

Municipal Property Tax Tools

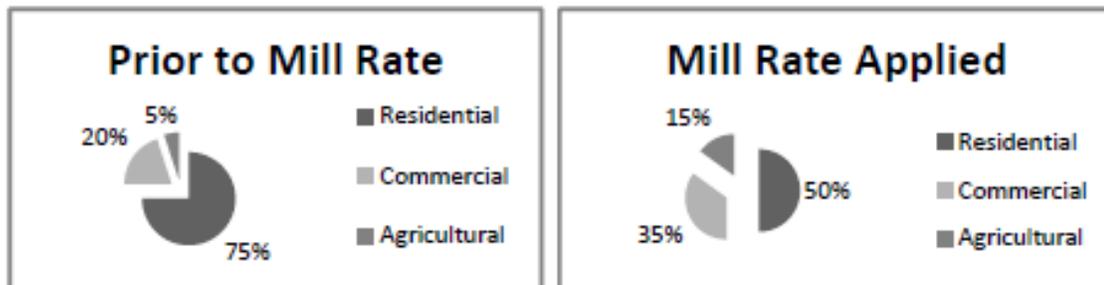
Municipalities (cities, towns, villages, resort villages, and rural municipalities) raise most of their revenue through property taxes. The following tax tools are available to municipal governments:

- Mill rate factors
- Minimum tax
- Base tax

It is important to note that municipal property tax tools *only* apply to the *municipal portion* of the property tax.

Mill Rate Factors

- **What are mill rate factors and who sets them?**
 - A municipality may use mill rate factors to transfer some of the cost of public services from one property classification to another (all property in a municipality is classified as agricultural, residential or commercial). Mill rate factors essentially adjust the mill rate, with the result that the effective mill rate for a specific property classification may be higher or lower than other property classifications.



- **How is the mill rate factor applied?**
 - Before a factored mill rate can be applied to each of the three local property classes, a municipal council must first set a uniform mill rate. For example, a council may decide to levy taxes on the Commercial property class at a mill rate factor of 1.5 using a uniform mill rate of 10.
 - For example:
 1. Residential property taxes would be: $\$81,700 \times 10.0 / 1000) \times 1.0 = \817
 2. Commercial property taxes would be: $\$81,700 \times 10.0 / 1000) \times 1.5 = \$1,225.50$

In this example, by deciding to use these mill rate factors, council has decided that commercial properties in the municipality will pay a greater share of the cost of public services, relative to residential properties.

- **What does applying a mill rate factor accomplish and what are the Saskatchewan trends?**
 - A mill rate factor manages the tax shifts among the local property classes and controls the distribution of taxes among property classes within the municipality.
 - Mill rate factors were applied to 334 (39.67%) out of 842 municipalities in 2010, including the Northern Saskatchewan Administration District (NSAD) (comprised of 11 northern settlements, 14 recreational subdivisions and 31 resource districts).
 - The Commercial property class generally had higher mill rate factors, and therefore generally higher tax rates, than all other property classes.

Minimum Tax

- **What is a minimum tax and how is it set?**
 - A minimum tax may be established to increase the amount of taxation revenue generated from lower assessed properties within one or more property classifications. Two options are available to set a minimum tax for all properties of a certain type:
 1. An absolute dollar amount per lot (eg. minimum \$100 tax/lot).
 2. A dollar amount based on a calculated rate for a given lot attribute (eg. rate per front foot per lot or a rate per acre of land).
- **How is a minimum tax applied?**
 - If the calculated municipal property tax is less than or equal to the minimum tax set by council, then the minimum tax would apply. If the calculated municipal property tax is greater than the minimum tax set by council, then the greater amount applies.
 - Example: let's assume that the municipality has implemented a minimum tax of \$400. The mill rate decreases slightly to 13.0 mills and we have 2 properties - Property "A" has an assessed value of \$81,700 and Property "B" is assessed at \$13,000.
 1. The municipal tax levy relative to Property "A" is $\$81,700 \times 13 / 1000 = \$1,062$. As this amount is greater than \$400, the property taxes for Property "A" will be \$1,062.
 2. Using the ad valorem tax calculation, the municipal tax levy relative to Property "B" is $\$13,000 \times 13 / 1000 = \169 . As this amount is less than \$400, the property taxes for Property "B" will be \$400.

- **What does a minimum tax accomplish and what are the Saskatchewan trends?**
 - Minimum tax tends to shift property tax to lower assessed value properties and reduce the uniform mill rate which will benefit properties with higher assessed values.
 - Minimum taxes were applied in 381 (45.25%) municipalities.
 - Minimum tax as a percentage of the total municipal property tax levy was approximately 14.04%, where used.
 - In 2010, 108 municipalities (28.4% of those using a minimum tax) had a minimum tax levy that was greater than 50% of the total municipal property tax levy.

Base Tax

- **What is a base tax?**
 - Introduced in 2001, a base tax is a specific amount of property tax levied, regardless of the assessed value of a property. A different amount of base tax may be set for different property classes, for lands or improvements or both.
 - A base tax will lower the tax rate reducing the difference in property taxes between lower and higher assessed properties.

- **How is a base tax applied?**
 - A levy equal to the taxable assessed value of the property multiplied by the mill rate may be added to the amount of base tax, to determine the total municipal tax levy. For example, a municipal council may determine that the basic costs of operating the municipality (garbage collection, snow removal, street maintenance, administration, etc.) are \$500 per residential and commercial property with improvements. Council could apply a \$500 base tax to all commercial and residential improvements to cover these basic costs. This is similar to a user pay system.

- **What's the difference between the Minimum Tax tool and the Base Tax tool?**
 - The base tax tool, which has a similar effect as the minimum tax tool, was added because it is an easier tool to administer compared to the minimum tax tool.

- **What does a base tax accomplish and what are the Saskatchewan trends?**
 - Like the minimum tax tool, the base tax tool shifts property tax to lower assessed value properties.
 - Base taxes were applied in 274 (32.54%) municipalities.
 - Base tax as a percentage of the total municipal property tax levy was about 31.15% on average, where used.
 - In 2010, 131 municipalities (47.81% of those that used a base tax) had a base tax levy that was greater than 50% of the total municipal property tax levy.

The Combined Effect of Tax Tools on the Overall Mill Rate

The effective (average) mill rate is determined by taking the total municipal property tax levy and dividing it by the taxable assessment. This is done for each property class in the municipality. Since the total property tax levy by property class takes into account all local tax tools, the effective mill rates show the overall relative tax rates among property classes.

Assessment Re-evaluation Impact

Generally a municipality's tax policy may remain fairly consistent from year to year. However, this may change significantly during a revaluation year. Every four years, the properties in a municipality will be revalued. The next revaluation will take place in 2017.

In a revaluation year:

- All assessed values of property are reviewed and adjusted if required, in order to bring them up-to-date to the latest base date.
- The assessed value of all properties in a municipality may change significantly.
- The municipality retains the same number of taxable properties.

Revaluation may change each individual property's "share" of the required tax revenue. Council may decide to maintain the tax allocations that result from revaluation. However; it is advisable to look at the impact that revaluation has on the current tax policy in order for council to make an informed decision regarding any changes that may be necessary.

Which Tool to Choose? Tax Policy Development Resources for Councils

Regardless of which municipal tax tool is chosen, tax policy is almost certain to generate discussion. Support is available to municipal councils to help decide which approach is best for their municipality.

- **Local service:**
 - Your municipality's financial officer
 - Northern Municipal Services: Hasan Akhtar, (306) 425-4325
- **On-line service:**
 - "Tax Tools Guide for Municipalities": includes examples of how councils can develop a tax policy, other tax policy tools and strategies and other useful information: <https://www.saskatchewan.ca/government/municipal-administration/taxation-and-service-fees/municipal-property-tax-tools#base-tax>