

**Canadian Federation of Independent Business (CFIB)  
Submission to Regina City Council  
Regarding the City of Regina 2005 Reassessment and Tax Policy**

**November 25<sup>th</sup>, 2004**

On behalf of the Canadian Federation of Independent Business (CFIB), and our members in Regina, I would like to provide comment on the 2005 Reassessment and Tax Policy report. CFIB recognizes that these changes are complex and have strong implications for the business and residential communities alike.

As many of you are aware, for some time CFIB has been active on municipal issues in Saskatchewan and across Canada. In fact, CFIB has written dozen of reports on the impact of local and provincial property taxes on small business. For example, earlier this year, CFIB issued a report entitled: *Property Tax Inequities in Saskatchewan: SMEs Pay More than Their Share*. This report revealed that on average, Saskatchewan businesses pay two times more in property tax than similarly assessed residential properties. As well, CFIB released a new research report in September entitled *Western Cities Report Card*, which compared seven Western Canadian cities on a variety of measures, including the views of local entrepreneurs. The cities included in the report were Calgary, Edmonton, Vancouver, Victoria, Saskatoon, Regina and Winnipeg. A copy of the report is attached to this document.

CFIB recognizes that many assessment-related decisions have already been made by the province, and we will continue to focus much of our lobbying there. However, your government is armed with a great number of tax tools that, if not used appropriately, could negatively impact the Regina economy.

**Impact of Property Taxes**

The impact of property taxes on Regina firms cannot be understated. In fact, when asked about the reasonable property tax levels in Regina, 53 per cent of Regina respondents said they were either good or fair, with another 48 per cent citing them as poor.

The Regina highlights in the *Western Cities* report revealed that while Regina fared well on a number of taxation measures relative to other centres, the City continues to have one of the highest effective commercial property tax rates in the West. Regina had the lowest commercial to residential tax ratio, barely edging out Saskatoon. On the spending side, CFIB said, Regina, like all municipal governments, should take a serious look at its wages, salaries and benefits. CFIB welcomes the City's plan to conduct an external operational review of the City's core services. For years, CFIB has said city governments cannot be all things to all people. We hope this review will result in the City considering alternative methods of delivering services.

## Size of Tax Gap Between Residential and Commercial/Industrial Properties

Under the existing taxation system in Regina, an average business owner pays \$1.95 in property taxes for every \$1 in taxes that a residential property owner with the same valued property would pay. CFIB is concerned that under the proposal made by city administration, a business property would be paying \$2.21 in property for every \$1 that is paid by the owner of a comparatively priced residential property. While we understand the increase in the ratio is due to the total residential assessment increasing by a greater rate than the non-residential, CFIB is concerned that the tax gap is in fact widening. CFIB believes instead of increasing the tax gap, the City should be considering reducing it to encourage more businesses and economic activity in Regina.

As stated in previous submissions, CFIB is not suggesting these changes occur overnight, we would recommend City Council to look towards developing a meaningful target and timeframe to reduce the business-to-residential tax rate gap. As you know, the City of Saskatoon implemented a plan to reduce its tax gap to 1.75 by 2010.

A narrowing of the tax gaps is necessary. Because they are so insensitive to profitability, higher than justified tax rates on business hampers the growth potential for our communities. Both jobs and opportunities are lost.

### *Property Tax Misconceptions*

Many people believe that businesses should face higher property taxes than residents, that the tax gap is in fact warranted. It has been argued that businesses consume more municipal services than residents, therefore higher taxes on business are justified. It is also a commonly held view that businesses should pay more because they have a greater ability to pay and are able to deduct property taxes from income taxes. However, these reasons are misconceptions and it is important to set the record straight.

**Misconception 1 – Businesses consume more public services:** Businesses, especially small ones actually use fewer services than homeowners. Few independent studies have been made in this area, and where they exist, they point to huge gaps. For example, in Vancouver and Toronto, businesses are estimated to pay \$2 in property tax for every \$1 in city services received.

**Misconception 2 – Businesses have a greater capacity to pay:** A lasting, but inaccurate justification for imposing higher property taxes on businesses has been that they are better able to afford it. This is simply not true. Many small firms operate on very tight profit margins and when high property taxes squeeze these margins further, they have fewer resources to put back in the business. As a result, firms may have to forgo opportunities for expansion, which means job creation opportunities are also lost.

**Misconception 3 – Businesses benefit from the tax deductibility of property taxes, therefore they can absorb higher rates:** The argument that businesses benefit from the tax deductibility of property taxes and therefore they can absorb higher rates does not stand up either. It presumes that all businesses are able to benefit from tax deductions. Businesses that are struggling, just breaking even, or losing money don't receive a deductibility "benefit". Further, the ability to deduct property tax does not account for the inequity between residential and business properties. Even when tax deductibility is taken into account, the tax gap remains.

### **Support for Base Tax**

There have been many debates over the past few weeks on the issue of a base tax. It must be noted that small business has a keen interest in keeping residential property taxation as low as possible. In addition to reducing spending, CFIB urges council to strongly consider implementing a base tax. In fact, when surveyed, 70 per cent of small business owners agreed that a base tax for basic core services should be implemented for all homeowners. Many say local government services are enjoyed by all taxpayers and the costs must be shared by all taxpayers. It should be noted that the City of Weyburn will introduce a \$400 base tax on Jan. 1, 2005.

### **Tax Phase-in for Commercial and Industrial properties**

CFIB believes that stability is critical for the success of any property tax reform measure. Most reforms get bogged down because of the formation of extreme positions among tax winners and losers. Setting a limitation on the annual tax shifts – in effect, phasing shifts in gradually – would remove the influence of the extremes.

### **Conclusions/Recommendations:**

While we are pleased the Administration recommended that there be no tax shift towards the commercial sector, CFIB is disappointed there remains no strategy to see an overall reduction in the tax gap between residential and business properties.

In order to start moving in the right direction, CFIB urges the City to consider the following:

- Set a meaningful target and timeframe to reduce the business-to-residential tax rate gap. The goal should reflect the relative value each property class receives from municipal programs and services.
- Stability is critical for the success of any property tax reform measure, and therefore the City is encouraged to consider phasing shifts in gradually.
- Adopt a base tax. Many believe that local government services are enjoyed by all taxpayers and the costs must be shared by all taxpayers.

Building a fairer tax environment ensures sustainable jobs, investment and a healthy community. Thank you for this opportunity to provide you with the views of our small business owners in Regina on these very important issues. I look forward to working with each of you in the months ahead.