

*Improving New Brunswick's  
property tax system:  
A white paper*

## **Improving New Brunswick's property tax system: A white paper**

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# 1. Introduction

*“New Brunswickers are frustrated by property taxes that seem to be out of control and the ways in which all levels of government squabble over who’s really responsible.” – Putting New Brunswick First* – Platform commitment on property taxes, September 2010

In the spring and summer of 2010, many New Brunswickers were expressing significant frustration with their property taxes. At that time, many property owners across the province had been experiencing considerable growth in their property taxes. At the same time, apartment owners and renters across the province were questioning the taxation framework dealing with their properties.

The Government of New Brunswick’s platform commitment to implement a temporary three per cent assessment cap for a two-year period allowed the necessary time to analyze the current taxation system and to develop the first major change to property tax in decades. The temporary cap was applied to owner-occupied residential properties (homes) for the 2011 and 2012 taxation years and provided some much needed stability in tax bills during that period.

Soon after, a public consultation was launched on local governance and property taxation led by the Minister of Local Government. From February until June 2011, the Government of New Brunswick held public meetings in 10 communities across the province; met with municipalities, local service districts (LSDs) and various other stakeholders; and received submissions from the general public. All together more than 1,600 stakeholders took part and provided the Government of New Brunswick with their opinions.

Some consistent themes emerged from this consultation and are summarized below:

- The property assessment system must continue to be based on market value as this provides the most fair and equitable distribution of the overall property tax burden through an objective measure.
- There was recognition that large unexpected increases, or spikes, in property assessments that occur for a small percentage of properties each year needs to be addressed.
- New Brunswickers want more transparency and more accountability from all levels of government when it comes to their property taxes through a better understanding of how tax bills are calculated and what input various levels of government have on the tax rates.
- Property tax bills should be redesigned and made easier to understand and there should be more payment options available.
- Apartment owners, the real estate sector, seniors and renters expressed concern that they had to pay both the municipal rate and the \$1.4573 provincial tax rate, and business owners expressed concern with the overall property tax including the \$2.186 provincial rate.
- The \$0.6315 provincial levy in LSDs should be extended to all property types to equitably cover the cost of policing and road services.

- Residents want to know exactly where their tax dollars are going and to have a greater voice in how the services are delivered.
- The Government of New Brunswick should consider the farming community and their unique position in New Brunswick society and economy in any new system.
- The Government of New Brunswick should review relief programs and the property tax treatment of properties such as libraries.

The Government of New Brunswick listened to and considered the many opinions and submissions that were provided. This consultation produced an *Action Plan for a New Local Governance System in New Brunswick* released in December 2011. Two of the major recommendations of this plan were to develop a property tax and assessment reform plan as well as to establish a new, fairer cost-sharing model for RCMP services in New Brunswick. This white paper reflects those recommendations. The following pages detail the Government of New Brunswick's proposal which begins the process of delivering a property tax system that is more equitable, transparent and accountable for New Brunswick's taxpayers.

One of the objectives of any white paper is to outline the Government of New Brunswick's policy options on a specific issue so that the public may have a chance to participate in the discussion. Above all, a white paper should endeavour to solve problems. This white paper begins the process of solving some of the problems that exist in the current property tax system.

Ultimately, it is the bottom-line property taxes to be paid that really matter to New Brunswick property owners. A key objective of this white paper is to promote a better understanding of the roles of the Province and municipalities in determining the bottom-line property taxes. In order to have transparency and accountability, taxpayers need to know how much they are paying for the services they receive. This will make the Province and municipalities more accountable.

## 2. Property Tax in New Brunswick

In New Brunswick there are two levels of property taxation (provincial and municipal/local), and two classifications of property (residential and non-residential).

Residential property is further sub-classified as either owner-occupied (principle residence) or non-owner-occupied, which includes properties such as apartments, cottages and farm land to name a few. Non-residential includes such property as businesses, commercial and industrial buildings, and all government office buildings.

### Tax Collection

The provincial Department of Finance issues 455,000 tax bills each March and collects property taxes for the Province, municipalities (cities, towns and villages), local service districts (LSDs), and rural communities. Payment is sent to the Province through such channels as banks, credit unions, Service New Brunswick service centres, and by mail to the Department of Finance.

### Current Property Tax in Local Service Districts (LSDs)

Under the current property tax structure, properties located in LSDs are taxed in the following manner:

- Owner-occupied residential properties (homes) located in LSDs are subject to a special provincial levy of \$0.6315 per \$100 of assessment. This rate is applied to help cover the cost of local services, such as policing and roads that are provided by the Province in these communities.
- Just like cities, towns and villages, owner-occupied residential properties (homes) in LSDs are eligible for a provincial tax credit, known as the Provincial Residential Property Tax Credit, and have a provincial property tax rate of zero.
- Non-owner-occupied residential properties (apartments, cottages, second homes and farm land) are subject to a provincial property tax rate of \$1.4573 per \$100 of assessment.
- Residential property types described above (both owner-occupied and non-owner-occupied) are also subject to local property tax rates. Local property tax rates are established to finance local services, such as fire protection, and solid waste collection and disposal.
- Non-residential properties (businesses) are currently taxed at a provincial property tax rate of \$2.1860 per \$100 of assessment. Local non-residential property tax rates also apply and are fixed at 1.5 times the corresponding residential rate. The total tax that business properties pay in LSDs is roughly 2.9 times the total property tax that owner-occupied properties in LSDs pay.

The following table summarizes the property tax rates in LSDs for 2012:

| <b>2012 Property Tax Rates in LSDs (per \$100 of assessed value)</b> |                                |                                |                      |                 |
|--|--------------------------------|--------------------------------|----------------------|-----------------|
| <b>Property Type</b>   | <b>Local Service Districts</b> |                                |                      |                 |
|  | <b>Provincial</b>              | <b>Special Provincial Levy</b> | <b>Average Local</b> | <b>Total</b>    |
| Residential Owner-Occupied Housing (homes)                           | \$0.0000                       | \$0.6315                       | \$0.2839             | <b>\$0.9154</b> |
| Residential Non-Owner-Occupied Housing (apartments, cottages, etc.)  | \$1.4573                       | N/A                            | \$0.2839             | <b>\$1.7412</b> |
| Other Residential (farm land, vacant land, etc.)                     | \$1.4573                       | N/A                            | \$0.2839             | <b>\$1.7412</b> |
| Non-Residential (businesses)   | \$2.1860                       | N/A                            | \$0.4259             | <b>\$2.6119</b> |

### **Current Property Tax in Municipalities (Cities, Towns and Villages) and Rural Communities**

Under the current property tax structure, properties located in municipalities are taxed in the following manner:

- As in LSDs, owner-occupied residential properties (homes) in municipalities eligible for a provincial tax credit, known as the Provincial Residential Property Tax Credit, have a provincial property tax rate of zero.
- Non-owner-occupied residential properties (apartments, cottages, second homes and farm land) are subject to a provincial property tax rate of \$1.4573 per \$100 of assessment, but not owner-occupied residential (homes).
- Residential properties (both owner-occupied and non-owner-occupied) are also subject to municipal or rural community property tax rates. Such rates are determined by the mayor and council of municipalities and rural communities to finance local services.
- Non-residential properties (businesses) are currently taxed at a provincial property tax rate of \$2.1860 per \$100 of assessment. Municipal and rural community non-residential property tax rates are fixed at 1.5 times the corresponding residential rate.
- The total tax that business properties pay in municipalities is roughly 2.9 times the total property tax that owner-occupied properties in municipalities pay.



The following table summarizes the property tax rates in municipalities for 2012:

| <b>2012 Property Tax Rates in Municipalities (per \$100 of assessed value)</b> |                       |                          |                 |
|--|-----------------------|--------------------------|-----------------|
| <b>Property Type</b>   | <b>Municipalities</b> |                          |                 |
|  | <b>Provincial</b>     | <b>Average Municipal</b> | <b>Total</b>    |
| Residential Owner-Occupied Housing (homes)                                     | \$0.0000              | \$1.5156                 | <b>\$1.5156</b> |
| Residential Non-Owner-Occupied Housing (apartments, cottages, etc.)            | \$1.4573              | \$1.5156                 | <b>\$2.9729</b> |
| Other Residential (farm land, vacant land, etc.)                               | \$1.4573              | \$1.5156                 | <b>\$2.9729</b> |
| Non-Residential (businesses)   | \$2.1860              | \$2.2734                 | <b>\$4.4594</b> |

### 3. Property Assessment in New Brunswick

The purpose of property assessment is to equitably divide the property tax burden among properties by determining the assessment of one property (its market value) relative to its neighbours. While jurisdictions around the world have searched for a “better way” to tax property, they have consistently come back to the foundation of assessing property at market value as the most fair and equitable approach. This can be attributed to the fact that real estate markets are based on supply and demand determining the appropriate sale price for a property. There are motivated sellers and buyers who, together, agree on a price and this price is said to reflect the current market value of the property. In this way, the market value is arrived at independently.

When property assessment has market value as its foundation, there is always that independent source that provides valuable information to assessors in determining market values.

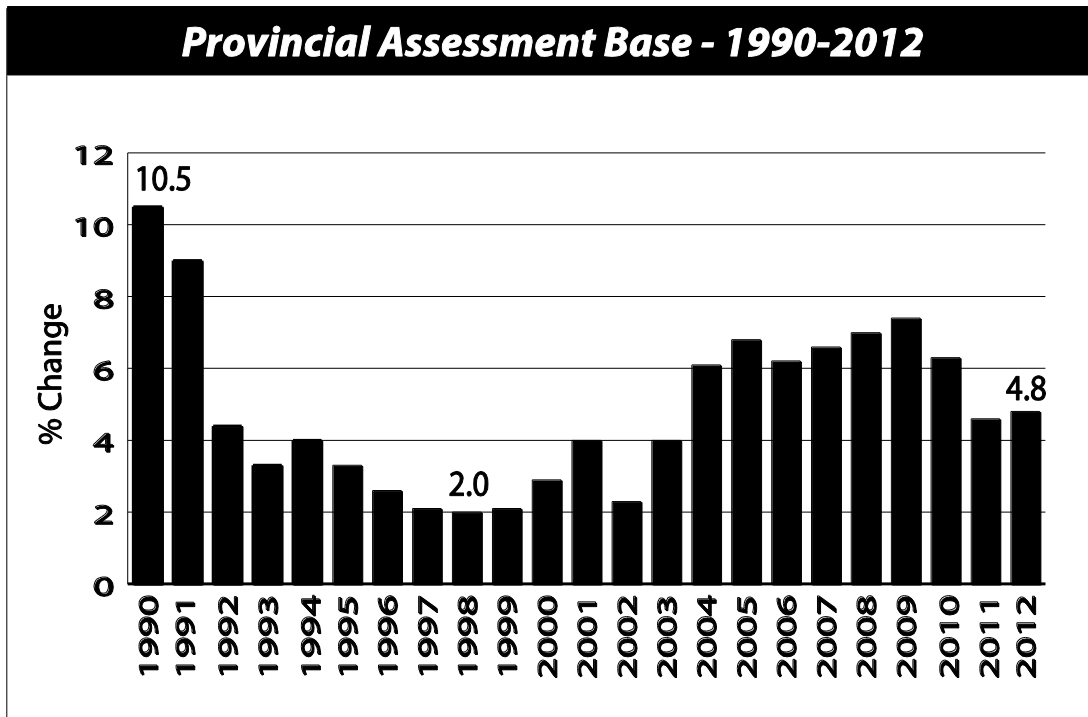
Property assessment is one of the two foundational components of property tax; the other being the property tax rate. Depending on where you live in New Brunswick and what kind of property you own (residential vs. non-residential), your property tax is generally determined by multiplying your property assessment by your property tax rate. For example, if your property is assessed at \$100,000 and your local property tax rate is \$1.50 per \$100 of property value your property tax bill is \$1,500.

In New Brunswick there are two types of property (residential vs. non-residential) and both the Province and municipalities levy property taxes and set property tax rates. The provincial property tax is levied to help finance health, education, and other services with province-wide benefits. The municipal/local tax is levied to finance the provision of local services such as fire and police protection, roads, and other services that are the responsibility of municipalities.

The mayors and councils of individual municipalities and rural communities determine their property tax rates during their annual budget process in the fall of each year. The provincial government determines the provincial property tax rate, as well as the local property tax rate to be levied on properties within individual local service districts (LSDs) and in rural communities for services provided by the Province.

Chart 1 illustrates the effect of the three per cent cap on overall assessment growth. Prior to introducing the assessment cap, the average annual increase in the assessment base between 2004 and 2010 was 6.6 per cent. This compares to the more moderate 4.8 per cent growth seen in 2012 with the cap in place.

Chart 1 – Total Growth in the New Brunswick Assessment Base



As shown in the chart above, the total growth in the assessed value of properties in the province exceeded the three per cent cap in 2011 and 2012. This is explained by the fact that only owner-occupied residential properties (homes) were subject to the three per cent cap. Apartments and rental units, business properties and new construction contributed to the assessment growth.

Service New Brunswick conducts property assessments and provides information to the Province, individual municipalities, rural communities and LSDs each year in the fall to assist in their annual budget processes.

As previously mentioned, in a market-based property assessment system, the value of properties is determined by the amount buyers would pay for them if they were sold. The purpose of assessment is to determine the share of tax applied to one property relative to others. Assessment is simply the way to distribute taxes and not to determine the level of taxes.

The overall level of property taxes therefore should be independent of assessments and based on expenditure needs and preferences for local services. The Government of New Brunswick does not influence or determine property assessments. Municipalities have the flexibility to raise and lower their property tax rates as their assessment bases change to generate the revenues required to meet expenditure needs as determined by preferences for local services.

Over the past decades, market values and assessments have continued to rise. This is a positive outcome for property owners because it means that an individual's assets are increasing in value. However, property tax rates have usually not been reduced in recognition of substantial market value increases and that has led to higher tax bills for property owners.

Over the years, there have been some municipal and provincial rate reductions in response to assessment growth. For example, in 2010, the Province reduced the provincial residential property tax rate from \$1.50 to \$1.4573; the provincial non-residential property tax rate from \$2.25 to \$2.186; and the special provincial levy of \$0.65 for owner-occupied residential properties located in LSDs to \$0.6315. At that time, 25 of the 101 municipalities also reduced their property tax rates.

While assessment increases over the years are not responsible for overall property tax increases, re-inspection of properties can result in sharp increases or spikes in property taxes or the share paid by individual property owners. These increases are mainly the result of assessments that have not kept up with the market over the years. This paper proposes improvements to the assessment functions that will help overcome these sudden adjustments that impact individual tax bills.

## 4. Moving Ahead on Property Assessment

In 2010, the Government of New Brunswick implemented a three per cent cap on increases in assessment on owner-occupied residential property effective for the 2011 and 2012 taxation years. This two-year assessment cap was a temporary measure designed to allow time for consultation with stakeholders while working toward a long-term solution. If the cap were to remain in place longer than two years, it would have created significant gaps between individual capped assessments and their actual market values.

In 2011, approximately 106,000 of the 232,000 total residential owner-occupied properties saw assessment growth limited due to the cap. This generated an estimated savings of \$6.5 million to homeowners. In 2012, almost 146,000 properties received the cap, with an estimated savings of \$13.9 million to homeowners.

### Property Assessment Recommendations

The major problem with any assessment cap is that, if it becomes permanent within a taxation system, it moves assessment values away from the market value of the property. As outlined in the previous chapter, the determination of market value as the foundation of assessment is necessary to ensure the equitable distribution of the tax burden.

Experiences from other jurisdictions who have continued to use an assessment cap have demonstrated that it results in increased inequities over time and this would be inconsistent with the Government of New Brunswick's commitment to a "fairer and more effective" system. The following three recommendations are aimed at addressing this commitment.

#### **Property Assessment Recommendation 1:**

##### **The Assessment Gap – Returning to Market Value over the Long-Term**

In 2011 and 2012, almost 146,000 of 232,000 properties saw assessments grow more than three per cent and as a result, a gap was created between the true market assessment and the capped assessment value on these properties.

The assessment gap being referred to here is the difference between the 2012 market value for a property and the 2012 capped value used for taxation purposes. After having the cap in place for two years, 80 per cent of the properties that benefited from the cap saw an assessment gap of \$10,000 or less in assessed value. The single largest impediment to moving assessments back to market value for the approximately 146,000 properties that require such a transition is the potential for a large increase on their 2013 tax bill.

Recognizing this unique situation, the Government of New Brunswick is recommending that the assessments with a gap return to market value over the long-term. This involves providing an assessment exemption for properties calculated on the difference between the 2012 market value and the 2012 capped value. The amount will vary from property to property depending on how much the property's assessment increased over the two years of the cap. This new exemption will stay with the property until it is transferred or a change of use occurs; at which time the assessment value used for tax purposes will be adjusted to the market value of the

property. The new owner will receive an assessment and tax notice in March of the following year reflecting the market value of the property as of January 1<sup>st</sup> and there would be no collection of foregone taxes that occurred in prior years. It is expected that the majority of the approximately 146,000 properties will exit this assessment gap exemption situation within roughly 20 years.

This new assessment exemption will provide protection moving forward to those homeowners who live in markets that have seen and are experiencing significant assessment growth in their neighbourhoods. An example of how this will work follows:

Consider a property that has a market value of \$150,000 in 2012, but as a result of the three per cent cap is currently only being taxed at \$140,000. The assessment gap between market and capped values is \$10,000, or the difference between \$150,000 and \$140,000. Moving forward this \$10,000 assessment gap will become exempted from market value assessment until the property transfers to a new owner. For example, if in 2013 the market value increases from \$150,000 up to \$155,000, the property will only be taxed at \$145,000 – or \$10,000 less than the market value – the amount of the 2012 assessment gap.

| <b>Recommendation 1: Returning to market value over the long-term.</b> |  |                                       |
|--|--|---------------------------------------|
| <b>2012<br/>Market Value<br/>Assessment</b>                            | <b>2012<br/>Value for<br/>Taxation</b> | <b>2012<br/>Assessment<br/>Gap</b>    |
| \$150,000  | \$140,000                              | \$10,000                              |
| <b>2013<br/>Market Value<br/>Assessment</b>                            | <b>2013<br/>Value for<br/>Taxation</b> | <b>Ongoing<br/>Assessment<br/>Gap</b> |
| \$155,000  | \$145,000                              | \$10,000                              |

**Property Assessment Recommendation 2:  
Implement an Assessment Spike Protection Mechanism**

The Government of New Brunswick will implement an Assessment Spike Protection Mechanism that will ensure that property assessment growth will occur in a more stable and predictable manner for owner-occupied properties. An assessment increase of more than 10 per cent will be phased in over a period of time. All new construction and/or major improvements made to a property are excluded from the Assessment Spike Protection Mechanism.

While fair market value is the appropriate assessment methodology, the current assessment process could be improved. In fact, the Government of New Brunswick recognizes that some of the greatest concerns from property owners has involved exceptionally large increases in property tax bills arising from significant upward adjustments in assessment, referred to as spikes. This phenomenon is an assessment issue and results mainly from the ongoing re-inspection process.

There are 455,000 properties in New Brunswick for which updated assessments are made each year to reflect any change in market value in the previous 12 months. Given that there are

approximately 100 property assessors in the province, it is impractical to visit each property every year.

As is common practice in many jurisdictions, New Brunswick uses a combination of mass appraisal techniques<sup>1</sup> and a rotating cycle of property visits, called re-inspections, to update its records. As these re-inspections often find property improvements not previously known about or declared, re-inspections often result in a considerable increase in the assessment, and as noted, an equivalent increase in the tax bill. During a period of rising property values (like the one we saw in the past decade in New Brunswick), the re-inspection cycle needs to be as short as possible to keep up with increasing values. Unfortunately, this wasn't always the case and the effect was assessment increases for some properties that were unusually large.

The Government of New Brunswick agrees with property owners who feel that these types of large, one-year increases are unfair and will act to minimize unexpected increases and ensure that there is future stability in the growth of individual assessments. With the improvements in the property tax assessment program described below, it is expected the Assessment Spike Protection Mechanism will see a decrease in usage over time.

### **Property Assessment Recommendation 3:** **Process Improvements to Deal with Large Assessment Increases**

The Government of New Brunswick will implement process improvements in property assessment services to address the root causes of assessment spikes. A review of the re-inspection program and the calculation of land values will be completed to identify and pursue efficiencies in the process of valuing properties. This will act to decrease the frequency of any future spikes in the assessment values. These specific recommendations are described as follows:

- **The re-inspection process:** Recent technological advancements provide opportunities for reducing the number of required on-site inspections and for shortening re-inspection cycles across the 455,000 assessed properties in New Brunswick. A re-engineering of the property inspection process will improve the efficiency and accuracy of assessments. The use of new, map-based technologies will allow assessors to see properties and neighbourhoods virtually, which can improve the accuracy of non-physical inspections. In the long-term, this will result in assessments increasing gradually rather than in large single-year jumps.
- **Calculation of land values:** Land value is currently calculated by establishing a base value and then annually adjusting it for a period of up to 10-15 years. If the adjusted value is less than the actual market value, this could mean that at the end of the 10-to-15 year period, the actual value of the land could be much higher than currently estimated. Over the long-term, an improved process would include calculating a current land value on a yearly basis, thereby reducing the potential of significant assessment spikes after re-inspection.

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<sup>1</sup> Assessors look at a variety of factors when assessing a property, including the sale prices of homes or properties in the neighbourhood and any recent renovations or improvements that have been made to a property. If local sale prices of properties in a neighbourhood are increasing or there have been renovations, then it's very likely that the market value of a home or property has increased too.

## 5. A Balanced Model for Provincial RCMP Policing

Municipalities and local service districts (LSDs) have long complained to the Province about the lack of consistency in the way they pay for RCMP police services. Following extensive consultation with local governments and the three municipal associations, the Province is simplifying the billing formula starting in January 2013.

The new payment model will reflect the actual cost of keeping these communities safe and share the costs fairly among all concerned.

In addition, starting next year, communities will receive RCMP services in a way that aligns with recent reforms in local governance. The RCMP is realigning the number of its districts and redrawing their boundaries to ensure that none of the 12 regional service commissions (RSCs) are served by more than one RCMP district. This new approach will help commission members work together on safety priorities and policing strategies while maintaining services in each community.

This balanced model will replace a patchwork of agreements that has evolved over decades where some communities currently pay more than their fair share for policing, others pay far less and are subsidized by provincial taxpayers, and many property owners within these communities pay nothing at all for those services.

### Current Model

LSDs, rural communities and small municipalities (population under 5,000) pay for RCMP service in a variety of ways:

- Seven small municipalities receive RCMP services through an agreement with the Government of Canada. Under these agreements, the RCMP invoices each municipality for all costs incurred and the municipality pays the invoice in full.
- Nineteen municipalities receive RCMP services through what is called an Extended Agreement with the provincial government. Under these agreements, municipalities pay a per officer rate for a set number of officers.
- Fifty-six municipalities receive RCMP services through what's called an Umbrella Agreement with the provincial government. These municipalities pay a per capita rate.
- All owner-occupied residences in LSDs contribute to the cost of policing through the \$0.6315 special provincial levy in LSDs.
- Other property types in LSDs (cottages, commercial and rental properties) currently do not contribute to the cost of the police services they receive.



## **New Model Beginning in January 2013**

The new cost-sharing model will identify the costs specific to each region and reflect the actual costs of providing community-related RCMP policing within the region.

The payment formula will share 50 per cent of the cost of policing based on a per capita rate and 50 per cent on the tax base. This blended formula reflects the protection of both people and property by RCMP officers.

Costs will be identified and shared in the following way:

1. Identify the total cost to be shared among the 12 regions
  - Include the cost of detachment policing.
  - Include the cost of specialized services that exist in support of detachment policing. (This includes police dogs, forensic identification services, community program officers, and major crime unit, among others.)
  - Exclude costs that are a provincial responsibility. These will continue to be paid 100 per cent by the Province.
2. Identify the cost for each region
  - The total cost will be divided among each of the 12 regions based on the percentage of overall detachment policing and a proportionate share of the costs of specialized services based on population and tax base.
3. Share costs across all municipalities, rural communities and LSDs in the region
  - Costs are shared using a 50 per cent per capita / 50 per cent tax base formula
    - 50 per cent of the total cost identified for the region is shared on a per capita basis;
    - 50 per cent of the total cost identified for the region is shared over the region's total tax base according to the assessed property values; and
    - The two costs are added, giving a community's required contribution to the region's policing costs.
4. Recover costs from service recipients
  - The Department of Public Safety will invoice each municipality (cities, towns and villages), rural community (where applicable) and the Department of Environment and Local Government for the services in LSDs as identified above.

The new, fairer cost-sharing model will result in changes for some municipalities and LSDs, and these details will be shared with local governments in the fall of the year, as tax base information becomes available. A new community funding model is being developed by the Department of Environment and Local Government, and will include equalization funding to support communities with smaller tax bases. Municipalities will continue to make the necessary decisions to manage their municipal property tax rate.

The cost-sharing model is intended to be a simplified, balanced approach to covering the cost of RCMP policing to small communities throughout New Brunswick.

Municipalities that have their own municipal or regional police force or that receive RCMP policing through an agreement directly with the Government of Canada will not see any change in the way they pay for policing services so long as they retain their existing model.

## 6. Phase One: Moving Ahead on Property Tax Reform

Over time, a number of inequities within the current property tax system have emerged and the Government of New Brunswick has committed to making the property tax system fairer and fixing the flaws. Areas identified during the public consultation as flaws in the property tax system include:

- The special 63.15 cent levy applied only to owner-occupied residential properties (homeowners) in local service districts (LSDs);
- The double taxation on apartments, second homes and cottages; and
- The relatively high property tax burden on businesses.

Changes to the current system are designed to address these inequities, making it easier for New Brunswickers to understand how property taxes are calculated and providing them with more payment options.

### Phase One of Property Tax Reform

Improving the fairness of the property tax system involves comprehensive reform. The property tax reforms detailed in phase one will be implemented over four years. The reform begins to fix the flaws in the current property tax system by reducing the tax burden on businesses and rental properties.

This phase of property tax reform also includes implementing a new cost-sharing model for RCMP services so that all property owners in LSDs, municipalities and rural communities that receive RCMP services under the Provincial Policing Services Agreement pay fairly for the services they receive.

The first phase of property tax reform will address fairness by:

- Introducing a monthly Equalized Payment Plan that will allow homeowners to pay their property tax bills in 12 equal payments, without incurring any penalty.
- Redesigning the property tax bill to provide greater transparency for property owners.
- Reducing the provincial rate on apartments, second homes and cottages.
- Reducing the provincial rate on non-residential properties (commercial/businesses).
- Having all property types in LSDs share in the cost of policing services.
- Creating a new community funding model to help mitigate impacts of any increases resulting from the new cost-share model for police services.
- Protecting farm land.

## **Property Tax Recommendations**

In order to address the key inequities in the property tax system, the Government of New Brunswick is making the following recommendations:

### **Property Tax Recommendation 1:**

#### **Implement Property Tax Equalized Payment Plan (EPP)**

During the consultation on local governance and property tax, it was clearly identified that more flexibility to pay property taxes is required. As a result, the Government of New Brunswick is introducing a monthly Equalized Payment Plan that will allow homeowners to pay their property tax in 12 equal monthly payments, without incurring penalty. The monthly payment plan will be introduced for the 2013 tax year and complements the other options currently available to pay property taxes. Starting in fall 2012, homeowners will be able to register for the monthly payment program prior to receiving their 2013 property tax bill. For those registered, 12 equal payments will be automatically withdrawn from their bank account from March 2013 to February 2014 to pay for their 2013 taxes.

- To register for the monthly payment plan, the property tax account must have no arrears at the time of application and be in receipt of the Provincial Residential Property Tax Credit.
- Registration will be accepted until May 31<sup>st</sup> of any given year. Depending on when an application is received, an initial payment equal to the missed payment(s) up to the time the application is processed may be required.
- Assessed owners must register for direct withdrawal from a chequing account from a Canadian financial institution.
- The assessment and tax notice for registered homeowners will be modified to provide the yearly levy and the equivalent monthly payments required under the monthly payment plan.
- Registration will not be required every year. The annual notice will reflect the change in the monthly payments and the withdrawals will be adjusted accordingly.
- Property accounts will be removed from the monthly payment plan following a change of ownership or following the receipt of a notice from the assessed owner.
- Failure to remain current with the scheduled payments will result in deregistration from the monthly payment plan.

### **Property Tax Recommendation 2:**

#### **Redesign the Property Tax Bill**

One of the objectives in the *Action Plan for a New Local Governance System in New Brunswick* is to work towards a fair and effective property taxation and assessment system for the long-term. While significant changes cannot be made to the property tax bill for 2013, modifications will be made to the insert to provide more clarity for property owners.

A fiscal transparency recommendation would require the Province, municipalities and rural communities to include additional information on the annual property tax bill. The bills will state what part of the property tax change reflects an assessment change and what part reflects a tax rate impact. This is a longer-term option that cannot be delivered until the new property tax information system is fully operational in 2015.

**Property Tax Recommendation 3:**

**Reduce the Provincial Taxation on Non-Owner-Occupied Housing**

In New Brunswick, owners of apartments, second homes and cottages pay significantly more provincial and municipal property tax than homeowners. Therefore, it is recommended to reduce the \$1.4573 provincial rate by \$0.334 to \$1.1233 on apartments, cottages and second homes over four years. This measure will move toward removing the unequal tax treatment on residential housing. Currently, rental housing is paying approximately double the tax rate applied to owner-occupied properties. The additional tax is passed on in rents to tenants, many of whom are seniors, students, and low-income individuals and families who cannot afford their own home. In some cases, this additional tax limits landlords in their ability to undertake effective maintenance programs, thereby potentially negatively impacting the quality of affordable rental housing being offered to New Brunswickers.

The \$0.334 reduction on apartments, second homes and cottages will be reduced at a rate of \$0.06 per year for the first three years (2013, 2014 and 2015) and \$0.1540 in the last year (2016).

| <b>Recommendation 3: Reduce the provincial taxation on non-owner-occupied housing.</b> |                                     |             |             |             |                 |
|--|-------------------------------------|-------------|-------------|-------------|-----------------|
| <b>Property Type</b>   | <b>Provincial Property Tax Rate</b> |             |             |             |                 |
|  | <b>2012</b>                         | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b>     |
| Residential Non-Owner-Occupied Housing   | \$1.4573                            | \$1.3973    | \$1.3373    | \$1.2773    | <b>\$1.1233</b> |

**Property Tax Recommendation 4:**

**Reduce the Provincial Taxation on Other Residential (farm land, vacant land, etc.)**

Reduce the \$1.4573 provincial rate by 24 cents to \$1.2173 on other properties currently classified as residential (farm land, vacant land, etc.) over four years.

This measure will reduce taxes for this class of property located in municipalities. In LSDs, this will offset the tax increase from transferring the cost of policing from the special provincial levy in LSDs to the local rate on these types of property. The special provincial levy in LSDs currently does not apply to non-owner-occupied properties.

The \$0.24 reduction on other properties currently classified as residential will be reduced at a rate of \$0.06 per year for four years.

| <b>Recommendation 4: Reduce the provincial taxation on other residential.</b> |                                     |             |             |             |                 |
|---|-------------------------------------|-------------|-------------|-------------|-----------------|
| <b>Property Type</b>  | <b>Provincial Property Tax Rate</b> |             |             |             |                 |
|   | <b>2012</b>                         | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b>     |
| Other Residential   | \$1.4573                            | \$1.3973    | \$1.3373    | \$1.2773    | <b>\$1.2173</b> |

**Property Tax Recommendation 5:**

**Reduce the Provincial Property Tax on Businesses**

Reduce the provincial property tax on businesses by \$0.33 from \$2.186 to \$1.856 over four years. Currently, New Brunswick has one of the highest property tax burdens on businesses in Canada. This recommendation will reduce the significant property tax on businesses and encourage long-term investment. This will also help to mitigate the tax increase on businesses located in LSDs and reduce taxes for businesses located in municipalities.

The \$0.33 reduction of the provincial property tax on businesses will be reduced at a rate of \$0.0825 per year for four years.

| <b>Recommendation 5: Reduce the provincial property tax on businesses.</b> |                                     |             |             |             |                 |
|--|-------------------------------------|-------------|-------------|-------------|-----------------|
| <b>Property Type</b>   | <b>Provincial Property Tax Rate</b> |             |             |             |                 |
|  | <b>2012</b>                         | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b>     |
| Non-Residential  | \$2.1860                            | \$2.1035    | \$2.0210    | \$1.9385    | <b>\$1.8560</b> |

**Property Tax Recommendation 6:**

**Add the Cost of Policing to the Local Rate in LSDs and Reduce the Special Provincial Levy on Homeowners in LSDs**

The Province will reduce the special provincial levy in LSDs of 63.15 cents by 22 cents and add the cost of policing to the local rate in LSDs over four years. This will allow the effective implementation of the new cost-sharing model (starting in January 2013) that the Province is adopting for the way municipalities, rural communities and LSDs pay for and receive RCMP police services. Adding the cost of policing to the local rate in LSDs will ensure that all types of property pay for policing services, including non-owner-occupied residential (apartments, second homes and cottages) and non-residential (businesses).

The proposed 33.4 cent reduction to the provincial levy on apartments, second homes and cottages, as well as the 24 cent reduction of the provincial levy to other non-owner-occupied residential properties and the 33 cent reduction of the provincial levy to businesses will largely offset the tax increase from transferring the cost of policing to the local rate in LSDs on these types of properties in LSDs.

|   |             |             |             |             |                 |
|---|-------------|-------------|-------------|-------------|-----------------|
| <b>Recommendation 6: Add the cost of policing to the local rate in LSDs and reduce the special provincial levy on homeowners in LSDs.</b> |             |             |             |             |                 |
|   | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b>     |
| Special Provincial Levy in LSDs   | \$0.6315    | \$0.5765    | \$0.5215    | \$0.4665    | <b>\$0.4115</b> |

**Property Tax Recommendation 7:**

**Provide an Equalization Grant for Policing Services in LSDs**

As the cost of policing varies from region to region, the local rate in LSDs and rural communities will vary across the 12 regions. To mitigate the differences between LSDs and rural communities' ability to raise revenue via their tax base to pay for policing services, an equalization grant for policing services will be provided. This grant would result in a maximum local rate in LSDs and rural communities for policing services of 24 cents based on current costing, which represents a maximum overall increase of 2 cents to be phased in over four years (or 0.5 of one cent per year).

For municipalities, a similar equalization grant for policing services will be included in the community funding model being developed by the Department of Environment and Local Government to provide funding support to those communities with lesser fiscal capacity.

**Property Tax Recommendation 8:**

**Adjust the Farm Land Identification Program (FLIP)**

In keeping with the promise that the Government of New Brunswick made where no farm land registered in FLIP would be negatively impacted by the property tax reform, the program will be adjusted so that no farm land registered under FLIP receives a tax increase due to the addition of the cost of policing into the local LSD rate. In addition to the adjustments to FLIP, the provincial tax on other residential properties, which includes farm land, is being reduced by 24 cents over four years to offset the tax increase from transferring the cost of policing from the special provincial levy in LSDs to the local rate on these types of property. All farm land and farm buildings will pay the same amount or less property tax than they paid prior to the reform. Farmers' homes and businesses will be treated in the same manner and experience the same impacts as other homes and businesses.

**Property Tax Recommendation 9:**

**Exempt Libraries from Provincial and Municipal Property Taxes**

Due to the important public service they perform, the Government of New Brunswick will move to exempt libraries from provincial and municipal property taxes.

## Property Tax Rate Structure 2012

| 2012 Property Tax Rates (per \$100 of assessed value)               |                |                   |                 |                         |                         |               |                 |
|---|----------------|-------------------|-----------------|-------------------------|-------------------------|---------------|-----------------|
| Property Type   | Municipalities |                   |                 | Local Service Districts |                         |               |                 |
|   | Provincial     | Average Municipal | Total           | Provincial              | Special Provincial Levy | Average Local | Total           |
| Residential Owner-Occupied Housing (homes)                          | \$0.0000       | \$1.5156          | <b>\$1.5156</b> | \$0.0000                | \$0.6315                | \$0.2839      | <b>\$0.9154</b> |
| Residential Non-Owner-Occupied Housing (apartments, cottages, etc.) | \$1.4573       | \$1.5156          | <b>\$2.9729</b> | \$1.4573                | N/A                     | \$0.2839      | <b>\$1.7412</b> |
| Other Residential (farm land, vacant land, etc.)                    | \$1.4573       | \$1.5156          | <b>\$2.9729</b> | \$1.4573                | N/A                     | \$0.2839      | <b>\$1.7412</b> |
| Non-Residential (businesses)  | \$2.1860       | \$2.2734          | <b>\$4.4594</b> | \$2.1860                | N/A                     | \$0.4259      | <b>\$2.6119</b> |

## Property Tax Rate Structure by 2016\*

| 2016 Property Tax Rates (per \$100 of assessed value)               |                |                   |                 |                         |                         |               |                 |
|---|----------------|-------------------|-----------------|-------------------------|-------------------------|---------------|-----------------|
| Property Type   | Municipalities |                   |                 | Local Service Districts |                         |               |                 |
|   | Provincial     | Average Municipal | Total           | Provincial              | Special Provincial Levy | Average Local | Total           |
| Residential Owner-Occupied Housing (homes)                          | \$0.0000       | \$1.5156          | <b>\$1.5156</b> | \$0.0000                | \$0.4115                | \$0.5039      | <b>\$0.9154</b> |
| Residential Non-Owner-Occupied Housing (apartments, cottages, etc.) | \$1.1233       | \$1.5156          | <b>\$2.6389</b> | \$1.1233                | N/A                     | \$0.5039      | <b>\$1.6272</b> |
| Other Residential (farm land, vacant land, etc.)                    | \$1.2173       | \$1.5156          | <b>\$2.7329</b> | \$1.2173                | N/A                     | \$0.5039      | <b>\$1.7212</b> |
| Non-Residential (businesses)  | \$1.8560       | \$2.2734          | <b>\$4.1294</b> | \$1.8560                | N/A                     | \$0.7559      | <b>\$2.6119</b> |

\*For illustrative purposes only. This assumes average municipal/local rates and no change in municipal rates.



## **Future Reforms**

The *Action Plan for a New Local Governance System in New Brunswick* outlines a number of future actions that are connected to and support a fair and effective property tax system founded on transparency and accountability. This includes bringing forward a fair and equitable distribution formula for the unconditional grant program based on the principles of equalization which provides a degree of stability and predictability for communities.

One concept introduced during the consultation process by the municipal associations proposed a provincial-municipal realignment of financial responsibilities including transferring property tax responsibilities (including assessment and collection functions) to the municipal sector. This concept would require significant research and analysis and could not be implemented in the short-term given the current number of communities involved. There is merit, however, in reviewing all opportunities that could benefit both taxpayers and the long-term sustainability of communities. The Government of New Brunswick will continue to discuss this concept with municipalities, LSD representatives and municipal associations.

The Government of New Brunswick remains committed to a culture of performance excellence and continuous improvement. Going forward, the Government of New Brunswick will continue to review and explore ways to further improve the property tax system with the goal of increasing transparency, accountability and fairness.

## 7. Phase One: Impacts

### Phase One Impacts in Local Service Districts (LSDs)

Reducing the special provincial levy in LSDs of 63.15 cents by 22 cents, and adding the cost of policing to the local rate over four years, will have impacts on LSDs in some of the 12 regions.

These impacts will be mitigated by an equalization grant, to support policing services in LSDs, consistent with the level of funding provided to small municipalities.

Also, a reduction in the provincial \$1.4573 tax rate on other properties currently classified as residential, a reduction in the provincial \$1.4573 tax rate for apartments, cottages and second homes, and a reduction of the \$2.186 provincial property rate tax on businesses will also help to mitigate the impacts to properties in LSDs.

In LSDs that were paying less than the full-cost of policing services, the impacts on property owners will be realized over four years to a maximum increase of two cents for homeowners and three cents for business properties. This would mean an increase of \$30 over four years for an owner-occupied house valued at \$150,000.

Apartments, second homes and cottages in LSDs will see an overall decrease due to the reduction of the \$1.4573 provincial rate by \$0.334.

No farm land or farm buildings will experience an increase in property tax due to the addition of policing costs.

## Summary of Phase One Impacts in LSDs by Property Type\*

| Property Type  | Impact  |
|--|---|
| Homeowners   | <ul style="list-style-type: none"> <li>• Homeowners will be able to pay their property tax bills in monthly installments.</li> <li>• The Province will reduce the special provincial levy in LSDs of 63.15 cents by 22 cents and add the cost of policing to the local LSD rate over four years. The maximum impact for a homeowner is an increase in property tax of two cents per \$100 of assessment related to policing, or 0.5 of one cent per year. This would mean an increase of \$30 over four years for an owner-occupied house valued at \$150,000.</li> <li>• Some homeowners will experience an overall decrease in property tax.</li> <li>• Assessment Spike Protection Mechanism.</li> <li>• Assessment gap forms a permanent exemption until the property transfers.</li> </ul> |
| Non-Owner-Occupied (rental units, cottages and second homes) | <ul style="list-style-type: none"> <li>• Apartments, second homes and cottages will now pay their fair share for policing.</li> <li>• These property owners will see an overall reduction in their property tax due to the reduction in the provincial property tax rate. This more than offsets the increase due to the addition of policing costs to the local rate.</li> </ul>   |
| Businesses   | <ul style="list-style-type: none"> <li>• Businesses in LSDs will now pay their fair share with respect to policing costs.</li> <li>• The provincial property tax on businesses is being reduced, which largely offsets the increase due to policing.</li> <li>• For those LSDs with RCMP contracts, the maximum impact for a business property is an increase of three cents per \$100 of assessment at the end of four years.</li> </ul>   |
| Farmers  | <ul style="list-style-type: none"> <li>• All farm land and farm buildings will pay the same amount or less property tax than they paid prior to the reform.</li> <li>• Farmers' homes will be treated in the same manner and experience the same impacts as other homes.</li> <li>• Farmers' businesses will be treated in the same manner and experience the same impacts as other businesses.</li> </ul>  |

\*All tax rate changes will be phased in over four years.

### **Phase One Impacts in Municipalities (Cities, Towns and Villages)**

The impacts for those municipalities that receive RCMP policing through an agreement with the Province vary. Municipalities that paid more than the full-cost of policing services may see a smaller annual police bill, which may provide flexibility to lower their property tax rate. Municipalities that paid less than the full-cost of policing services may have to pay more. Residential owner-occupied housing will continue to pay no provincial property tax. Municipalities will continue to make the necessary decisions to manage their municipal property tax rates.

The community funding model being developed by the Department of Environment and Local Government will include equalization funding to support communities with weaker tax bases.

All other tax measures, a reduction in the provincial \$1.4573 tax rate on other properties currently classified as residential, a reduction in the provincial \$1.4573 tax rate for apartments, cottage and second homes, and a reduction of the \$2.186 provincial property tax rate on businesses, will result in an overall reduction in property tax for those respective properties in all municipalities.

No farm land or farm buildings will experience an increase in property tax due to the addition of policing costs.

## Summary of Phase One Impacts in Municipalities (Cities, Towns and Villages) by Property Type\*

| Property Type  | Impact   |
|--|--|
| Homeowners   | <ul style="list-style-type: none"> <li>• Homeowners will be able to pay their property tax bills in monthly installments.</li> <li>• Some homeowners in municipalities with RCMP contracts may face a modest property tax increase due to policing costs being adjusted, while some homeowners will see a decrease in property tax.</li> <li>• Assessment Spike Protection Mechanism.</li> <li>• Assessment gap forms a permanent exemption until the property transfers.</li> </ul> |
| Non-Owner-Occupied<br>(rental units, cottages<br>and second homes) | <ul style="list-style-type: none"> <li>• These property owners will see an overall reduction in their property tax due to the reduction in the provincial property tax rate.</li> </ul>  |
| Businesses   | <ul style="list-style-type: none"> <li>• Due to the provincial rate reduction, businesses in municipalities will see property tax savings.</li> </ul>  |
| Farmers  | <ul style="list-style-type: none"> <li>• All farm land and farm buildings will pay the same amount or less property tax than they paid prior to the reform.</li> <li>• Farmers' homes will be treated in the same manner and experience the same impacts as other homes.</li> <li>• Farmers' businesses will be treated in the same manner and experience the same impacts as other businesses.</li> </ul>   |

\*All tax rate changes will be phased in over four years.

## 8. Conclusion

In keeping its election commitment to New Brunswickers, the Government of New Brunswick recognized the concerns raised by New Brunswick property owners and capped assessment growth at three per cent for the last two years. This temporary measure provided assessment stability for many New Brunswickers while work was undertaken to address the flaws in the system and provided the time for a more modern and flexible property tax system to be developed.

Based on the feedback received during an extensive public consultation process, the *Action Plan for a New Local Governance System in New Brunswick* was released in December 2011. Two of the major recommendations of this plan were to develop a property tax and assessment reform plan, and to establish a new, fairer cost-sharing model for RCMP services in New Brunswick.

The Government of New Brunswick further reaffirmed its commitment to property tax reform in the 2012-2013 Budget and the recommendations presented in this white paper are intended to address many of the areas that have caused concern for New Brunswickers. This paper outlines the first steps in that process by improving the property tax system in the province.

Reforms contained in the white paper are aimed at improving the fairness of the property tax system for New Brunswickers. There are a number of measures outlined as part of phase one, including the introduction of a monthly Equalized Payment Plan, a redesign of the property tax bill, as well as a reduction in provincial rates on apartments, second homes and cottages, and non-residential properties. In addition, a new funding model will be developed and the costs associated with policing services will be shared with all property types in LSDs and measures will be taken to protect farmers from the impacts of the changes.

It is clear the time is right to introduce a number of reforms that will modernize the property tax system in the province. However, these changes must be made in a fiscally responsible manner that ensures that we continue to live within our means.

This white paper continues the conversation on a platform commitment to make the property tax system fairer for the long-term and fix flaws in the current system. The recommendations in the white paper are also consistent with the many actions and objectives outlined within the *Action Plan for a New Local Governance System in New Brunswick*. Not only do the recommendations support the objective of a fair and effective property taxation system, but they will also help strengthen capacity of local governments by removing barriers that have discouraged communities from coming together. And it will help increase collaboration and planning between communities through fairer distribution of costs between communities, and increased awareness of how property tax dollars are spent and the costs associated with delivering individual services.

This white paper begins the process of solving some of the problems of inequities that exist within the current system. As a next step, and as committed to within the action plan, the Government of New Brunswick will bring forward a new community funding model later this fall that will support the principles of fairness and provide a degree of stability and predictability for communities. Collectively, the recommendations within this white paper, as well as all the actions within the action plan, will build a foundation of fairness, effectiveness, transparency and accountability necessary for strong, sustainable communities for the long-term.