

BRINGING
common sense
TO PROPERTY TAX



Provincial
Election

2018

The New Brunswick Real Estate Association (NBREA) is a provincial association of REALTORS® working together to strengthen and promote standards of professionalism. The NBREA was incorporated in 1958 and today represents over 800 agents, salespeople and affiliate members throughout the province.

A PROPERTY TAX SYSTEM THAT IS FAIR AND TRANSPARENT

Since 2010, REALTORS® in New Brunswick have been advocating for a modernization of the property tax system and accompanying municipal reform.

The sheer magnitude of change implies a phased-in approach, so the government can coordinate modernization with revenue adjustments for both municipalities and the provincial treasury. The New Brunswick Real Estate Association (NBREA) recognizes that this “taxation modernization” cannot be done in a vacuum, and cannot be done for short-term gains. We recognize the financial challenges the government faces in developing solutions to property taxation issues.

NBREA first expressed concern about the provincial property tax system in 2010 when it published a comprehensive review of property tax issues in New Brunswick. It recommended the first priority be a property tax system that is fair for all residents.

The Association defines “fairness” as having a statistical methodology for calculating assessment increases based on real market conditions. This means recognition in the system that prices can go down, or remain unchanged, and that increases are not considered a “norm”.

Our 2018 REALTOR® survey shows that property taxes are the single biggest concern for real estate in New Brunswick, according to home buyers and sellers. A study done by the online market research and property search site Zoocasa.com in July 2018 showed that of 25 major markets in Canada, property taxes were the highest in Fredericton and Saint John, despite the affordable housing prices in both cities.

FAIRNESS SHOULD APPLY TO PROPERTY ASSESSMENTS

Property value or assessments have been identified as being at the heart of the issue, as assessments 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.

Statistics show that almost all of the residential real estate transactions in New Brunswick reported through the MLS® system in 2017 involved assessments that did not reflect true market value.

NBREA believes 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 equivalent to cost-of-living increases, should determine what the assessed value is. Major renovations would be the exception.

The verification of the assessment process should be that when a residential property is sold, the actual amount paid becomes the assessed value.

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 Association notes that Service New Brunswick has been developing a more “hi-tech” approach to assessments, using visual aid technology to determine property value. It must be noted that these should still require verification by employees with expertise and market knowledge.

In 2017, the five real estate boards in New Brunswick reported a total of 7,935 residential transactions through the Multiple Listing Service® (MLS). The MLS® reports show that 42 per cent sold for an amount greater than the assessed value at the time of sale. 56 per cent of residential properties sold in New Brunswick in 2017 were sold for a price below the assessed value.

This means that 98 per cent of MLS® residential transactions in New Brunswick in 2017 involved assessments that did not reflect market value.

It is the tax rate that should provide the equitable distribution of the property tax burden, and not the assessment. In other words, the assessment is used only to determine the value of the real property being taxed, while the tax rate is used to determine tax revenues or distribute the tax burden. Using assessment for any purpose other than determination of real market value of a property only aggravates deficiencies in the system.

It is essential that the frequency of re-inspections be increased, but there are other implications in the equitable application of the “real market value” concept that must also be addressed. This also includes acknowledgement of the possibility that real market value may decline. Real estate markets are based on supply and demand determining the appropriate sale price for a property. There are motivated sellers and buyers who agree on a price, and that price reflects the current market value of the property.

FAIRNESS SHOULD APPLY TO HOW THE LAND TRANSFER TAX IS CALCULATED

The current policy of using EITHER purchase price OR assessed value (whichever is higher) is unfair.

With other commodities consumers are taxed on the actual price - it should be no different for real estate transactions. The current policy also cannot reflect real market conditions for the property involved. If there is a market downturn within the 12 month assessment cycle, it would be reflected immediately in the real price paid. It may only be reflected in the assessed value years later. In real estate, the real value of a property is what a buyer is willing to pay, not what someone thinks it could be worth.

Government policy should be to apply the tax on the actual purchase price if the real property is being transferred as a result of a registered transaction. Just as other provincial taxes are applied to the actual price, the same policy should apply in a real estate transaction. The government should not be applying tax on an amount they believe is higher; the tax should be applied on what the consumer actually paid.

In 2017, using MLS® sales records in New Brunswick, 56 per cent of buyers paid the Land Transfer Tax on an amount greater than what they actually paid for the property. This is because the assessed value was higher than the actual sale price, and the government goes for the greater amount. Expressed another way, 56 per cent of all residential property sales in New Brunswick involved a Land Transfer Tax payment greater than what was required if the tax had been calculated on the actual price paid.

What is fair? Pay tax on what is, not on “what if”.

FAIRNESS SHOULD APPLY TO HOW PROPERTIES ARE TAXED, AND TAXED BASED ON SERVICES PROVIDED

All properties in New Brunswick should be taxed on an annual basis using the same methodology. Under our current system, some residential properties qualify for a full rebate of the provincial property tax. Others do not. It is a system introduced more than fifty years ago to help pay for the expansion of provincial government programs. This is unfair because properties are taxed based on how they are used or occupied, and not based on the property type and value.

It's known as double taxation.

New Brunswick is the only province with this taxation method, and it has been identified as a deterrent for both real estate investment and business development.

In addition to residential properties, where the owner does not occupy the property, it applies to commercial property, rental property, cottages, factories, and apartment buildings.

For example, non-owner occupied residential properties pay both a municipal and a provincial property tax. Anyone considering the purchase of a home or cottage in New Brunswick as an investment must calculate both of these taxes as an annual cost, and there are NO additional services provided.

As the Apartment Owners Association has pointed out, that double taxation policy affects approximately 250,000 renters in New Brunswick. The Association notes that property taxes for apartments in New Brunswick are nearly twice as high as those in the rest of the Maritimes, and more than 2.5 times higher than those in the rest of Canada. In New Brunswick it takes the equivalent of more than two months' rent for a landlord to pay for property tax, compared to one month in other provinces. The Association estimates that elimination of the double tax would save each tenant \$600 a year.

The double tax is not simply a real estate investor's issue. It is also a business issue. As an example, based on 2017 tax rates for a building assessed at \$5 million, an owner in Saint John would have paid \$242,800 in

combined municipal and provincial property taxes. By comparison, the owner of a building assessed at \$5 million in Halifax would have paid \$167,000 in property taxes.

In December 2017, the C.D. Howe Institute published a study of business tax levels in major Canadian cities. The report noted that there are gaps in the way governments measure the overall tax burden on business investment, primarily because they ignore business property and land transfer taxes. The report says these taxes represent about two-thirds of the total investment tax burden and when included in the calculations, the highest business tax burden in all major Canadian cities was in New Brunswick. This dubious distinction is again the result of “double taxation”.

We call on all candidates and all political parties to commit to the development of a fair property tax system for New Brunswick.

The property tax system is a critical part of the overall financing for both the province and our municipalities. It impacts our potential for economic growth. NBREA is recommending the creation of a task force with a mandate to recommend changes to the property tax system so that it is fair, reasonable, and based on sound methodology. Task force members should include not only members of the legislature, but stakeholder representation as well. The mandate should include consideration of all aspects of what is required for a fair and equitable property tax system. This includes recommendations on who does the assessment, the guidelines that are used, and the rights and procedures for appeal.

NBREA is recommending a comprehensive review of the province's entire property tax structure, to ensure that New Brunswick follows best practices, and is competitive in a global marketplace with a fair and equitable tax system.

NBREA members are here to help resolve these complex issues, providing the expertise of REALTORS® in New Brunswick who deal with these property tax issues every day as they help families make the single biggest investment of their life.



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