Enhancing Municipal Financial Planning and Tax Equity

Issue

Businesses across Alberta are growing increasingly concerned about municipal tax burden and the equity in the system. Businesses are concerned that municipalities are increasing tax bills beyond the benefits businesses receive, and that taxes are rising without municipalities considering the effect on their economic competitiveness. The Municipal Government Act Review provides an opportunity to reform municipal budgeting practices to encourage consideration of policy objectives and principles and long-term planning.

Background

Property taxes vary widely across municipalities in Alberta. This reflects differences in assessment bases as well as the latitude given to municipalities to raise revenue in different ways under the Municipal Government Act (different classes of property taxes, user fees, etc.). Nonetheless, there is a tendency to place a greater proportion of the tax burden on businesses than on residents.

One way to compare business burden to residential burden is the property tax rate ratio. This ratio is calculated by dividing the non-residential property tax rate by the residential property tax rate.

2015 Tax Gap Ratios by Type of Municipality

http://www.municipalaffairs.alberta.ca/municipal_financial_statistical_data

Type	Amount in Calculation	Average Tax Gap Ratio
City	17	1.8618
Special Municipal District	5	2.1451
Municipal District	64	2.9546
Town	108	1.6276
Village	93	1.5338
Summer Village	51	1.3268
Improvement District	7	1.1046
Special Area	1	1.3613
Total Alberta	**346**	**1.73945**

Property taxes have important implications for economic competitiveness. Businesses and residents are mobile, and can move to lower tax jurisdictions. Of course, taxes are not the only consideration.

Residents and businesses look at what goods and services those taxes go towards and are willing to pay higher taxes for a better provision of those goods and services, resulting in a better quality of life or standard of living or service delivery.

In jurisdictions across Canada, studies have shown various ways in which businesses pay a disproportionate share of the tax burden. This problem is not Alberta's alone and others have tried to solve it. For example, some jurisdictions have opted to recommend a rate ratio cap, effectively preventing the ratio from getting too large. Important lessons can be gleaned from the approach taken in British Columbia.

In 2007, the B.C. Ministry of Community, Sport and Cultural Development changed a section of its Community Charter that laid out how municipalities plan financially. The plan functions much like a budget does for Alberta municipalities. In British Columbia, municipalities adopt a five-year financial plan every year after a public consultation process. The plan must be adopted before the annual property tax bylaw is adopted. It lays out the sources of revenue and the expenditures planned for the year. The change made in 2007 requires municipalities to include the policies and objectives driving municipal revenue and property tax decisions. Concerns about property tax equity between non-residential and residential ratepayers motivated the change.

Explicitly considering policies and objectives has at least three benefits: it enhances financial transparency, accountability, and prudence. Setting out objectives in a public document enhances transparency, allowing businesses and other stakeholders to see why a municipality is seeking revenue from those sources. In enhancing transparency, it makes it easier for voters and other concerned interests to hold politicians accountable. Principle-based revenue sourcing encourages prudent decisions that will enhance equity and competitiveness.

There are several well-established principles and policy objectives in the literature for municipalities to consider when designing their revenue sources and property taxes. Some of the most important principles for the business community are: the benefits principle, the ability to pay principle, and the accountability principle.

The first two principles relate to tax equity while the third ensures businesses have a say in municipal finance decisions. The benefits principle argues that the tax burden should be distributed in relation to the benefits received from public expenditures (also known as the user pays principle). Ability to pay means the tax burden should be distributed in relation to the taxpayer's ability to pay and can be viewed from horizontal or vertical perspectives. Taxpayers with similar positions should be treated equally to maximize horizontal equity while taxpayers with different abilities to pay should be treated differently to maximize vertical equity.

Accountability is important for businesses because they have no direct influence in municipal politics. They cannot vote, but are subject to taxation. Municipalities that engage all stakeholders in budget planning and sufficiently report on the collection and expenditure are more accountable to ratepayers (citizens and businesses alike). Enhanced accountability helps ensure ratepayer dollars are prudently spent.

The Alberta Chambers of Commerce recommends the Government of Alberta:

1. Work with business and industry to understand the variety of metrics including, but not limited to, tax-to-assessment ratios, tax share proportions, and burden per unit of assessed value.
2. Amend the Municipal Government Act so that as part of the budgeting process, municipalities create a long-term financial plan.