A Discussion About Property Taxation in New Brunswick

2010

NBREA
NEW BRUNSWICK
REAL ESTATE ASSOCIATION

AAINB
L'ASSOCIATION DES AGENTS
IMMOBILIERS DU NOUVEAU-BRUNSWICK

Executive Summary

New Brunswick has one of the highest home ownership rates in Canada. In fact, nearly 75 per cent of New Brunswick residents own the home they live in.

This is good news for the economy of New Brunswick, because research shows home ownership is a key factor in building and maintaining strong economies by ensuring the provincial government and municipalities have a strong revenue base from which they can then provide services. One means of revenue generation is property taxation. An effective property tax system not only provides governments with required revenue levels, but also encourages economic development.

In theory, the property tax system should be relatively simple for a home owner to understand: the Province of New Brunswick sends out appraisers who assess a home for its *value*. That value is then used by the municipality or a local service district in a *property tax formula* to determine the amount of tax a home owner is to pay on their home.

However, this simple theory has become extremely complicated and has created confusion in the marketplace. Assessment and the property tax process is the basis for this discussion paper from the New Brunswick Real Estate Association (NBREA).

NBREA strongly believes that, for an issue that impacts all New Brunswick residents and their quality of life, the property value assessment and property tax system **must** be one of the primary election issues among candidates in New Brunswick's 2010 election campaign.

Specifically, NBREA has identified these key recommendations for property tax system improvements:

- **Simplify property value assessment calculations**
  - ⇒ Property value assessment is at the heart of the issue as they do not reflect real market conditions.
  - ⇒ Many home owners believe there are problems with how property value assessments are calculated, with their accuracy and how they are presented.
- **Make things easier for property owners to understand**
  - ⇒ Provincial government and municipalities must make the system easier for property owners to understand, including changes to how assessment notices and property tax invoices are delivered.
- **Address urgent issues for fixed and low income residents**
  - ⇒ Use a formula to help seniors (those over 65) and other low income residents maintain home ownership based on a provincial allowance.
- **Eliminate double taxation on non-occupied property owners**
  - ⇒ Double taxation shifts a disproportionate share of the tax burden to renters.
  - ⇒ Double taxation can "lock" people into rental units or their current homes.

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Property Taxation in New Brunswick Today

The population of our province as of April 2010 is 751,300, a net increase of 6,393 since January 2007.[1]

In just 10 years the median age of our population went from 35.5 to 41.5 years.[2]

Since January 2010 the public outcry over property tax bills has been significant. Home owners in New Brunswick are frustrated about how property tax bills are calculated and delivered. In 2010 the implementation of a new provincially-imposed formula known as the *Accountability Mechanism* fuelled public frustration and confusion about the real and perceived fairness of the property tax system in New Brunswick.

In the 2009 New Brunswick budget, the government unveiled *The Plan for Lower Taxes in New Brunswick (2009-2012)*. The Plan identified the fundamental purpose of providing tax relief for New Brunswick individuals and businesses in an effort to:

1. leave more money in the pockets of New Brunswickers so they could save, invest and spend as they choose; and
2. help New Brunswick companies stay in the province and grow, and to attract outside investment, creating meaningful jobs for our children to remain or return to work right here in New Brunswick.

Further, the document stated that combined with the long-term benefits, the timing of The Plan would have the benefit of being another form of economic stimulus during challenging economic times.

The Plan went into elaborate detail of income tax savings for various individuals including a teacher, a welder, a nurse, and a family physician. It is interesting to note that the Plan did not reveal what those individuals would pay in property taxes to own a home in New Brunswick. It focused only on what they would pay in income tax.

The specific plan for lower taxes also included a proposal to introduce an *Accountability Mechanism* to help prevent provincial and municipal property taxes from automatically escalating when assessments rise. It identified the need for provincial and municipal property tax accountability.

> *"In recent years, concern has been raised that property tax revenues have increased significantly faster than inflation. With increased assessment values over time, property tax revenues often increase beyond the cost of providing local services.*
>
> *During periods of rapid assessment growth, governments that hold property tax rates constant receive windfall revenues from the increase in property values. This is most pronounced in regions with the strongest economic growth where the increase in the market value of properties can far exceed the increases in the cost of providing local services.*
>
> *This escalation also occurs with provincial property taxes, placing an increased property tax burden, over time, on all taxpayers, and particularly on those with fixed incomes."*[3]

Only 5 of the 101 municipalities adopted the rates under the new Accountability Mechanism.[4]

20 municipalities set rates lower than their 2009 rates; 41 other municipalities kept 2010 rates unchanged from 2009.[5]

The government said that with its new *Accountability Mechanism*, municipalities and the province could continue to experience growth in annual property tax revenues. The revenue growth would be limited to the growth in the property value assessment base associated with inflation and new construction. To exceed this amount, each municipality (or the province) would need to increase their property tax rates accordingly.

The government noted it was important to recognize that increases to annual property value assessments for individual property owners would not be limited because of the *Accountability Mechanism*. Rather, the property tax rate which is applied to the annual property value assessment would be adjusted through the *Accountability Mechanism* property tax relief would be provided to individual property owners by way of the lower municipal (or provincial) tax rate.

This taxation policy has failed in five areas:

1. Property owners do not understand or have confidence in the Province's *Accountability Mechanism* because of the increases in their 2010 property tax bills. It does not provide the desired level of transparency.
2. The property tax system is not completely dependent on real property values or trends, which is the rational approach to developing a fair property tax system similar to other Canadian provinces.
3. The *Accountability Mechanism* does not account for major annual variations in the value of property, or variations in the value of new construction. It also over estimates the amount of new construction that could occur to expand the tax base, which is a major portion of the government's estimated increase in municipal revenues.
4. The *Accountability Mechanism* puts property owners in the middle of a jurisdictional battle between the provincial government, the municipalities and Local Service Districts. The provincial government would never accept the federal government imposing taxation rates on areas of provincial jurisdiction, and understandably, the municipalities and local service districts did not accept the province developing a formula and the *Accountability Mechanism*.
5. The *Accountability Mechanism* has failed to address the problem of double taxation that non-owner occupied property owners face.

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NBREA Discusses Potential Options for Improvement of the New Brunswick Property Tax System

In NB, non-owner occupants pay the highest provincial property taxes in the country. They also earn 40% less than the average home owner but endure nearly twice the tax burden.[6]

1. Introduce a cap or maximum annual increase

Several groups have suggested a cap or maximum percentage increase be applied to property value assessments. For example, the Progressive Conservative party has proposed a three per cent cap on property value assessment increases. The proposal is for a temporary limit that would allow time for the government to develop and implement a permanent solution. The Canadian Taxpayers Federation has pointed out this would not prevent municipalities from raising their tax rates.

In 2005, the Government of Nova Scotia changed its Assessment Act with the goal of protecting residents from dramatic increases in property assessment values. The legislation created a cap on the annual increase of assessments, making Nova Scotia the only province in Canada to try to control rising assessments with some form of maximum limit. In 2007, the government conducted a review of the program. The report indicated that most municipalities in Nova Scotia didn't like the policy because it forced them to raise tax rates and shifted the burden onto non-capped properties, such as apartment buildings. It said the cap was creating inequities in the property tax system.

> *"Municipalities could choose to offset the taxable assessment limited by the CAP by increasing other revenue sources, such as user fees, through expenditure reductions, or by increasing tax rates. So long as the municipality determines that it needs the same or more property tax revenues, a capping program can result in unintended tax burden shift. In this case, any tax advantage to a home owner above the cap will be offset by an increase in taxes paid by another home owner below the cap, or ineligible for the CAP.*
>
> *Over time municipalities may resort to raising property tax rates to offset burden shifts, with varying impacts among them. The higher the capping level, the smaller the municipal per cent reduction in its total market value assessment and related shifts in tax burden."*[7]

The error in applying the Nova Scotia CAP model in New Brunswick is that the model is *opt in*. Home owners must apply or qualify, which means there will always be residential property owners who do not apply or qualify. This implies a shift in the tax base to those properties not covered by the CAP, because their assessment will increase at a faster rate than those residential properties covered by the CAP. In Nova Scotia there are also variables in the actual CAP rate, which means municipalities must operate on variable revenues from residential property taxation.

In New Brunswick, the models discussed have implied a unilateral application of a CAP formula. In other words, the CAP would apply to all residential properties. In doing so, this would avoid inconsistencies seen in other jurisdictions, but there could still be an undesired shift to greater dependence on property tax income from non-residential properties if the suggested New Brunswick model is applied.

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The pros and cons of introducing a CAP:

PRO:

- Would better meet the property owner for a transparent, evident rate of increase in property value assessments.

CONS:

- Does not follow the rationale that assessed property value should reflect real market conditions.
- May divert tax burden to non-residential properties who are not covered by the CAP initiative.

2007 marked the first time NB recorded a net gain in overall migration (combination of international immigration and inter-provincial migration). This was a net gain in population of 2,519.[8]

In the 1996 census, 12.6% of the population of NB was over the age of 65. In 2001, that increased to 13.6%, and in 2006, it increased to 14.7% of the population.[9]

2. Link property assessment to Statistics Canada's Consumer Price Index (CPI)

This proposal involves linking the increase in the property value assessment of all properties to Statistics Canada's CPI. The rationale for this approach is that increases in property value assessment would then be tied to the calculated rate of inflation. This approach, however, ignores a concept all of the other Canadian provinces are following: property value assessment reflects real market conditions and not affordability (or ability to pay).

L'Association Francophone des Municipalités du Nouveau-Brunswick believes tying increases to CPI is "dishonest". Association President Jean-Paul Savoie stated that "tying taxes to the cost of living won't work because the province keeps dumping responsibilities on municipalities without the funding to cover those responsibilities, and because the cost of running towns and cities rises far faster each year than the cost of living index."

He also added examples of municipal costs exceeding the CPI such as: road maintenance, fuel, labour, contractors, police and fire protection.

The pros and cons of linking property value assessments to the CPI:

PRO:

- Reflects property owner preference for a transparent, evident rate of increase in assessment. In this case, it is provided by Statistics Canada.

CONS:

- Does not follow the rationale that assessed value should reflect real market conditions.
- May divert tax burden, as municipalities will still be required to provide services at costs that have increased faster than the CPI. This may force municipalities to seek new revenue sources, or force a major increase in the tax rate.

3. Introduce a deferral program for senior citizens

Another proposed solution is to allow seniors to defer paying higher property taxes until they sell their properties. Finance Minister Greg Byrne rejected the idea warning that seniors could face significant debt from the accumulated fees when they do sell, possibly enough debt to cancel out any equity in the home.

Almost 22.9% or 67,765 of private homes were occupied by residents over the age of 65.[10]

In British Columbia, the provincial Property Tax Deferment Program is a loan initiative that allows eligible home owners to defer their annual property taxes. The program applies to registered home owners who are 55 years of age or older, a surviving spouse, or a person with a disability.

Residents can defer taxes as long as they own and live in their home and continue to qualify for the program. But deferred taxes must be fully repaid with interest. That has to happen before the home can be legally transferred to a new owner—except in the case of a surviving spouse—or upon the death of the owner.

The pros and cons of a senior deferral program:

PROS:

- Provides some relief for seniors, and allows some of the financial opportunity to stay in their home.
- A deferral program may not negatively impact municipal revenue, as the amount senior property owners owe in taxes becomes a loan, and the loan becomes an asset of the municipality.
- The program can be applied on an “opt in” basis: seniors would have to apply.

CON:

- A deferral program can have a major impact on the value of an individual estate, as the amount owing a municipality in deferred taxes could wipe out equity.

4. A property tax allowance for senior citizens

There is anecdotal evidence that senior citizen home owners were among the hardest hit by the change in New Brunswick property tax calculations and assessment procedures. REALTORS® report that a number of seniors were forced to sell their homes because they could not afford the higher annual property taxes when they live on a fixed income.

> ***NB has one of the highest ratios of home ownership in Canada. 74.5% of residents own the home they live in.*[11]**

This is proposed as a temporary measure for a maximum of three (3) taxation years, providing a fair and transparent property tax system is developed and implemented.

The pros and cons of a property tax allowance for seniors:

PROS:

- This would help the elderly stay in their own homes during their senior years, and enjoy the quality of life they have established through years of home ownership.
- It helps seniors to keep their home as long as possible without a negative impact on municipal finances—there is no variable in the tax rate applied. Rather, seniors would be offered the chance to apply for the property tax allowance to help compensate for increases.

CON:

- Provides only a temporary fix for groups on fixed incomes that are the most vulnerable to property tax increases.

Recommendations for the Property Tax System in New Brunswick

In NB, residential property is sub-classified as either owner-occupied (e.g. principal residence) or non-owner occupied (e.g. cottages and apartments).[12]

1. Simplify property value assessment calculations

NBREA recommends the first priority be making the property tax system fair for all New Brunswick residents. Fairness means there is a statistical methodology for calculating assessment increases based on real market conditions. In this instance, fairness refers to property owners and not the municipalities because municipalities have access to alternative revenue sources; property owners do not.

Property value assessment is at the heart of the issue as they do not reflect real market conditions. As the primary driver of the property tax system in New Brunswick, many owners believe there are problems with how property value assessments are calculated, with their accuracy and how they are presented. If a property is sold within a taxation year, the actual amount the property is sold for should be used as the property value assessment. If a property is not sold, then the amount the property was previously sold for, plus applied annual increases, should determine what the assessed value is.

Applied annual increases in property value assessments should be based on the annual increase in the average property price in an identified area. Doing this will eliminate potential “spikes” that occur because of new construction in an area or because of buyers paying more than asking price for properties.

The issues associated with property value assessment have been identified by REALTORS® in New Brunswick as a major issue impeding economic development. Currently, new construction is assessed at 100% of the purchase price less the HST (thus, purchase price and assessment are the same), but resale properties are typically assessed at 75% of the sale price (i.e. sale price of $100,000 would be assessed at $75,000).

NBREA supports measures which simplify assessment calculations and deliver a greater degree of predictability for property owners. NBREA wants to be involved in improving the system for property value assessments.

Nearly 1/3 of NB residents (about 250,000) are non-owner occupants who rent .[14]

2. Make things easier for property owners to understand

NBREA recommends all levels of government involved in property taxes improve how taxation information is provided to homeowners. Assessment notices are confusing at best for most property owners because the notice includes taxes to be paid to the municipality. In order to be transparent and promote a better understanding of the property tax system, property owners should receive two separate documents (and if possible, at separate times).

The first document should be the Notice of Assessment, which would provide the property owner with the assessed value of their property along with the necessary information about the assessment value so the property owner can appeal the assessment. This should be clearly identified as coming from the provincial government.

The second document the property owner should receive should be the property tax bill. This bill should clearly identify that it is being issued by the municipality (or for some, the Local Service District). The separation of these two documents will help property owners understand who is responsible for property assessment values and who establishes property tax rates.

The presentation and wording of the property tax bill should be carefully reviewed in order to give a clearer picture about which level of government is receiving which portion of the property tax payment. The aim would be to clearly define for property owners the municipal and provincial shares of the property taxes.

Service New Brunswick explains the property tax calculation in this way:

For most home owners within a municipality, your tax bill is largely a result of the following equation:

Your Assessed Property Value	X	**Municipal Tax Rate**	=	**Tax Bill Amount**
Example: $100,000		Example: $1.50 per $100		Example: $1,500

For certain types of property like rental, industrial, recreational and commercial, as well as homes in local service districts (LSDs), the provincial government also applies a tax to help defray the cost of provincially-provided services.[13]

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3. Address urgent issues for fixed and low income residents

NBREA recommends there be a short-term plan to resolve some of the immediate assessment issues that have developed because of the government's *Accountability Mechanism*. A short-term plan should not include a CAP, as this will artificially reduce the assessed value going forward.

A recent CMHC report says in New Brunswick's three large urban areas—Fredericton, Moncton and Saint John—residential starts are expected to outpace 2009 totals.

NBREA proposes using a formula to help seniors (those over 65) maintain home ownership during any transition period, based on a provincial allowance similar to that provided to low income households. This can be phased out once the long-term transition plan is implemented.

4. Eliminate double taxation on non-occupied property owners

NBREA recommends the provincial government implement a three-year plan to phase-in a provincial tax credit on residential non-owner occupied properties, which, in turn, phases-out the provincial tax. This would provide equitable taxation to New Brunswick residents who want to invest in real estate. It will also reduce the additional burden on residents who rent and pay this additional tax in their rent, thus, helping to stimulate the provincial and local economies by creating jobs and promoting investment.

Currently, non-owner occupied residences pay both provincial and municipal/local property taxes, while owner occupied residences pay no provincial property tax. NBREA strongly believes this method of *Double Taxation* creates a serious imbalance in the property tax system. Double Taxation results in the unfair treatment of hundreds of thousands of people: it is an impediment to economic growth, and it hinders the expansion of the rental or multi-tenant market, which is an essential ingredient to attracting immigrants to New Brunswick.

Example of Double Taxation

(using 2009 tax rates for Riverview)

	Tax Rate	Tax Bill Total
Property valued at $100,000	1.5463 per $100 of assessment	$1,546.30
Same property valued at $100,00 plus an additional property*	1.5463 per $100 of assessment + $1.50 non-owner occupied rate per additional property	$3,046.30

** Additional properties include cottages, apartments, multi-unit properties, etc.*

Dr. Thomas Wilson of the University of Toronto found those with net incomes of $50,000 or less accounted for approximately 58% of those reporting rental property capital gains. [15]

The result of Double Taxation is simple: costs will be passed on to the public (i.e. rent increases) and will rise over time.

In 2007, research by Professor Michael Haan of the University of Alberta and Genworth Financial revealed that 52% of all immigrants to Canada successfully purchased a home within three years of arriving. But in those first three years, they were tenants.

For this reason, New Brunswick must take steps to encourage private sector development of quality, affordable rental housing to attract more immigrants. A critical time is the “bridge” period (one to five years) when the majority of immigrants rely on rental housing. The current tax structure actually penalizes immigrants during this “bridge” period as they work to build a new family life in New Brunswick.

About NBREA

The New Brunswick Real Estate Association (NBREA) represents over 1,000 REALTORS®. The association serves its members through a variety of educational programs, publications and special services. The NBREA through private legislation provides all pre-licensing real estate courses and continuing education. The Association also co-regulates the industry in partnership with the Department of Justice.

Most REALTORS® in New Brunswick are also members of one of the four local real estate Boards, which provides local professional services including the Multiple Listing Service®, or MLS®. The MLS® trademark is held by the Canadian Real Estate Association, and is licensed to these individual Boards and REALTORS® for their use in the trading of real estate. The MLS® is developed and paid for by REALTORS®.

REALTOR® is also a national trademark, which identifies real estate professionals who are members of the Canadian Real Estate Association and subscribe to high standards of professional service and a strict code of ethics.

The New Brunswick Real Estate Association and its member REALTORS® are committed to the philosophy of enhancing the quality of life in the province, and its communities. This philosophy incorporates ensuring economic vitality, preserving the environment, protecting property owners, and building better communities. REALTORS® have always been active in their communities, and the Quality of Life program ensures NBREA reflects that work.

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