

CTF PROPERTY TAX BACKGROUNDER

“Our assessment went up 27%... our house is 14 feet wide... What a rip-off! What a tax grab!”

- Donna Schurman, taxpayer in the Yonge-Lawrence area of Toronto, quoted in “Retirees’ bungalow assessed at \$1 million”, *National Post*, October 24, 2005, A8.

“I am a pensioner, a recent widow, I live on \$2000 a month. I worked hard for my home and the improvements we completed on it. Last year’s assessment was \$141,000, this year’s assessment is \$178,000.00... How does the government expect pensioners to keep up with house taxes? I am terrified I will loose (sic) this home due to taxes.”

- Virginia Oakley, municipality of Amelisburg, in an e-mail sent to the Canadian Taxpayers Federation, October 26, 2005.

“The real problem lies with the very idea of current value assessment. It does not do what it is meant to do. It should be junked.”

- Thomas Walkom, “Property tax assessments detached from reality,” *Toronto Star*, October 22, 2005, F2.

The current system of property taxation in Ontario is not working for taxpayers. Assessments are rising, tax bills are skyrocketing, and taxpayer outrage is mounting. Last year there were 210,000 complaints to the Municipal Property Assessment Corporation, up 30% over the previous year.¹ The situation is so grave that on October 17, 2005, provincial Ombudsman André Marin announced an investigation into whether the Municipal Property Assessment Corporation’s (MPAC) process for valuing properties in Ontario is fair and transparent. While the CTF applauds the Ombudsman’s efforts, the investigation will not be complete unless it addresses the root cause of property taxpayers’ woes: the system of current value assessment (CVA) itself.

The Canadian Taxpayers Federation (CTF) is working to put this issue on the legislative agenda and give a voice to taxpayers across the province who are suffering under the current system. There is a growing call for change – yet provincial politicians remain silent. This situation cannot continue. Our elected officials must respond to the millions of Ontarians affected by the inequities of the current system – and they should not wait until the next provincial election to do so.

¹ Thomas Walkom, “Property tax assessments detached from reality,” *Toronto Star*, October 22, 2005, F2.

THE CURRENT SITUATION

According to Statistics Canada, Ontarians pay the highest property taxes of all Canadians.² While this is partly due to provincial downloading of social services onto the property tax base, it is also exacerbated by the present CVA system.

Total Per Capita Municipal Property Taxes by Province

Year	NL	PEI	NS	NB	PQ	ON	MB	SK	AB	BC	Canada
2000	356	258	740	436	893	900	522	528	733	640	791
2001	397	272	776	456	857	937	503	572	814	676	813
2002	425	292	824	488	881	946	524	604	814	706	832
2003	452	309	846	509	886	964	533	625	818	730	847

Source: Statistics Canada – Public Sector Finance Database

CVA is creating a number of problems for Ontario property taxpayers. First, in a time of rising property values, CVA propagates unpredictability and volatility in the property tax system. In many cases, Ontario taxpayers are seeing their assessments rise by double digits, and their property tax bills along with them.³ Ontarians on fixed incomes, including senior citizens, are particularly hard hit. Ontario is currently home to about 1.5 million seniors – 40 percent of Canada’s seniors. By 2028, the number of senior citizens in Ontario is expected to double, to 3 million.⁴ In a booming real estate market, CVA is a recipe for forcing seniors and other people on fixed income out of their homes.

Second, CVA creates unfair displacement of the tax burden onto select areas. In Ontario, municipal amalgamation has produced a situation where larger municipalities now include many areas with drastically disparate increases in value. Mill rates cannot always be adjusted across a municipality to compensate for the difference in increases, resulting in a displacement of the tax burden onto select areas. Taxpayers in “hotter” real estate markets end up shouldering a greater part of the tax load than taxpayers in less favoured markets. For example, the new municipality of Hamilton incorporates the former City of Hamilton with several smaller towns including Flamborough, Dundas and Ancaster (now “suburbs”). While assessment increases in the former city hiked tax bills last year by an average of \$62.76, taxes in the suburbs increased by an average of \$128.39, and in Flamborough alone by \$150.58. The result is that while the city voter’s portion of the overall tax burden increased by 2.5%, the suburban voter’s portion increased anywhere from 3.4% to 4.9%.⁵

² “Ontario carries heaviest property-tax burden, says study”, *Buffalo Business First*, July 28 2003. <http://www.bizjournals.com/buffalo/stories/2003/07/28/daily5.html>

³ In the City of Toronto alone, the average assessment of single-family homes increased by 11.93%, with some assessments jumping as much as 44%: James Cowan, “Retirees’ bungalow assessed at \$1 million,” *National Post*, October 24, 2005

⁴ Ontario Seniors Secretariat website, <http://www.citizenship.gov.on.ca/seniors/english/guide.htm>

⁵ Statistic of the “Free Flamborough Coalition”, available through www.freeflamborough.org

Third, CVA creates a disconnect between taxes paid and services received. In many cases, taxpayers in high-value areas actually use fewer services than taxpayers in lower-value areas. For example, the CVA of the average property on three large Muskoka lakes rose by 30%, compared to 7% for all properties in the District of Muskoka.⁶ At the same time, many of these rural properties receive no water, sewage or waste disposal service from the municipality in which they are located.

THE SOLUTION

Ontario should move toward a system which is predictable and stable and is based as much as possible on use of services. The government should start by implementing an assessment freeze at 2003 values and then work to find an alternative to CVA.

In this regard, the CTF is proposing a system combining a tax cap with a greater link to services provided. Such a system would have several advantages, including doing away with the need for MPAC, which cost taxpayers \$142 million a year to operate in 2004⁷. There would be no need to assess properties on an annual basis. As in California, under its "Proposition 13" property assessment system, assessment value for tax purposes would be determined by a property's sale price, rather than have a centralized government bureaucracy applying standards which are unclear and confusing. Annual tax increases would then be capped at a maximum of 2% or the level of inflation.

Taxes should also be linked to services used. Certain services, such as fire, police and road maintenance are shared by all, as it is impossible to quantify taxpayers' use. Others, such as water, sewage and garbage can be metered or measured. The CTF would like to see these types of services taken off the property tax bill and funded on a user-pay basis. Rural properties, for example, which have their own wells, septic tanks and garbage disposal would no longer pay for services they do not receive from their municipality. In cities, meters or user fees would encourage conservation by taxpayers - and responsibility by governments. Because these taxes would not be buried in the general tax bill, taxpayers would see what they pay - and may well demand that municipal governments provide services at a cheaper cost by outsourcing or increased efficiencies.

If use cannot be directly measured, it can also be approximated by the type of dwelling being taxed. This is the model favoured by economists such as Harry Kitchen, who in 2000 recommended unit-based taxation for Ontario, through the use of variable tax rates or special assessments to capture cost difference in providing services across different types of properties.⁸ Unit based assessment was also recommended in Ontario by the Ontario Fair Tax Commission in 1993.

⁶ Waterfront Ratepayers After Fair Taxation (WRAFT) 2004 Pre-budget Submission to the Honorable Gregory Sorbara, Minister of Finance, Government of Ontario, March 18 2004, p.3.

⁷ MPAC 2004 Annual Report, p.7. http://www.mpac.ca/pdf/2004_mpac_annual_report.pdf

⁸ Harry Kitchen, "Municipal Finance in a New Fiscal Environment," *CD Howe Institute Commentary* 147 (November 2000).

In Ontario, the application of this system can be illustrated by the following example. Two taxpayers both pay \$275,000 for their home, but one buys a one-bedroom condo in the heart of downtown Toronto while the other purchases a three-bedroom bungalow in Scarborough. While the assessed value of their home is the same, the two owners would see their properties taxed at a different mill rate, based on the typical use of city services for their type of dwelling. They may end up paying a different amount of tax even though their properties were purchased for the same price.

This type of measurement would also make things fairer for properties which do not use municipal services. In the previous example of waterfront property in Muskoka, for example, such a property would be taxed at a different rate than a property located in town, which uses more services. This would prevent the “offloading” of services costs onto taxpayers who do not make use of these services.

CONCLUSION

On the property-tax front, time is of the essence. The provincial government must act before January 1, 2006 when the 2005 MPAC assessments are scheduled to take effect, to implement an assessment freeze. In light of the Ombudsman’s investigation into the fairness of and transparency of MPAC’s assessment process and complaints from property taxpayers province-wide, this is the proper course of action to ensure that taxpayers are not continually penalized by a dysfunctional system.

Second, the government should immediately begin the reform process to find an alternative to CVA. The CTF will be further developing its proposal on property tax reform in the new year. Other groups, including the Waterfront Ratepayers for Fair Taxation (WRAFT) and Canadian Advocates for Tax Awareness (CAFTA) are also proposing reforms. The government must consider these and other options in an open consultation process and find a solution to what is becoming a serious threat to the ability of homeowners, particularly those on fixed incomes, to maintain what is a cherished goal for Ontarians: the ownership of their own homes.