

## TYPES OF SUBSIDIES USED BY THE CITY

### Tax Exemption for Non-Profits: An Indirect Operating Subsidy

In the literature on the property tax, it is generally accepted that property tax exemptions for non-profit organizations are an indirect subsidy provided to those who relieve the burdens of government in some respect. It is likely for this reason that the exemption does not begin until a property is actively operating with an exempt use. Thus it is helpful, when thinking about exemptions for non-profits, as an operational subsidy.

Exemptions are thought of as an indirect subsidy because when a property or business tax exemption is granted by The City, the remaining property or business taxpayers must pay the taxes that would have otherwise been paid by the exempt property or business owner (i.e., The City does not pay the subsidy directly to the organization). This is due to the way in which the property and business tax rates are calculated (i.e., dividing the amount of revenue required by the taxable assessment base as in Figure 1).

Figure 1

$$\frac{\text{revenue required}}{\text{taxable assessment base}} = \text{tax rate}$$

Any previously taxable property or business that is rendered exempt by virtue of ownership and/or use is removed from the taxable assessment base. As shown in Figure 2, this results in an increase to the tax rate. This effect is small on an individual basis but it is substantial when all exempt properties and businesses are considered.

Figure 2

$$\frac{\text{revenue required}}{\text{taxable assessment base } \downarrow} = \text{tax rate } \uparrow$$

Therefore, the overall effect of a property tax exemption is that the remaining taxpayers provide an indirect subsidy to organizations that are exempt from taxation.

### Tax Cancellation for Non-Profits: A Direct Capital/Operating Subsidy

In contrast to tax exemption where the subsidy is paid indirectly by taxpayers, tax cancellations that seek to provide assistance to non-profit organizations are a direct subsidy from The City to the non-profit organization whose taxes are cancelled, usually through a credit to their property tax account.

### Grants for the Construction of Non-Profit Facilities: A Direct Capital Subsidy

The City has relationships with specific autonomous non profit organizations that provide social, recreational, arts, learning, tourism, parks, and community services to enhance the liveability and sustainability of Calgary communities. The City provides grants to these non-profits to support operating or programming costs, based on a specific direct-funding relationship with each non-profit. The level of operating subsidy and budget support provided to each non-profit varies according its funding relationship.

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### Operating Grants: A Direct Operating Subsidy

The City has a long history of partnering with select non-profits to develop facilities on both City land and non-City land for public benefit. Through funding agreements or facility lease/license agreements with these non-profits, The City provides grant funding to offset a share of the construction costs for approved capital projects undertaken by the non-profits to build and maintain these facilities. Sourced through City budget appropriations, the grants are a direct subsidy to the non-profit. Where construction-period property taxes are levied by The City on a capital project, the non-profit can submit property taxes paid for reimbursement through the capital grant. This subsidization of property taxes is only available only to non-profits in a partnership relationship with The City.