



**Taxes and Growth in Saskatchewan:**

**A Broad Perspective**

**Submission to:**

**The Saskatchewan Business Tax Review**

**Summer 2005**

# Introduction

The Saskatchewan Real Estate Association appreciates this opportunity to present a submission to the Business Tax Review. Our organization welcomed the creation of the Review by the Government of Saskatchewan. In all its aspects – as a forum for discussion and a generator of public awareness, as an opportunity for the dissemination of information about taxation, as a source of useful technical work, and hopefully, in its report and recommendations – the Review has great positive potential.

## Background: 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 1,000 licensed REALTORS.

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## **The role of property in our economy**

Property is a fundamental reservoir of value. The success of our Western societies in creating wealth is underpinned by the property asset base and the capacity for its ready exchange, and renewal and upgrading to higher and better uses.

Property serves as an important part of the asset base that supports financing for economic growth. The capacity to tap the value of property as security for other economic transactions, so essential to our market economy, is provided by REALTORS. They are the entrepreneurial catalyst whose skills sustain the markets in which property is valued and exchanged.

## **In reviewing business taxes, property tax matters**

The Business Tax Review's mandate calls on it to respond to a wide range of perspectives and to balance competing interests. SREA contends that considering the impact of property taxes is relevant and even vital for at least three reasons.

### **Property tax is an enormous expense for Saskatchewan business.**

- Property in Saskatchewan was taxed for \$1,252,439,850 in 2004. Of that amount, \$439,790,896 was exacted from commercial and industrial property.
- Property taxes are a greater cost to business than even the corporate capital tax. They rank third overall in magnitude province-wide, exceeded only by the taxes on personal income and sales.

**Property tax affects entrepreneurship.** The effect of a tax should be considered at the level of the grassroots entrepreneur, as well as at the level of the larger enterprise. In Saskatchewan, many of our new jobs are created by small employers and entrepreneurs.

- Property is often used as security for entrepreneurial start-ups.
- Property values are lower in Saskatchewan, and the tax on them is higher in relation to that value than in other provinces. At least part of the reason is the vicious circle of higher taxes suppressing value growth.
- Because values are lower, Saskatchewan entrepreneurs have a smaller asset base to call on when they need security.
- When the asset base is used as security, a Saskatchewan entrepreneur must risk a larger fraction of his or her asset than elsewhere, for the same dollar yield. Property tax thus has a large role in economic development. When the tax is high, it holds back growth.

**Property tax levels are largely determined by the province.** Mill rates on property assessment may be set locally, but their level is driven largely by decisions made provincially.

- Whether in the form of school grants, revenue sharing for municipalities, or joint programs in housing, policing, roads, parks or other infrastructure and services, the province's behaviour drives local taxes.
- Economic growth is hugely impacted by local factors. Differences between cities and regions within Saskatchewan clearly affect the extent of job creation and development.
- Municipal government must address these needs. To do so, increasingly it must be able to draw on revenue generated by growth-related taxes that are largely collected at the senior levels of government. An effective economic plan must account for how growth-supporting services are delivered – very often, locally – and paid for. This means the property tax must be taken into account. It should be considered along with ways of distributing money collected from senior-level tax sources to enable community-level growth..

## The challenge

SREA believes the challenge of devising an effective business tax structure for the province must include reforming property tax. We encourage your Review to be cognizant of this need.

Saskatchewan suffers from over-reliance on property tax.

- Our schools are handicapped by being tied to an outdated revenue base for 60% of their needs.
- Our communities suffer from inadequate financing for infrastructure, on which development is built. In part this is because school costs consume over half the funds. It also relates to the fact that property is simply not a sufficient tax base for the modern needs of our communities.

Education and infrastructure both matter greatly to growth. We can unleash a major driver of growth by tackling the problem.

## Situation today

**Property is capital; taxing it subtracts from our economic base.** Every year, property owners must pay a percentage of their asset's value to the government. Except in rare cases, the amount has nothing to do with income. It is a deduction from the tax-paid asset that represents a shriveling of the capital base every economy needs to grow.

- In the case of commercial, industrial, or agricultural property, taxation can be the deciding factor in whether or not a prospect will buy, or an investment is made in our province or another jurisdiction.

- Tax levels hinder vendors from unlocking hard-earned value tied up in real estate. They inhibit the turnover of property to its highest and best uses, and thus, suppress the value of property and the collateral it can represent in financing new growth.

**The tax is too high.** Saskatchewan property taxes represent a larger percentage of the value of property than they do elsewhere, for two reasons: the rate is too high, and our property values are low.

- Ironically, the high tax contributes to the low value. And in turn, low property values contribute to a shortage of capital and hesitancy in making investments.
- A specific example of how high tax depresses value: Commercial property is often leased for a rent per square foot, “triple net” – meaning, among other things, that property tax is additional to the rent. In competitive situations, Saskatchewan net rents must be reduced to offset our higher property tax, or the Saskatchewan site is priced out of contention. As income-based factors are built into assessment levels, the reduced net rent will lead to a lower property assessment. Thus not only does our asset base shrink, but our high taxes end up producing smaller rather than greater revenues.

**The system is antiquated.**

- The present structure is a leftover from the early days of the last century when most families lived on farms and the most widely-held resource was land. It harkens back to times before the income tax, sales tax, gas tax or resource revenues.
- A tax on property is not suited to services to people, who are highly mobile today, and need the best possible education. It is time to reform our school finances.
- The property tax system is overgrown with complex assessment rules, tax factors, asset classes, mill rate limits, rebates and appeal processes. It is sustained by an expensive bureaucracy whose workings are obscure. Very few if any really understand the system. It lacks transparency and is badly in need of a thorough overhaul.

**School property tax crowds out municipal needs.** Education takes over half the revenue raised from property taxes.

- The percentage has risen from approximately 45% 25 years ago, to nearly 60% today.
- The Boughen Commission showed that this level is the highest in Canada.

**Property tax violates principles of good taxation.** Despite the majority of property tax going to schools, it is collected by municipalities. Clarity and accountability, both principles of good taxation, are compromised by the present system.

**Other taxes have been cut, but not property taxes.** In recent years, Saskatchewan has reduced several major taxes at the provincial level. No reductions have been made in local taxes.

- These include the sales tax, personal income taxes, small business income taxes, and taxes on corporate capital.

- Taxes on property, however, have not been reduced. They continue to escalate, detracting from the impact of reductions in other areas.

## **The importance of providing for action now**

**Empower our urban communities.** Investment, wealth creation and jobs for youth are increasingly a function of cities and towns. They need infrastructure and services to attract people and growth. Reasonable access to property tax, and help from revenue sharing will pay large dividends.

**Schools need a new tax base.** Education is a key driver of growth. There is no more room for school support on the property tax. Change is inevitable.

**Taxing capital kills growth.** We have recognized the negative impact the corporate capital tax has on investment. But we have ignored the tax on family capital that is represented by property. Both taxes consume value we need to finance development. It is time to give families a break and stimulate the grassroots of our business sector.

## **Moving forward**

We need a multi-year road map setting out a serious strategy that will allow the province the fiscal room to address the property tax issue. The road map should provide for:

- cutting property taxes and capping their growth
- updating school funding
- creating a sound financial base to support the growth potential of our communities.

SREA encourages the Business Tax Review to recognize the need for reform in the property tax as part of a comprehensive growth and fairness strategy. We would ask that you approach the Government to widen your mandate so that this vital capital tax can be formally considered in the real-life context.

SREA hopes and suggests that your recommendations include reference to the role of property tax and the need for comprehensive reform. Your Review can help create opportunity for the province to address this major challenge in the near future.