

## Sticking it to Tenants



22 Dundas Street, Dartmouth, Nova Scotia  
(Nova Scotia Assessment Appeal Tribunal Decision:  
\$13,000/annum in tax savings)

Apartment renters usually fall into one of three groups, the young, old, and blue collar: often the more income deprived sections of the population, yet they bear more than their equitable share of property taxes. True, the property taxes are “hidden” because they are included in the rent but that only disguises the fact that the tenant pays them. How do governments penalise residential renters, to what degree and why?

If you own a home in Nova Scotia your assessment will be frozen (“capped”) until you sell or build on to it. The process was implemented in 2005 as a political knee jerk reaction to increasing residential assessments, which in turn were the outcome of inflating property values. Canada was one of only three countries in the industrialised world to miss out on the housing boom in the 1990s: we were too busy paying for our past excesses...fiscal restraint was the order of the day. However once the new century dawned, personal incomes took off and with them house and waterfront land prices. Since property assessments are based on market value (at that time with a two year delay) they too started to rise. Reacting to complaints from some home owners, especially those located along the province’s much sought after South Shore, the government moved to “cap” assessment increases on residential property (single family homes and apartment buildings with no more than three units) and taxable resource property (i.e. woodland) so long as half of the interest therein (or more) is owned by a provincial resident. Initially the capped increase was applied to the 2001 Base Year (the date at which the assessment purported to equal market value) at 15% then 10%, per year but this was later changed to tie it to the inflation rate (as measured by the Consumer Price Index). All other property, including rental apartments, were excluded from the capping, and every year bear an increasing share of the tax load. Thus home owners, such as the author, can contentedly watch as his share of the tax burden is increasingly off loaded onto the young, the old and the blue collar. The more valuable the home, the greater the tax transfer. Trump that!

Unfortunately New Brunswick has gone one better in its discrimination against apartment renters: there, they are doubly blessed. The Province implemented capping in 2011 for residential assessments, other than apartment buildings, but allowed an increase of 10% per annum. However they insist that the apartments shoulder the provincial tax rate *in addition to the municipal rate*. (Residential home owners only pay the municipal portion of the tax bill). Data compiled by the New Brunswick Apartment Owners Association shows that renters located in the main cities (Saint John, Moncton, Fredericton) pay between 65% to 81% more than homes with the same assessed value. On average, apartment renters in New Brunswick pay 92% more in property taxes than tenants in similarly assessed apartments in the Region's remaining provinces. The comparison is starkly illustrated by the following table showing the number of months' rent required to pay the property taxes:

City	Average Annual Property Tax	Average Monthly Gross Rent	# Months' Rent to Pay Property Taxes
St. John's	\$ 446	\$790	0.6
Halifax	\$ 960	\$894	1.1
Charlottetown	\$ 941	\$872	1.1
Saint John	\$1,424	\$749	1.9
Fredericton	\$1,856	\$849	2.2
Moncton	\$2,037	\$804	2.5

Source: New Brunswick Apartment Owners Association

Prince Edward Island instituted assessment capping in 2010 for residential properties which are owner occupied at the provincial Consumer Price Index (CPI), or five per cent per annum, whichever is the lower...unless the CPI signals deflation, in which event it is capped at zero. Since rental apartments are excluded, the unfortunate tenants effectively subsidise home owners (including condominium apartment owner occupiers).

Newfoundland has not implemented capping of owner occupied residential property.

### Quo Vadis?

The municipalities are opposed to capping and have conducted several studies since it was introduced to demonstrate that it makes a bad system worse by distorting the ad valorem principle of property taxation. They are correct. It is also true that the proportion of the property tax levied on rental apartments which is actually born by the tenant is a function of the price elasticity of demand...where apartments available for rent are in short supply the tenant pays for most, if not all, of the tax burden...but where the reverse is the case the landlord absorbs the property tax (in the short run). Capping was introduced by the provinces in response to sharp assessment increases in owner occupied residential property, which in turn reflected a similar movement in market values. However the increase in assessments should not, of themselves, have resulted in a similar increase in property taxes; the latter are a function of municipal spending. If assessments increase by 100% the tax rate should fall by 50% provided the municipality does not increase its spending. Unfortunately there appears to be a widely held view amongst municipalities that increased assessments expand their revenue generation capacity and confer a licence to spend more money. Municipal budgets should be based on their requirements, not their perceived ability to soak taxpayers. The provinces have attempted to rein in municipal spending by "capping" and in so doing have rendered the taxation system less equitable. Capping should be removed but it is egregious for the municipalities to rail against it because it limits their spending capacity: it is the failure of the municipalities to impose fiscal discipline that is the root cause of the problem. Unfortunately removing the capping will render provincial politicians unpopular unless it is balanced by municipal fiscal restraint...so we could be stuck with it for a long time. Since the property taxes are "hidden" in the rent, action by tenants to persuade their MLAs to take action is unlikely. It therefore falls to the various Apartment Owners Associations to successfully lobby for rental apartments to be treated in the same manner as single family homes. In the interim a successful assessment appeal may be the only way to afford relief.

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