

POTENTIAL PROPERTY TAX RELIEF FOR RESIDENTIAL PROPERTY OWNERS

RECOMMENDATION

That the June 1, 2022, Financial and Corporate Services report FCS00946, be received for information.

Report Purpose

Information only

Council is being informed of potential options for providing tax relief to residential property owners, including considerations for eligibility including income thresholds.

Previous Council/Committee Action

At the November 30, 2021, City Council meeting, the following motion was passed:

That Administration provide a report outlining options for potential property tax relief for residential property owners, including but not limited to tax forgiveness, tax credits and grants, and considerations for determining the qualifications for property tax relief for residential property owners such as but not limited to income thresholds.

Executive Summary

- Administration does not recommend additional tax relief for residential property owners.
- The City of Edmonton's authorities to provide tax relief can be summarized in three broad categories:
 - Direct targeted tax relief can be provided on an account by account basis, but requires significant administrative resources.
 - Tax allocation among classes and subclasses can shift the tax burden among different types of properties, but is difficult to calibrate to achieve policy objectives.
 - Tax-adjacent financial support usually means grants based on tax liabilities or other tax data.

Potential Property Tax Relief for Residential Property Owners

- Council's policy for tax relief is set out in City Policy C607 - Retroactive Municipal Tax Relief, and Administration has proposed several amendments for consideration as part of report FCS01139.
- None of the options available for tax relief are well-suited for the application of income thresholds, and it is not feasible for the City to collect the information that would be required to administer income-based tax relief.

REPORT

The Municipal Government Act (MGA) and its associated regulations govern how property tax works in Alberta, and what authorities are available to provide tax relief. Some types of relief are only available for specific types of property (e.g. an exemption for property held by a non-profit organization), but this report is limited to options for residential tax relief. Since the total collected amount of property tax must meet the City's budgeted needs, tax relief for some property owners directly increases the taxes for other property owners. For this reason, property tax relief should be carefully considered.

While the options below outline the tools available to City Council, Administration does not recommend linking property tax to income thresholds for a number of reasons. The City of Edmonton does not collect income information and would have no way of confirming the income of any given household. Collecting income information would have significant financial costs to the City, as well there could be negative public perception to the municipal government collecting it, as typically that is not the municipality's role. Given the relative ease to move households, share income within a household, or own properties in different municipalities, even with a significant administrative investment, the City could not be confident in the completeness or accuracy of any income information it collects. The property tax system seeks equity by determining required tax payments based on market value assessment. Deviating from this approach conflates property tax with income tax. More generally, welfare and other income redistribution programs are properly the role of the provincial and federal orders of government as they have the relevant tools, capacity and information for this purpose.

Options for tax relief can be grouped into the following three broad categories.

1. Direct Targeted Tax Relief

Direct targeted tax relief includes the cancellation, reduction or deferral of municipal taxes for property owners. This type of relief is provided under the authority of section 347 of the MGA, which allows for taxes to be cancelled, reduced or deferred when Council considers it equitable to do so. This authority extends only to municipal taxes, and does not include provincial education tax. It can be used for any type of property, but can only be used retroactively (after taxes have been levied).

Potential Property Tax Relief for Residential Property Owners

Council first approved a set of criteria for making tax relief decisions in 1998 to ensure that requests for relief were dealt with fairly and consistently. The policy has been revised on several occasions and now exists as City Policy C607 - Retroactive Municipal Tax Relief. Authority to administer this policy has been delegated to the City Assessor, though Council retains the authority to approve tax relief beyond the policy.

As per Policy C607, tax relief is generally used to address specific situations where the City believes taxes or tax penalties have unfairly impacted individual property owners. For example, the policy supports forgiveness when the City makes an error in determining the assessment or when a homeowner's death resulted in a late payment penalty. This policy is reviewed regularly, and Administration has proposed several amendments for Council's consideration in Financial and Corporate Services report, FCS01139 Review of Policy C607 - Retroactive Municipal Tax Relief, also on the June 1, 2022, Executive Committee meeting.

While Council has broad authority to provide tax relief under this section, practical considerations make it difficult to apply broadly.

- Tax forgiveness under this section can only be delegated to Administration if the total amount of taxes cancelled, reduced or deferred is less than \$500,000 (including both residential and non-residential taxes) within a single year. If the amount exceeds that limit, Council would need to authorize forgiveness for each subsequent eligible request.
- This type of relief usually requires an application with supporting documentation to ensure the recipient is eligible, and these documents must be collected, reviewed and approved. This would require considerable administrative effort and additional resources if the scope of tax relief was increased significantly.
- Documentation would be difficult to collect if tax relief is based on sensitive information such as income. The City does not have access to information about the income of individual residents, and collecting this information would require development of processes to ensure data confidentiality, security, integrity, and disposition. It may not be possible to verify that all income from a household is accurately reported.
- Since this type of relief is retroactive, the amount of relief is not known when budgets are set and tax rates are calculated. This means such relief can not be directly accounted for in the budget process. Relief currently provided comes from a fund established for tax losses. If relief was significantly expanded, it would require a larger fund to cover a wider range of potential costs after the budget has been set.

2. Tax Allocation Among Classes and Subclasses

The Municipal Government Act defines four classes of property for assessment and tax purposes (residential, non-residential, farmland, and machinery and equipment). Council can establish subclasses for residential property on any basis it considers appropriate, as long as the subclasses are not discriminatory and are based on physical characteristics of the property. Given this restriction, subclasses could not be based directly on income thresholds.

Potential Property Tax Relief for Residential Property Owners

Tax subclassing is a policy tool that should be used with caution. It is difficult to design subclasses to address policy objectives while avoiding unintended consequences. This is particularly true if the policy objectives are not directly related to land use or other property-based issues. Based on previous Council direction, Administration is preparing options to phase out the Other Residential subclass and explore how residential subclassing could support The City Plan. Providing tax relief through subclassing could complicate or potentially undermine those efforts.

Another way to provide residential tax relief through tax allocation among classes is to reduce the share of the total tax levy collected from residential property owners. This would require tax increases on other tax classes, which would fall almost entirely on non-residential property. This would be expected to raise significant concerns from the business community and other non-residential property owners. The division of the tax levy between residential and non-residential property has been trending towards greater residential contribution, with residential properties accounting for 54 per cent of all municipal tax revenue (not including provincial education taxes).

Since the residential assessment base is larger than the non-residential base, any reduction in residential property taxes must be met with a relatively larger increase in non-residential taxes. If residential taxes were reduced by \$1 per \$1,000 of assessment, non-residential taxes would need to increase by more than \$3 per \$1,000 of assessment to collect the same amount of revenue. Provincial legislation also limits how much of the levy can be shifted to the non-residential assessment base by requiring that the non-residential tax rate can be no more than five times the lowest residential tax rate. In 2022, Edmonton's non-residential tax rate is about 3.05 times the residential tax rate. Beyond Edmonton's legislative limits, it is also worth considering how tax shifts would impact Edmonton's regional competitiveness as it continues to vie for a greater share of the non-residential tax base.

3. Tax-Adjacent Financial Support

Municipalities also have the ability to provide financial relief without the specific use of tax tools. Grants, for example, can be provided to offset property taxes. Administration generally recommends grants over relief provided directly through the property tax system for several reasons:

- Grants have fewer legislative restrictions and are not subject to review by Assessment Review Boards;
- they can be designed to target policy objectives more directly and can be adjusted more easily in response to changing circumstances or priorities;
- and they are more transparent to the public.

Some examples of tax-adjacent grant approaches in the City of Edmonton include:

Potential Property Tax Relief for Residential Property Owners

- (1) The Economic Recovery Construction Grant Program, which uses a grant structure to reimburse property tax increases for several years so developers can move forward more quickly with construction of large-scale downtown residential developments following the economic impacts of COVID-19.
- (2) The Brownfield Redevelopment Grant Program, which supports the redevelopment of properties that were formerly used for gas or diesel refueling. The grant amount may be calculated based on the increase in taxes relative to the baseline measured before redevelopment occurred.
- (3) Affordable housing grants, which are currently being considered as a means to permanently offset tax liabilities for affordable housing providers.

As with any other type of relief, grants would effectively increase taxes on all property owners since they would be funded from the tax levy. While grants offer flexibility, they generally require applications and may incur some of the same administrative costs as those listed in the Direct Targeted Tax Relief section. Grants to offset property taxes can also create inequalities, as described in the GBA+ section.

A grant to provide tax relief based on income thresholds would hold particular challenges. The City does not have access to information about residents' income. For a grant system based on income, the City would encounter the same difficulties in collecting income information as outlined above. While it may appear reasonable for those who benefit from a grant to verify their income to participate, the lack of information on those who do not participate would make it difficult to design the program or evaluate its efficacy in meeting policy objectives.

A property tax relief approach already available in Edmonton is Alberta's Seniors Property Tax Deferral Program. This program allows eligible seniors to defer their municipal and provincial residential property taxes through a low interest home equity loan offered by the provincial government, repayable when the property is sold. Similar programs available through the private sector are commonly referred to as reverse mortgages. Administration believes it would not be appropriate for the City to offer this type of program directly because the City lacks the expertise to manage the type of lending program commonly offered by banks and options are readily available from the private sector. However, it demonstrates that support is available for those who have insufficient income to manage their tax liabilities.

Property Tax, Income and Wealth

Property tax is a form of wealth tax, where wealth is measured through the proxy of property value. According to a 2019 article published by the Institute on Municipal Finance and Governance, property tax could be characterized as regressive because households with lower incomes spend a relatively larger portion of their annual budget on property tax. Alternatively, property tax could be characterized as progressive because households with higher incomes own a disproportionately larger share of the total assessment base. Finally, property tax could be characterized as proportionate because the tax rate applied to each property within a tax class is

Potential Property Tax Relief for Residential Property Owners

the same regardless of the value of the property. None of these characterizations are incorrect, and the differences in perspective illustrate the difficulty in analyzing property tax in terms of income.

While it is an imperfect indicator, property ownership does correlate with both income and wealth. A Canada Mortgage and Housing Corporation (CMHC) analysis of Statistics Canada data shows that the real median after-tax income of those who own their homes in Edmonton was \$96,600 in 2018, while the median after-tax income of people who rent their homes was \$61,700. CMHC data from 2012 shows that the median net worth of property owners in Alberta was \$537,000 at that time, while the median net worth of renters was \$15,000 (more current data is not available). Correlations at a high level do not preclude situations where a taxpayer's income is insufficient to pay their property taxes. Programs such as the Alberta Seniors Property Tax Deferral Program and reverse mortgages offered by the private sector are available for those types of situations.

Property tax is the fundamental revenue source for municipalities in Alberta, as it is throughout Canada and much of the world. This is logical because property tax is inherently localized, it complements municipalities' important role in land use governance, and the physical nature of property makes the tax relatively easy for municipalities to levy taxes and enforce collection. However, from a taxpayer's perspective, it is just one of many taxes to be managed. A person's ability to pay taxes depends on their income, their wealth, and their consumption habits. A human-centered analysis should consider the cumulative impact of all taxes, though the division of responsibility for these taxes among orders of government makes it challenging. Just as property taxes are better suited to address issues of land use, income taxes may be better suited to address issues of income inequality.

Budget/Financial Implications

Analysis of the budget implications was not conducted due to the wide range of tax relief options available. In some cases, the costs of any tax relief would be transferred to other taxpayers, in which case there would be no direct impact on the City budget. For example, a shift in the allocation between classes and subclasses changes the distribution to different tax payers but the City would collect the same amount of revenue.

The total amount of relief provided under Council's existing Policy C607 - Retroactive Municipal Tax Relief was \$225,581 in 2021 and \$138,750 in 2020. Tax relief currently provided under Policy C607 is applied directly to taxpayers' accounts from a fund established for this purpose.

Legal Implications

Section 347 of the MGA allows Council to cancel, reduce, refund or defer municipal taxes when it considers it equitable to do so. The City of Edmonton Charter allows Council to delegate this power if the total amount of taxes cancelled, reduced, refunded or deferred is less than \$500,000. Council has the ability to establish tax subclasses within the residential tax class on any

Potential Property Tax Relief for Residential Property Owners

basis it considers appropriate by dividing up the properties defined in the residential class. Any class should be based on something relating to the physical property.

COMMUNITY INSIGHT

There is some anecdotal evidence that demand for tax relief has increased over the past couple of years, though it is difficult to assess quantitatively. The 311 Contact Centre and the Edmonton Service Centre are the primary points of contact for people inquiring about their taxes. While staff report an increase in requests for tax forgiveness, these requests are not tracked independently from other tax inquiries.

In 2020, the tax collection process was altered on a one-time basis in response to the pandemic. While the tax payment deadline did not change, unpaid taxes started accumulating penalties on September 1 instead of July 1. This was widely advertised, and approximately 30,000 accounts took advantage of the deferral. While some of these accounts were likely people who were struggling to pay their taxes, some property owners indicated to staff that they simply deferred payment as a financial strategy. In 2021, the City resumed applying penalties as of July 1, and the number of accounts that received penalties was significantly higher. However, some taxpayers believed the penalty deferral was still in place for 2021, which led them to delay their payment. The collection rate by the end of the calendar year has been relatively consistent over the past three years, which suggests that changes to the penalty process may be the primary reason for differences in collection rates partway through the year.

Enrolment in the Alberta Seniors Property Tax Deferral Program over the past three years does not suggest a need for additional tax relief. While enrolment among Edmontonians increased from 578 accounts in 2019 to 600 in 2020, it decreased to 574 accounts in 2021. These changes reflect changes in enrolment at the provincial level.

GBA+

Potentially providing property tax relief has several equity dimensions, especially if income is considered a potential basis for relief. People who do not own or rent residential property, such as people who may be institutionalized or those experiencing homelessness, do not pay property tax and would not benefit from relief through the property tax system so are not considered in this analysis.

The first dimension to consider is tenureship - the different circumstances of those who own their accommodations and those who rent. While all Edmontonians who own homes or rent accommodations contribute to property taxes, tax relief can only be provided to those who pay taxes directly. Any financial support provided through the property tax system would accrue directly to property owners, including those who rent their property to others. Since the City has no means to ensure that rental property owners pass relief along to their tenants, this is likely to result in inequitable treatment of renters relative to those who own their homes.

Potential Property Tax Relief for Residential Property Owners

Home ownership rates vary by age, income, ethnicity and other demographic factors. Analysis from Statistics Canada and CMHC suggest that gender is not a factor in home ownership rates.

Census data from 2016 showed that Edmonton households where the primary household maintainer (the person responsible for paying the rent, mortgage, taxes, and/or utilities) is younger than 35 are more likely to rent their homes (57 per cent in this category are renters). Households where the primary household maintainer is older than 35 are more likely to own (28 per cent are renters). A new Statistics Canada analysis series reports home ownership rates at the national level for various sub-populations. The analysis available thus far indicates that home ownership rates are lower than average among the Black population, recent immigrants, and LGBTQ2+ households. Similar analyses for other subpopulations, including various indigenous groups, are underway but are not yet available.

Providing relief through the property tax system may also create inequities within households. Since property tax relief is applied directly to the taxpayer's property tax account, the person who maintains the account is the person who directly receives the relief. While current data is not readily available, the 2006 census showed that in Edmonton more than 60 per cent of primary household maintainers (account holders) were male.

Tax-adjacent financial support can also lead to inequities. Without speaking to jurisdictional differences, British Columbia offers a grant that subsidizes property taxes for principal residences that are assessed below a particular threshold, with additional grants for seniors, veterans, people with disabilities and some others. Two separate expert panels have recently recommended that these grants be phased out. One panel, the Canada-British Columbia Expert Panel on the Future of Housing Supply and Affordability, found that homeowner grants treat renters and owners inequitably and exacerbate wealth inequality. The other panel, the Medical Services Plan (MSP) Task Force, was established to recommend revenue and tax reforms to replace revenues foregone by the elimination of MSP premiums and found that homeowner grants were inconsistent with principles of progressivity, administrative efficiency and fairness.