

Machinery and Equipment Study – Status Update

Recommendation:

That the November 16, 2011, Financial Services report 2011AT7432 be received for information.

Report Summary

This report includes a status update regarding a study into the implications of rescinding the bylaw that exempts machinery and equipment from taxation in the City of Edmonton.

Report

In April 1999, City Council passed bylaw 12053, the Machinery and Equipment Exemption Bylaw, to exempt machinery and equipment used for manufacturing and processing from property taxation in the City of Edmonton (see *Municipal Government Act* – section 364 (1.1)). Prior to 1999, machinery and equipment was exempted through other bylaws:

“364(1.1) A council may by bylaw exempt from taxation under this Division machinery and equipment used for manufacturing and processing.”

This bylaw was necessary in order for the City to apply a business tax to business premises where machinery and equipment was present (see *Municipal Government Act* – section 376(1):

“376(1) When machinery and equipment or linear property is located on premises occupied for the

purpose of a business and a property tax has been imposed in respect of the machinery and equipment or linear property under Division 2 of this Part in any year, the premises on which that property is located is exempt from taxation under this Division (business tax) in that year.

The report of the City’s Tax Structure Review Committee in 2005 recommended the phased elimination or reduction of Edmonton’s business tax, and proposed that the reduction in those tax revenues be offset by corresponding increases in non-residential property taxes. Those recommendations were adopted and 2011 marked the end of municipal business taxes in the city. The Committee report also recommended that the City’s long-term practice of exempting machinery and equipment from municipal taxation be examined.

With the elimination of business taxes, the City initiated a review of machinery and equipment taxation early in 2011, with external assistance provided by Nichols Applied Management, Management and Economic Consultants.

Attached is a status report from the consultant. The machinery and equipment study is currently in draft form, and will be finalized concurrently with “The Way We Finance” plan that is now under preparation by the City.

As Administration works through the content of the “The Way We Finance” document, additional consultation opportunities will be provided to stakeholders on machinery and equipment and other related financial issues.

Policy

- The Way We Finance

Corporate Outcomes

Ensure Edmonton's Financial Stability

Attachments

1. Status Report: Machinery and Equipment Taxation Study

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Background

- The report of the City's Tax Structure Review Committee in 2005 recommended the phased elimination or reduction of Edmonton's business tax, and proposed that the reduction in those tax revenues be offset by corresponding increases in non-residential property taxes. Those recommendations were adopted and 2011 marked the end of business taxes in the City. The Committee report recommended as well that the City's long-term practice of exempting machinery and equipment (M&E) from municipal taxation be examined.
- With the elimination of business taxes, the City initiated a review of M&E taxation early in 2011, with external assistance provided by Nichols Applied Management, Management and Economic Consultants. The M&E study currently is in draft form, and will be finalized concurrently with "The Way We Finance" plan that is now under preparation by the City.

Preliminary Findings

- All municipalities in the province are obliged to assess their M&E properties, but they can choose -- as Edmonton does -- to exempt M&E assessments from municipal taxation. Until the mid-to-late 1990s, the province applied education property taxes on M&E properties, but has exempted them from property taxation since that time.
- The City's M&E assessment base at present is relatively small, accounting in 2011 for less than 1% of total assessments. If taxed, M&E would generate revenues equivalent to 1.4% - 2.0% of total City tax revenues.
- The primary impacts of taxing M&E include:
 - improved taxation equity as between lands and improvements, on the one hand, and machinery and equipment, on the other;
 - the municipal revenues provided;

- the somewhat enhanced diversification and broadening of the City’s tax base;
 - the concentration of the new taxes and the potential taxation impacts on a small number of large M&E properties;
 - the potential effects on the City’s taxation competitiveness, particularly with regard to the attraction of manufacturing and processing industries, and on the perceived attractiveness and receptiveness of Edmonton to industry; and
 - the added costs of implementing and maintaining the M&E assessment and taxation system, which now relies on a largely self-reporting process. The assessment of M&E is regulated by the province and relatively specialized. A decision by the City to remove the current taxation exemption on M&E properties would impose additional administrative costs, require staff training and new resourcing, and imply approximately three years to fully implement.
- A key policy issue that would face the City pertaining to the introduction of an M&E tax is whether to treat the tax as an additional source of new revenues or to offset those new M&E taxes with reductions in other non-residential and/or residential property taxes.

Study Implications and Management Action

- At the time the M&E study was initiated, it was expected that it would be prepared as a standalone report, focused specifically on the potential feasibility and merits of taxing machinery and equipment in the City. However, the City concurrently is preparing “The Way We Finance”, one of six corporate directional plans that will support Edmonton’s vision as outlined in “The Way Ahead”.
- The financial plan will provide a strategic framework for managing and planning the City’s finances and it will consider policy directions for a number of key financial elements that include the array of taxation and non-tax revenues and of course the City’s overall fiscal management needs. Within that context, the potential introduction of M&E taxation has potential long-term financial policy implications.
- Accordingly, it is proposed that the draft M&E study findings be considered in the preparation of “The Way We Finance”, finalized in parallel with that umbrella plan, and attached as a

companion document to the overall plan. The schedule for completion of the M&E report, therefore, will be similar to that for “The Way We Finance” study, which is scheduled to be completed in 2012.