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High Homeowner Property Taxes in Atlantic Canada

By Will Brooke, Ed Hollett,
David Murrell, and Marco Navarro-Génie

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The Atlantic Institute for Market Studies (AIMS)

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Executive Summary

This paper demonstrates that the percentage of household spending devoted to property taxes has grown much faster in New Brunswick than in any other province. While the average homeowner in New Brunswick pays less property tax than the average Canadian, the percentage of their housing expenses devoted to property taxes has risen to surpass the Canadian average.

This paper shows:

1. The four Atlantic Canadian provinces have seen residential property tax increases outpace the Canadian average since 1981, with a rate of increase significantly faster in New Brunswick.

2. The "real" property tax rate for New Brunswick has risen disproportionately from 1981 onwards, as determined by measuring the rate of inflation in property taxes against gradual increases in the overall cost of living (CPI).

3. Most of the rise in property taxes in Atlantic Canada took place during the 1990s and 2000s, with more modest increases between 2011 and 2016.

4. Property taxes in Atlantic Canada are currently 35 per cent lower than the Canadian average, but this is 15 per cent worse than the 1980s, when Atlantic Canadian property taxes were only 50 per cent of the Canadian average.

5. Average household spending on property taxes increased significantly in New Brunswick since 1981.

In response to these findings we have four primary recommendations. We argue that:

- Municipal governments can lower tax rates when assessments soar, instead of expecting that regular assessment increases will continue to pad their coffers.

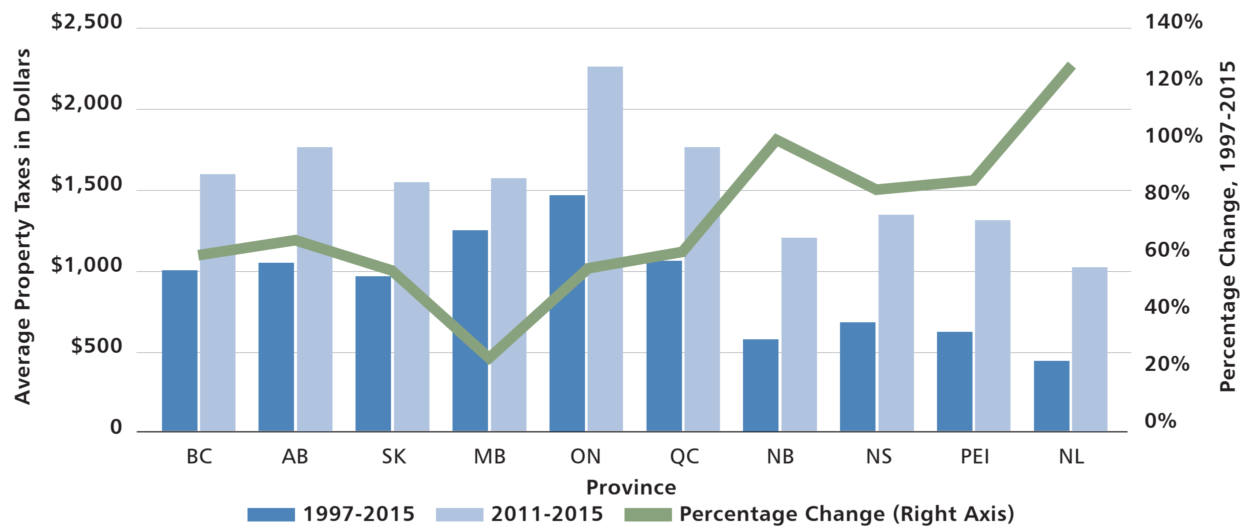
- Fiscal disclosure mechanisms can easily be added to yearly property tax bills, and would increase the transparency, visibility, and understandability of assessment and taxation.

- Assessment caps are an inequitable and regressive approach to tax woes. In particular, caps make home ownership much cheaper for established homeowners with substantial equities or no mortgages, but transfer more tax burden to the less advantaged.

- Statistics Canada has not been diligent enough about collecting comprehensive data for housing markets, property taxes, and local government spending.

Figure 1

Average Property Taxes Paid, by Province, 1997-2015



Introduction

Stability in assessment values and tax rates permits Canadian homeowners to budget a predictable amount of money to pay their annual property tax bills. Consistency in property tax rates is seen as good public policy, and rates are, at least in theory, set to levels that allow municipalities to reliably provide an agreed-upon package of important services to residents. When things are running well, the average Canadian homeowner will enjoy a predictable property tax bill, receive an efficient package of necessary municipal services, and can build their long-term financial plans in expectation of modest year-to-year appreciation in home value.

In early 2017, a large number of New Brunswick homeowners faced steep increases in property tax assessments.[1] Surprised ratepayers received assessment increases of 30 per cent and more[2] without any corresponding decrease in tax rates. Many of these homeowners hadn't made any improvements, many lived in neighbourhoods with little or no housing market activity, and in communities where no new amenities or services had become available.[3] These increases in assessed value were immediately visible to those who saw their tax bills increase by hundreds, and sometimes thousands, of dollars. To date, approximately 18,000 New Brunswick homeowners have appealed their 2017 assessments.[4]

Changes of this kind are visible and dramatic, and deserve investigation and explanation. The government of New Brunswick responded to the glut of assessment appeals and media pressure by commissioning an official investigation, imposing an assessment freeze for 2018,[5] and promising to create or hire an independent agency to carry out future assessments. Service New Brunswick, the provincial Crown corporation currently responsible for property assessment, has responded to questions about errors by citing difficulties in the rollout of a new aerial photography system.

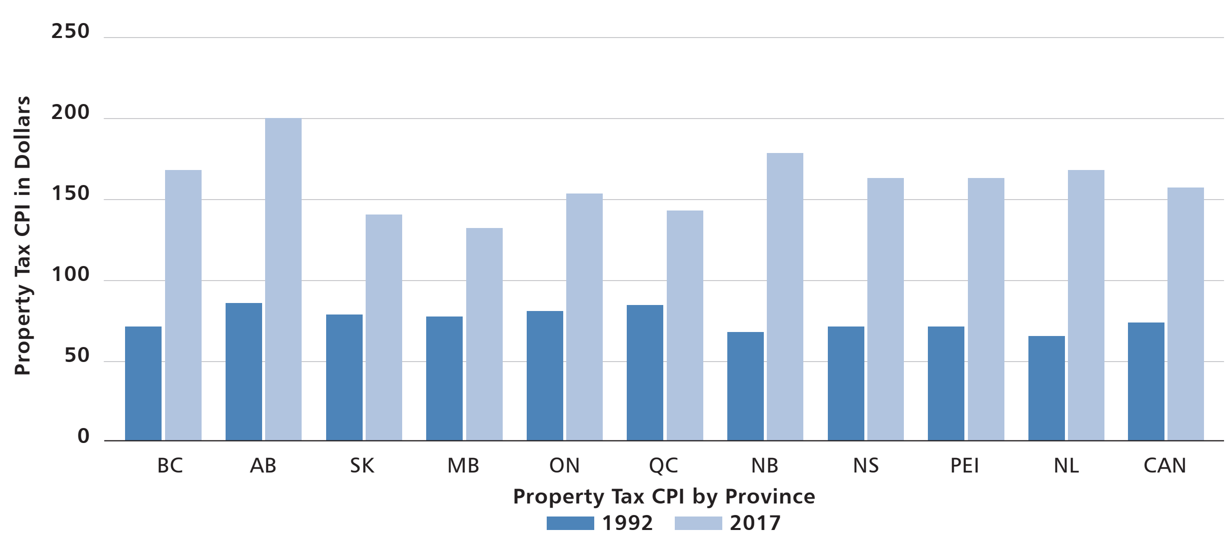
Our own investigation also reveals a serious situation. However, the trouble extends beyond difficulties with computer-assisted assessment errors or the 2017 assessment year. Our findings show that New Brunswick has been subject to disproportionate property tax increases over the last 35 years. These gradual tax increases far exceed the scope of the over-assessments of 2017. In analyzing trends in property taxes across all Canadian provinces from 1981 forward, we found that the percentage of household spending devoted to property taxes has grown faster in New Brunswick than in any other province in Canada, with the rest of the Atlantic Canadian provinces trailing only slightly behind.

Although New Brunswick taxpayers should certainly be concerned about their 2017 assessments, they should be more concerned by the long-term increase in property taxes. The 2017 assessment spikes were dramatic, highly visible, and subject to considerable public commentary. In contrast, the 35-year rise in property taxes in Atlantic Canada has been so incremental as to become all but invisible, except under the lens of analysis. Our analysis makes these long-term trends clear, and provides the following conclusions regarding these data:

1. Homeowners in the four Atlantic Canadian provinces have seen a steady drop in the buying power of their dollar when paying property taxes. This inflation in the homeowner property-tax consumer price index (CPI) means that the average Canadian now needs to spend $156.90 to pay the same property taxes that would have cost $100 in 2002. But this property tax inflation has been much worse in Atlantic Canada, where the figures are $168 for Newfoundland and Labrador, $162.10 for P.E.I., $161.30 for NS, and a whopping $179.30 for New Brunswick.

Figure 2

Property Tax CPI, 1992-2017



2. The general cost of living continues to rise, and the cost of property taxes is rising faster. This is called the real property tax CPI rate, and is calculated by measuring property tax inflation accounting for overall increases in cost of living. This figure has increased for Canada as a whole from 1981 onwards, and the Atlantic Canada provinces, especially New Brunswick, have risen even faster.

3. Most of the rise in property taxes in Atlantic Canada took place during the 1990s and 2000s (with more modest increases during 2011-2016). Three provinces in western Canada have witnessed sharper increases in real property tax inflation during 2011-2016.

4. It may seem as though Atlantic Canadians pay low property taxes compared to the rest of Canada, and they currently pay about two-thirds of the Canadian average. But back in the 1980s, Atlantic Canadians only paid half of the Canadian average.

5. The per cent of owner-occupied shelter expenses devoted to property taxes has remained roughly constant at the country-wide level from 1981 onwards. But, for 2011-2015, the effective tax rates in Prince Edward Island (22.5 per cent) and New Brunswick (21.2 per cent) surpass that of Canada as a whole (21 per cent). This is surprising, since these two Maritime Provinces have the lowest per-capita incomes relative to the eight other provinces.

The New Brunswick Auditor General's investigation into the property assessment errors of 2017 concluded that managers at Service New Brunswick were too hasty in implementing their new assessment system. This system used low-flying airplanes to take pictures of properties, and then used algorithms to convert the captured images into property assessments. The Auditor General also concluded that Service New Brunswick should retain responsibility for property assessment, and made recommendations to improve the future system. It is a credit to their efforts that more than 10,000 of the 18,000 homeowners who appealed their 2017 assessments have received assessment reversals.[6]

However, homeowners in New Brunswick should not be satisfied with reversed assessments or the promise of fewer errors in the future. Reversals and promises can do little more than restore a perception of stability in assessment and taxation. They will not address the long-term increases in property taxes that Atlantic Canadians have faced, nor will they reduce the percentage of their household expenditures devoted to shelter costs. Instead, taxpayers need to avoid complacency, become more aware of the assessment and taxation processes, and hold their public officials to account to provide agreed-upon services effectively and efficiently. Municipal governments need to lower tax rates when assessments soar, instead of becoming complacent and expecting regular property assessment increases to pad their coffers. We also recommend the consideration of fiscal disclosure measures, and recommend against assessment caps.

Our conclusions should not only be of concern to homeowners, but also to provincial and municipal governments in Atlantic Canada. Year after year, various data show that the price of housing in Atlantic Canada, and especially in the Maritime Provinces, constitutes a kind of competitive advantage in attracting new people to the region, and in persuading exile citizens to return. Our conclusions are therefore crucially important because municipalities and provinces indirectly work against their own efforts to attract and retain residents by allowing property taxes to grow at such disproportionate rates.

A Brief Description of Property Taxes, and Changes to Property Taxes, in Atlantic Canada

We focus on examining homeowner property taxes in Atlantic Canada. Our concern is owner-occupied housing, and we exclude rental and commercial properties for reasons of data integrity. Within our scope of consideration, there exists a wide variety of differences in taxation and assessment that are of import to the Atlantic Canadian homeowner and taxpayer. This section will provide the reader with a province-by-province briefing on differences in property assessment and taxation in Atlantic Canada.

Provincial and municipal governments may impose and collect property taxes, although not all provinces levy property taxes. At the provincial level, property taxes are most commonly used to pay for education, and to a lesser extent, correctional, assessment, and housing services. Municipal property taxes typically fund a package of local services such as fire protection, police, water and sewer service, and road maintenance (Table 8). Property taxes provide the bulk of capital and operating expenses for most local and municipal governments in Atlantic Canada.[7] Most municipal councils across Atlantic Canada determine the yearly cost of providing a full package of services to residents, and then divide the total bill for those services among taxpayers.

Property assessments serve as an *ad valorem* proxy to determine who among us should carry a bigger or smaller share of the total bill for municipal services. Taxpayers who own more property of a higher value will carry more of the tax burden than those with property of low value, or those with no property at all. The determination of how much each individual homeowner pays in property tax is calculated by multiplying the assessed value of land and buildings against the tax rate set by local administrators. Examples of these will be discussed for each province.

We are particularly concerned with explaining the trend of rising taxes in Atlantic Canada. Broadly speaking, homeowners in the region can see their property taxes increase in three ways. First, a local government may increase the tax rate on owner-occupied housing. After debating and deciding on the proper package of services to provide to citizens, a municipal council will conclude its annual budget process by setting a tax rate that allows it to collect enough revenue to cover its expenditures. Sometimes, providing this package of desired services requires an increased amount of money from the previous year. This can result in councils raising the tax rate, holding assessment and market values steady.

Second, property taxes can increase if the market value of housing increases, holding tax rates constant. Market value is defined as the sale price of a property "in the open market by a willing seller to a willing buyer,"[8] where both parties have full knowledge of all relevant facts. When unpacked, the price a person is willing to pay is the result of many complex considerations, typically including the weighing of many personal preferences. Housing options that satisfy more of these criteria will be preferable to buyers, and when demand drives property value up in desirable neighbourhoods, more property taxes will be collected, even if politicians don't raise the tax rate.

Finally, property taxes can increase when the assessed value of housing increases, holding tax rates and market value constant. Elected officials will sometimes announce "tax freezes", but elected representatives are only freezing the tax rate, not assessment values; property taxes will go up if the assessment value goes up, even if the tax rate doesn't. This is particularly important in the case of New Brunswick, as the present controversy concerning property taxes does not centrally involve an increase in the tax rate, but increases in the assessed value of properties.

To illustrate this point, consider that the total amount of property taxes collected by the three largest municipalities in New Brunswick (Moncton, Fredericton, and Saint John) increased from $83M in 2002 to $196.2M in 2016.[9] This 136.42 per cent increase in property tax revenue is not the result of increasing tax rates: homeowners in Moncton, Fredericton, and Saint John only saw their residential municipal property tax rates increase by an average of 2.54 per cent from 2002 to 2016.[10] Instead, the increases are due to the change in the assessed value of homes in these three cities, which grew by 130.55 per cent over the same period of time.[11]

Careful readers will note that it is difficult to tell if assessments accurately reflect true market value, and that assessment values frequently deviate from actual sale prices. Assessment agencies attempt to approximate the complex preferences of buyers and sellers, but in doing so resort to easily quantified metrics. Examples of appraisal techniques include area-based assessments, which are calculated using the finished square footage of a building and property lot size; cost-based assessments, which estimate how much it would cost to construct a replacement building; and comparison-based assessments, which look at sale prices for similar properties.

A. Newfoundland and Labrador

There are currently 276 municipalities in Newfoundland and Labrador with incorporated status, comprising 89 per cent of the province's population.[12] Some 50,000 citizens of Newfoundland and Labrador live in unincorporated areas, paying no property taxes,[13] and receiving no municipal services. Tax rates are referred to as "mill rates" in Newfoundland and Labrador, from the Latin mille, for thousand, and are accordingly calculated per $1,000 of assessed value. The current rate in St. John's is 7.3 "mils," or $7.3 of tax per $1,000 of assessed value. Mill rates elsewhere in Newfoundland are similar, with a mill rate of $7.5 in Corner Brook, $7.15 in Conception Bay-South, and $7.75 in Grand Falls-Windsor.

In Newfoundland and Labrador, incorporated municipalities have legal authority[14] to collect property taxes based on the actual market value[15] of a property.[16] Local assessors are responsible[17] for these duties in the City of St. John's,[18] but properties in all other municipalities in the province are assessed by the Municipal Assessment Agency (MAA). The MAA is a provincial Crown corporation, and was created in 1997. Although the MAA issues assessment notices annually, reassessments are only conducted every three years. The MAA is governed by a board including taxpayers, municipal representatives, and representation from the provincial government.[19]

B. Prince Edward Island

Assessment and taxation were local functions in Prince Edward Island until 1972, when the *Real Property Tax Act* came into effect. The provincial government assumed responsibility for assessment and taxation through this act, and administers these functions through the Real Property Services section of the P.E.I. Department of Finance. A provincial property tax rate of $1.50 per $100 of assessed value ($1/$100 for residents of P.E.I.) has been in place since 1975. Legislation permits P.E.I.'s 73 municipalities to set an additional municipal property tax,[20] which varies year-to-year by municipality, ranging from a current low of five cents per $100 of assessed value in the Municipality of Hampshire to a high of 92 cents/$100 in the Municipality of Summerside. The provincial government collects municipal property taxes along with the provincial property tax, and the municipal portion is returned to the municipality.

The provincial government issues two annual assessments for each residential property, distinguishing between the market value of the property and its "taxable assessed value". Year-to-year changes in the taxable assessed value are generally limited to upward movement of cost of living, measured using the provincial CPI, with a hard cap at five per cent per year,[21] or to assessed increases resulting from objective improvements that have been made to the property. The distinction between market and taxable values is particularly important in the case of owner-occupied residences in P.E.I., where the lower rate is paid. In contrast, rental properties are taxed at market value, which can be subject to significant year-to-year increases depending on levels of foreign interest in the P.E.I. housing market. Assessed taxable values are adjusted to reflect the market value when a property is sold.

C. Nova Scotia

The Property Valuation Services Corporation (PVSC) is responsible for assessing property values in Nova Scotia. PVSC was created by legislative act in 2007[22] and officially assumed responsibility for valuation in 2008, absorbing the personnel and assets of the Assessment Services Divisions of Service Nova Scotia and Municipal Relations.[23] The PVSC is a not-for-profit entity collectively owned and governed by Nova Scotian municipalities. PVSC board members include elected and administrative representatives from rural, town, and regional municipalities across Nova Scotia.[24]

PVSC annually provides market-value assessments for all properties in Nova Scotia.[25] However, market value and taxable assessed value sometimes differ as a result of the Capped Assessment Program (CAP), introduced by legislation in Nova Scotia in 2004, retroactive to 2001, and reviewed in 2007 and 2010. This program uses the Nova Scotia CPI as an index to limit increases in the taxable assessed value for residential properties, with the exception of home improvements.[26] Due to a variety of factors, the market value of a given property may increase suddenly and significantly, and if this increase exceeds the Nova Scotia CPI, PVSC is obligated to provide two assessment figures. In such cases, PVSC must supply (a) the market-value assessment for the property, as well as (b) a separate, capped assessment value for the purposes of taxation.[27] This second value is to be used by municipal governments to calculate taxes for a given property.

Nova Scotia comprises 50 different municipal governments, each of which sets tax rates and collects taxes based on the taxable assessed value established by PVSC. A large percentage of municipal revenue in Nova Scotia is dependent on residential property tax. Accordingly, a great degree of variance is observable in residential tax rates across Nova Scotian municipalities, ranging from a low of 61 cents per $100 of assessed value in the Municipality of Guysborough to a high of $2.31/$100 in the Town of Lockeport.[28]

D. New Brunswick

Service New Brunswick (SNB) is a Crown corporation responsible for property assessment in New Brunswick.[29] SNB produces assessments annually and aims to estimate the market value of residences by analyzing local sales data and computer-assisted mass appraisal (CAMA) techniques. There is a provincial property tax in New Brunswick, currently set at $1.3373 per $100 of property valuation, with 100 per cent rebates for owner-occupied residential properties.[30] Each municipality is also permitted to set its own residential tax rate.[31] Municipal tax rates range throughout New Brunswick's 104 municipal units from a low of 93.45 cents per $100 of property valuation in Salisbury to a high of $1.7850/$100 in Saint John.[32]

New Brunswick residents expressed concern with high levels of property tax in 2010, and the government launched a series of consultations to determine how to address the issue. A three per cent annual cap on assessment increases was implemented during this consultation process, lasting from 2011 through 2012. A key concern was large spikes in assessment values for homes where no capital improvements had been made. New Brunswick has roughly 460,000 separate properties, but only 100 assessors. Despite preparing yearly assessments based on local market-value sales, limited personnel meant that physical re-inspection of a property often only occurred every 10 to 15 years.[33] Large spikes often occurred during re-inspection years, with more modest increases in years between re-inspections.

In 2013, the government of New Brunswick implemented a spike protection mechanism, which allows assessment increases exceeding 10 per cent to be phased in over several years. More recently, they have also attempted to use automated valuation models (AVMs) and pictometry to increase the number of properties that are inspected each year. In theory, more frequent re-inspection should reduce the severity of assessment spikes, but it appears the implementation of the AVM system may have been rushed, resulting in a number of errors. One hundred thousand inspections were conducted for the 2017 assessment year using the new system, which constitutes a significant increase over previous years. But internal documents leaked to the media indicate that these assessments were 36 times more likely to overestimate true market value,[34] and a preliminary reassessment of a sample of 1,868 homes found that 1,556 homes, or roughly 83 per cent, had been overvalued, with a total over-assessment of $52.2 million. Only 43 of the 1,868 had been undervalued, by a margin of $1.2 million.[35]

A Discussion of Property Tax Increases, with an Emphasis on Property Taxes in Atlantic Canada

The magnitude of the property tax increases faced by Atlantic Canadians can be clarified through comparison with the rest of Canada.[36] For the average Canadian homeowner, a typical annual property tax payment rose from $1,182 to $1,900 between 1997 and 2015. If we measure increases in property taxes using the property tax CPI, the increase across the country amounts to almost 57 per cent in 15 years. And when we compare that rate of increase in property taxes against the all-items CPI, we find property taxes are growing 15.9 per cent more quickly than the overall increase in the Canadian cost of living.

Comparing these Canada-wide figures to Newfoundland and Labrador begins to paint a picture of the increases Atlantic Canadians face. In 2015, the average property tax payment for a Newfoundland homeowner was $1,031. This probably sounds like a bargain, because it only amounts to a little over half, or 54 per cent, of the Canadian average of $1,900. But consider how much this has changed since 1997, when the average Newfoundlander only paid an average of $456 per year for property tax. The difference amounts to a 126.10 per cent change, which means that property taxes have more than doubled for the average Newfoundland and Labrador homeowner between 1997 and 2015.

The rate of change has not been quite as drastic in Prince Edward Island, but has still outpaced the Canadian average. In 1997, the average Prince Edward Island homeowner paid $682 per year for property taxes. This figure nearly doubled by 2015, when the average property tax bill increased to $1,287, a change amounting to 88.71 per cent. Statistics show that homeowners on the Island have had to devote a growing percentage of their housing expenses to property taxes, increasing from 18.5 per cent in 1997 to 22.5 per cent in 2016, which is second highest in the country after Quebec. This is curious, because property values on the Island remain far below the Canadian average.

Nova Scotia has seen the slowest property tax increases among the four Atlantic Provinces. The average Nova Scotian homeowner paid $714 per year for property taxes in 1997, a figure which increased to $1,329 by 2015. This change amounts to an 86.13 per cent increase. This is slightly behind the 88.71 per cent figure seen in Prince Edward Island, but still outpaces the country-wide rate of growth. During the 38 years under observation in our study, Nova Scotia's real property tax CPI grew at 36.3 per cent, which is marginally higher than the 36 per cent Canada-wide growth rate. This result is surprising, given Nova Scotia's slow-growth economy, interprovincial outmigration, and low land prices.

New Brunswick has posted the sharpest increases in property taxes of any of the four Atlantic Canada provinces, and of any province in Canada. Over the past 38 years, New Brunswick's real property tax rate grew by over 96 percentage points, the highest growth rate of the 10 provinces and well above the 36 per cent long-run growth rate recorded by Canada as a whole. By 2015, the average per-household property tax payment was $1,212 in New Brunswick. This may seem like a deal for New Brunswickers, because $1,212 is only 64 per cent of the Canadian average of $1,900. However, when we look back to 1997, the reality is that New Brunswickers only paid an average of $601 of property taxes. At that time, this was only 50.08 per cent of the country-wide average of $1,182. In the interceding years, the average amount of property taxes paid in New Brunswick has increased by 101.66 per cent, while the Canadian average has only increased 60.32 per cent.

The property tax increases Atlantic Canadians face are surprising. The Atlantic Provinces have slow economies, high outmigration, and housing markets with values far lower, on average, than those across the rest of the country. It is true that homeowners in provinces such as Ontario, Quebec, B.C., and Alberta pay more property taxes than Atlantic Canadians. But in each case, property taxes in these provinces are based on higher average home values, which are in turn sustained by more robust economies and population growth. Atlantic Canada used to be able to offer potential homebuyers a comparative advantage in the cost of housing, but as property taxes continue to rise at rates surpassing the Canadian average, this advantage disappears.

Summary and Recommendations

In an effort to understand better increasing property taxes in Atlantic Canada, we reviewed municipal financial reports for all New Brunswick municipalities between 2002 and 2016. Although it is clear that property tax revenues are increasing, the reasons for this change are not entirely clear, and to our knowledge, no study comprehensively explains the reasons for this change.

There is one study that suggests that a decline in the number of provincial grants has forced New Brunswick municipalities to increase property tax rates.[37] It is true that grants accounted for 14.96 per cent of municipal revenues across New Brunswick in 2002, a total that dropped to 7.72 per cent by 2016. And the average tax rate in New Brunswick did increase through this period, moving from an average rate of \$1.4585 (2002) to \$1.5303 (2016) per \$100 of assessed value. The authors of the study mentioned are correct in observing that a decrease in grants has correlated with an increase in the tax rate. However, this increase in the average tax rate is small, and only amounts to a 4.92 per cent increase over what is nearly a 15-year period.

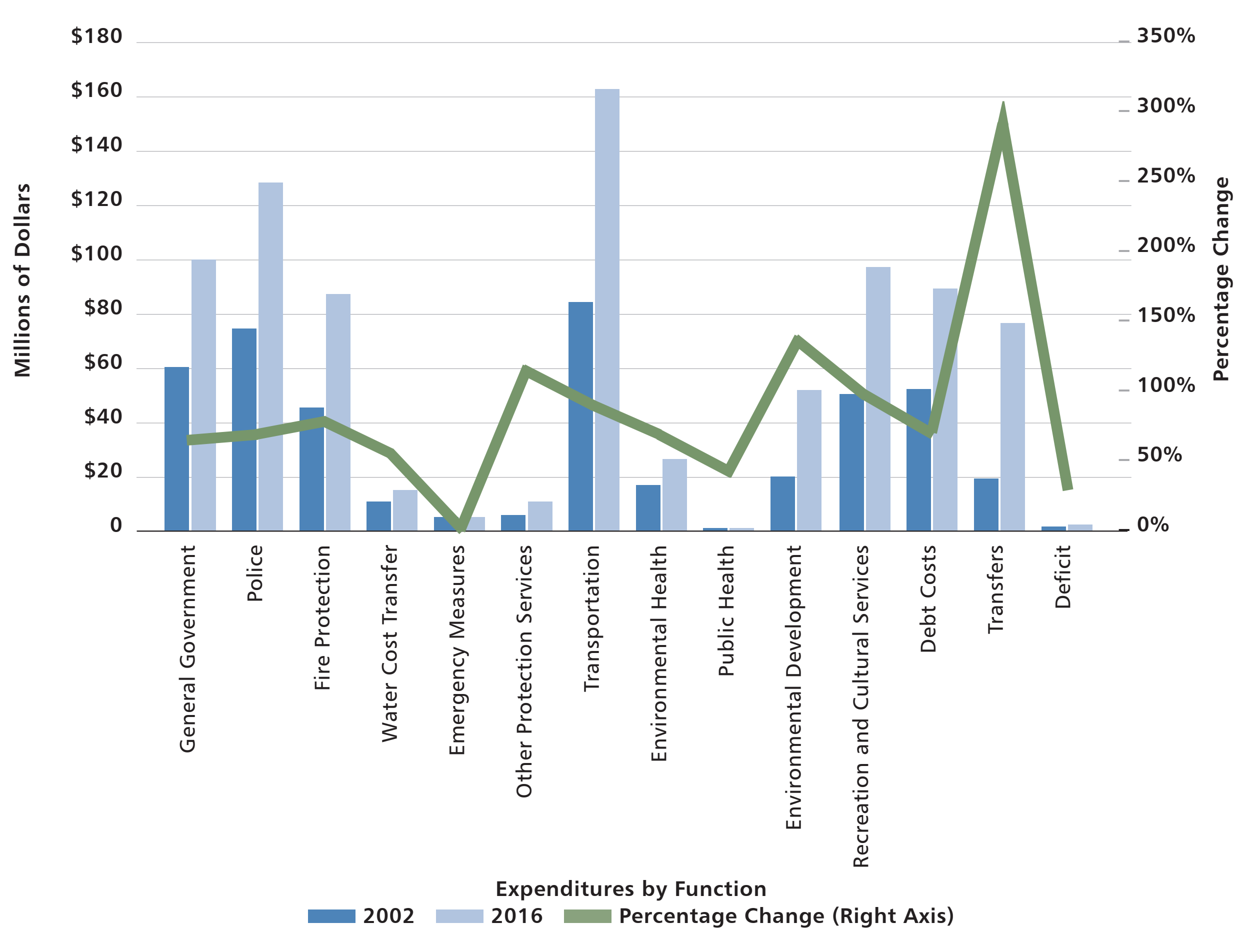
For perspective, consider that during this same period, the revenues of New Brunswick's 104 municipalities increased by an average of 131.75 per cent. It is clear to us that these increases in revenues are too large to be explained by the comparatively minuscule changes observed in grants or tax rates. Instead, our research shows the driving force behind rising property taxes to be the soaring assessment value of residential properties in New Brunswick, which increased by 120.87 per cent, skyrocketing from \$12.68 billion in 2002 to \$28.01 billion in 2016 (Table 7).

Having identified rising assessments as the primary driver of property tax increases, we became interested in investigating municipal budgets in an effort to see where the tax revenues were going. Our research shows overall municipal spending in New Brunswick to have increased by 89.84 per cent between 2002 and 2016, rising from \$448.2 million to \$850.9 million. During this time, the cost of most municipal government services in New Brunswick increased faster than the Canada-wide CPI. The Canadian CPI grew 28.4 per cent between 2002 and 2016, but the cost of police service across New Brunswick municipalities grew by 71.99 per cent (2.5 times CPI), fire protection services by 79.77 per cent (2.8 times CPI), transportation services by 89.93 per cent (3.16 times CPI), and general government administrative services by 66.28 per cent (2.33 times CPI).

We looked to see if there were any glaring differences in the composition of average municipal budgets between 2002 and 2016, and found that most government services accounted for a fairly consistent amount of budget space. For instance, fire protection accounted for 10.79 per cent of municipal budgets across New Brunswick in 2002, and 10.22 per cent in 2016. There was one notable exception, however, in transfers, which increased by 295.82 per cent. The amount of funds devoted to transfers in New Brunswick rose from $19.6 million in 2002 to $77.7 million in 2016. In 2002, transfers constituted only 4.38 per cent of municipal budgets, and roughly doubled in percentile share by 2016, when transfers made up 9.13 per cent of municipal budgets. No other municipal expense changed as drastically when considered in proportion to the whole.

Figure 3

Average New Brunswick Municipal Expenditures, 2002-2016



Although it is simple enough to identify transfers as a major point of change, further analysis is difficult. Under New Brunswick's municipal finance regulations, "transfers" is a broad reporting term that potentially includes a number of activities.[38] Transfers most commonly refer to funds that have been transferred into operating reserves and capital reserves,[39] where they can accrue interest and be held in anticipation of the replacement of capital assets and plans for new infrastructure. These financial maneuvers are perfectly legal, and reserve funds are an excellent way for municipalities to prepare for thinner years of financial hardship.

Regardless of how municipalities are spending property tax revenues, it seems worthwhile to ask why assessment values have been rising. Given interprovincial out-migration from the region (and given little international in-migration into the region), there is little or no net positive family formation. Broadly speaking, home property values also remain low. For instance, in New Brunswick, the Canadian Real Estate Association (CREA) reports that rented and owner-occupied homes averaged around $150,000 each for 2015, far lower than the $450,000 average for Canada as a whole.

Finally, although this study focuses solely on owner-occupied properties, governments collect property levies on rental properties and other businesses as well. A number of studies have found that jurisdictions compete for businesses by offering competitive tax rates for prospective firms.[40] In this study we have shown that Atlantic Canadian provinces have hiked owner-occupied residential property taxes at a faster rate than other provinces, and it is worthwhile to speculate that such property tax hikes have also hit the business sector as well. Property tax rate hikes against businesses would make the region less attractive for prospective businesses.[41]

Recommendations

1) Municipal governments can lower tax rates when assessments soar, instead of becoming complacent and expecting regular property assessment increases to pad their coffers.

The cost of municipal services in New Brunswick has increased at more than double the rate of the general cost of living, at least as measured by the all-items CPI. But why is this so? Did New Brunswick taxpayers knock down the doors of their city halls demanding huge improvements to services, such that municipal expenditures needed to double the pace of the CPI? Or, given what may seem like an endless stream of property tax revenues, do mayors, councillors, and senior municipal administrators simply hand individual departments whatever they want, year after year?

The bulk of municipal services are paid for with property tax revenues, and we have shown property tax assessment increases to be the largest single contributor to rising property taxes. While it is true that no municipal government in Atlantic Canada is responsible for assessment increases, it is worth emphasizing that every municipality is entirely responsible for setting tax rates.

We recommend that municipalities lower their tax rates when assessments increase.

We recommend that municipalities learn to collect and manage a similar amount of money each year. We think municipalities should avoid complacency, and we do not think it is reasonable or sustainable for municipal governments to anticipate that revenues and spending can continue to grow twice as fast as the CPI. Instead of this current status quo, we recommend that municipalities find creative ways to make ends meet with a more limited amount of money.

Municipal governments should visualize what it would look like to retreat to providing a package of essential services to which the electorate has consented. We recommend that councillors exercise caution in making commitments to spending: councillors should try to refrain from selling residents on amenities or services that can't be affordably maintained, and do their best to avoid being pushed into supporting such services by persuasive or powerful citizens.

We recommend that councillors use their votes to give citizens only those services that are needed, and only when voters directly consent to those services. Consent needs to be a part of a recursive process, a continuous feedback loop that is always being monitored. As a part of this feedback loop, citizens need to demand value in services at the municipal level by requesting that their local councillors remove unneeded services, and push for frugality and efficiency in those services that are essential.

2) Municipal councils should consider and implement fiscal disclosure methods to make the assessment and tax process more visible and transparent.

As we saw earlier, homeowners can see their property taxes rise during a tax freeze if their assessment values increase. In regions with rising assessments, elected officials can essentially plan for increases in total property tax revenue without ever touching the tax rate, and duck any responsibility for increased tax revenue by pointing fingers at the assessors.

Taxpayers need to hold government agencies to account to fulfil necessary functions effectively and efficiently. In order for this to happen, taxpayers cannot be confused about which agency does what, or why. Consider, as an example, one report that shows that some residents of Atlantic Canada think that assessments are inflated to meet the budgetary needs of local governments: "Town councils inform the Assessment Agency of their financial picture before assessments are started so that the assessed values will be what is required."[42] This is a clear misunderstanding of the assessment process: assessments measure the value of a property, not how much money government needs.

People cannot command any authority in holding their public service to account if they fail to understand how a given system works. The point here is not merely academic: consider that, in its investigation of the 2017 assessment spikes in New Brunswick, the CBC has published news articles detailing internal documents obtained from Service New Brunswick that show managers directing employees to inflate assessments to ensure sufficient tax revenue for municipalities.[43] If these reports are true, outrageous maladministration has occurred, and the persons responsible should be held accountable for their actions. But it is problematic that, as our example shows, at least part of the public won't know why it should be outraged.

To remedy these problems we recommend that municipal administrators and councils consider implementing one of the many different fiscal disclosure methods. Doing so will reduce taxpayer confusion, reduce the possibility for politicians to evade responsibility for increasing property taxes, and stabilize tax rate hikes, all while using the same administrative staff and system with which tax bills are now issued.

These initiatives are known as "truth in taxation" in the United States,[44] and some Canadian cities such as Toronto, Ottawa, and Calgary have also made fiscal disclosure efforts. Toronto, for example, describes reassessment as "revenue-neutral"[45] and has passed legislation requiring that tax rates be lowered when assessments rise. Municipalities with these systems in place are obligated, by default, to collect the same total amount of property tax revenue from one year to the next, regardless of assessment changes. Tax rates can still be raised, but fiscal disclosure methods ensure that these rate hikes are highly visible to taxpayers. There are pitfalls to be avoided with different fiscal disclosure methods,[46] but studies show that they have been successful in stabilizing property tax rates in regions with increasing assessment values.[47]

3) Don't implement an assessment cap.

A concerned and interested Atlantic Canadian homeowner reading this paper could be forgiven for thinking an assessment cap is a solution to his or her tax woes. Assessment caps might seem like a useful regulatory tool from a welfare economics perspective: increased market values result in higher taxes, and these increased market values therefore make it harder for less fortunate Atlantic Canadians to buy or keep their own homes. In this case, a welfare economist might say the market has failed to produce an efficient or equitable state of affairs, and argue that it is the job of economic regulation to fix the issue by placing limits on market value in the form of assessment caps. Indeed, the governments of Prince Edward Island and Nova Scotia introduced and justified assessment caps as measures to provide tax relief[48] for persons on fixed or limited incomes, and to protect homeowners from "sudden and dramatic increases in property assessments".[49]

The problem is that assessment caps don't help those who are less advantaged. In fact, the contrary is true: in multiple jurisdictions, assessment caps have been shown to be most effective in reducing the amount of taxes paid by those who own high-valued homes, and end up transferring more and more of the tax burden to persons who own homes of lesser value.[50] Property taxes should be regarded as inequitable and regressive because taxation is based on the value of a property, not the owner's equity. And lower-income families – especially younger families – pay a greater proportion of their incomes on property taxes than higher-income families.[51] Capping only serves to exacerbate these inequities, and this should be viewed as a particular concern in Atlantic Canada. We have shown that property taxes have risen more quickly here than anywhere else in Canada, and the burden of increases has fallen disproportionately on lower-income households.

Finally, market values contain and summarize a tremendous amount of complex information, including local market details and buyer preferences. Using an assessment cap to regulate changes in valuation makes it more difficult for homeowners and taxpayers to evaluate rationally the worth of their holdings. Decisions based on incorrect valuation may also impact local authorities' ability to plan accurately and responsibly for the future. In provinces where a cap is currently in place, researchers recommend a phase-out procedure.

4) Statistics Canada needs to collect better data.

Our review of property tax data is hampered by a shortage of housing price statistics, which makes calculating true property tax rates (i.e., taxes paid divided by true home values) difficult to accomplish. Ideally, comparison and analysis of property tax rates across Canada would use the actual value of homes as an input. CREA releases provincial housing values, but these data include rental properties. In contrast, Statistics Canada primarily publishes data about owner-occupied homes, with little information about rental properties, an asymmetry which necessitated our exclusion of CREA data.

Within the property tax data sets from Statistics Canada, however, one finds fragmentation, with some sets being discontinued, and others having varying start dates and irregularity in collection.

Statistics Canada publishes new house construction and house permit statistics on a monthly basis, and releases yearly estimates of the value of homes, by province and across Canada. But such information, while useful, lacks a key input value: the value of land. This gap is surprising, given that Canada's housing bubble has been such a well-known policy problem,[52] and considering that Statistics Canada has a mandate to collect data to facilitate the evaluation of pertinent policy issues.[53]

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Available online:

Appendix A: Discussion of Data Sources, Definitions, and Data Construction Methodology

Appendix B: On the Use of "Owner-Occupied Principal Residence" Data

Endnotes

1. R. Jones, 2017a.
2. *Ibid.,* 2017c.
3. *Ibid.,* 2017h.
4. *Ibid.,* 2017g.
5. *Ibid.,* 2017f.
6. J. Pointras, 2017b.
7. There are notable exceptions to this, such as Guysborough County in Nova Scotia, where the capital and operating expenditures are primarily covered by income generated by activity in the energy sector.
8. *Assessment Act,* RSNS 1989, c.23. s.42(1). Similar definitions are stipulated in the other three Atlantic Canadian jurisdictions. A similar definition is offered by the International Association of Assessing Officers (IAAO), which defines market value as "the most probable price (in terms of money) which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus" (IAAO 2017, 101).
9. New Brunswick, Department of Environment and Local Government, 2002; New Brunswick, Department of Environment and Local Government, 2016. As a reference, the all-items (national) CPI increased by 28.4 per cent during the 2002-2016 period (2002 = 100; 2016 = 128.4).
10. *Ibid.,* Between 2002 and 2016, the municipal property tax rates for Fredericton, Moncton, and Saint John grew from an average rate of $1.5754 to an average rate of $1.6155 per $100 of assessed value. 2016 is the most recent report available.
11. Ibid., Between 2002 and 2016, the combined assessment value of residential properties in Fredericton, Moncton, and Saint John grew from $5.26 billion to $12.14 billion.
12. Municipalities Newfoundland and Labrador, 2017.
13. CBC News, 2013.
14. *Municipalities Act,* SNL 1999, c. M – 24, s. 112.
15. Municipal Assessment Agency, 2015.
16. *Assessment Act,* 2006, SNL 2006, c. A – 18.1.
17. *City of St. John's Municipal Taxation Act,* SNL 2006, c. C – 17.1.
18. *City of St. John's Act,* SNL 2006, c. C – 17.
19. Municipal Assessment Agency, 2017.
20. *Real Property Tax Act,* RSPEI 1988, c. R – 5, s.8(1).
21. *Real Property Assessment Act,* RSPEI 1988, c. R – 4, s.9.2(4).
22. *Property Valuation Services Corporation Act,* SNS 2006, c. 19.
23. Property Valuation Services Corporation, 2007.
24. *Ibid.*
25. *Assessment Act,* RSNS c. 23. s.45.
26. *Ibid.,* s.45A(1)(d).
27. Capped values apply to approximately 370,000 properties across Nova Scotia, out of a possible total of approximately 650,000 properties.

28. Nova Scotia, Department of Municipal Affairs, 2016.
29. *Assessment Act,* RSNB 1973, c. A – 14, s 2(1).
30. *Real Property Tax Act,* RSNB 1973, c. R – 2, s5(1).
31. *Municipalities Act,* RSNB 1973, c. M – 22, s.19(9)(c).
32. New Brunswick, Department of Environment and Local Government, 2014.
33. New Brunswick, Office of the Premier, 2017.
34. Jones, 2017d.
35. *Ibid.,* 2017e.
36. Readers are encouraged to examine measures of these increases found in tables 1-6 at the end of the paper.
37. Brett and Tardif, 2008.
38. NB Reg. 145/97.
39. In addition to reserves, transfers may also include payment of capital expenses using monies from the operating fund, expenses related to payments in lieu of property taxes, and funding of unrecorded liabilities, such as monies devoted to pensions or sick leave. Municipal councils are responsible for deciding to use operating funds to pay capital expenses. Expenses related to payments in lieu of property taxes (PILT) concern tax-exempt properties, usually those owned by government branches. Expenses related to the funding of unrecorded liabilities pertain to the 2012 adoption of Public Sector Accounting (PSA) standards, which allow New Brunswick municipalities seven years to fund previously unrecorded liabilities, starting from a 2013 date. All previously unrecorded liabilities should be accounted for by 2020.
40. Tassonyi *et al.,* 2008.
41. Found *et al.,* 2013.
42. Municipal Assessment Agency, 2015.
43. Jones, 2017b.
44. McLaughlin and Rivenbark, 2009.
45. City of Toronto, 2014.
46. Milke, 2016.
47. Cornia and Walters, 2006.
48. Prince Edward Island, 2011.
49. Nova Scotia, 2017.
50. Union of Nova Scotia Municipalities, 2011. See also Haveman and Sexton, 2009.
51. Chu and Murrell, 2009.
52. Hasselback, 2017.
53. Statistics Canada, 2017.

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