate, although Council decisions could become fewer or non-existent. This would be a simpler system to administer and communicate, but would result in revenue that is much more volatile. Even if the total revenue generated through each approach were equal over the long run, the rate-based approach would lead to years where much more revenue was collected than necessary and pressure to spend or return to taxpayers would likely mount. That pressure would need to be resisted, with large amounts of revenue kept in reserve, to fund municipal operations and service delivery in years with lower market assessments.

As well, the more direct relationship between assessment changes and tax changes can create the perception that assessment is used to generate more tax, with questions in the process leading to greater resistance to revaluations, capping assessment changes and higher number of assessment appeals. Because there is also a significantly lower relationship between annual changes in income and property values, areas with rapidly increasing property values can create an affordability gap in tax bills.

Year-over-year change in the total property tax revenues, budget-based vs. rate-based

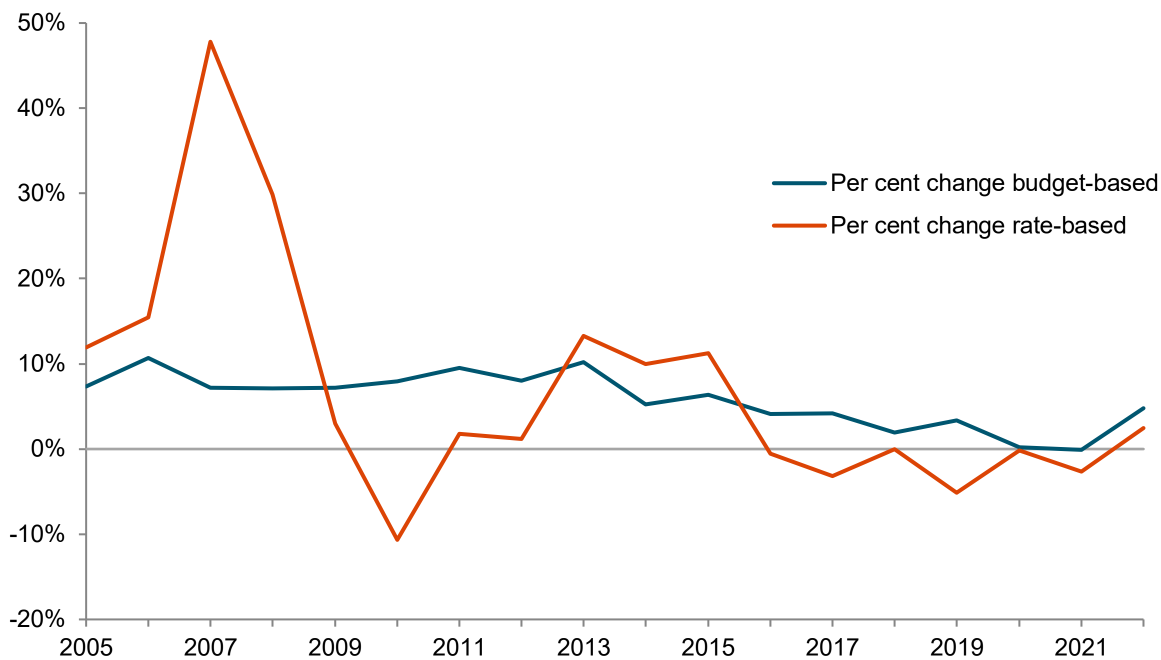

Figure 1 The comparison between the budget-based and rate-based approaches to property tax rate setting.
Using a static tax rate would result in very large swings in City revenues, whereas the budget-based approach provides a steadier rate of growth in the property tax levy. The rate-based model depicted above uses a static tax rate equal to the median tax rate from 2005-2022.

The result of the budget-based approach to tax rate setting is a steady revenue source based on a volatile tax base. That is why it is the preferred approach of assessment professionals,[1] some property tax experts[2] and a common practice among Canadian municipalities.

It is important to note that, if Council were to pursue a rate-based system, with the intent that tax rates remain static, then it would not be possible to exercise options that control the distribution of taxes between property classes discussed in the next section.

The principles of taxation most relevant to comparing the budget-based and rate-based approaches are the principles of Stability and Predictability; and Accountability, Simplicity and Transparency.[3] In terms of Stability and Predictability the budget-based approach provides much more stable and predictable revenues for The City, as the amount of revenue is based on The City's budget. An advantage of the rate-based system is that property owners know the tax rate well in advance, so the amount of tax to be paid would be somewhat more predictable, in that you can calculate your expected taxes once your individual annual assessment is known, without needing to know how the values of the rest of the properties in the city have changed. With a rate-based approach, however, individual property tax bills would be less stable, undergoing large fluctuations in line with market value assessments. City revenue would also be prone to large fluctuations and Council would likely need to intervene in some of these cases, to adjust the rate according to the needs of the moment. In practice, these ad-hoc rate adjustments would result in less stability and predictability in tax bills.

Council will always be accountable to citizens for tax decisions, whether they are based on automatic adjustments or through direct decisions. Automatic changes, like the changes that would arise from a rate-based system, cloud accountability since such changes can be attributed to the market rather than Council-decision making. A budget-based approach provides clear lines of accountability between the budget and overall property tax changes. There would still be instances of market value assessments that are considerably higher than the typical assessment increase and those would result in large increases on some individual tax bills.

Finally, on simplicity and transparency, the budget-based approach allows Calgarians to make connections between Council decision-making and their tax bills, enhancing transparency. However, there are additional steps after budget-setting that also impact tax bills, as detailed in Property Tax Policy Current State (Attachment 2). These additional steps make the system more complex. The rate-based approach breaks those connections and makes the relationship between Council decision-making and taxes less clear. At the same time, if the tax rate actually remains static, the rate-based approach is simpler in that there is a clear tie between individual assessment changes and individual tax changes.

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[1] International Association of Assessing Officers, *Standard on Property Tax Policy*, (International Association of Assessing Officers, 2020) p. 16. Accessed at https://www.iaao.org/media/standards/Standard_on_Property_Tax_Policy.pdf on April 2, 2021.
[2] Referred to as the "rollback rate" in Keith Ihlandfeldt, *The Property Tax Is A Bad Tax, But It Need Not Be*, "Cityscape: A Journal of Policy Development and Research" 15, No.1 (2013): p.222. Accessed at https://coss.fsu.edu/dmc/wp-content/uploads/sites/8/2020/09/03.2013-The-Property-Tax-is-a-Bad-Tax-but-It-Need-Not-Be.pdf on October 13, 2021.
[3] The principles of fairness, neutrality, and efficiency & ease of administration are fairly similar across the two approaches.

Table 1 Comparing benefits and drawbacks of budget-based and rate-based approaches.
The budget-based approach, though more difficult to communicate, with volatile tax rates that are not finalized until relatively late in the process, produces more stable City revenues and individual property tax bills than the rate-based approach.

	Budget-Based Approach		**Rate-Based Approach**	
For:	*Benefits*	*Drawbacks*	*Benefits*	*Drawbacks*
Individuals	More stability in property tax bills.	More complex, as the tax rate changes with assessments.	More predictable tax rate.	Less stability in individual property tax bills. Individual tax amounts tied to volatility and unpredictability of real estate market.
The City	Stable revenue on a volatile tax base. Clear lines of accountability for property tax budget changes.	More difficult to communicate.		Volatile revenue based on assessment changes. Tax changes based on assessments could politicize assessment process. More difficult to plan long-term, as the property market can be unpredictable. Tax revenues are detached from budgetary requirements. Requires change management and communications, if departing from budget-based approach.

In conclusion, Administration recommends continuing the budget-based approach to setting property tax rates because this approach:

- Maximizes stability and predictability of City revenues.
- Maximizes stability of tax bills.
- Keeps assessment systems independent, with no new revenue collected solely due to market changes.
- Keeps accountability for tax budget changes with Council.

Recommendation

Continue to employ the budget-based approach to setting budgets and property tax rates.

1.2. Tax Distribution Policy Options

Options for Distributing Tax Responsibility to Different Classes

In Canada, there are three main approaches that are currently used in determining how to distribute the taxes among different property classes. These approaches are distinct; using one distribution methodology makes it impossible to use another. Below, each of the approaches is described, as are the effects of the different approaches on key elements of the tax system.

The Proportional Approach

In this approach, the municipality applies the Council budget change proportionately to all property classes. This approach was the main approach used by The City throughout the 2010s, though there are additional factors that affected non-residential and residential tax levy increases. Most notable the effects of business tax consolidation and differ choices with regard to the take-up of provincial “tax room” for each class.

Step 1 – Determine overall Council property tax budget change.

Step 2 – Determine new property tax levies (residential and non-residential property tax levy) by applying overall property tax budget change and adding physical growth from development and redevelopment to adjusted property tax levies.

Step 3 – Divide new property tax levies by the taxable assessment base for each class to determine the property tax rate for each class.

The Tax Rate Ratio Approach:

This approach functions by determining the overall property tax budget change and then using the target ratio to adjust the levy for each class so that the tax rates achieve the desired ratio. This approach is used in Saskatoon at the discretion of City Council and in Ottawa and Toronto as mandated by the province.

Step 1 – Determine overall Council property tax budget change.

Step 2 – Determine the property tax rates by calculating the tax that would be required to achieve that budget requirement *and* achieve the target ratio.

Step 3 – Divide new property tax levies by the taxable assessment base for each class to determine the property tax rate for each class.

The Tax Revenue Share Approach

As in the other approaches, the overall property tax budget change is determined first. Subsequently, that amount is multiplied by the percentage share that is to be distributed to each of the property tax classes. Vancouver uses this approach and Calgary started using this approach in the 2020 financial year.

Step 1 – Determine overall Council property tax budget change.

Step 2 – Multiply the overall Council property tax budget by the percentage share to be paid by each tax class and add physical growth from development and redevelopment to determine the property tax levies.

Step 3 – Divide new property tax levies by the taxable assessment base for each class to determine the property tax rate for each class.

Modelling the Effects of Each Approach

The various approaches to tax distribution were modelled with the following parameters:

- The actual distributions are used as a base case and could be considered as a proxy for the Proportional Approach until 2020 when The City transitioned from the Proportional Approach to the Tax Share Approach.
- In each scenario, the business tax was included as part of the non-residential tax levy.
- To isolate the distributional effects of the different approaches, the total property tax levy remained constant. The actual total property tax levy for each year was kept the same, regardless of the distribution approach.

The key input associated with each distribution approach was:

- A ratio of 2.8:1, for the Tax Rate Ratio Approach, in line with the Calgary Chamber of Commerce recommendation.
- A share of 48 per cent for non-residential property tax, for the Tax Share Approach, which is consistent with current Council direction.

It should be noted that, for the Tax Rate Ratio Approach and Tax Share approach, the ratio or share were kept constant throughout the time period. Council would still, however, have the option to change either the target ratio or target share, so this modelling is meant only to illustrate the distributional effects of each approach.

Findings

The main takeaway from the modelling is that targeting a static tax rate ratio can lead to volatility in property tax levies, which can translate into volatile taxes. This volatility does, however, correspond with the relative changes in property assessments between the two classes.

The reason for volatility in tax levies is that using a static tax rate ratio anchors the tax rates for each class to each other reducing the volatility of the tax rates with similar effects to the rate-based approach to property tax setting mentioned above. This exposes taxpayers to more tax volatility arising from market driven changes in property assessments.

Tying property classes together essentially makes them one class, so the tax shifts that occurred within the non-residential property assessment class from 2016-2021 would be shared more readily with residential property taxpayers. This sharing between classes would have stabilized the non-residential property tax rate and eased the effects of the downtown property tax shift in that occurred in that timeframe by transferring additional taxes to the residential class.

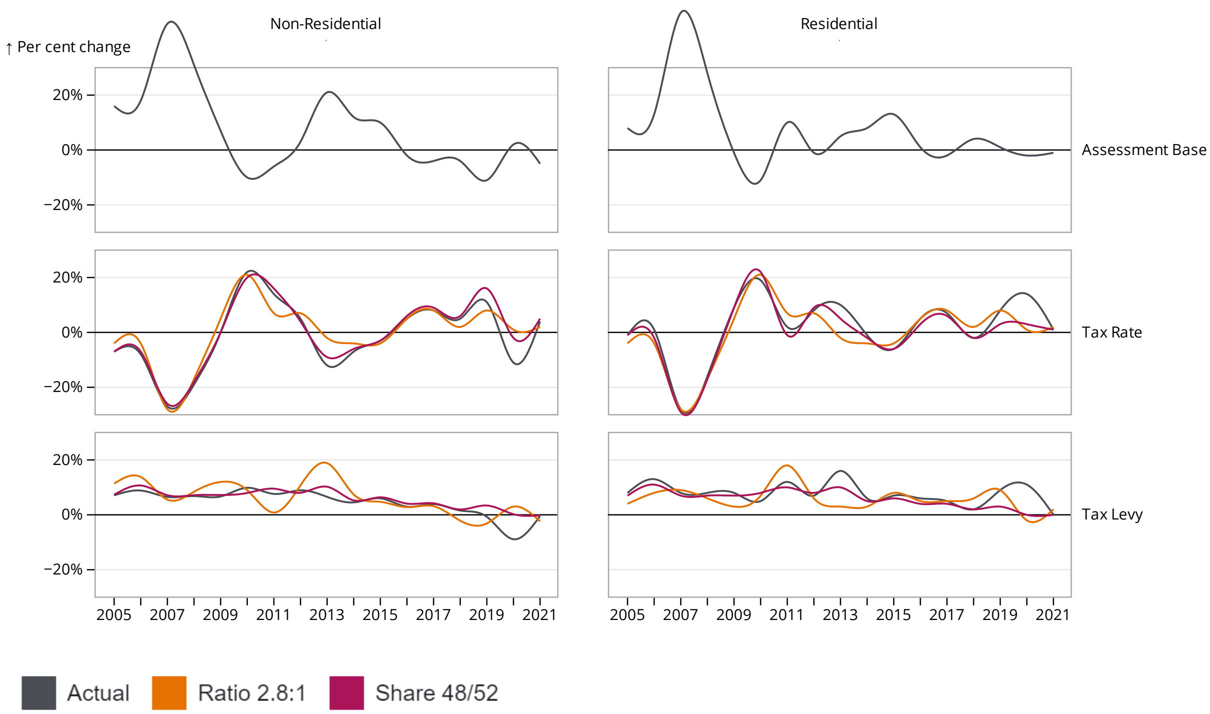

Figure 2 Comparing the tax distribution approaches.
Comparing the approaches **actual distributions**, **ratio of 2.8:1**, and **share of 48/52** as year-over-year per cent change in the assessment base, the tax rate and the tax levy.

When taxes are shifted toward residential property taxpayers (i.e., the residential property market is performing better than the non-residential property market) the shifts are generally manageable, because the taxes are shared by a broader base of accounts. An exception to this general rule occurred due to a dramatic decline in the non-residential assessment base in 2011, which would have resulted in a large (18 per cent) increase in the residential property tax levy. The residential tax levy peak in 2011 demonstrates that intra-class shifts caused by a static tax rate ratio can result in changes that some residential taxpayers, and by extension Council, may find untenable.

This effect would have been repeated to a lesser extent in 2022 where a static tax rate ratio would have resulted in an 11 per cent increase in the residential property tax levy arising from the fact that the residential property assessment base increased by 9 per cent while the non-residential property assessment base declined slightly (-1.5 per cent).

Taxes would have shifted toward non-residential property taxpayers due to very substantial growth in the non-residential assessment base in 2006, 2009 and 2013 that these effects are the most pronounced. In those years, the non-residential property tax levy would have increased by 14, 12 and 19 per cent respectively. Again, with such large year over year increases, it is likely that non-residential property taxpayers would seek some relief.

For the Proportional Approach and the Tax Share Approach, the tax levies are distributed by Council and independently of market volatility. So, when there are positive changes in the non-residential property assessment base, the non-residential tax rate is adjusted downward. This also works in reverse, when the non-residential property assessment base declines, the non-residential tax rate increases.

To recap, the Tax Rate Ratio Approach would lead to greater interclass tax shifts (i.e., tax shifts between tax classes), and would more closely reflect assessment changes. This is illustrated in Figure 3. If the tax rate ratio were held constant, shifts would occur in years with the grey shading, and the larger the distance between the lines, the greater the shift. In any given year, the line that is on top (i.e., the property class with the larger growth) reflects the class taxes would shift toward. So, the greatest shifts would have occurred in 2005, 2009, and 2013 towards the non-residential class, and in 2011, 2018, 2019, and 2022 towards the residential class. These shifts would be common, and they don't always align with an ability to pay more tax.

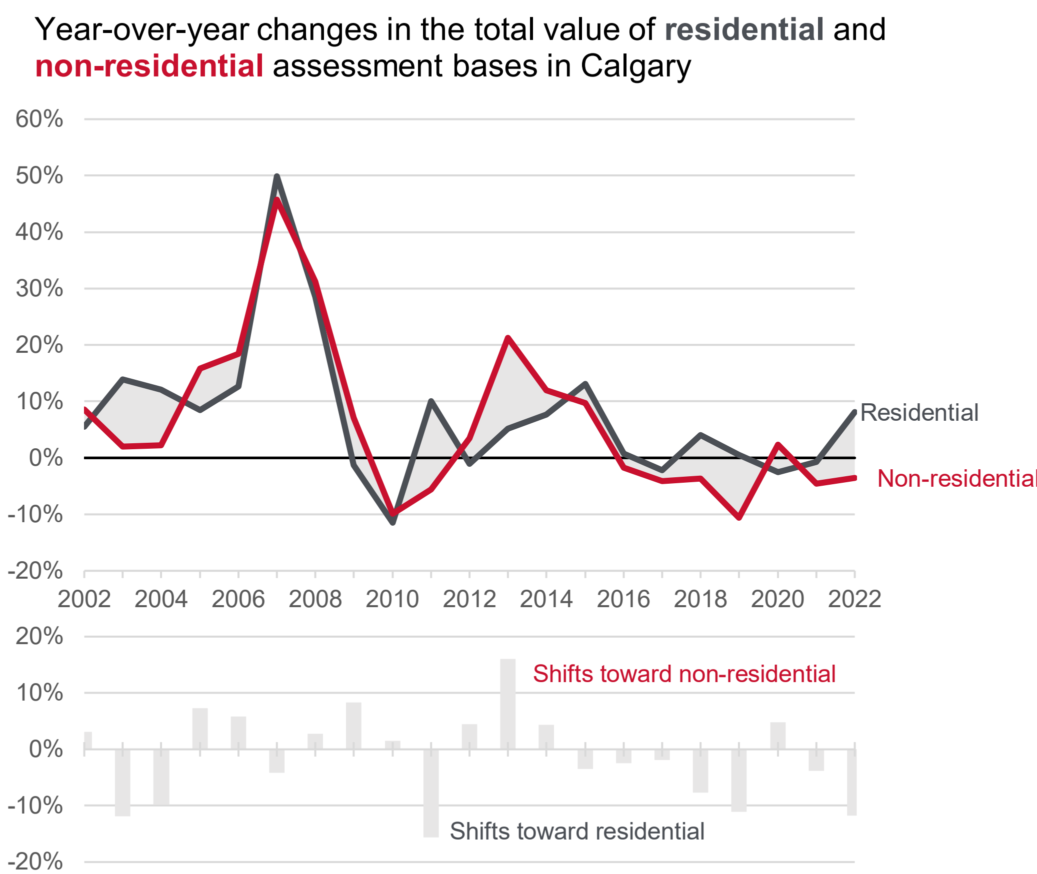

Figure 3 Annual changes in the total value of residential and non-residential assessment bases in Calgary
Comparing the growth in year-over-year assessment bases reveals where market volatility would lead to interclass tax shifts under the tax rate ratio approach. Where the red line is higher, taxes would shift to the non-residential class (e.g., 2005, 2009 & 2013), and where the grey line is higher, taxes would shift to the residential class (e.g., 2011, 2018, 2019, 2022)

The Proportional Approach and Tax Share Approach limit volatility between classes and typically help buffer assessment-related changes but do not, by themselves, solve the volatility issues related to tax shifts. It should be noted that the Tax Share Approach can be used to alleviate tax shifts by adjusting the tax responsibility of other classes but, for that to occur, there would need to be Council direction.

The Proportional Approach takes the current distribution of tax as a given and provides a smooth system of redistribution over time, based on physical growth. This is true except in cases of very large assessment shifts, which would typically happen only in the non-residential class. In those times, the Proportional Approach is not well adapted to the problem of tax shifts and one-time rebates must be used.

The Tax Rate Ratio Approach is more reflective of the relative market changes in each assessment base. This means that the Tax Rate Ratio Approach is more likely to lead to large increases in tax when one assessment base is performing much better than the other. At the same time, it allows for flows between classes that could help manage tax shifts and reduce the need for one-time rebates.

The Tax Share Approach puts more of the onus on Council, to set the distribution of tax as it deems appropriate, without any automatic redistribution based on either physical growth or the relative market performance of each assessment base. This approach allows Council to make tax share decisions that could help reduce the need for one-time rebates.

Table 2 Comparing benefits and drawbacks of proportional, tax rate ratio, and tax share approaches

	Proportional	**Tax Rate Ratio**	**Tax Share**
Effect on…			
Tax Share	Changes with physical growth of assessment bases	Changes with relative physical and market growth of assessment bases	Set by Council
Tax Rate Ratio	Changes with relative physical and market growth of assessment bases	Set by Council	Changes with relative physical and market growth of assessment bases
Tax Rates	Less stable	More stable	Less stable
Tax shifts…			
within Classes	Can be mitigated with one-time rebates	Automatic shifts to other classes can mitigate shifting within, but can also exacerbate assessment increases	Can be mitigated by shifting to other classes via Council decision
between Classes	No shifts	Shifting occurs automatically	Shifts can occur with Council decision
Individual Tax Bills	More stability	Less stability, more prone to large increases and decreases	More stability

The analysis above makes it clear there is no perfect approach to the distribution of property tax. Each approach comes with its own tradeoffs.

Tax Distribution Approach Policy Summary & Analysis

The results above are reflective of The City of Vancouver's experience using tax rate ratios. The City of Vancouver devotes a report to tax share annually.[4] In the 2021 report, the authors discuss the Vancouver experience with the Tax Rate Ratio approach:

> In the late 1970s and early 1980s, the Province established the tax rate ratios for municipal governments annually. This resulted in significant year-over-year inter-class tax shifts arising from differential market value changes. At the request of Council and the Union of British Columbia Municipalities, the Province granted municipal governments the authority to determine their own tax distribution approach beginning in 1983. Since then, it has been Council policy to use the "tax share" approach.[5]

It should also be noted in Ontario, where tax rate ratios are required to be used as part of the tax rate setting process, the province has allowed municipalities the option to keep tax shares constant by using a "revenue neutral tax ratio" (different than Calgary's use of the term "revenue neutral"). This option has been exercised by many Ontario municipalities, meaning that even when the tax rate ratio method is required, some Ontario councils effectively use the tax share approach to make their decisions.

As the Calgary Chamber of Commerce has noted, the Tax Rate Ratio approach appears to depoliticize the tax distribution question (once the appropriate ratio is agreed upon) because it allows for a more automatic redistribution of tax responsibility. Yet, this does not seem to be borne out in the practice of municipalities that have employed the strategy, as the redistributions occur based on the relative market performance of each property class, which often does not coincide with changes in ability to pay. This suggests that issues of horizontal and vertical equity across classes are not managed by fixing a ratio and annually shifting tax responsibility between the classes to achieve it.

Within classes, all approaches perform well on the issues of horizontal and vertical equity, as there is a uniform tax rate on taxable properties. The Proportional Approach provides the least opportunity for Council intervention to move towards more equity between classes as there is no procedural mechanism built into the approach. The Tax Rate Ratio Approach would be the most direct way to monitor horizontal and vertical equity between classes because the ratio itself seems to measure equity.[6] A Tax Rate Ratio can, however, be a misleading indicator of the share of taxes paid by a class. In its 2007 report, the Vancouver Tax Commission found that:

> A rising tax rate ratio is not always an indicator of an increasing burden of taxation on the business sector, and that was not the case in the Vancouver context. It is simply the result of the differential rates of inflation for business and residential property and a policy of

[4] See City of Vancouver, *Distribution of Property Tax Levy* at p. 8.
[5] Vancouver, *Distribution of Property Tax Levy,* p. 12.
[6] There are arguments that tax deductibility of property taxes for non-residential property (and residential rental property) should result in a slight adjustment to the neutral taxation. See Jordan, *Business Property Taxation,* p. 1.

> maintaining tax shares in the face of these market shifts. For these reasons, the tax rate ratio is a misleading index of tax equity.[7]

If it were possible to account for all the benefits (direct and indirect) enjoyed by each property class, then the Tax Share Approach is most closely aligned to the benefits principle. The Tax Share Approach allows Council to consider the relative benefits received by each class and respond accordingly by fixing the relative tax revenues that come from each class. A Tax Rate Ratio approach on the other hand would vary according to the relative performance of each assessment base and not bear any direct relationship to the benefits received by each class.

The Proportional Approach takes the current distribution of tax as a given and the relative share of tax is then distributed over time through the real growth occurring in each assessment base.

The most neutral form of distribution would be something that limits the difference in tax rates between residential and non-residential property[8], and that would be the tax rate ratio approach. The tax share approach does not provide tax neutrality through the distribution mechanism, but could be used to move towards a more neutral taxation system over time. The Proportional Approach is not designed to meet neutrality needs, as it is based on relative real growth, and additional intervention using one of the other approaches would be required to strive for more tax neutrality.

Stability and predictability are in tension with one another. In the short term, the most easily predictable form of property tax would be one with a static tax rate because taxes would vary only according to market value changes. By monitoring the market, an individual property's taxes could be *predicted* by knowing the market value, even if that tax amount were less *stable* than in a system with a floating tax rate. As has been shown, however, a static tax rate would also result in a highly volatile (i.e., much less stable) amount of tax being paid by taxpayers and collected by The City. So, although a static tax rate is more predictable in the short term, it is much less predictable in the long term. The closest approximation of a static tax rate is the Tax Rate Ratio Approach as it reduces volatility in tax rates and increases volatility in the total amount tax paid by each class.

The most transparent approach to distributing taxes is the Tax Share Approach. It is the most citizen-friendly approach as it simply communicates the basis upon which taxes are distributed based on percentage of the overall tax levy. The simplicity of the concept allows clearer lines of accountability back to Council so that taxpayer groups can provide their feedback. The Tax Rate Ratio Approach requires more in-depth knowledge of the tax system and takes some accountability away from Council, as it is based more on the relative performance of each assessment base than on Council decision-making. The Proportional Approach is the simplest approach because it requires no Council intervention in theory, but in practice interventions occur on an as needed basis and in a reactive manner.

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[7] Hamilton, Adams and Slack, *Vancouver Commission 2007*, p.29.
[8] Enid Slack, *The Property Tax - In Theory and Practice,* Institute on Municipal Finance and Governance, 2011: p. 4. Accessed at https://munkschool.utoronto.ca/imfg/uploads/173/enidslack_imfg_no._2_online.pdf on 20 May 2021 and Kitchen, McMillan and Shah, *Local Public Finance and Economics*, p. 306.

In reviewing the literature on tax distribution, it became clear that The City of Vancouver has wrestled directly with this issue for decades and has found an approach that works. Using the Tax Share Approach:

- Sets an easy-to-understand framework for how taxes are distributed among classes.
- Allows Council to set and change the share of taxes paid by each class in a deliberate and transparent manner.
- Aligns Council accountability for and control over tax distribution decisions.

Recommendation

Continue to use the tax share approach in making tax distribution decisions.

Fixing the share of taxes paid by each class effectively overrides the zero percent increase on consolidated business tax revenues. As such, the continued use of this distribution approach requires Council to abandon this previous direction.

Recommendation

In continuing with the tax share approach, abandon the direction to continue applying a zero percent increase to consolidated business tax revenue, effectively drawing business tax consolidation to a close.

1.3. Tax Distribution Target

While the question of distributing the property tax among property classes is common, there has been no consensus among municipalities, or in the literature, about what the appropriate distribution is or what methodology should be used to determine the distribution.

In a report commissioned by the Government of Nova Scotia, the authors concluded without making a recommendation:

> Unfortunately, there is no single means of determining the appropriate tax rate ratio for business relative to residential properties. Stakeholders offered some ideas of an appropriate ratio but provided no justification for their suggested ratio. Nor were we able to obtain any empirical evidence of business leaving the province solely because of property taxes. Hence, we are not able to make a recommendation on the appropriate ratio of commercial to residential tax rates, but we are suggesting that municipalities monitor the impact of commercial property taxes on their ability to attract and retain business.[9]

In the literature on property tax, there is a consistent theme that though it is common practice in Canada and internationally to tax non-residential properties at a higher rate, non-residential property taxpayers pay more than they should.[10] This is based on analyses using the principles of taxation.

The first principle that pertains to this issue is fairness based on benefits received. Studies conducted on the consumption of services by residents and businesses have consistently found that residents use more city services than businesses. These studies typically only consider direct consumption and do not consider the indirect benefits that arise from city services.

The second principle considered in this type of analysis is the principle of accountability. It has been argued that non-residential property taxpayers exert less influence on decision-makers because they do not vote, and thus it is easier to tax them. The experience in Calgary suggests that what the business community lacks in voting power is made up by organizational capacity, but that organizational capacity is only brought to bear when there are large tax changes.

The third principle discussed in the literature is neutrality. A higher non-residential property tax rate – especially in a regional context – can affect businesses' locational decisions, with some choosing to locate outside of the city if the tax rates are different enough. With that said there are still compelling reasons to locate within the boundaries of a city, most notably because doing so gives businesses access to a much broader pool of labour when compared to smaller cities, towns or rural locations.

[9] Kitchen and Slack, *Nova Scotia, p. 69.*
[10] Kitchen, Slack and Hachard (2019) *Current Issues*, p.4-5. and Kitchen, McMillan and Shah, *Local Public Finance and Economics*, p. 306 – 308.

The 2019 Tax Share Decision

In 2019, Council made the decision to alter the distribution of property taxes between residential and non-residential property taxpayers. The decision was based on the tax share approach and changed the tax shares from 48 percent residential / 52 percent non-residential to 52 percent residential / 48 per cent non-residential.

The chart below traces how the decision was embedded within several other Council decisions in 2019. After hearing the concerns of businesses in May of 2019, Council directed Administration to find $60 million in budget reductions within the 2019 budget and put those reductions towards a reduction in the non-residential property tax. Council also directed Administration to return in November with budgetary scenarios including a 1.5 per cent increase in the property tax budget, which Council adopted. Changes in provincial funding arrangements left a $13 million gap in the budget for Police Services and Council decided to increase the property tax budget to fill the gap. Once all those decisions had been made, Council made the tax share decision, which increased the residential property tax budget by nearly 7 percent and decreased the non-residential property tax budget by just over 6 percent. Council then directed a one-time rebate for 2020 property taxes, which did not impact the starting point for 2021, as seen in the dashed line.

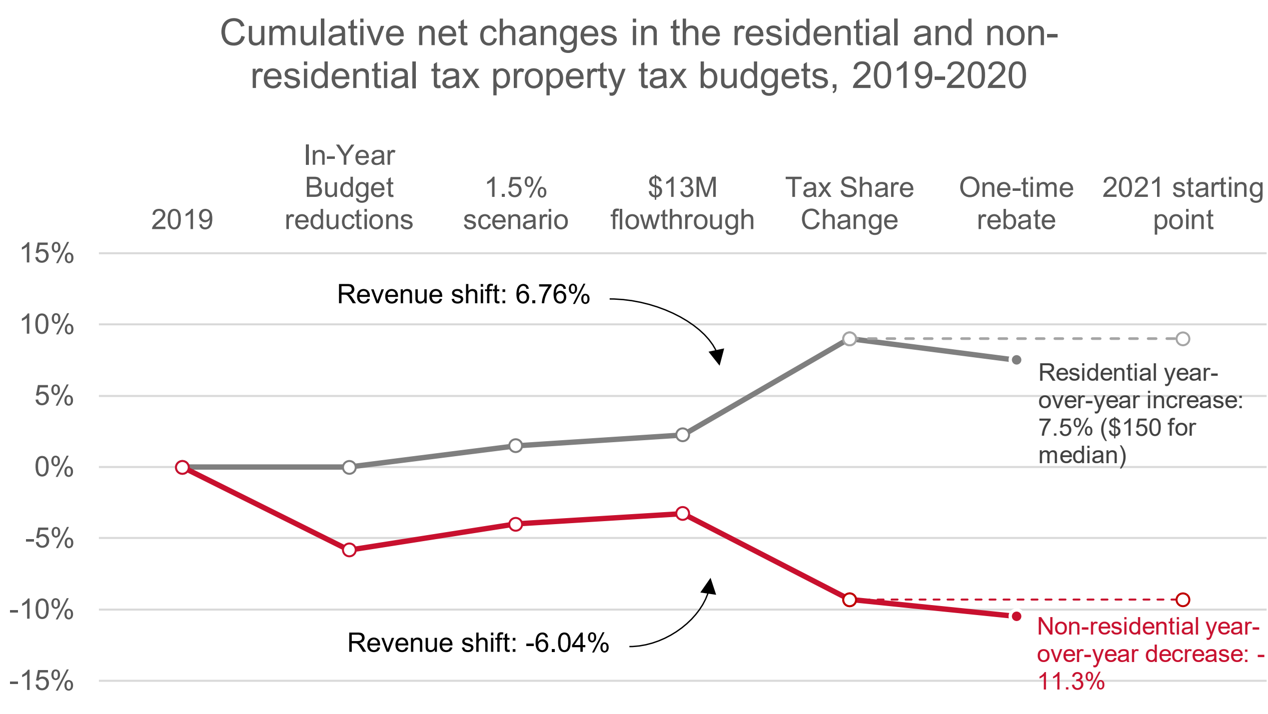

Figure 4 Cumulative net changes in the residential and non-residential property tax budgets, 2019-2020
A series of decisions in 2019 had differential impacts on the property tax budgets of the residential and non-residential classes.

Business and Resident View of Tax Distribution Targets

In early 2022, Administration sought to better understand the opinions of residents and the business community on the issue of the appropriate distribution of tax responsibility between residential and non-residential properties. The full stakeholder engagement summary, detailing both the consultation with business representatives and the results of a survey of the Citizens View Panel are included in Attachment 5 – "Stakeholder Engagement Summary".

The business community was united in its view that, if the tax share approach were to be used, then their preferred target would be 40 per cent for the non-residential property class and 60 per cent for the residential property class. The business community emphasized that decisions on tax distribution should be considered annually so that when action is needed, Council will be ready to act.

Administration also surveyed the Citizen's View Panel, a panel of citizens that have signed up to express their views to The City. The survey was of limited statistical validity as it was not representative of The City as whole, skewing toward older Calgarians. When asked about the balance between residential and non-residential property taxes, 43 per cent of respondents agreed with the statement "Residential property taxes should decrease, even if that means non-residential property tax (businesses) in Calgary would go up." In contrast, only 18 per cent agreed that "Residential property taxes should increase so that non-residential property tax (businesses) in Calgary can go down."

Vancouver's Experience with Setting Tax Distribution Targets

The City of Vancouver formed a commission in 2007 to provide recommendations on the appropriate distribution of taxes using the tax share approach. The conclusion of the Vancouver Tax Commission, in their 2007 report, was:

> We have not been able to identify a simple indicator of an appropriate tax share. Instead, the choice of tax share is a judgment call – one that needs to weigh the strength of concern with the current tax share against the likely consequences of change.[11]

The Vancouver Tax Commission, based on their judgement, ultimately recommended a tax share of 48 per cent for non-residential taxpayers from a starting point of 55 per cent.[12] A subsequent report by the Commission in 2014, when the tax share was 43.2 per cent, concluded that given the set of circumstances in Vancouver at the time, there should be no additional changes to the tax share.[13] The share of property taxes paid by non-residential taxpayers in Vancouver for 2021 was 42.9 per cent.

The Vancouver Commission's approach was partially informed by work done to estimate the benefits that accrue to non-residential properties. This work estimated that businesses in Vancouver consumed 24 per cent of services but the Commission emphasized shortcomings in the methodology. Specifically, the Commission noted that the study relied on direct consumption

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[11] Hamilton, Adams and Slack. *Vancouver 2007*, p. 53.
[12] The City of Vancouver, *Report by the Director of Finance to Vancouver City Council on the 2021 Property Taxation: Distribution of Property Tax Levy* (The City of Vancouver, 2021), p. 4. https://council.vancouver.ca/20210427/documents/r4.pdf.
[13] City of Vancouver, *2014 Tax Commission),* p. 27.

of services but did not take the indirect benefits of City services to businesses.[14] Indeed, a suite of high-quality City services is required to attract people to cities and form a high-quality labour market that businesses need to remain competitive.

The Impact of Tax Distribution Decisions

The tax share in Calgary remains unchanged from the decision taken in 2019, meaning that the current distribution is 52 per cent residential / 48 per cent non-residential. Based on the 2022 property tax budget and distribution, each one per cent change in the non-residential share (i.e., moving from 48 percent to 47 percent) would result in the following estimated impacts, in addition to any overall year-over-year budget change decisions made by Council:

- $20.5 million redistributed from the non-residential property tax levy to the residential property tax levy
- $44 increase for a $485,000 residential property (1.92% increase from current)
- $1,853 decrease for a $5M non-residential property (2.07% decrease from current)
- 2022 tax rate ratio of 3.66

Based on the 2022 property tax budget and distribution, an eight percent change (i.e., moving from 48 percent to 40 percent) to meet the business community's preference for a 60 percent residential / 40 percent non-residential distribution, in one year, would result in the following estimated impacts:

- $165 million redistributed from non-residential to residential
- $355 increase for a $485,000 residential property (15.6 percent increase)
- $15,060 decrease for a $5M non-residential property (16.8 percent decrease)
- 2022 tax rate ratio of 2.74

Summary and Conclusion

The appropriate distribution of taxes between residential and non-residential taxpayers is a decision that Council must make by weighing the available evidence, including:

- the research on property tax policy, which suggests that, in general, non-residential property taxpayers pay more than they should
- the comparative data (included in Attachment 4), which suggests that Calgary's non-residential tax share could move lower,
- the concerns of non-residential property taxpayers, in favour of decreasing non-residential tax responsibility
- the concerns of residential property taxpayers, against increasing residential tax responsibility.

Even a 1 per cent change in the tax share would result in a 2 per cent increase in residential property taxes, in addition to the property tax budget changes that arise from Council's budget decisions. It is important to remember that taxpayers will generally look at their overall tax

[14] Hamilton, Adams and Slack. *Vancouver 2007*, p. 31

change rather than the reasons for that change. If Council were to set a non-residential share target that is lower than the current tax share, then the direction to Administration should:

- ensure effective communication of the reasons for the change
- phase the change over a period of years to ensure that the transition does not unduly affect residential property taxpayers.

Recommendation

Set a four-year target for the non-residential tax share as part of the 2023-2026 One Calgary Service Plans and Budgets, adjusting the share by no more than one per cent per year, with the option to revisit the tax distribution as part of the adjustments and mid-cycle process if conditions warrant.

- Setting a long-term direction allows taxpayers to understand how the tax share will change over time.
- Phasing the transition by no more than one per cent a year allows Council to change the share gradually, eases the transition and continues to allow for property tax revenue budget increases in line with population and inflation.
- Annual consideration of the appropriate tax share responds to stakeholder expectations that this decision is actively managed during periods of uncertainty and volatility.