



Monday » February
11 » 2008

Ottawa property-tax system 'a steamer trunk full of worms'

Critics of Ontario municipal taxation say no amount of tweaking can bring fairness to an assessment system based on property values. Some say it's time to scrap it and base taxes instead on income -- or even how much residents consume

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After years as a city politician, leading city council's planning committee, chairing the board of the province's property assessment company, and studying the the property tax system looking for ways to improve it, Alta Vista Councillor Peter Hume thinks it might be time to chuck the whole mess and start again.

Mr. Hume says looking for ways to put fairness back into the current provincially controlled system is probably a hopeless pursuit because it's so old, it couldn't possibly be made fair and workable in the modern day. He doesn't know how municipalities should raise revenue, although he has some ideas.

Don't hold your breath: For the second time in a week yesterday, the McGuinty government said it has no plans to look at new systems any time soon.

Mr. Hume said this is unfortunate because the factors that made the system appropriate more than a century ago when it was adopted to raise municipal funds have disappeared or changed so much, it's time to look at drastically different ways of determining who pays what percentage of the municipal funding pie.

"This is a very, very old system, and I think it's time we start to see we can't tinker enough with it to make it work," he said. "We have to ask ourselves: Is this system we have appropriate to modern-day life and all the ways things have changed over the last century?"

Mr. Hume said where people want (and have) to live, how they live, the socio-economic and environmental impacts they have, the public resources they consume, the values they have, society's goals, the services municipalities provide and many other factors are vastly different today than they were at the start of the last century -- while the way we determine who pays what remains the same.

"It's time we at least look at fundamental change because I'm not sure the current system can take all these things into account," he said. "This is a very tough issue, and any new system will be controversial because there will be winners and losers, but we absolutely owe it to citizens to at least look at different ways of doing this and trying to make it fairer."

Nothing, it seems, raises peoples' blood pressure more than property taxes -- and it's been this way for years as successive governments have tweaked the system, creating more winners and losers each time.

This week, anger was unleashed again when municipal officials rang the alarm bell about increasing unfairness in the system and called on the provincial government to fix it or give them the power to do it.

They are concerned that home prices, the only factor determining tax distribution, are rising faster in the urban area when compared to rural and suburban areas. That means urban residents are footing a larger and larger share of the municipal tax burden. The imbalance is going to get worse when a three-year assessment freeze is lifted later this year.

The freeze was ordered by the Ontario government after the provincial ombudsman found practices at the Municipal Property Assessment Corp. "unreasonable, unjust, oppressive and wrong." During the freeze, the provincial government made minor changes, including assessing property values once every four years, instead of yearly, and phasing in the assessment increases or decreases.

City leaders said these changes in how the system is administered do nothing to fix its basic unfairness. They said Ontario's government needs to overhaul the system, or even scrap it in favour of an income-based approach.

The province shot back that it has made changes mitigating the impact of rising relative property values, and that if city officials think the system is unfair, they have the legal tools to mitigate the problem.

Municipal officials say it's absurd to suggest they have enough tools to fix unfairness and the government should rethink its rigid position on the subject.

Calls to Premier Dalton McGuinty this week to ask whether the province's leader would even entertain proposals from municipalities for a new system were referred to rookie Ottawa Centre MPP Yasir Naqvi. He repeated the government's line -- no.

As the governments were fighting last week over who's to blame, angry homeowners flooded the Citizen's electronic message boards, wrote letters, and filled radio talk-show hours. It seems most people's views on the current system, and on any possible replacement, depend on where they live and whether a change would mean their taxes went up or down.

So it's community against community, neighbour against neighbour, politician against politician.

Carleton University professor Allan Maslove, a tax expert who has studied municipal tax systems for years, summed up the issue: "This problem, and the possible fixes and options, is not a can of worms," he said. "It's more like a steamer trunk full of worms."

The goal, he said, is making everyone's tax burden fair, but everybody thinks he or she is paying too much tax relative to others, so the underlying problem is to define what "fairness" is.

Other jurisdictions answer the question many ways. Some U.S. states and almost all European countries add a municipal tax to state or federal income taxes then pass the money down to city governments. Other places, such as many cities in Australia, rely on road taxes and garbage fees, or have hefty municipal sales taxes. New Orleans, before it was devastated by Hurricane Katrina, derived the bulk of its municipal funds from a large hotel tax paid by swarms of tourists.

Still other places, like Switzerland, raise municipal funds through a combination of all these things -- and a relatively small property tax based on the size of homes.

The goal of all these systems is to raise enough money to pay for municipal services in the fairest manner. That was the idea here when Ontario's current system was developed. The thinking was that people with more expensive homes are richer and should therefore pay more tax.

The problem, critics say, is that the price of a house is not determined by the same factors now as it was a century ago.

Location is much more important to buyers today, as is evidenced by the fast-rising price of homes in the downtown core. Even in neighbourhoods with histories of crime and other social ills, such as Hintonburg and West Centretown, houses often sell for the same prices as much larger ones in the suburbs. People of modest incomes who bought in cheaper urban areas that are becoming more popular are seeing their home values -- and taxes -- rise sharply while their incomes remain constant. Meanwhile, many suburban and rural homeowners see drops in their taxes.

For example, one house in Chinatown that has had minimal upgrades was assessed at \$160,000 in 2003 and \$185,000 in 2005. Last week, it was appraised at \$315,000. This is nearly a 100-per-cent increase in five years, a dramatic increase compared to properties in other parts of Ottawa. The bonanza will be accompanied by a tax hike of nearly 50 per cent if the house is assessed at the appraised value. That's on top of the 20-per-cent increase in the 2005 assessment.

Mr. Maslove said examples like this are extreme, but the trend is clear and it's spreading to new areas of the downtown core.

Is it fair? Mr. Maslove argues there is reason to say it is.

He points out the owner of that home is accruing wealth that can be cashed out later when the house is sold. He said the gain will likely more than offset the increased amount of tax paid until the house is sold.

This does not answer another criticism of the property-tax system: it doesn't reflect the public resources property-owners consume. The cost of police and fire protection, roads and transit service, water pipes and sewers all vary according to where they're delivered. In fact, critics say, the people who consume the fewest resources are those living downtown, and under the current system, they pay the most property tax.

Neither Mr. Hume nor Mr. Maslove said he knew of a municipal tax system based wholly on consumption of local government resources, and coming up with a calculation would be difficult.

Mayor Larry O'Brien, Cumberland Councillor Rob Jellett, city treasurer Marian Simulik, director of revenue Ken Hughes and many others agree something should be done, and they think it's time to look at a municipal income tax.

Mr. O'Brien's big problem is the regressiveness of the current system.

"What we have now is unfair because it fails to take into account many things, especially what people can afford," he said. "An income-based approach would be fairer, it would take wild discrepancies in property values out of the equation, and we should be going in that direction."

For him, the No. 1 issue is people's ability to pay, and he said the best way to judge that is by people's incomes. He said many high-income earners would oppose a municipal income tax, but the principle of having the wealthy shouldering a proportionate load of the total tax burden is well-established in Canada.

Mr. Jellett said provincial and federal governments use income tax to pay for everything from health care to large infrastructure projects, so municipalities should do the same.

"We do it at every other level of government because it's the fairest way of taxing, but at the municipal level we have this unfair, volatile, confusing system," he said. "It makes no sense."

Mr. Hume said it's possible a municipal income tax's time has come, but he said regardless of the fix, one needs to be found because the current system is past its best-before date.

"With all the services and things we do now at the municipal level compared to when this system was developed, it's like we're on a road you need a Ferrari for, and we're still driving a Model T," he said. "It's time to upgrade to something better."

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