

Saskatchewan Real Estate Association

Unlocking the Power of Property To Drive Economic Growth

Presentation to:

The Commission on Financing K-12 Education

September 20, 2003

The Saskatchewan Real Estate Association

The Saskatchewan Real Estate Association (SREA) is a voluntary, non-profit organization serving, representing, and providing direction and leadership to its members and to organized real estate. SREA is one of the largest single-industry trade organizations in Saskatchewan, representing the interests of over 1,100 licensed REALTORS.

Through the Multiple Listing Service® (MLS®), SREA members facilitated the sale of 9,240 properties valued at over 945 million dollars in 2002. Real estate is one of the leading indicators of economic health and a key driver of growth and development. The members of the Saskatchewan Real Estate Association as well as the people and the Government of this province have a vested interest in ensuring that the market in Saskatchewan is vibrant.

One way of ensuring a vibrant real estate market is to ensure property taxes are levied fairly and equally and are competitive with other jurisdictions. Property taxes have an impact on a wide range of people in Saskatchewan from the single parent family living in an apartment to the young family looking to buy their first home to the empty nesters looking to sell their home and move into a condo to the senior citizen living on a fixed income, not to mention the small business owner or the young farmer.

The Issue

The development and turnover of real property is one of the leading indicators of economic health and a key driver of growth and development. It is significantly impacted by property taxation.

SREA believes it is important that the issue of taxes on property be addressed and welcomes the opportunity to address this Commission regarding the education portion of property tax.

The Current Situation

- **Taxes are the top concern.** As revealed in a 2002 all-member survey, taxation at all levels is the highest priority issue for REALTORS in Saskatchewan. And, of all taxes, those at the local level are cited as most in need of being addressed.
- **Local taxes are a critical consideration for property owners.** A 2003 study of Regina residents shows 83.7% consider the tax level important (“somewhat” - 27.1% or “very” - 56.6%) in choosing a residence. In making a purchase, tax payments are considered as important as mortgage payments, even though mortgages typically involve much larger dollar outlays. These facts clearly denote a special concern. Excessive property tax can drive down property development.
- **Other taxes have been cut, but not property taxes.** In recent years, Saskatchewan has reduced its sales tax, personal income taxes, small business income taxes, and taxes on capital. Taxes on property, however, have not been reduced; they continue to escalate, detracting from the impact of reductions in other areas.
- **Property tax bears no relation to ability to pay.** For example - a senior living on a fixed income in the home he or she has owned for many years can face extreme financial hardship when property taxes continue to escalate. The value of the home has undoubtedly risen over the years but the individual’s ability to pay taxes has probably declined.
- **Property is capital; tax levels directly threaten investment.** In the case of commercial, industrial, or agricultural property, taxation can be the deciding factor in whether or not a property is sold, or whether the investment is made in another jurisdiction. Thus property taxes can prevent a vendor from unlocking hard-earned value tied up in real estate, and in other cases, can discourage investment and job creation.

Moving Forward: Benefits and Advantages

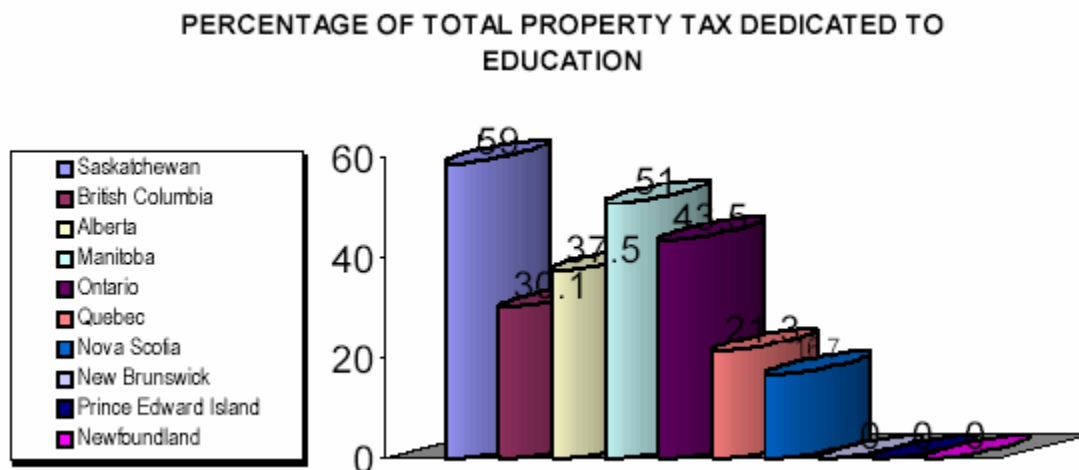
- **Lower property taxes will drive growth.** Moderation in tax encourages property transactions. A rise in sales will bring two highly positive benefits.
 - One, capital now locked in real property will be freed for reinvestment. Saskatchewan people hold large amounts of capital, often represented by property, but have typically resisted moving it into investments. Part of the reason is the low level of activity in property markets, which makes it difficult to realize value and create liquidity. Real estate transactions represent the freeing of capital for reinvestment on one hand, and the investing of capital in a manner that stimulates many spin-off multipliers on the other. It is in everyone's interest to ensure that property transactions are encouraged and facilitated.
 - Two, the multiplier effect of increased transactions will create widespread new economic activity in the job-rich property development industry and related sectors. Studies show that in the two-year period ending November 2002, the average property sale generated just under \$20,000 in additional economic activity. The 9240 transactions in Saskatchewan over the last year produced \$185,000,000 in spin-off activity.

- **Healthy, well-serviced and reasonably taxed communities are the growth engines of our economic future.** As Saskatchewan diversifies from primary production, communities increasingly are where new economic value is being added. More of our provincial resources should be invested in our community infrastructure where they can leverage economic development, wealth creation and new jobs.

- **Funding schools from property is awkward and antiquated.** The present tax structure is a holdover from the early days of the last century when the most widely-held resource was farmland. Property is not a suitable tax base for education – yet the share of school costs borne by property continues to rise. The majority of property tax goes to schools, but is collected by municipalities. Clarity and accountability, both principles of good taxation, are compromised by the present system. For all these reasons, a thorough reform of school funding is long past due.

Shift school costs off the property tax

- Education takes over half the revenue raised from property taxes. The percentage has risen from approximately 45% 25 years ago, to nearly 60% today. School costs are crowding out municipal government needs. The following chart shows that Saskatchewan has the highest reliance on property tax to fund education of all provinces in Canada



- Though school boards receive the majority of property tax revenue, municipalities must collect the tax. Accountability and clarity are being compromised.
- School costs lend themselves to being removed from property. They are "services to people", while the municipalities more often deliver "services to property".
- REALTORS propose that over a five year period the present burden be halved, and then capped. The difference should be funded from provincial levies on broader tax bases. This would gradually leave most of the property tax base for local government, which could then be held to account by taxpayers for how it taxes property.

REALTORS hope the Commission will consider the overall economic impact of taxing property for multiple needs. To take a genuinely good look at how Kindergarten to Grade 12 education is paid for, we feel it is important to be speaking about how to move beyond the property tax for services like schools. The current structure belongs to the early part of the last century when most families farmed, schools were local, and farm property was a much larger component of the province's asset base.

Taxing property for education retards our growth, and limits education. We need new solutions.