

# THE NEED FOR COMMERCIAL TAX REFORM TO ADDRESS EQUITY AND A FAIRER DISTRIBUTION OF THE TAX BURDEN IN THE CITY OF HALIFAX

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**n<sup>o</sup>rthend**  
BUSINESS ASSOCIATION

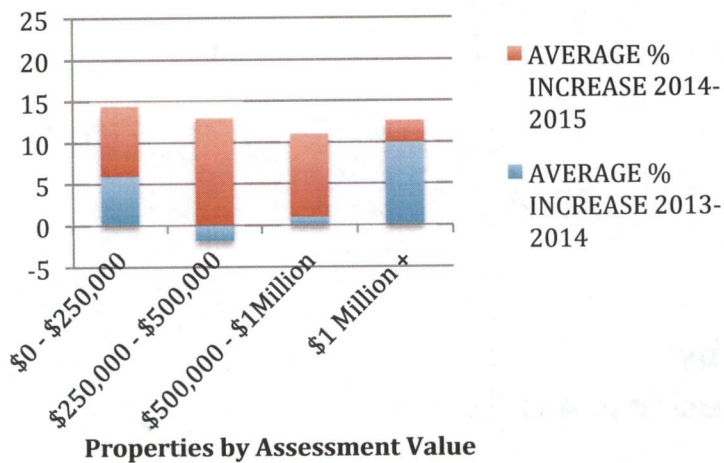


## What Are The Issues?

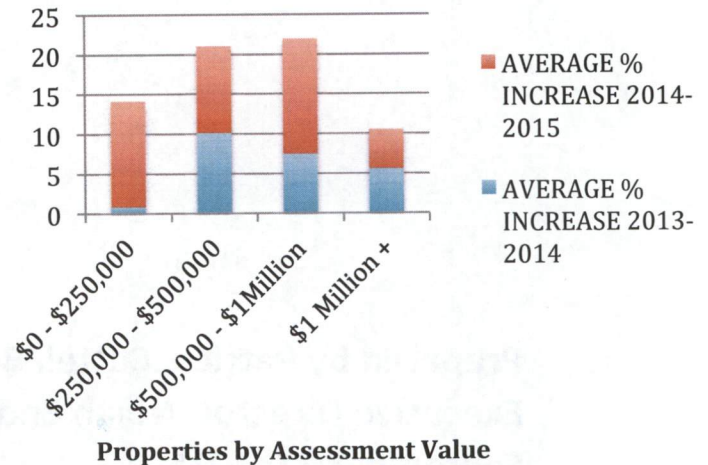
### 1. Small Businesses Being Taxed to Death Due to Assessment-Based Tax System.

Small businesses in the urban core, particularly in areas of redevelopment, are punching way beyond their weight in terms of how much they pay in commercial tax relative to the size of their business and their cost to service. Over the past three years, small businesses on Quinpool Road and in North End Halifax have seen their commercial property taxes increase significantly [Fig.1.] — in many cases more than 30%, and in some cases as high as 50%! It is expected the taxes in the North End will increase significantly next year, similar to what was experienced on Quinpool Road. The largest assessment increases are happening to properties valued between \$100,000 to \$1 million. These are the properties that are primarily support owner-operated businesses and small local business tenants.

#### NORTH END Average Assessment Increase 2013-2015



#### QUINPOOL ROAD Average Assessment Increase 2013-2015



**Figure 1.** Average Assessment Increases for North End and Quinpool Road 2013-2015. Numbers based on assessments information received by the BID associations for levy purposes. Assessment data is calculated 2 years prior to release. Increases are expected to continue to grow at a rate above inflation.

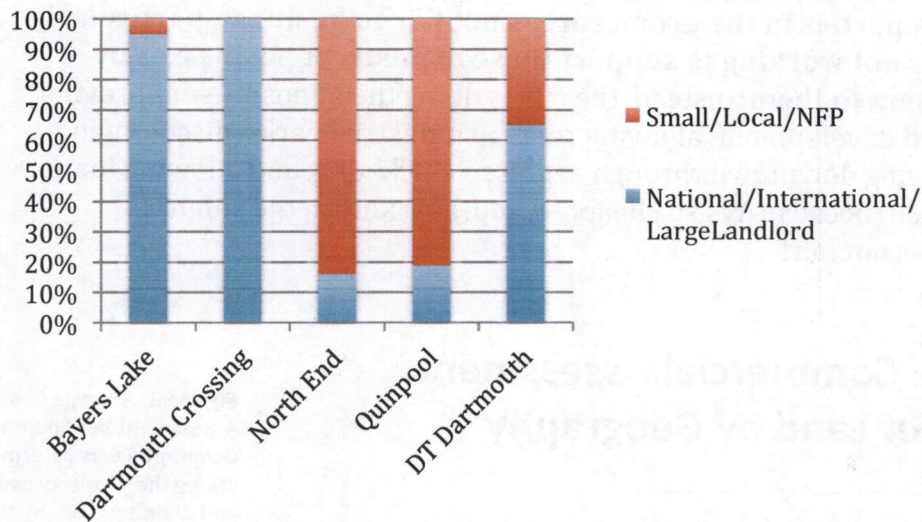
The increases are being driven by local land sales, often related to redevelopment opportunities (in-which we are seeing the conversion of commercial property into mixed use or residential property — which has its own set of implications on the future tax burden placed on commercial properties.) This trend can be expected to happen anywhere redevelopment is occurring, like Mainstreet Dartmouth or Fairview. While the city argues that the commercial property owners enjoy an

increase in the value of their property asset, for most business owners the issue becomes whether or not they are able to stay in business. When increases in assessment out pace the rate of inflation, it is difficult, often impossible, for businesses to make up the difference. Most property owners in these mainstreet districts are either “in business” — running and operating small locally owned businesses that create local jobs and service local communities (like Aerobic First, or Robertson’s Computers), OR, are acting as landlords of small commercial buildings renting space to small locally owned businesses [Fig. 2.]. These commercial property owners are not in the real estate business of making money from flipping or developing properties. Massive tax increases of 30% to 50% cannot be absorbed by the businesses through increases sales. This has left many with some tough choices: stay in business, or sell the property. ***We do not believe this should be the intended consequence of the commercial property tax system.***

*Many business owners are considering a tough choice: try to stay in business, or sell the property.*

**We do not believe this should be the intended consequence of the commercial property tax system.**

### Percentage Breakdown of Small vs. Large Business by Area



**Figure 2.** Small/Local/NFP is defined by a) commercial property owners that operate a small business out of their commercial property (think Aerobics First, Robertson’s Computer Equipment, Carlos Auto), b) local independent land lords renting to primarily small locally owned businesses and not-for-profits (think Creative Crossing, Don Hunt), and c) not-for-profits that own their own buildings (NECHC, MNFC). Some corrections required for Dartmouth — it was determined there are more small/local/not-for-profit properties than originally counted.

Both of these scenarios (owner-operators and small local landlords) are critical components to “complete communities” and the stated goals of the Halifax Regional Plan: “Design, plan and build with respect for economic, environmental, social and cultural sustainability.” If the plan does not consider existing businesses and the people who have invested in this community and economy, than whom is the plan for? ***There is a need for the city to align its plans and policies, so efforts like the regional plan are supported by progressive and responsive tax policies and tax systems.***

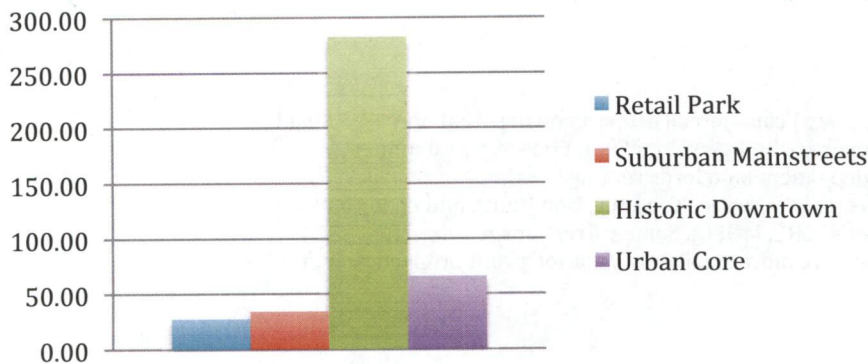
*“Design, plan and build with respect for economic, environmental, social and cultural sustainability.”*  
Halifax Regional Planning Strategy 2014, pg 8

## 2. Urban Areas Carry a Much Heavier Tax Burden in Comparison to Suburban Areas.

Commercial properties in the urban core pay a great deal more in taxes than commercial properties in the suburban periphery [Fig. 3]. The reason for this is the **single rate assessment-based property tax system** used by the city. By using the single rate assessment system, properties located in higher assessed areas pay significantly more despite a) their ability to pay more (impacted by everything from freak weather systems to a poor economic climate), or b) the cost to service them (water/sewer, roads, snow plowing, police and fire, etc.). **Highly taxing commercial properties in the urban core is not fair to business, particularly when the city is not working to support those mainstreet businesses by driving customers to them.** Instead, the city is doing the opposite — approving cheap green field development, allowing retail in industrial parks, discouraging people from driving downtown through aggressive ticketing, and allowing for an abundance of free (because it is so cheaply taxed!) parking in the suburbs. Something seems not fair!

**If the plan does not include existing businesses, than whom is the plan for?**

### Average Commercial Assessment PSF of Land by Geography



**Figure 3.** Average Commercial Assessment Per Square Foot By Geography was determined by taking the property assessments and dividing them by the area of lot. PSVC uses building size to determine assessment per square foot, but that information is not available to the public. Nonetheless, using land area also provides an interesting comparison — as it more closely correlates to cost to service. Compact urban form is cheaper to service and generate a higher tax yield (even at a less rate!) than sprawled suburban development.

On Quinpool Road, more than 50% of assessments have doubled or tripled since 2010, but there has been little to no investment in the area. As assessment values continue to soar, it is ultimately the large real estate developers that will benefit — which begs the question, where does the city see small business fitting in the overall economy and plan for the city?

### 3. Current Structure Favours Large National and International Businesses Rather Than Small Independents

BUSINESS AREAS	AVERAGE ASSESSMENT PER SQUARE FOOT	AREA (SQUARE FOOT)
BAYERS LAKE	\$16.35	13,413,382
DARTMOUTH CROSSING	\$38.43	7,344,948
MAIN STREET DARTMOUTH	\$34.20	3,046,904
QUINPOOL ROAD	\$98.70	808,187
DOWNTOWN HALIFAX	\$273.22	3,897,896
DOWNTOWN DARTMOUTH	\$31.84	2,711,898
SPRING GARDEN ROAD	\$292.48	517,588
NORTH END	\$67.04	1,451,501

**Figure 4.** Average Assessment Per Square Foot Comparison. When looking at Average Assessment Per Square Foot of Land, retail parks pay a lot less based on the single rate commercial tax system. Data based on assessment information released in 2014-2015, and values researched from Property On-Line, 2015.

Highly assessed areas are most often mainstreet commercial areas where small mom and pop shops, unique small independent retailers, and the offices of book keepers and small service providers like web-designers, are located. These small businesses have sometimes been in these areas for years — providing jobs, supporting families, and enhancing the culture and diversity of our city. In many cases mainstreet commercial districts have influenced where people have chosen to live and work. By contrast, retail parks like Bayers Lake and Dartmouth Crossing are where large national and international businesses are located [Fig. 2]. These businesses support mostly minimum wage part-time work and their considerable profits go outside of the province [Walmart, Costco, Loblaws, Gap Inc.]. Their buildings are cheap by design, they build on cheap land, and they have little

investment in well-being and economic sustainability of the city — but benefit considerably from costly municipal infrastructure and services. The single rate assessment system the city uses to determine commercial taxes ultimately favours greenfield development on cheap land, and results in big box retailers paying a lot less per square foot [Fig 4.] than the more efficient compact development in the urban core that supports small businesses.

The consequence is small businesses are paying a bigger proportion of the tax burden, relative to what they are — small. These small businesses have the lesser ability to carry this bigger piece of the tax burden.

An extreme example is the assessment of the former Mills location on Spring Garden Road. Three years ago its assessment was \$2.2 Million, two years ago \$4.4 million, now it is assessed at almost \$7 million. Per square foot value of land is \$267.67. When compared to Costco in Bayers Lake which is assessed at \$17.94 per square foot, — any ability for small businesses located in downtown to compete is destroyed. The impact is that this location, home of a very prominent locally owned business in existence since 1919, has now been taxed out of existence. No local business could afford to locate in this building. It again begs the questions: who are we managing this city for? And how do we explain that businesses from here pay expenses for those from away who are taking their profits out of our region?

#### **4. Tax System Based on Real Estate Market Only — Does Not Encourage Economic Diversity!**

The notion that property owners whose assessments increase are benefitting from an increase in their asset value is a little misguided. It uses the notion that economic development is based solely on real estate market. It does not consider the idea that many people — like owner of Starboard Wealth on Agricola, or the owner of Garden of Eat'n, chose to locate their business in a particular area because that is where they want to live and work. Starboard Wealth owner Laurie Stephenson purchased a run-down property on Agricola and renovated it into a small commercial office building because she wanted to live and work in North End Halifax. She is a community-minded individual. She rents out five small offices to local small businesses (like a massage therapist.) The renovations to her building increased the appeal of the North End as a place to live, work and play. As a result of her investment, her taxes have increased to almost \$14,000 year — and her tenants do not pay enough for to see any return on her investment. She wishes to continue to have the building as her company head-quarters, where she employs 4 people, and provide office space that affordable for small businesses, but if the economics don't work she will be forced to sell or convert her building to residential. Essentially it is not a viable or profitable endeavour for landlords to own and make improvements to small commercial buildings in the urban core. This has many consequences — not only for providing space for other small businesses and start-up, but by discouraging people from fixing up their buildings. Why bother? It is the

year-to-year operations which most 'tax' her ability to keep the office building viable. It was never her intent to fix it up and flip it — which is what the current commercial tax system is based on. Again, the city needs to align its plans with its policy if it wishes to encourage 'complete communities' and a diverse economy.



Figure 5. Before and after photos Starboard Wealth Building

*Knowing that the city needs to raise revenues to support municipal operations and administration, what are the other objectives of the commercial tax system? How is the methodology of taxation explained and justified? And how are the unintended consequences being measured and mitigated?*

## 5. Historic Downtown is Hollowing Out and Is In Need of Intervention.

The historic downtown used to be this region's economic hub. In that role, it supported the surrounding areas. But as the region sprawled, the role of the downtown as an economic hub has changed. The tax system has not recognized this change, and continues to use revenues generated from downtown commercial properties to subsidize activities throughout the region. As a predominately commercial district, an intervention is required to bring it back to its historical prominence. The city has created highly assessed areas [Fig. 3 and 4], but is not directing or encouraging business to the areas they are taxing the heaviest. Other commercial districts in the urban core are impacted by the health of the historic downtown. It is in all of our interests, in the urban core and beyond, to support the investment in our downtown.

## 6. What Is The Real Cost To Service?

We have done a search of available information and cannot find any primary research on cost to service commercial areas. We do know based on Residential Patterns that urban forms with higher densities cost less to service [Fig. 5]. Extracting from that, we could assume the same for commercial. Yet urban commercial areas pay much much more in taxes compared to their suburban counterparts. If taxes are not based on services and are suppose to be more about distribution of wealth — well how does that theory apply in the case of small businesses being whacked with massive assessment hikes drastically increase their while the big national and international businesses in the business parks pay comparatively less?

Another question, for which we have received no clear answer, is: Knowing that the

city needs to raise revenues to support municipal operations and administration, what are the other objectives of the commercial tax system? How is the methodology of taxation explained and justified? And how are the unintended consequences being measured and mitigated?

## Residential Patterns

### SUMMARY ESTIMATED ANNUAL COSTS PER HOUSEHOLD (LISTED ACCORDING TO DENSITY)

	Pattern A <sup>1</sup> Rural Commutershed	Pattern B <sup>1</sup> Rural Commutershed	Pattern H <sup>1</sup> Rural Commutershed	Pattern C <sup>1</sup> Suburban	Pattern D <sup>1</sup> Urban	Pattern E <sup>2</sup> Suburban	Pattern F <sup>2</sup> Urban	Pattern G <sup>2</sup> Urban
	Low Density 1.2 people/acre	Low Density 2.2 people/acre	Low Density 10.4 people/acre	Low Density 16 people/acre	Low Density 22 people/acre	Mid Density 36 people/acre	Mid Density 36 people/acre	High Density 92 people/acre
<b>Common Services:</b>								
Roads (no curbs)	\$1,053	\$621	\$339	\$280	\$184	\$76	\$124	\$26
Solid Waste	\$200	\$200	\$200	\$185	\$185	\$185	\$185	\$185
Libraries <sup>4</sup>	\$72	\$72	\$72	\$72	\$72	\$48	\$48	\$38
Parks/Recreation <sup>4</sup>	\$129	\$129	\$129	\$129	\$129	\$86	\$86	\$69
Police <sup>4</sup>	\$360	\$360	\$360	\$360	\$360	\$240	\$240	\$192
Fire <sup>4</sup>	\$324	\$324	\$324	\$406	\$379	\$231	\$248	\$177
School Bussing	\$186	\$186	\$186	\$87	\$25	\$58	\$17	\$13
Culture/Economy	\$36	\$36	\$36	\$36	\$36	\$24	\$24	\$19
Governance	\$297	\$297	\$297	\$297	\$297	\$198	\$198	\$158
HRM to Province	\$435	\$435	\$435	\$435	\$435	\$290	\$290	\$232
<b>Subtotal</b>	<b>\$3,092</b>	<b>\$2,660</b>	<b>\$2,378</b>	<b>\$2,287</b>	<b>\$2,102</b>	<b>\$1,436</b>	<b>\$1,460</b>	<b>\$1,109</b>
<b>Other Services:</b>								
Curbs&Sidewalks	\$0	\$0	\$0	\$194	\$128	\$52	\$86	\$27
Transit <sup>4</sup>	\$171	\$171	\$171	\$171	\$171	\$114	\$114	\$91
Water	\$425	\$425	\$425	\$197	\$176	\$77	\$146	\$42
Waste/Stormwater	\$625	\$625	\$625	\$613	\$514	\$235	\$364	\$147
<b>Subtotal</b>	<b>\$1,221</b>	<b>\$1,221</b>	<b>\$1,221</b>	<b>\$1,175</b>	<b>\$989</b>	<b>\$479</b>	<b>\$710</b>	<b>\$307</b>
extended <sup>5</sup> Water/Wastewater	\$927	\$234	-\$219					
<b>Total</b>	<b>\$5,240</b>	<b>\$4,115</b>	<b>\$3,380</b>	<b>\$3,462</b>	<b>\$3,091</b>	<b>\$1,914</b>	<b>\$2,170</b>	<b>\$1,416</b>

- 1) Household size estimated at 3 people per household
- 2) Household size estimated at 2 people per household
- 3) Household size estimated at 1.6 people per household
- 4) Costs allocated simply on "per capita" basis
- 5) incremental on-going (annual) costs, only; does not include remediation/installation (capital) costs

**Figure 5.** The city has attempted to calculate the service costs for residential development. If they same methodologies hold true for commercial development, then commercial districts in the urban core cost a lot less to service than businesses in the suburban and rural areas. As business districts "intensify", like what is being proposed for Mainstreet Dartmouth, than the cost of delivering services should start to decrease as the urban form becomes more compact and efficient.

[https://www.halifax.ca/regionalplanning/documents/HRMInfrastructureChargesStudy\\_FinalReport\\_Oct24\\_06.pdf](https://www.halifax.ca/regionalplanning/documents/HRMInfrastructureChargesStudy_FinalReport_Oct24_06.pdf)



## Why This Matters So Much: The Ripple Effect

In summary, the current tax system is having, perhaps unintended, negative consequences on existing businesses in the urban core. Unless something is done to address this, the adverse effects that we will continue to experience are:

- Conversion of commercial to residential
- People not investing in urban core properties (Starboard Wealth example)
- More businesses leaving the urban core (Service Nova Scotia!)
- Loss of small affordable office space in urban core which is critical for start-ups, young entrepreneurs, and local independent businesses
- Small local businesses selling or closing their doors
- Continued disconnect between regional plan and the creation of complete communities
- **Large national and international businesses not paying their fair share!**

Small businesses are an integral part of our economic eco-system. The wealth they create stays in the communities — and in return supports other aspects of our economy (like real estate and property values!) and is tied in (directly and indirectly) to other initiatives being championed by all levels of government. “A study done in 2003 in Austin, Texas, by the American Independence Business Alliance found that out of every \$100 spent at a nationwide chain store, only about \$13 stayed in the local economy. However, **out of every \$100 spent at a locally owned and operated business, about \$45 stayed in the local economy.** This provides a huge boost to other local businesses, workers and families in the local area” (Writing, Alexis, Houston Chronicle). We need more small businesses — not fewer. And we need to align all our goals and objectives.

## The Solutions

The economic health and vitality is a critical piece of the overall health and well-being of the municipality. There is a role for the municipality to play and steps they can take to mitigate the perhaps unintended consequences of a tax system that has lost it relevance as a tool for directing and encouraging the kind of economic growth our city needs. Solutions include:

## **Keeping Money in the Area**

*Another advantage of local businesses is that more of the money spent at a local business stays in the local area. A study done in 2003 in Austin, Texas, by the American Independence Business Alliance found that out of every \$100 spent at a nationwide chain store, only about \$13 stayed in the local economy. However, **out of every \$100 spent at a locally owned and operated business, about \$45 stayed in the local economy.** This provides a huge boost to other local businesses, workers and families in the local area.*

Alexis Writing,  
<http://smallbusiness.chron.com/benefits-businesses-local-economy-265.html>

## **1. Creating a Small Business Tax Break.**

To stop small business from paying a disproportionate share of commercial property taxes a special small business rate could be developed with eligibility criteria set to match existing federal income tax regulations for access to the small business corporate tax rate. Under federal and provincial income tax rules a corporation like Walmart pays 50% of its profits in corporate tax, a small business 14%. Use of a small business rate could reverse the imbalance we see now where the small business on a local street is paying 3 or 4 times more taxes per square foot than the non-locally owned large national and international businesses. Small business should contribute reasonably to the costs of the municipal services associated with their locations, the tax relief provision would apply to taxation levels above a set per square foot base amount.

## **2. Differentiated Tax Rates**

The immediate solution to address issues of decline downtown and to support small business as a viable option in Halifax's urban core is to simply refine the existing assessment based system through the use of multiple commercial tax mill rates.

Rather than the single rate we use now we could use multiple rates which adjust the tax collected from the assessments to achieve more rational and fair economic outcomes. For instance there could be a lower mill rate used in the downtown to reflect the lower cost of service and to reflect the economic objective that a healthy downtown creates for any community. **In the Canadian context there is established precedent for the use of multiple mill rates. For instance both Toronto and Vancouver have multiple mill rates with ten and nine different mill rates respectively.**

## **3. Current Use**

Assessments could be based on the present use of a building not the speculative possible use of a building based in its land converted to a different use.

## **The Challenge**

Tax reform is a perplexing challenge. There are many things to consider including the roles of municipal and provincial government, the legal authority to make changes to the existing system, political understanding and will to make informed decisions around changes, and understanding the impact changes will have — including impacts on property owners of all sizes and their tenants. But one thing is clear: There is an issue around tax equality. Good tax policy should consider the following things:

- Taxation that reflects the recovery of the cost of providing municipal services;
- Ability of businesses to pay;
- Not interfering with economic competitiveness;
- Respect for governments;

*The fear [...] is that property owners will be forced to either sell their buildings or raise rent to a point that prices out current tenants, which would chip away at the independent nature of the shops and eateries along Quinpool.*

*“What, in turn, happens is people leave the area and go ... somewhere else that’s more affordable. So what you’re left with is empty buildings.”*

- Simplicity, stability, transparency and accountability.

The current system is not based on recovery of costs — at least not the recovery of costs consumed by different business types located in different geographic regions with different service uses. It does not reflect the reality of a business’s ability to pay. It is not equitable — in that some areas are subsidizing others beyond their own ability to thrive. And it does not promote efficiency in terms of how the city manages growth and its ability to sustain that growth.

These are complex issues — but serious issues that need to be addressed, even if it is challenging. The status quo is challenging for small business owners — and impacts not only individual lives and livelihoods, but also the economic health and sustainability of our city and region.

**We commend and support the efforts of the City of Halifax for looking into these issues and working toward a solution. We encourage council and staff to accept our recommendations.**

North End Business Association  
Quinpool Road Mainstreet District Association

<http://thechronicleherald.ca/business/1265525-quinpool-road-businesses-blast-%E2%80%98ridiculous%E2%80%99-tax-increases>

## **14.1 Ratification of Motion from Committee of the Whole – Commercial Tax Options for Small Business Motion:**

It is recommended that Halifax Regional Council direct the Mayor to write the Minister of Municipal Affairs to:

(1) Request that the Provincial Government, in order to increase predictability for taxpayers, consider making changes to the legislation governing the assessment process for commercial properties so that:

- a) The annual valuation is averaged over a three year period or,
- b) The commercial assessment roll is updated every three to four years, as is the current policy in Saskatchewan and Ontario.

(2) And to request amendments to the Halifax Regional Municipal Charter that would provide Council with greater legislative authority in setting taxes and charges respecting the general tax rate and area rates for both residential and commercial properties, including:

- a) The authority for Council to determine and set rates and charges that are different for: I. different areas of the Municipality, II. different categories and size of businesses, and III. different classes of building and size of structures, and
- b) The authority for Council to determine and set: I. a rate or charge for frontage on a street, II. a uniform charge or amount of tax that is payable per property or per dwelling unit, III. a maximum and minimum charge or amount of tax that is payable, and IV. a surtax or graduated rates.