

Residential Property Tax Subclassing

Executive Committee - February 15, 2023

7.2 - FCS01361 - Property Tax System

7.3 - FCS01153 - Residential Subclasses and
Options for 'Other Residential' Phase-Out

Background

MOTION: March 9, 2022

That Administration consult with industry and community stakeholders to develop options to phase out the other residential subclass, as well as, exploring the use of property tax sub-classing to support The City Plan, including possible definitions and information on the effectiveness and considerations associated with property tax sub-classing and return with a report to Committee.

MOTION: June 20, 2022

That Administration provide a report that discusses how the property tax system might be changed to create a more progressive taxation system.

Background

- Property Assessment Fundamentals
 - ◆ Market Value
 - ◆ Mass Appraisal
 - ◆ Annual Reassessment
 - ◆ Based on July 1 of the previous year's value (Valuation Date) and December 31 of the previous year's condition (Condition Date)

- Annual Market Value Assessment as the Foundational Framework of Tax Policy and Tax Subclassing

Background

- Broad authority to create residential subclasses
 - ◆ Must be based on physical characteristics of property
 - ◆ Little precedent in Alberta for subclassing as a policy tool
- Current subclassing structure:
 - ◆ Other Residential
 - ◆ Derelict Residential (starting in 2024)

Progressive Subclassing

- Tax subclassing based on income comes with legal risk and practical constraints
 - ◆ Bylaw subject to legal challenge
 - ◆ Few precedents and little case law
 - ◆ No direct access to income information
 - ◆ Likely to increase complaints
- Administration considers this type of subclassing inadvisable

Progressive Subclassing

- Example: a subclass based on property value.
 - ◆ Threshold set at \$1 million
 - ◆ Tax rate set 10 per cent higher
- Impact:
 - ◆ Shift \$5.3 million in taxes
 - ◆ Reduce general tax rate by 0.3%
- Approach raises questions around equity and predictability
 - ◆ Incur legal risk and administrative cost

Residential Subclasses Report and Council Direction

- Possible Elimination of “Other Residential” Subclass
 - ◆ Should the City eliminate the “Other Residential” Subclass?
 - ◆ If yes, what timelines are preferable (e.g. 1, 3 or 5 years)
 - ◆ Beginning in what year?
- Density-based subclassing to support the City Plan
 - ◆ Should Administration continue to examine this approach?

Stakeholder Engagement

- Multiple channels:
 - ◆ Insight Community (3,739 responses)
 - ◆ Engaged Edmonton (480 visitors)
 - ◆ Industry and Community Engagement Sessions
- Focused on Other Residential and a potential subclass to support The City Plan
- More information and education required

Options to Phase Out Other Residential

- Administratively straightforward
- Not expected to reduce rents
- Community members mostly supported keeping Other Residential
- Industry stakeholders support immediate elimination

Phase Out Period	Annual Municipal Tax Rate Change	
	Other Residential	Residential
Immediate	-11.7%	+1.6%
Three Years	-3.9%	+0.5%
Five Years	-2.3%	+0.3%

Subclassing to Support The City Plan

- Subclassing best suited for long term strategic objectives
- Density-based subclassing:
 - ◆ Supports objectives of The City Plan
 - ◆ May reflect cost of providing City services more equitably
- Two high level approaches
 - ◆ Each requires additional work and further decisions

Two Potential Approaches

Dwelling Count Approach	Dwelling Density Ratio Approach
<p data-bbox="208 358 917 401">Number of dwelling per <i>unit</i> of land</p> <ul data-bbox="231 458 917 813" style="list-style-type: none"><li data-bbox="231 458 917 562">● Subclass(es) defined by as a number of dwellings<li data-bbox="231 611 917 660">● Reasonable proxy for density<li data-bbox="231 709 917 813">● Treats apartments and condos the same way	<p data-bbox="1008 358 1748 401">Number of dwellings per <i>area</i> of land</p> <ul data-bbox="1031 458 1748 758" style="list-style-type: none"><li data-bbox="1031 458 1748 562">● Subclass(es) defined as range of ratio values<li data-bbox="1031 611 1748 660">● Directly reflects density<li data-bbox="1031 709 1748 758">● More complex to explain

Direction and Next Steps

- Possible Elimination of “Other Residential” Subclass
 - ◆ Should the City eliminate the “Other Residential” Subclass?
 - ◆ If yes, what timelines are preferable (e.g. 1, 3 or 5 years)
- Density-based subclassing to support the City Plan
 - ◆ Should Administration continue to examine this approach?
 - Public Engagement
 - Technology Investment

Questions?