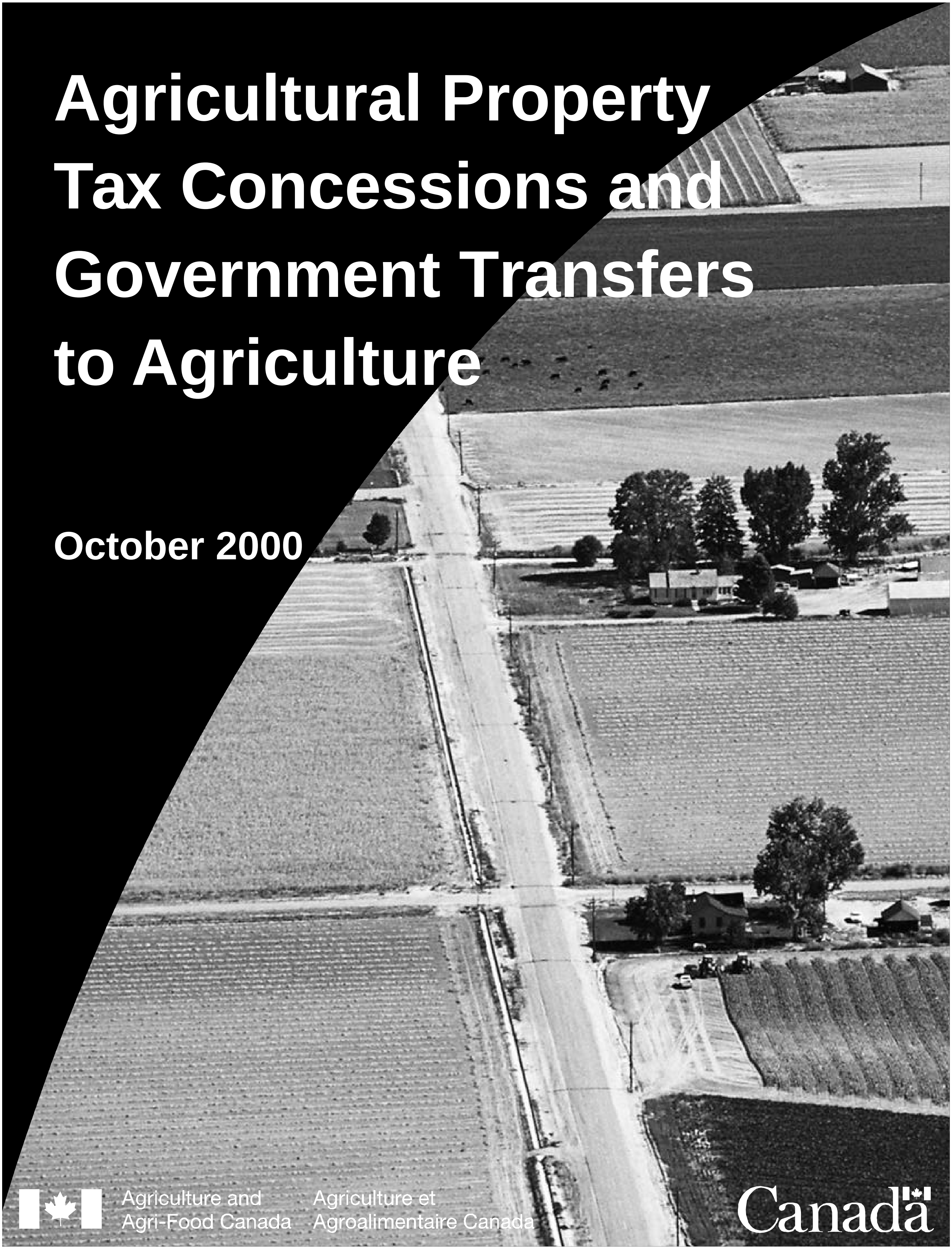
Agricultural Property Tax Concessions and Government Transfers to Agriculture

October 2000



Agriculture and Agri-Food Canada

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AGRICULTURAL PROPERTY TAX CONCESSIONS AND GOVERNMENT TRANSFERS TO AGRICULTURE

Agriculture and Agri-Food Canada

December 2000

AGRICULTURAL PROPERTY TAX CONCESSIONS AND GOVERNMENT TRANSFERS TO AGRICULTURE

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Contract no 01B04-8-C039

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Strategic Policy Branch
December 2000

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Electronic versions of Research and Analysis Directorate publications are available on the Internet at:
www.agr.ca/policy/epad

Publication 2047/E

ISBN 0-662-29165-4

Catalogue A22-210/2000E

Project 99065r

Aussi disponible en français sous le titre de :
ALLÉGEMENTS FISCAUX RELATIFS AUX PROPRIÉTÉS AGRICOLES ET TRANSFERTS GOUVERNEMENTAUX

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Executive Summary

Agriculture and Agri-Food Canada (AAFC) in concert with the provinces has provided annual measurements of the level of financial transfers from government programming to the farm sector.

The Federal — Provincial Government Transfer Working Group is responsible for measuring these financial transfers to the agricultural sector. Prior to 1995/96, provincial property tax rebates and exemptions were included in the calculations. The methodology used to measure the value of these concessions was to capture the value of the rebate paid to farmers and to estimate the value of the property tax exemptions. The benefit associated with lower assessment values was not captured.

Disagreement among provinces on how any property tax concessions should be measured resulted in a moratorium (starting in May 1996) on including property tax programming in the financial transfer from government, pending development of an acceptable method. The Working Group agreed to reconsider the inclusion of property tax programs based on the findings and recommendations of a third party study of this issue. This report provides a recommendation to AAFC and the provinces.

The recommendations provided, on concessions that arise from agricultural property tax programs, are not necessarily the views of each of the consulting team members. The JRG Consulting Group is responsible for the recommendations developed and presented to AAFC and the provinces.

The JRG Consulting Group is grateful to the many individuals in provincial ministries who explained their provincial agricultural property tax programs and provided the study team with needed data. Thank you for your time and insights. Any errors in program descriptions are unintended.

The Property Tax as a Revenue Source for Government

Property taxes are one of a few revenue sources used by local governments (and provinces in some cases) to fund services provided by local and provincial governments. The property tax is also used to fund education in most provinces. The agricultural property tax program (and associated concessions) is somewhat different in each province.

The revenue yield generated from property taxes depends on four variables that are in the control of each province and/or the individual municipalities in a province. The tax yield depends on:

0 The tax base — what properties are subject to tax and not exempt from tax;

0 The assessment ratio — assessed value relative to the market (or current use) value;

0 The nominal tax rate — the tax rate applied to the assessed property values;

0 The rebates (and deferrals) — on property tax paid (or due).

Summary of Property Tax Programs Used In Agriculture

There are a number of property tax programs provided to the agriculture sector by each province. These include:

0 Exemptions of some properties from tax, such as farm buildings and residences;

0 Assessments which are less than the agricultural market value;

0 Rebates by provincial governments on some of the taxes paid by farmers;

0 Deferral (and forgiveness) of taxes due unless the use of the farm land changes;

0 Maximum tax rates that can be paid by the agricultural sector.

An overview of the agricultural property tax programs used in each province indicates that:

0 British Columbia uses exemptions on buildings and farm residences (in rural areas), and has assessment values on land that are much lower than agricultural market values.

0 Alberta exempts most farm residences and buildings and its assessment program results in land being assessed at significantly below the agricultural market value.

0 Saskatchewan excludes farm residences and buildings from property taxation, and the assessment value for farmland is 50% (for rangeland) and 70% (for cropland) of the agricultural market value.

0 Manitoba assesses its farm properties at 30% of the market value (45% for the farm residence), and also excludes farmland from the education (school) levy.

0 Ontario used to rebate 75% of the full tax burden, and now has a maximum tax rate for farmland and buildings (25% of the residential rate for eligible farmland and buildings). Property is assessed at agricultural market values.

0 Quebec provides a rebate on farm property taxes (around 50% of farm property taxes paid across all farms, and around 77% when considering eligible farms with over $10,000 in gross sales), and has a maximum assessment value on farmland for school taxation purposes.

0 New Brunswick uses a tax deferral program, where farm property taxes assessed by the province are deferred. If the property use changes, then the last 15 years of property tax are due. There is a maximum local government tax rate that farmers pay on farm property. In New Brunswick all residences that are owner occupied receive a rebate from the province on provincial property taxes.

0 Nova Scotia exempts farmland from taxation, with farm residences and buildings subject to the property tax.

- In Prince Edward Island, farmland is assessed at less than 50% of the agricultural market value.
- In Newfoundland, farmland and buildings are exempt from paying local real property taxes, however, the local government in some areas assesses a business tax on farm property.

A summary of the agricultural property tax programs used in each of the provinces is provided in the table on the following page. What is clear is that each province uses a different approach to providing property tax programs (and concessions) in the agricultural sector.

Effective Tax Rate

The concept of the effective tax rate is used to allow for comparisons of property taxation across the provinces. The effective tax rate (equal to the tax yield divided by a comparable tax base measured at market value) corrects for the influence of the tax levers used, such as variations in the tax base, the assessment ratio, the nominal tax rate, and rebates/deferrals. The computed effective tax rate indicates that the tax burden ranges from a low of 0.13% in British Columbia to a high of 0.68% in Saskatchewan.

The effective tax rate computation helps define the problem of varying tax concessions provided to farmers in each province. Clearly there are a number of concessions provided to farmers through the property tax program. The issue becomes one of how to measure the value of the concessions.

Table A: Summary of Agricultural Property Taxation

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P.E.I.	Nfld.
Tax base										
Land	yes	yes	yes	yes	yes	yes	yes	exempt	yes	business tax
Buildings	mostly exempt	mostly exempt	no	yes	yes	yes	yes	yes	yes	business tax
Residences	mostly exempt	mostly exempt	no	yes	yes	yes	yes	yes	yes	yes
Assessment Ratio										
Land	10 - 15%	10 - 40%	50 - 70%	30%	100%	100%	100%	exempt	10 - 50%	100%
Buildings	100%	100%	exempt	30%	100%	100%	100%	100%	100%	100%
Residences	100%	100%	exempt	45%	100%	100%	100%	100%	100%	100%
Nominal Tax Rates										
Land	0.7 - 1.5%	1.4 - 1.5%	2.3 - 3.6%	3.0 - 4.8%	0.2 - 0.5%	0.8 - 1.5%	1.5 - 3.0%	exempt	0.05 -1.74%	0.0 - 1.0%
Buildings	0.7 - 1.5%	1.4 - 1.5%	exempt	3.8 - 5.6%	0.2 - 0.5%	0.8 - 1.5%	1.5 - 3.0%	0.8 - 1.05%	0.05 -1.74%	0.0 - 1.0%
Residences	0.7 - 1.2%	1.0 - 1.5%	exempt	3.8 - 5.6%	0.2 - 0.5%	0.8 - 1.5%	1.5 - 3.0%	0.8 - 1.05%	0.05 -1.74%	0.0 - 1.0%
Agricultural Tax Programs										
Rebates					before 1998	yes				
Exemptions	yes	yes - buildings	yes - buildings	yes - ESL on land				yes - land		yes
Deferrals Assessment	yes	yes	yes	yes		yes - education	yes	yes	yes	
Maximum Tax Rate					since 1998		yes			
Effective Tax Rate										
1996	0.14%	0.38%	0.90%	0.67%	0.23%	0.49%	0.37%	0.30%	0.29%	0.14%
1997	0.13%	0.36%	0.90%	0.65%	0.21%	0.47%	0.35%	0.29%	0.26%	0.14%
Effective Tax Rate (with adjustment for residences and asset values)										
1997	0.13%	0.28%	0.68%	0.65%	0.42%	0.53%	0.33%	0.29%	0.31%	0.14%

Estimates of the Value of Concessions

There are several approaches available to measure the value of concessions. The following table summarizes estimates of the taxes given by provincial and local governments. Net taxes paid in 1997 are shown in the first row of Table B. This equaled $436 million across Canada, after including rebates and accounting for the property tax that excluded farm residences would have paid, if they were not excluded.

The *approach that was used by the AAFC working group* was to account for the value of rebates, deferrals, and exemptions. Across Canada, this equaled $296 million in 1994, or 68% of the 1997 net agricultural property tax bill of $436 million (second row in Table B). A shortfall of this approach is that it does not measure the impact of having assessment values lower than agricultural market value of the property (a feature used in a number of provinces). If all concessions were measured (such as lower assessment values, etc.), then the resulting measurement would approximate the value of concessions based on taxing the farm sector at the residential rate on the agricultural market value of farm land and buildings.

Table B: Estimates of Taxes Given Up by Agricultural Property Tax Programs — Summary

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P.E.I.	Nfld.	Total
Net Farm Taxes Paid ($ million) with adjustments											
1997	15.5	79.8	151.5	58.3	72	51	2.6	2.6	2.5	0.2	436
Measure of Taxes Given Up in a Province — AAFC Approach											
1994	10.5	41.5	17.6	13.8	151.2	54.1	2.6	1.0	3.6	0.0	296
Measure of Taxes Given Up in a Province — Taxed at Residential Rate											
1997	103.8	235.8	295.3	149.0	167.4	92.9	4.6	6.3	5.6	0.8	1,061
Measure of Taxes Given Up in a Province — 0.5% Effective Farm Tax Rate											
1997	44.1	63.7	-39.8	-13.2	13.5	-3.1	1.3	1.8	1.5	0.5	70
Measure of Taxes Given Up in a Province — Effective Farm Tax Rate (residential rate adjusted for education tax and local services used)											
1997	21.5	6.3	-17.5	2.1	37.4	20.9	2.8	2.6	3.7	0.4	80
Measure of Taxes Given Up in a Province — Effective Farm Tax Rate (residential tax rate adjusted for education tax rate only)											
1997	50.1	37.8	13.8	30.9	88.7	59.3	4.6	6.3	5.6	0.8	298

Another approach is to estimate the tax revenue foregone by having the *farm sector taxed at the same rate as the rural residential sector*, with any tax provisions eliminated such as lower assessments, exemptions, rebates, etc. The third row in Table B illustrates the tax revenue foregone with this approach. Across Canada, it is estimated that provincial governments give up just over $1 billion in tax revenue, if this approach is chosen to measure the value of property tax concessions. A major shortfall of this approach is that it does not consider the farm property use of local services.

Using an average *uniform effective tax rate (0.50%) across Canada* is a way to measure concessions based on the assumption that farm property does not consume the same level of local services as does the residential sector. Taxing the agricultural value of farmland and buildings at a 0.5% tax rate, for example, results in a $70 million estimate of taxes given up by governments across Canada. While this approach has some merit, its weaknesses are that the services provided by local governments may not be the same in each province, and how does one choose what the uniform rate should be.

The benefits based principle can be used to estimate the value of concessions provided to the agricultural sector through the property tax programs. *The rationale for using a benefits based principle is that farm property (excluding the residence) should be taxed based on the services used by the farm operation. Adjusting the provincial (rural) residential tax rate to remove the education tax and the proportion of local expenditures on services not used by the farm sector* is one way to estimate the farm tax in each province based on the benefits principle. The net result on the estimated value of property tax concessions ($80 million across Canada) is shown in the second last row of the previous table, based on applying the benefits based effective tax rate on the agricultural market value of farm land and buildings and subtracting this amount from the taxes actually paid. *This is the approach that is recommended to the Working Group.*

Another benefits based approach for measuring the value of concessions is to *remove only the educational tax from the residential tax rate* as a measure of the benefits based effective farm tax rate. This approach suggests that provinces are giving up $298 million, with the largest estimated concession in Ontario.

Conceptual and Measurement Issues

There are a few conceptual issues that are embedded in the above calculations. One important issue is that the farm residence should be separated from the farmland and buildings. In some provinces, farm residences are excluded from property taxation. Our analysis of farm tax burden first estimated the tax that would have been paid on the excluded residences, and used the resulting tax as the tax burden assigned to the farm (agriculture sector). This approach allows for a more valid comparison of farm property taxation programs across provinces.

Another issue is that a common database does not exist across Canada of farm property (land and buildings) assessment values. As a result, Statistics Canada's estimate of the value of farmland and buildings was used. The Statistics Canada estimate needs to be adjusted since it captures current market values, and not the agricultural (use) market value. This difference affects the imputed tax base in provinces such as Ontario where there are significant urban influences on the value of farmland in parts of the province.

The following recommendation is for the value of concessions that flow from agricultural property tax programs, and explicitly from the property tax. The impact can vary between provinces based on the services paid out of the property tax, versus having such services paid for out of other revenue sources, or paid directly by the province. The value of concessions due to agricultural property tax programs is measured in a consistent manner across provinces with this approach.

Recommendations

Tax Base

1 *Include all farmland and buildings assessed at agricultural market values*

All farmland and buildings should be included in the tax base, with these properties assessed at agricultural market value.

Data Implications

The Statistics Canada measure of agriculture land and buildings should be used with adjustments to reflect the non-agriculture values in farmland.

Tax Rate — Benefits Based Effective Farm Tax Rate

2 *Use an adjusted rural residential tax rate to derive a benefits based farm tax rate*

The effective farm tax should be based on the beneficiary principle — implying that farm properties only pay for services used by the farm sector. A benefits based taxation principle is not inconsistent with using ad valorem tax rates. Such a tax rate can be based off of the rural residential tax rate, with the residential rate adjusted to:

- eliminate any school property tax rate (or inferred rate with the province collecting most of the property taxes),
- reflect benefits base taxation for the farm property by multiplying the resulting local tax rate by the percentage of local expenditures on services used by the farm sector, and
- calculate an effective farm tax rate by multiplying the assessment ratio by the above farm tax rate (e.g., a 2% tax rate on a tax base assessed at 40% of market value is effectively a 0.8% tax rate on a market value assessment).

Data Implications

Data requirements include:

- average rural residential tax rates are required for each province,
- assessment ratio for residential properties,
- updating of the expenditures by local governments on services used by the farm sector.

Measuring the Value of Concessions

> **3** *Tax yield is the agricultural market value for farmland and buildings multiplied by the benefits based farm tax rate*

The benefits based tax yield is the agricultural market value of land and buildings multiplied by the benefits based effective tax rate.

Data Implications

> **4** *Measure current taxes paid using Statistics Canada data*

Statistics Canada data on farm property taxes paid should be used as the base data for property taxes paid by farmers (as well as tax rebates received by farmers).

> **5** *Adjust for the taxes that would have been paid on exempt farm residences*

In provinces such as Alberta, and Saskatchewan farm residences are essentially exempt from paying property tax. Before any tax benefit is measured for farming, the taxes that would have been paid on farm residences should be deducted from the taxes paid by the farm property.

Data Implications

The rural residential tax rate and the assessed values of farm residences (which are exempt or excluded from the tax base) are required to measure (adjust for) the lower tax burden on the farm properties.

> **6** *Measure the value of concessions as the difference between the tax yield based on a benefits based farm tax rate and the current tax burden on the farm sector*

The value of concessions for each province should be calculated as the difference between the tax yield based on using a benefits based farm tax rate on the assessed agricultural market value of farm land and buildings (recommendation #3), and the current tax burden as measured by Statistics Canada (recommendation #4). The latter should be adjusted for the tax burden not placed on farm residences in a province (recommendation #5). The value of tax concessions is the difference between the taxes actually paid in the farm sector, and the tax yield suggested by using the benefits based tax rate. This difference accounts for all, or part, of the value of existing agricultural tax programs, such as rebates, lower assessment values, exemptions, etc. The estimated difference will not be identical to that based on an accounting approach since the calculation is based on taxation using the benefits principle applied to the farm sector.

> 7 *There is no property tax concession when the current tax burden is larger than calculated the benefits based tax yield*

This approach to measuring property tax concessions results in a determination of no financial benefit inferred for the farm sector through agricultural property tax programs when the current tax burden is larger than the calculated tax yield based on applying the benefits based tax rate.

Allocations to Commodities

> 8 *Allocate concessions to both land and buildings based on property tax programming*

Some property tax concessions apply equally to farm land and farm buildings, while other concessions apply to either farmland or buildings. The following allocations are suggested:

- for programs that apply equally to land and buildings, the land concession is the total concession multiplied by the land share of land and building value, with the remainder allocated to buildings;
- for programs targeted to land, all of the implied concessions (or percent of total concession) will be allocated to land (with a similar process for farm buildings).

The result will be an estimate of the concessions applicable to farmland and the value of concessions applicable to farm buildings.

Data Implications

Information on the agricultural market value of farm land and on the market value of farm buildings is required for each province. In most provinces, property tax assessors can provide this information.

> 9 *Allocate concessions to crops based on the farmland concessions and allocate concessions to livestock based on building concessions, with adjustments for the value of crops relative to hay, pasture and forage values*

The concessions to land and buildings need to be allocated to crops (harvested for sale) and livestock. The following allocations are suggested:

- Allocate the land-based concessions to crops (versus hay, pasture and forage crops) based on the value of production for crops that are harvested and sold (cash crops, such as wheat and corn) versus the value of crops used to feed livestock (forages, rangeland)

0 Allocate to livestock the farm building estimated concessions plus the share of land based concessions for crops used to feed livestock (rangeland, hay, etc.)

The net result is a value of concessions for cash crops, and a value of concessions due to property tax programs for livestock.

10 *Allocate concessions to commodity groups based on the value of production for each commodity group*

This recommendation is to attribute the concession for field crops to individual based on each crop's share of the value of crop production. For example, if coarse grains accounted for 25% of the value of cash crop production, then coarse grains would be allocated 25% of the field crop concessions. Similarly if dairy has 20% of the livestock value of production, then the dairy sector receives 20% of the livestock concession.

Suggestions

To Statistics Canada

11 *Directly request farm residence and farm property taxes paid*

Statistics Canada (or Revenue Canada) could consider asking farmers on the farm tax-filer forms, the exact amount of property taxes paid on the farm residence, separately from the property taxes paid on the farmland and buildings.

To Provincial Governments

12 *Include all farm property in separate property class*

On a go forward basis, provinces could consider the benefits of having all farm property (farmland and buildings) in the farm (or farmland) property class, which is separate from all other property classes (residential, etc.). In the case where farm land is part of a resource property class, provinces should consider the benefits of assembling information from local governments on an agriculture (farmland and buildings) sub-class basis. Doing so will allow for more comparable information, and analysis, across provinces.

13 *Compile information on current agricultural market values*

In those provinces that have farm property assessments based on historic productivity factors and values, the provinces can consider compiling information through the assessment offices on the current agricultural (use) market value. This information would benefit governments and agencies computing tax benefits to the agriculture sector.

Chapter 1: Introduction

Agriculture and Agri-Food Canada (AAFC) in concert with the provinces has provided annual measurements of the level of financial transfers from government programming to the farm sector. Transfers are considered either direct (a cash transfer), indirect (government transfer to the sector but not directly to farmers, such as research expenditures), or regulatory (benefits of government regulations). All applicable government programs are included into one of four categories of;

- revenue enhancing,
- cost reducing,
- productivity enhancing, and
- quality control.

These calculations indicated that in FY 1995-96 the value of government transfers were 17.6% of the (adjusted) value of production, and 13.3% in FY 1996-97[1]. For FY 1996-97 the transfers were close to 10% of the value of production for some provinces (e.g., Prince Edward Island and Manitoba), and over 18% for other provinces (e.g., Quebec and Nova Scotia).

The Federal — Provincial Government Transfer Working Group is responsible for measuring these financial transfers to the agricultural sector. Prior to 1995/96, provincial property tax rebates and exemptions were included in the calculations. The methodology used to measure the value of these concessions was to capture the value of the rebate paid to farmers and to estimate the value of the property tax exemptions. Some provinces disagreed with this approach since it assumed that costs to government for the program were the same as benefits to farmers. A rebate from the province to farmers, for example, can be considered a convenient way to operate a differential mill rate program without having any adverse impact on revenue sources to local governments. As well, the nature of concession in each province was considered to be significantly different, and the existing methodology did not standardize the nature of provincial property tax concessions.

1. More information can be obtained from “Farm Income, Financial Conditions, and Government Assistance: Data Book”, February 1998 through the Policy Branch in AAFC.

Disagreement among provinces on the how any property tax concessions should be measured resulted in a moratorium (May 1996) on including property tax programming in the financial transfer from government, pending development of an acceptable method. The Working Group agreed to reconsider the inclusion of property tax programs based on the findings and recommendations of a third party study of this issue.

The JRG Consulting Group was commissioned by the Policy Branch of AAFC to conduct a study of property tax concessions in each province, and to develop a recommendation for the inclusion and/or exclusion of property tax concessions. This report provides such a recommendation.

1.1 Project Objectives

The objectives guiding this project are:

- To define and examine the conceptual issues involved in, and make recommendations on, the most appropriate method to determine government transfers to agricultural producers from property tax concessions, and
- To develop reliable methods and data sources for use in the annual government transfer calculation.

1.2 Approach

The focus of this study is on measuring the concessions that arise from agricultural property tax programs. The major activities used to conduct this project included a review of existing documentation on agricultural property taxation and the calculation of financial transfers to farmers from government. An overview of property taxation in each province was conducted, as well as interviews with representatives from each province to better understand the tax treatment of farm property. With this comparative information, and based on certain tax principles and criteria, the consulting team developed recommendations on the measurement and inclusion/exclusion of property tax concessions in the agricultural sector.

To conduct this project, ***JRG Consulting Group*** sub-contracted with a number of experienced consultants and academics, including:

Ms. Heather Gregory, Pivotal Plus Consulting
Mr. Harry Kitchen, Trent University
Dr. Al Loyns, Prairie Horizons Inc.
Dr. Karl Meilke, University of Guelph,
Mr. Martin van Lierop, Agrosysts Ltd, and
Dr. Jim White, InfoResults.

The recommendations provided, on concessions that arise from agricultural property tax programs, are not necessarily the views of each of the consulting team members. The JRG Consulting Group is responsible for the recommendations developed and presented to AAFC and the provinces.

The JRG Consulting Group is grateful to the many individuals in provincial ministries who explained their provincial agricultural property tax programs and provided the study team with needed data. Thank-you for your time and insights. Any errors in program descriptions are unintended.

Chapter 2: Some Framework Considerations

In this chapter of the report, a few framework issues are discussed to help provide context for the material and analysis that is contained in following chapters.

2.1 Rationale and Role for Property Taxes

The rationale and role for property taxes is intertwined with municipal and school spending responsibilities. If local governments are responsible for services that primarily benefit local residents, an appropriate tax is one that is based on benefits received — property taxes fulfill this role. If, on the other hand, local expenditures provide benefits that extend to citizens beyond the local community, local property taxes will not be appropriate and a different basis for funding these services may be necessary. (It can be argued that education in a municipality provides benefits to other areas, since families are mobile). Since municipal expenditures and school expenditures confer different types of benefits on local taxpayers, the role and rationale for property tax funding of each of these services differs. The following discussion of property tax funding for municipal services (section 2.1.2) and education (section 2.1.3) is based on a set of criteria described in section 2.1.1.

2.1.1 Criteria

Fairness or Equity: On fairness grounds, it is important to differentiate between equity based on "benefits received" and "ability-to-pay". Where beneficiaries are identifiable and where the service is not primarily redistributive in nature (social services, for example), it is generally argued that beneficiaries should pay for the service. Under the benefits-received principle, the distribution of taxes or user fees should correspond, in an approximate fashion at least, to the distribution of benefits. In some cases, this correspondence can be achieved through user fees which function like market prices for privately produced goods and services. In other cases, a beneficiary-pay tax such as the property tax, which is loosely related to the use of services, may secure this linkage.

The benefits received principle cannot be applied in all situations, however. In particular, it cannot be applied if beneficiaries cannot be identified and if non-users cannot be excluded from enjoying the service. Further, where the beneficiaries extend beyond the immediate users or the service is largely a collective "public" good (as with education), it is not appropriate to apply the benefits-received principle. Where beneficiaries are not identifiable or where the purpose of a government program or service is primarily redistributive, it is necessary to look to a different criterion of fairness, generally ability to pay. According to the ability-to-pay principle, taxes are fair if their burden is distributed in accord with some measure of taxpayers' ability to pay taxes. Broad-based income and sales taxes, both of which are in the domain of the provincial/territorial and federal governments, are generally regarded as capable of being designed to yield taxation instruments that conform to this principle.

Allocative Efficiency: Since property taxes represent costs to citizens/taxpayers for local government services consumed, individuals and firms may respond by altering their economic decisions. More directly, they may change where they live and work, what they buy, what improvements they make to their homes, how many people they employ and numerous other decisions. If the property tax is allocatively efficient, it will not alter any of these decisions. In other words, the tax will be efficient if it is designed to capture the extra cost of local government services consumed by individual property owners or firms. Here, the taxpayer pays a price that equals the additional cost of the service consumed by the taxed property. When the taxpayer (business) is taxed for services that he or she (it) does not consume, an incentive is provided for the taxpayer to alter his or her (its) behaviour; perhaps to move to another location or to alter spending or employment decisions, etc. The critical question that is posed with respect to the property tax is whether or not its current application is efficient in funding local services that provide benefits of a collective nature or whether it leads to distortions (inefficiencies) of the type noted here.

Accountability: The more direct the relationship between the beneficiaries of a government service and payment for that service, the greater the degree of accountability. The principle advantage of linking expenditures to taxes is that beneficiaries see the cost of the service more clearly. Citizen/taxpayer demand for a local government service will thus be based on some knowledge of what the service costs and a realization of what must be paid for its consumption. Matching taxes, at least in rough approximation, with beneficiaries increases the level of accountability — people and businesses know what they are getting for the tax paid and better able to judge whether the expenditure level is appropriate.

2.1.2 Municipal Services

Although there are a few exceptions (see inter-provincial comparison of expenditure responsibility), municipalities generally provide services that benefit residents of the local community. In this benefit-based approach to municipal finance, municipalities have access to two major sources of local revenue — user fees and property taxes. User fees are fair, efficient and accountable in funding those services where specific beneficiaries can be identified and where spillovers (benefits or costs that spill over into neighbouring jurisdictions) do not exist. Examples include water, sewage, solid waste, transit, etc. Property taxes tend to be fair, efficient and accountable in funding those services that provide benefits of a collective nature for the local community but for which individual beneficiaries cannot be identified. Local streets, roads, sidewalks, streetlighting, police and fire protection are examples of services that provide this kind of general benefit.

While reliance on both user fees and property taxes have frequently been criticized because of their impact (tax burden) on local taxpayers, these concerns are and should be addressed through transfers/programs funded by provincial and federal governments. It is far more equitable and efficient to handle income distribution issues through income transfers than to alter with property tax rates or user fees to accommodate these concerns.

2.1.3 Education

While it is generally accepted that students should not have to pay directly for the cost of their elementary and secondary schooling, there appears to be a role for local funding although the proportionate split between the local taxpayers and the province is far from obvious. Local funding is defended on the following grounds: first, a local education system provides some collective benefits to the residents of the local community; second, it assists in achieving a greater degree of accountability and allocative efficiency because of the reasonably direct link between expenditure decisions and revenue generation; and third, access to locally generated revenues from the residential sector provides some local autonomy and flexibility that may not be achieved otherwise.

Having established a case for some local funding, does the rationale for property taxation differ if one is referring to the residential property tax or the non-residential property tax? The answer to this is yes. Local benefits accrue almost exclusively to the residential sector while non-residential (commercial and industrial) property owners, by comparison, are more likely to benefit from the provincial and national education system. As long as the local education system provides no collective or direct benefits to commercial and industrial property owners, the imposition of non-residential property taxes to fund a portion of local education costs is both inefficient and unaccountable. It is inefficient because these properties pay taxes for services that primarily benefit local residents. This type of cross subsidization has the potential for leading to an oversupply of services for the residential sector. It lacks accountability since those who pay are not the recipients of the service for which they have paid. This is not an argument, however, against a provincial tax on commercial and industrial properties; indeed, a province wide non-residential property tax is likely to be fair, efficient and accountable in funding a portion of elementary and secondary schooling.

2.1.4 Agricultural Sector

Since the property tax is a benefits based tax whose rate(s) is set to capture (as close as is administratively possible) the cost of services consumed, there is a rationale for treating agricultural properly differently. To illustrate, while property taxes are imposed on the assessed value of property, all municipal services ultimately benefit people. As such, a $400,000 residential dwelling will consume more municipal services than a $400,000 farm in the same municipality (the latter has considerably more land and does not require the same level of service). Establishing fairness and efficiency, then, may be achieved by offering concessions to agricultural land in the form of lower effective tax rates (through lower assessment, differential tax rates, exemptions, rebates, etc.).

2.2 Measuring Concessions in Property Taxation

The property tax is an important source of revenue for local government in each province. The property tax is also a major revenue source for funding of primary and secondary education in a number of provinces.

Property taxes have three major components — namely the tax base, the assessment values of the tax base, and the tax rate. The product of all three of these factors generates the tax yield off of any property class.

This can be expressed as a formula where:

(1) Tax yield = Tax base (at market value) x Assessment value (to market value) ratio x Nominal tax rate

The ***tax base*** captures what is subject to tax. For comparing programs across provinces the tax base issues include whether the farm buildings, farm land, and the farm residence are subject to tax. In some provinces farm buildings and farm residences are excluded (exempt) from the tax base.

The ***assessment value ratio*** captures the value of the tax base. In some provinces the market value of the real property (e.g., land) is subject to tax, while in other provinces the assessment value is a percentage of the market value (as low as 10 to 15%). Partial exemptions also affect this assessment value ratio, such as the first $50,000 in assessed value of farm buildings not subject to tax, which effectively reduces the assessment base subject to tax. The product of the tax base and the assessment value ratio is the assessment base subject to taxation.

The ***nominal tax rate*** is the tax rate (or the mill rate) that applies to the assessment values in the tax base. This can range from 0.5% of assessment values to over 1% of assessment values.

Since there are a number of variables that can affect either the assessment value ratio or the nominal tax rate, a useful comparison factor between provinces is the effective tax rate. The ***effective tax rate*** is as follows:

(2) Effective tax rate = Nominal tax rate / Assessment value ratio

For comparable tax bases. Therefore, equation (1) can be rewritten as:

(3) Tax yield = Tax base (at market value) x Effective tax rate

Table 2.1 highlights the interaction between these variables and the overall tax yields for a few scenarios.

Table 2.1: Tax Bases, Assessment Ratios, Tax Rates and Yields

Scenario	Tax Base	Market Value	Assessment Ratio	Assessment Value	Nominal Tax Rate	Tax Yield	Effective Tax Rate*
1	land, buildings	$200,000	100%	$200,000	0.50%	$1,000	0.50%
2	land, buildings	$200,000	50%	$100,000	0.50%	$500	0.25%
3	land, buildings	$200,000	15%	$30,000	0.50%	$150	0.08%
4	land, buildings	$150,000	15%	$22,500	1.50%	$338	0.17%
5	land, buildings	$150,000	70%	$105,000	1.00%	$1,050	0.53%

* Effective tax rate based on including the market value of land and buildings.

With land and buildings assessed at market value, the nominal tax rate is the effective tax rate (scenario #1). However, when land and buildings are assessed at 15% of their current use value, then the effective tax rate falls to 0.08%, when the rate viewed by taxpayers is 0.5%

(scenario #3). Similarly, if buildings are excluded from the tax base (with land valued at $150,000), then with assessment values at 70% of market value for the land, a nominal tax rate of 1% is effectively a 0.53% tax rate on the full value of land and buildings.

Calculating effective tax rates provides for a better comparison of tax rates and tax burden across the provinces. (This analysis will be conducted in a following chapter)

Chapter 3: Inter-Provincial Comparison of Local Government Expenditures and Revenues

3.1 Introduction

Expenditure responsibilities and revenue generating opportunities for municipal governments and school boards are tightly controlled by provincial legislation and regulations. These controls mean that local governments[2] are essentially 'creatures of the province' and can or will do whatever it is that the province permits or requires them to do. Operating in this fairly restrictive environment, however, there are inter-provincial differences in both expenditure responsibilities and the extent to which local governments rely on the various revenue sources available to them. The objective of this discussion, then, is to highlight the similarities and differences in these expenditure responsibilities and revenue sources across provinces and over the past decade. This is presented in the following way. Section 3.2 describes local government expenditures; section 3.3 concentrates on local government revenues; section 3.4 outlines the level and relative importance of property taxation by province using a number of indicators; and section 3.5 summarizes some general patterns and trends in local government expenditures and revenues of relevance to the agricultural sector.

3.2 Local Government Expenditures

3.2.1 Per Capita Level and Growth as a Percent of GDPP

Table 3.1 records the level of per capita expenditures for municipalities, school boards and their combined total by province and as a percent of gross domestic provincial product (GDPP) for 1988 and 1997. This presentation highlights current expenditure responsibilities and significant changes that have occurred over the past decade under three separate headings — municipalities, school boards, and their combined total (local government).

2. Local governments are defined to include both municipal governments and school boards.

3.2.1.1 Municipal Expenditures

0 for all of Canada, municipal expenditures amounted to 4.6 percent of GDPP in both 1988 and 1997 (columns 3 and 5) — this is lower than corresponding percentages from the early seventies to the mid-eighties;

0 municipal expenditures grew in relative importance (as a percent of GDPP) in about one-half of the provinces and territories and fell in relative importance in the other half;

0 in 1997, the level of per capita expenditures ranged from a low of $332 in Prince Edward Island to a high of $2,599 in the Northwest Territories with an average expenditure of $1,308 for all of Canada (column 4).

3.2.1.2 School Boards

0 for all of Canada, school board expenditures amounted to 3.8 percent of GDPP in 1988 and 3.9 percent in 1996 (columns 7 and 9) — essentially, no change in relative importance;

0 school boards do not exist in New Brunswick and the Yukon — the province and territory is responsible for funding all spending on schools;

0 where school boards exist, their expenditures fell as a percent of GDPP in seven provinces and rose in three provinces/territories from 1988 to 1996;

0 in 1996, school board expenditures (ignoring New Brunswick and the Yukon) ranged from a low of $478 in the Northwest Territories to a high of $1,197 in Ontario with the average being $1,053 (column 8).

3.2.1.3 Local (municipal plus school boards) Expenditures

0 local government expenditures amounted to 8.4 percent of GDPP in 1988 and 8.5 percent in 1997 (columns 11 and 13) — in six provinces, spending by the local government sector decreased in relative importance over this period; in one province, it remained constant; and in the remaining provinces and territories, it increased;

0 as a percent of GDPP, the local government sector is smallest in New Brunswick (3.1%) and largest in Newfoundland, Nova Scotia, Quebec, Ontario and Manitoba (between 8.6 % and 9.1% — column 13);

0 in 1997, per capita expenditures ranged from a low of $669 in New Brunswick to a high of $3,077 in the Northwest Territories with Atlantic Canada recording average per capita expenditures well below $2000 and those in Quebec and west (except for Saskatchewan) recording expenditures well above $2000 (column 12) — these differences in expenditure levels generally comes from differences in service responsibility as will be noted later.

3.2.2 Inter-provincial Comparisons

3.2.2.1 Municipal Expenditures

Table 3.2 provides an inter-provincial comparison of the relative importance of municipal expenditures by function for 1997. The more salient points that may be extracted from this are listed below:

- social services are almost entirely a provincial funding responsibility in every province except for Ontario, Nova Scotia and Manitoba where they account for a significant portion of municipal spending;
- Nova Scotia is the only province where municipalities are responsible for funding a noticeable portion of education expenditures — school boards and/or the province handles *all* spending in the other provinces/territories;
- health expenditures are the responsibility of the provinces/territories except for relatively small expenditures made by municipalities in some provinces for preventative health care programs;
- expenditures on transportation (roads, streets, snow removal, public transit), protection (police and fire) and environmental (water, sewage, solid waste collection and disposal) services account for over 50 percent of all municipal expenditures in every province/ territory except for Ontario (it is lower here because of large municipal funding for social services);
- expenditures on recreation and cultural services account for between 10 and 18 percent of the municipal total everywhere;
- debt charges (for capital projects only because municipalities are not permitted to borrow for operating purposes) show considerable variation ranging from a high of almost 20 percent of the total in Newfoundland to a low of slightly more than 1 percent of the total in the Yukon and Northwest Territories.

Table 3.3 illustrates the relative importance of municipal expenditures by function and province for 1988. When the information in this table is compared with the information in Table 3.2, the following comparisons over the period from 1988 to 1997 may be noted:

- transportation, protection and environment were the three most important expenditure functions over the period from 1988 to 1997;
- overall, expenditures on social services have increased in relative importance although they have declined in Nova Scotia;
- debt charges have declined in relative importance everywhere except for Newfoundland and Manitoba where they have increased marginally.

3.2.2.2 School Boards

Tables 3.2 and 3.3 (bottom row) also record school board expenditures as a percent of local (municipal plus schools) expenditures in each province for 1988 and 1997. From the data, one notes that:

- there was very little change in school board spending as a percent of local expenditures from 1988 to 1997 — in both years, school boards accounted for about 45 percent of the combined spending total of schools and municipalities;
- interprovincially, 1996 expenditures by school boards in Newfoundland accounted for 61 percent of all local spending (the highest) while those in the Northwest Territories accounted for 17 percent (the lowest).

3.2.2.3 Services Funded by the Property Tax

Table 3.4 is provided to indicate the distribution of local government expenditures funded out of the property tax. Tables 3.2 and 3.3 report the distribution of all local government expenditures by function, whereas Table 3.4 is only for the property tax and excludes the expenditures attributed to other revenue sources. This information shows, for example, that across Canada the property tax funds 25% of protection services, whereas protection accounts for only 16.1% of all local government expenditures (Table 3.2).

3.3 Local Revenues

3.3.1 Municipal

Municipal revenues are made up of grants (conditional and unconditional) and funds generated from own sources including property taxes and user fees with small sums of revenue coming from investments and a miscellaneous collection of amusement taxes, licenses and permits, and fines and penalties. Tables 3.5 and 3.6 note the relative importance of the major revenue sources available to municipalities for 1997 and 1988, respectively. From these two tables, the following observations may be drawn.

3.3.1.1 Own Source Revenue

- for all of Canada, own source revenue (OSR) grew in relative importance over this ten year period — from slightly more than 77 percent of municipal revenue in 1988 (Table 3.6) to almost 80 percent in 1997 (Table 3.5); interprovincially, however, OSR declined in three provinces/territories (Quebec, Manitoba and the Northwest Territories) while it increased in the other nine;
- property taxation which is by far the most important revenue source for municipalities increased from 48.6 percent of all municipal revenues to 51.2 percent over this ten year period — three provinces/territories, however, experienced a decrease in the relative importance of property taxes (Quebec, Manitoba and the Northwest Territories) while the remainder experienced an increase;
- there is a wide range in the extent to which municipalities rely on property taxes — in 1997, for example, they accounted for 68.5 percent of all municipal revenues in Quebec (the highest) and only 15.1 percent in the Northwest Territories (the lowest);

- for all of Canada, user fees grew in importance by one percentage point, from 20 percent of all revenues in 1988 to 21.2 percent by 1997; interprovincially, there was considerable variation in the relative importance of user fees over this period — they increased in all but three provinces/territories (Prince Edward Island, Quebec and the Northwest Territories);
- interprovincially for 1997, the relative importance of user fees ranged from a high of 31.6 percent of municipal revenues in the Northwest Territories to a low of 15.3 percent in Quebec;
- revenue from investment income and other sources displayed inter-provincial difference over this period — it accounted for the remaining 8.5 percent of municipal revenue in 1988 and 7.4 percent in 1997.

3.3.1.2 Grants

- for all of Canada, grants accounted for 23 percent of municipal revenues in 1988 and slightly more than 20 percent in 1997;
- municipalities in nine of the twelve provinces/territories experienced a decrease in their relative reliance on grants (although of differing magnitudes) while municipalities in the other three witnessed an increase (Quebec, Manitoba, and Northwest Territories);
- conditional grants provided about 17 percent of all municipal revenues while unconditional grants fell from slightly less than 6 percent of all municipal revenues in 1988 to slightly more than 3 percent by 1997 — this shift towards less reliance on unconditional grants and the retention of conditional grants reflects each province’s interest in controlling at least some of the spending patterns of municipalities;
- in 1997, over 51 percent of municipal revenues in the Northwest Territories came from grants (the highest) while slightly more than 8 percent came from grants in Prince Edward Island (the lowest) — similar patterns are noted for conditional and unconditional grants when considered separately;
- municipal grants are almost entirely from the provinces — the federal government provides a few conditional grants for specific purposes.

3.3.2 School Boards

In New Brunswick and the Yukon, all school funding is provided by the provincial and territorial governments. In the other ten provinces and territories, school boards are responsible for funding elementary and secondary schools with revenues generated from a combination of grants (primarily provincial) and own source revenues, (primarily property taxes). Tables 3.7 and 3.8 depict the distribution of school board revenues for 1996 and 1988, respectively. In particular, it may be noted that:

- for all of Canada, own source revenues increased by almost two percentage points in relative importance from 1988 to 1996 while grants decreased by an equal amount;
- school boards in Ontario (the highest) obtained almost 63 percent of their revenue from local property taxes in 1996, while school boards in the four Atlantic provinces, British Columbia and the Yukon generated nothing from property taxes;

- provincial grants, not surprisingly were lowest in those provinces where school boards relied more heavily on local property taxes and highest were local property taxes were non-existent;
- user fees accounted for a relatively small proportion of school board revenue in every province with school boards.

3.4 Per Capita Level and Distribution of Property Tax Revenues

Since the property tax is the only significant tax of any direct importance to municipalities and school boards, Table 3.9 records per capita levels of property taxation by province for 1988 and 1996 (columns 2 and 7, respectively); total property tax revenues as a percent of all consolidated provincial and local taxes (columns 3 and 8); and the percentage breakdown of property taxes that are collected by municipal governments, provincial governments and school boards (columns 4 to 6 for 1988 and columns 9 to 11 for 1996). From this table, it is apparent that:

- there is wide variation in the level of per capita property taxes across Canada — Atlantic Canada's levels are considerably lower than those for Quebec, Ontario and Western Canada;
- from 1988 to 1996, property taxes accounted for a higher percentage of consolidated provincial and local tax revenues (comparison of columns 3 and 8) in seven provinces and territories and a lower percentage in the remaining five provinces and territories — for all of Canada, property taxes accounted for slightly less than 25 percent of all provincial and local tax revenues in 1988 and slightly more than 26 percent in 1996;
- in every province and territory except for Nova Scotia, the property tax is shared between the municipal sector and the province and/or school boards;
- provincial involvement in property taxation is linked to the province's direct interest in taxing property to fund the costs associated with elementary and secondary schooling (Prince Edward Island, New Brunswick, Manitoba, Alberta and British Columbia);
- the general practice is for provinces to stay away from provincial property taxes if local school boards have the power to tax property.

3.5 Patterns and Trends in Local Government Expenditures and Revenues of Relevance to the Agricultural Sector

While there is considerable inter-provincial variation in municipal and school board revenues and expenditures, some of these differences are of more relevance to the agricultural sector in those provinces where they pay property taxes. In particular:

- the size of the local government sector (municipal plus school boards) in Canada has not grown as a percent of gross domestic provincial product over the past decade;
- the vast majority of property tax funded municipal spending is on transportation (roads and streets, street lighting, public transit), protection (fire and police), environment (solid waste collection, disposal and recycling) and recreation (parks, libraries, etc.) — services that generally benefit the residents of the local community including the agriculture sector;

0 in provinces where local property taxes are used to fund a portion of social services, this places an additional burden on the agricultural sector, a burden that is not reflected in services directly benefiting local property owners;

0 in almost all municipalities in Canada, user fees are employed to fund 100 percent of water and sewer costs; and a lesser portion of public transit and recreation (this proportion varies from province to province and municipality to municipality within each province) — the agricultural sector only pays for these services if they consume them;

0 provincial involvement in local spending decisions is reflected partially in the extent to which it continues to offer conditional grants (strings attached) to municipalities — unconditional grants are declining in importance leaving municipalities with the necessity of using local property taxes (from residential, commercial, industrial and agricultural sectors) to assist in financing those provinces for which the province directs some grant support;

0 provincial grant funding to municipalities is declining in relative importance while user fees and property taxes are both increasing — this pattern is likely to be reflected in higher property taxes and user fees on all property owners including the agricultural sector;

0 for all of Canada, property tax funding of school boards has grown over the past decade while provincial grant funding has decreased — potentially, an additional burden for agriculture;

0 over the past ten years, some provinces have implemented a provincial property tax for education — this has generally occurred where school boards have been given less power over decision making and limited or no freedom to collect local property taxes (Alberta, British Columbia and as of 1998, Ontario to name the three most prominent), a move that does nothing more than change the governing unit levying the tax and not one that has or will necessarily decrease property taxes on the agricultural sector.

Table 3.1: Local Government Expenditures (municipal plus school boards) in Per Capita Levels and as a Percent of Gross Domestic Provincial Product (GDPP) — 1988 and 1997

	Municipal Expenditures				School Boards				Local Govt. (municipal plus school boards)			
	1988		1997		1988		1996		1988		1996/97	
Province (1)	Per Capita (2)	% GDPP (3)	Per Capita (4)	% GDPP (5)	Per Capita (6)	% GDPP (7)	Per Capita (8)	% GDPP (9)	Per Capita (10)	% GDPP (11)	Per Capita (12)	% GDPP (13)
	$	%	$	%	$	%	$	%	$	%	$	%
Newfoundland	563	4.0	624	3.2	894	6.4	1,041	5.6	1,457	10.4	1,665	8.8
Prince Edward Island	252	1.8	332	1.5	756	5.4	837	4.0	1,008	7.2	1,169	5.5
Nova Scotia	865	4.5	1,053	4.8	784	4.7	800	3.8	1,649	9.2	1,853	8.6
New Brunswick	551	3.3	669	3.1	0	0.0	0	0.0	551	3.3	669	3.1
Quebec	1,002	4.9	1,277	5.0	863	4.2	1,004	4.1	1,865	9.1	2,281	9.1
Ontario	1,181	4.6	1,483	4.7	964	3.8	1,197	4.1	2,145	8.4	2,680	8.8
Manitoba	871	4.5	1,144	4.8	854	4.4	1,041	4.2	1,725	8.9	2,185	9.0
Saskatchewan	814	4.5	916	3.4	828	4.6	1,004	3.6	1,642	9.1	1,920	7.0
Alberta	1,306	5.2	1,348	4.0	872	3.4	1,082	3.2	2,178	8.6	2,430	7.2
British Columbia	830	3.8	1,273	4.5	698	3.2	1,021	3.7	1,528	7.0	2,294	8.2
Yukon Territory	1,177	3.6	1,632	4.8	0	0.0	0	0.0	1,177	3.6	1,632	4.8
Northwest Territories	1,816	5.5	2,599	6.3	317	1.0	478	1.1	2,133	6.5	3,077	7.4
Average	**1,035**	**4.6**	**1,308**	**4.6**	**852**	**3.8**	**1,053**	**3.9**	**1,887**	**8.4**	**2,361**	**8.5**

Source: Calculated from data provided by Statistics Canada, Financial Management Systems (FMS), mimeograph, November 1998.

1 1988 is the first year for which data, over this period, are presented in a uniform and consistent manner; 1997 is the last year for municipal data and 1996 is the last year for school board data. The final two columns refer to 1997 municipal expenditures plus 1996 school board expenditures.

Table 3.2: Distribution (in percent) of Municipal Government Expenditures[1] by Province and Territory, 1997

Municipal Services	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Y.T.	N.W.T.	Canada
General Administration	15.1	12.1	6.0	9.5	11.9	8.7	12.4	13.6	10.9	8.6	19.2	16.7	10.0
Protection	8.8	24.5	14.8	24.5	16.8	15.6	15.9	16.3	14.4	18.1	8.0	4.4	16.1
Transportation	24.3	20.7	18.9	22.0	23.0	18.5	20.0	29.9	28.5	13.7	31.9	15.1	20.4
Health	0.0	0.0	0.1	0.2	0.1	2.7	2.4	1.0	1.5	3.8	0.3	4.5	1.9
Social Services	0.1	0.0	8.4	0.0	0.8	22.8	7.7	0.8	1.8	0.2	0.0	4.7	10.5
Education	0.0	0.0	13.7	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Resource Conservation	0.3	0.6	2.8	2.3	1.8	2.0	2.0	5.9	2.1	1.4	1.3	0.4	2.0
Environment	18.8	23.3	17.7	21.1	16.5	12.7	17.3	13.7	13.2	22.2	19.0	30.6	15.4
Recreation/Culture	12.2	13.3	9.5	13.5	11.2	10.1	11.6	13.6	12.9	17.8	16.2	16.8	11.9
Housing	0.5	0.0	0.7	0.3	3.5	1.4	0.2	0.2	0.4	0.7	0.0	3.2	1.6
Regional Planning	0.8	0.7	3.4	1.4	2.0	1.1	1.6	1.4	2.3	1.9	2.3	1.3	1.6
Debt Charges	19.1	4.6	3.8	5.2	12.1	3.8	8.7	2.8	11.0	10.5	1.3	1.8	7.7
Other	0.0	0.2	0.2	0.0	0.1	0.6	0.2	0.9	0.9	1.2	0.3	0.7	0.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
1996 School Board Exp. as a % of 1996 Local[2] Exp.[3]	61.4	73.5	43.2	0.0	44.0	44.6	46.9	52.1	43.8	45.5	0.0	16.9	44.6

1 For a description of specific municipal services included in each of these functions, see Annex A.
2 Local includes the total of municipal plus education expenditures.
3 This line refers to 1996 expenditures since the 1997 school board expenditures were not available at time of writing.

Table 3.3: Distribution (in percent) of Municipal Government Expenditures[1] by Province and Territory, 1988

Municipal Services	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Y.T.	N.W.T.	Canada
General Administration	13.6	10.8	7.7	8.2	13.1	8.7	12.0	11.2	8.0	7.7	18.7	24.1	9.9
Protection	6.6	18.3	12.2	23.3	14.4	15.0	15.7	15.0	11.8	19.0	14.1	5.8	14.8
Transportation	28.0	26.1	11.4	23.6	22.5	21.6	25.4	29.3	29.2	15.3	29.0	15.9	22.3
Health	0.0	0.0	0.1	0.9	0.1	2.9	2.0	2.6	1.2	5.0	0.3	0.8	2.0
Social Services	0.0	0.0	23.3	0.0	0.5	14.6	5.6	1.7	1.9	0.3	0.0	2.2	7.4
Education	0.0	0.0	12.9	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Resource Conservation	0.4	0.7	2.7	2.3	1.3	2.4	1.8	2.1	2.7	2.2	0.7	0.2	2.1
Environment	21.2	12.3	12.4	17.3	15.9	14.2	13.7	16.8	11.8	15.0	16.4	27.9	14.6
Recreation/Culture	9.7	21.0	9.2	12.5	9.7	11.2	11.9	14.8	13.3	16.1	15.8	15.9	11.6
Housing	0.6	0.0	0.6	0.7	2.6	2.3	0.3	0.0	0.3	0.8	0.2	1.5	1.8
Regional Planning	2.3	2.2	1.6	1.3	1.9	1.9	2.7	2.5	2.5	2.4	1.4	2.3	2.1
Debt Charges	17.4	7.6	5.5	9.8	14.1	4.1	8.4	3.9	17.4	15.2	3.4	2.3	9.5
Other	0.2	0.9	0.2	0.0	3.7	1.2	0.4	0.1	0.0	1.0	0.0	1.3	1.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
School Board Exp. as a % of Local[2] Expenditure	61.4	75.0	51.0	0.0	46.3	44.9	49.5	50.4	40.0	45.7	0.0	14.9	45.2

1 For a description of specific municipal services included in each of these functions, see Annex A.

2 Local includes the total of municipal plus education expenditures.

Table 3.4: Distribution of Municipal Government Expenditures Funded by Property Taxes, by Function, 1997

Municipal Services	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Y.T.	N.W.T.	Canada
General Administration	22.4	17.2	8.4	13.1	15.4	15.8	19.3	18.6	17.9	12.5	25.5	47.5	15.5
Protection	12.3	37.2	20.9	34.4	22.0	28.6	25.3	22.5	23.8	26.5	12.4	12.5	25.2
Transportation	29.8	20.0	19.5	23.7	23.1	19.0	18.5	31.1	26.3	12.7	23.6	0.0	20.6
Health	0.0	0.0	0.1	0.3	0.1	2.0	3.1	1.4	2.6	4.8	0.4	2.7	1.7
Social Services	0.1	0.0	5.9	0.0	0.1	12.0	0.0	0.9	1.6	0.0	0.0	1.8	4.6
Education	0.0	0.0	19.4	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7
Resource Conservation	0.4	1.0	4.0	3.0	2.2	2.6	2.4	8.0	2.6	1.7	1.9	0.2	2.5
Environment	13.1	16.2	10.6	13.0	9.5	9.8	10.9	4.0	1.9	17.2	11.3	28.1	10.0
Recreation/Culture	4.7	0.0	0.0	3.5	7.4	0.0	4.2	6.6	0.0	7.9	19.1	0.0	3.8
Housing	0.0	0.0	1.0	0.0	3.9	0.2	0.0	0.2	0.2	0.5	0.0	1.2	1.5
Regional Planning	1.2	1.1	4.7	1.8	2.5	2.0	2.2	1.8	3.8	2.5	3.4	0.3	2.5
Debt Charges	15.9	7.1	5.1	7.0	13.6	6.9	14.2	3.9	17.9	12.0	2.0	5.8	10.8
Other	0.0	0.2	0.3	0.0	0.0	1.0	0.0	1.0	1.4	1.7	0.5	0.0	0.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
1996 School Board Exp. Funded as a % of all municipal and school property taxes[1]	1.7	62.3	0.0	45.3	9.9	54.8	48.3	48.2	43.7	33.6	8.20	19.9	39.5

1 This line refers to 1996 expenditures since the 1997 school board expenditures were not available at time of writing.

Data in this table were derived based on FMS data, provided by Statistics Canada. The base data was total expenditures by function as recorded by FMS data. Conditional grants by function were subtracted from each function they applied to. Then user fees were subtracted from the remaining expenditures areas (e.g., water and sewer). For other user fees, they were apportioned to (subtracted from expenditures) solid waste collection (10%), public transit (20%), and the remainder to parks and recreation. Conditional grants and other own source revenues were prorated across all areas based on remaining expenditures since these revenues sources are not assigned to a specific expenditure function.

Table 3.5: Distribution (in percent) of Municipal Government Revenue[1] (excluding school board revenue) by Province and Territory, 1997

Revenue Source	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Y.T.	N.W.T.	Canada
Property Taxes	54.3	60.2	64.5	53.6	68.5	44.2	43.1	52.7	42.6	50.3	43.4	15.1	51.2
Other Taxes	1.8	0.5	0.1	0.4	0.2	1.1	1.8	4.4	1.5	2.8	1.4	0.4	1.2
User Fees	16.0	27.1	19.7	21.0	15.3	21.2	20.2	24.1	30.2	25.3	17.8	31.6	21.2
Investment Income	1.9	2.5	2.6	0.9	2.1	4.3	6.3	7.8	10.9	8.5	5.4	1.3	5.0
Other	0.4	1.6	0.3	0.6	2.4	0.7	0.8	1.2	1.9	0.5	0.5	0.3	1.2
Own Source Revenue	**74.5**	**91.8**	**87.2**	**76.5**	**88.6**	**71.5**	**72.2**	**90.2**	**87.0**	**87.4**	**68.6**	**48.7**	**79.8**
Unconditional Grants	8.6	3.3	1.7	16.0	1.3	4.2	6.5	3.9	1.7	3.0	7.0	6.6	3.3
Conditional Grants	17.0	4.9	11.1	7.5	10.2	24.4	21.3	5.9	11.4	9.7	24.4	44.7	16.9
Federal	3.1	1.4	2.3	1.5	0.1	1.2	2.3	0.8	1.8	1.7	0.2	1.2	1.2
Provincial	13.9	3.5	8.7	6.0	10.0	23.2	19.0	5.1	9.6	7.9	24.2	43.6	15.7
Total Grants	**25.5**	**8.2**	**12.8**	**23.5**	**11.4**	**28.5**	**27.8**	**9.8**	**13.0**	**12.6**	**31.4**	**51.3**	**20.2**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Same as table 3.1.

1 For a more detailed listing of revenues reported in each source, see Annex B.

Table 3.6: Distribution (in percent) of Municipal Government Revenue (excluding school board revenue) by Province and Territory, 1988

Revenue Source	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Y.T.	N.W.T.	Canada
Property Taxes	41.9	50.0	58.0	41.7	68.8	41.7	44.5	48.1	36.3	48.0	31.7	16.6	48.6
Other Taxes	1.9	0.5	0.6	0.5	1.0	1.3	2.2	3.9	1.0	2.5	1.4	0.8	1.4
User Fees	12.6	30.7	10.8	18.9	16.5	20.0	17.7	21.4	26.5	23.7	13.9	33.8	20.0
Investment Income	1.9	3.7	3.7	1.2	3.0	5.1	8.3	6.7	12.8	10.1	4.1	2.1	6.0
Other	0.4	1.2	0.8	0.6	2.0	0.7	1.0	1.4	1.4	0.5	0.6	0.2	1.1
Own Source Revenue	**58.8**	**86.1**	**73.7**	**63.0**	**91.3**	**68.8**	**73.7**	**81.3**	**78.0**	**84.9**	**51.8**	**53.6**	**77.1**
Unconditional Grants	18.2	12.2	4.6	26.5	0.5	7.3	7.8	10.1	6.8	4.3	8.1	9.2	5.8
Conditional Grants	23.0	1.7	21.6	10.5	8.3	23.8	18.5	8.6	15.2	10.8	40.2	37.2	17.1
Federal	3.1	0.2	0.4	1.6	0.2	0.9	1.2	0.3	0.5	1.1	1.0	0.3	0.7
Provincial	19.9	1.5	21.2	8.9	8.1	23.0	17.3	8.2	14.7	9.7	39.1	36.9	16.4
Total Grants	**41.2**	**13.9**	**26.3**	**37.0**	**8.7**	**31.2**	**26.3**	**18.7**	**22.0**	**15.1**	**48.2**	**46.4**	**22.9**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes and Source: Same as table 3.1.

Table 3.7: Distribution (in percent) of School Board Revenue by Province and Territory, 1996

Revenue Source	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Y.T.	N.W.T.	Canada
Property Taxes	0.0	0.0	0.0	0.0	9.9	54.0	25.7	42.3	4.6	0.0	0.0	22.3	28.7
Grants-in-Lieu	0.0	0.0	0.0	0.0	0.2	0.6	2.5	1.1	0.3	0.0	0.0	0.0	0.5
Business Taxes	0.0	0.0	0.0	0.0	0.0	7.3	0.0	2.2	0.0	0.0	0.0	0.0	3.3
Other	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0	1.0	0.0	0.0	0.0	0.4
Total Property-Related Taxes	**0.0**	**0.0**	**0.0**	**0.0**	**10.1**	**62.7**	**28.2**	**45.7**	**5.8**	**0.0**	**0.0**	**22.3**	**32.9**
Licences, Permits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
User Fees	1.5	0.4	2.4	0.0	8.2	1.3	3.5	3.6	4.4	2.2	0.0	2.4	3.5
Investment Income	0.2	0.1	0.3	0.0	0.0	0.0	0.2	0.9	0.4	0.7	0.0	1.3	0.2
Other	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.0	0.0	0.1
Own Source Revenue	**1.8**	**0.6**	**2.7**	**0.0**	**18.4**	**64.1**	**32.0**	**50.3**	**10.7**	**2.9**	**0.0**	**26.0**	**36.6**
Conditional Grants													
Federal	1.0	0.0	0.0	0.0	0.2	0.2	0.3	0.0	0.0	0.3	0.0	1.1	0.2
Provincial	97.2	99.4	97.3	0.0	81.3	35.7	67.6	49.7	89.3	96.8	0.0	72.9	63.2
Municipal	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Grants	98.2	99.4	97.3	0.0	81.6	35.9	68.0	49.7	89.3	97.1	0.0	74.0	63.4
TOTAL REVENUE	**100.0**	**100.0**	**100.0**	**0.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**0.0**	**100.0**	**100.0**

Source: Same as table 3.1.

Table 3.8: Distribution (in percent) of School Board Revenue by Province and Territory, 1988

Revenue Source	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Y.T.	N.W.T.	Canada
Property Taxes	5.3	0.0	0.0	0.0	4.1	43.0	21.5	39.2	29.3	27.3	0.0	21.1	26.8
Grants-in-Lieu	0.4	0.0	0.0	0.0	0.0	0.5	2.8	1.3	1.3	0.6	0.0	0.0	0.6
Business Taxes	0.0	0.0	0.0	0.0	0.0	6.5	0.0	1.9	0.0	0.0	0.0	0.0	2.8
Other	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.0	2.1	0.0	0.0	0.0	0.6
Total Property-Related Taxes	**5.7**	**0.0**	**0.0**	**0.0**	**4.1**	**50.9**	**24.3**	**42.4**	**32.8**	**27.9**	**0.0**	**21.1**	**30.7**
Licences, Permits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
User Fees	1.6	0.3	2.5	0.0	7.6	1.7	3.6	3.1	4.6	3.3	0.0	2.2	3.8
Investment Income	0.1	0.3	0.7	0.0	0.0	0.0	0.4	1.1	0.6	0.7	0.0	4.6	0.2
Other	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Own Source Revenue	**7.5**	**0.5**	**3.2**	**0.0**	**11.7**	**52.6**	**28.4**	**46.7**	**38.0**	**31.9**	**0.0**	**27.9**	**34.8**
Conditional Grants													
Federal	0.4	0.0	0.0	0.0	0.3	0.1	0.3	0.0	0.1	0.4	0.0	0.0	0.2
Provincial	92.1	99.5	96.8	0.0	87.7	47.2	71.3	53.3	61.9	67.7	0.0	72.0	65.0
Municipal	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Total Grants	92.5	99.5	96.8	0.0	88.3	47.4	71.6	53.3	62.0	68.1	0.0	72.1	65.2
TOTAL REVENUE	**100.0**	**100.0**	**100.0**	**0.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**0.0**	**100.0**	**100.0**

Source: Same as table 3.1.

Table 3.9: Per Capita Levels of Property Related[1] Taxation and its Relative Distribution to the Municipal, Provincial and School Board Sectors, 1988 and 1996

	1988					1996				
			Percent of all property taxes collected by:					Percent of all property taxes collected by:		
Province (1)	**Per Capita Level (2)**	**Property taxes as a % of all prov. and local tax revenue (3)**	**Municipal (4)**	**Provincial (5)**	**School Boards (6)**	**Per Capita Level (7)**	**Property taxes as a % of all prov. and local tax revenue (8)**	**Municipal (9)**	**Provincial (10)**	**School Boards (11)**
	$	**%**	**%**	**%**	**%**	**$**	**%**	**%**	**%**	**%**
Newfoundland	258	11.3	80.2	0.0	19.8	320	9.9	98.3	1.7	0.0
Prince Edward Island	300	14.0	37.6	62.4	0.0	511	16.4	44.4	55.6	0.0
Nova Scotia	477	18.6	100.0	0.0	0.0	636	20.5	100.0	0.0	0.0
New Brunswick	428	16.7	52.2	47.8	0.0	663	19.0	54.6	45.2	0.0
Quebec	666	19.4	94.6	0.0	5.4	923	21.8	89.4	0.0	10.6
Ontario	992	28.1	50.0	0.1	49.9	1,411	29.7	45.8	0.0	54.2
Manitoba	783	24.6	48.7	24.0	27.3	983	25.5	50.1	19.2	30.7
Saskatchewan	757	28.9	51.3	0.1	48.6	952	26.2	49.7	0.1	50.2
Alberta	813	32.0	56.9	7.9	35.2	1,057	30.3	53.9	40.0	6.1
British Columbia	775	26.9	51.3	23.3	25.4	904	25.0	62.0	38.0	0.0
Yukon Territory	503	22.2	74.9	25.1	0.0	721	23.6	89.0	11.0	0.0
Northwest Territories	451	24.7	67.2	17.7	15.1	600	19.7	64.6	17.2	18.2
Average	**797**	**24.9**	**61.6**	**5.2**	**33.2**	**1,092**	**26.1**	**59.1**	**9.2**	**31.7**

Source: Same as table 3.1.

1 Property and related taxes include real property taxes, development charges, lot levies, special assessments, business taxes, land transfer taxes and grants-in-lieu of taxes.

Annex A: List of Municipal Government Services

PROTECTION:

0 courts of law, correction and rehabilitation
0 police
0 firefighting
0 regulatory measures

TRANSPORTATION AND COMMUNICATIONS:

0 roads and streets
0 snow and ice removal
0 parking
0 public transit

HEALTH:

0 hospital care
0 preventive care

SOCIAL SERVICES — SOCIAL WELFARE:

0 social welfare services

RESOURCE CONSERVATION AND INDUSTRIAL DEVELOPMENT:

0 agriculture
0 tourism
0 trade and industrial development

ENVIRONMENT:

0 water
0 sewer
0 solid waste collection and disposal

RECREATION AND CULTURE:

0 recreation
0 culture

HOUSING:

0 housing

REGIONAL PLANNING AND DEVELOPMENT:

0 planning and zoning
0 community development

DEBT CHARGES:

0 interest

Annex B: List of Municipal Government Revenues

OWN SOURCE REVENUES

Property Taxes:

0 real property
0 developers contributions and lot levies
0 special assessments
0 grants-in-lieu of taxes
0 business property taxes

Other Taxes:

0 amusement taxes
0 licenses and permits

User Fees:

0 for water and sewage
0 rentals
0 concessions and franchises

Investment Income:

0 profits from own enterprises
0 interest and penalties from taxes

Other:

0 fines and penalties

TOTAL GRANTS

Unconditional Grants:

0 no strings or conditions attached to receipt of these grants

Conditional Grants:

0 strings or conditions are attached to receipt or acceptance of grants

Chapter 4: Property Taxation in Canada

The statistical comparison of inter-provincial municipal government expenditure responsibilities and revenue sources in the previous chapter highlighted the importance of property taxation in funding municipal services. This part of the report provides an inter-provincial comparison of the more notable features in the structure of property taxation and its rationale for funding local services including those that benefit the agriculture sector.

4.1 The General Tax Base

Every province has legislation calling for the assessment of property (this constitutes the real property tax base) at some value, called in some provinces "real and true value", "current value", or "fair value" (see column 2 of Table 4.1). In various cases brought before the courts, however, it has been held that, legally, they may all be taken to refer to market value. Any inaccuracy in determination of this value creates unsanctioned unfairness. Because it is not always possible to keep assessment at full market value (there are information delays, work pressures and reassessment cycles to consider), uniformity becomes the most important and critical principle of assessment. In any year, this principle requires the assessment of all properties at the same fraction of market value. If the general level of assessment for a specific class of property (single residential, for example) is 80% of the market value and one piece of property is assessed at 95%, it may be claimed that this latter property is paying more than its fair share of taxes.

With this in mind, the objective of this chapter is to outline the more salient components of the property tax base including a presentation of the special treatment accorded certain property types; a list of tax exempt properties; and a brief description of the variation in property tax structures across the country.

4.1.1 Components of the Tax Base

The actual components of the assessment base vary considerably throughout Canada. In all ten provinces, real property is taken to be the principle component and includes land, buildings and structures. Machinery and equipment affixed to property are included in the assessment base in Newfoundland, Quebec, Ontario, Manitoba, Alberta, Northwest Territories, and the Yukon. In Prince Edward Island, New Brunswick and Saskatchewan, only when machinery, equipment and other fixtures provide services to the buildings are they liable to property taxation. British Columbia excludes all machinery and equipment from the property tax base. Nova Scotia excludes new machinery and equipment from the tax base and is in the process of phasing out the assessment of existing machinery and equipment. In Alberta, machinery and equipment are excluded from the uniform province-wide property tax on education.

4.1.2 Assessment Practices

Responsibility for Assessment: To minimize the possibility of unintended variation in provincial assessment practices within each province and to attempt to achieve intended variation where it is desired, a central assessment authority has been established in each province. Responsibility for the entire assessment function and practice (see column 4 of Table 4.1) rests with the provincial or territorial government in Prince Edward Island, Nova Scotia, New Brunswick, the Yukon, and Northwest Territories. British Columbia has an independent provincial assessment authority. A Property Assessment Corporation undertakes all assessment in Ontario and is funded on a cost recovery basis from the municipalities. In Quebec and Alberta, local governments are responsible for the assessment function, although they operate from a standard provincial assessment manual. In Newfoundland, local assessors are used exclusively in St. John's while provincial assessors are relied on in the rest of the province. In Manitoba, local assessors are used in Winnipeg and provincial assessors elsewhere. In Saskatchewan, local assessors are employed exclusively in Saskatoon and Regina. In smaller cities, assessment activities are shared between local and provincial assessors. Elsewhere, provincial assessors have the responsibility for all assessment activities.

Every province maintains an assessment manual for the guidance of its assessors and in almost every case, it is compulsory that the assessors adhere to it. In addition, all provinces exercise a certain measure of control through the establishment of compulsory educational standards and training courses for provincial assessors. Similar standards have been laid down where the cities rather than the provinces assume responsibility.

Assessment Cycle: The practice over the past decade or two has been to move towards more frequent and up-to-date reassessments in every province (column 3 of Table 4.1). Nova Scotia, New Brunswick, Alberta and British Columbia are on annual assessment cycles with Ontario scheduled to move to an annual assessment in 2004. Municipalities in Quebec are on three-year cycles while Manitoba, Saskatchewan, and Yukon are on four and five year cycles respectively. Properties in the remaining provinces and territories must be reappraised periodically.

4.1.3 Uniformity in Assessment

Inaccurate assessment is probably the most publicized and serious administrative fault of the real property tax. This criticism has been founded on the observation that the ratio of assessed value to market value displays variations both within and amongst municipalities and within and amongst property classifications. While these differences may be attributed to a number of factors, they are generally grouped in two categories: non-legislated (unintentional) and legislated (intentional). Non-legislated or unintentional differentials have arisen because of infrequent sales of certain properties and hence, the ensuing difficulty of establishing accurate market values or the tendency of assessors to evaluate similar properties at different rates. As well, when compared with residential properties, the practice (although not legislated) is to assess non-residential (commercial and industrial) properties at a higher percentage of market value.

Legislated differentials in property taxation have developed in response to provincial objectives of imposing lower taxes on certain types of property. This includes a number of specific categories of property — three of which are discussed here.

4.1.3.1 Treatment of Farm Property

Special consideration is given to farmland in all provinces (noted in Table 4.2). British Columbia, Manitoba, Ontario, Quebec, New Brunswick and Prince Edward Island require farmland to be assessed at its value as a farm (or as a percentage of agricultural market value) provided the owners can meet certain criteria to show they are farmers.

Farm houses, and occasionally a small parcel of land such as one acre in Ontario and up to five hectares in New Brunswick, however, are taxed at market value. Compliance implies that in assessing the farm land, no consideration will be given to the value of other land in the area that may be increasing in value because of development. Farm woodlots in New Brunswick are assessed at a value that will realize a tax rate of $1.00 per hectare on the combined provincial and municipal property tax for the previous year.

In British Columbia, farm improvements, other than dwellings, up to an assessed value of $50,000 are exempt from property taxes. In rural municipalities, farm buildings and farm land are exempt from some of the property taxes. In Alberta, farm residences and buildings in rural municipalities are partially exempt (with some restrictions on maximum deductions.

While farmland but not buildings has been exempt from property taxation in Nova Scotia since 1978, the province introduced legislation in 1996 that permits municipalities to levy a farm acreage tax not exceeding $2.10 per acre. Since 1998, the farmland is again exempt from paying property tax. Newfoundland exempts all productive farmland, woodlots and buildings associated with this land. Farmland, in Quebec, is assessed at market value although there is a ceiling of $375 per hectare at which such land can be assessed for the educational tax. In Saskatchewan, rangeland is assessed at 50 percent of its fair value and cropland at 70% of fair market value, while buildings used for farm purposes in rural municipalities are exempt. Residences in rural municipalities may also receive full or partial exemption.

4.1.3.2 Forest Lands

In the provinces of Newfoundland, New Brunswick and British Columbia, forest lands are taxed at either statutory rates or rates set by regulation based on acreage or assessed market value. In New Brunswick, for example, freehold timberland is assessed at a fixed value of $100 per hectare. Newfoundland and British Columbia assess forest properties and tree-farms at actual value.

The province of Nova Scotia classifies forest land as either resource property (if less than 50,000 acres) or commercial property (if more than 50,000 acres). For resource properties, the tax is prescribed as a fixed amount per acre. Prince Edward Island exempts managed, bona fide forest land while all forest land is exempt from taxation in the prairie provinces. Quebec provides for fixed assessments of forest land while Ontario provides a direct grant to forestry land owners who meet the required criteria for forest management. Ontario, subject to specific conditions, exempts some farm land used for forestry purposes from property taxation.

4.1.3.3 Mines and Mineral Resources

Mineral resources are usually taxed on the basis of profits, acreage or assessment of mineral values. Some provinces obtain large revenues through the imposition of royalties. These types of taxes, however, tend to be levied at the provincial level.

Mines and minerals are generally, but not always, exempt at the local level, but the surface land and office buildings not connected with the mining operation are normally assessed if they fall within municipal boundaries. Some inter-provincial variation in assessment practices, however, revolves around the property tax treatment of underground mines and miscellaneous other mining activities. For example, in Ontario, real property, for assessment purposes, is defined to include mines along with underground improvements and minerals. This tax base is effectively reduced, though, by the exclusion of machinery and equipment used for mineral processing along with the exclusion of mine site improvements directly used in mining activities.

Nova Scotia includes mines and minerals in their definition of land and hence, these are assessable. Manitoba, by way of comparison, excludes mines and minerals from the property assessment base. In Saskatchewan, machinery and equipment (resource production equipment) used in mining extraction operations are included in the tax base while machinery for processing and refining and minerals are excluded. In New Brunswick, underground improvements at mine sites and minerals are explicitly excluded from the property tax base. In Prince Edward Island and Quebec, underground mining operations and minerals are exempt. The province of Alberta exempts minerals from assessed property values.

4.1.4 Exemptions

In addition to the exemptions for agriculture property and/or buildings noted above, all provinces provide for additional exemptions from property tax liability. Some of these are mandatory and others are discretionary. Interprovincially, exemptions are not as extensive in New Brunswick (many were eliminated when the province took over responsibility for property taxation) as they are elsewhere.

Property owned by the three levels of government is exempt in all provinces but Prince Edward Island which imposes taxes on property owned by provincial and municipal governments. In New Brunswick, provincially owned property such as schools and hospitals is exempt from the provincial portion of the property tax but is subject to municipal property taxes; municipal property is exempt from municipal taxes but must pay provincial taxes. Where government property is leased to a third party, the lessee is subject to the property tax in most provinces. In order to compensate for some or all of the foregone tax revenue on government owned property including universities, colleges and hospitals, grants in lieu of taxes are made to local governments by the federal and provincial governments.

In general, the following major exemptions may be noted:

- colleges and universities are exempt in all provinces;
- churches and cemeteries are exempt in every province;
- public hospitals are exempt except in New Brunswick;
- exemptions exist for various charitable organizations and societies in all provinces;
- public libraries are exempt in all provinces except for New Brunswick, Nova Scotia and Prince Edward Island;
- agricultural societies receive some exemption in all provinces except for Newfoundland and Prince Edward Island.

Individual provinces have additional exemptions — in some case from school taxes only and in other cases from both municipal and school taxes. As an illustration, housing for the elderly and infirm, museums and buildings used by war veterans are exempt from school taxes in Manitoba; eligible small theatres and conservation land are exempt from both municipal and school property taxation in Ontario; and Alberta recently expanded its list of exempt properties to include non-profit day-care centres, certain sports and recreational facilities, thrift shops and sheltered workshops.

4.2 Tax Rate Structure

Perhaps the most widely publicized result of municipal government activities on an annual basis is the announcement of the annual tax rate (mill rate as it is called in some provinces). This rate is calculated in a fairly straightforward and simple manner. The municipality first determines its expenditures for the year. From this figure, revenues available from sources other than the property tax, such as grants from the provincial government, and estimated revenue from the sale of goods and services, etc., are deducted. The remainder is the sum that must be funded from local property taxes.

In addition to the general property tax rate, school boards, in a number of provinces, also use property taxes as a basis for funding a portion of their expenditures. As was noted in the earlier inter-provincial comparison, the extent to which school boards rely on property taxation displays much greater inter-provincial variation than does the reliance on property taxation for municipal purposes.

4.2.1 Municipal Purposes

Table 4.2 describes the municipal property tax rate structure in each of the provinces and territories. As the reader will note, considerable variation exists. Noting the more salient features in this Table:

- uniform rates apply to all classes of property in some provinces while variable tax rates apply to different property classes in other provinces;
- where differential rates exist, lower rates are always assigned to residential and farm properties with higher rates being assigned to commercial and industrial properties;
- in Prince Edward Island and New Brunswick, the two provinces employing provincial property taxes, the provincial rate is fixed at a specific dollar value per hundred dollars of assessment while municipal property tax rates in these provinces are allowed to vary in order to meet municipal expenditure requirements;
- agricultural land receives favourable property tax treatment in every province — either through the assessment of land as agricultural land rather than at market value, or through exemptions, or through lower property tax rates.

4.2.2 School Purposes

Table 4.3 records the property tax rate structure used for funding public schools across Canada. In particular, the following may be noted:

- variation exists in the extent to which property taxes (provincial, local and school board) are used to fund education;
- where province-wide property taxes are imposed, they are uniform across the province for specific property categories;
- education property taxes tend to be lower on residential and farm properties vis-à-vis other properties.

4.3 Tax Relief Schemes

In reality, two categories of property tax relief exist. First, the exemption of certain properties, preferential assessment and differential mill (tax) rates associated with some properties (residential and farm properties, for instance) vis-à-vis other properties (non-residential) has already been noted. Second, every province provides some direct property tax relief programs for individual taxpayers and it is this latter category of relief payments that will be considered below.

Individual tax relief schemes display considerable variation across Canada. While Table 4.4 does not detail the full range of property tax relief programs available in each of the provinces, it outlines the more important schemes. Provincial programs range from grants to exemptions to tax credits to deferrals, etc. In addition, municipalities in most provinces have jurisdictional power to enact relief schemes designed to alleviate the burden for poverty stricken taxpayers. These initiatives may include reductions, cancellations, or refunds of property taxes.

When the material in Table 4.4 is combined with the earlier presentation on inter-provincial revenue and expenditure comparisons, the following may be noted.

- Differences in local government expenditure responsibility and differences in the extent to which property taxes are used for funding local government services including education dictates partially, if not fully, the extent to which the various provinces rely on property tax relief measures.
- Where property taxes are relatively more important as a revenue generator, property tax relief schemes tend to be used more extensively.
- Property tax relief is allocated almost exclusively to residential and farm properties — it usually takes the form of grants or credits (in addition to lower effective tax rates) through the personal income tax system.
- Property tax relief is broadly available in some provinces and more specifically targeted to particular groups (senior citizens, for example) in other provinces.

4.4 Business Tax

Interprovincially, there is considerable variation in the extent to which business taxes (a local tax which is frequently, but not always, based on the assessed value of commercial and industrial property with statutory liability for payment almost always falling on the occupant — in St. John's, it is on the owner) are used and in the way in which they are imposed. Over the past decade, the trend has been to move away from business taxation to higher property tax rates on commercial and industrial properties. For example, the business tax, as a separate tax, does not exist in Prince Edward Island, New Brunswick, British Columbia, Ontario, the Northwest Territories and the Yukon. The practice in these provinces is to impose higher real property tax rates or license fees on non-residential property in lieu of a business tax. For example, Prince Edward Island levies a tax on business properties (commercial and industrial) that is twice the rate on non-commercial property (residential). In New Brunswick, the tax on non-residential property is 1.5 times the residential rate. In Ontario, effective property tax rates are higher on non-residential property.

The business tax is optional in British Columbia, Saskatchewan and the Northwest Territories. It tends not to be used in British Columbia; instead, municipalities impose higher tax rates on non-residential property. This is also the growing practice in most Saskatchewan municipalities.

The business tax is mandatory in the city of Winnipeg and all municipalities in Nova Scotia and Newfoundland. Elsewhere, it is optional except for the provinces where business taxes do not exist. In addition to the business tax in most provinces, licensing of businesses at a flat rate, set by the municipality, is a common practice.

Table 4.1: General Assessment (excludes special treatment of certain property types)

Province (1)	Assessment Base (2)	Frequency of Assessment (3)	Responsibility for Assessment Function (4)
Newfoundland	market value	every 6 years except for St. John's which is every 10 years	Provincial and local
Prince Edward Island	market value	property reappraised at least once every 7 years	Provincial
Nova Scotia	market value	annual	Provincial
New Brunswick	real and true value	annual	Provincial
Quebec	market value	three year cycle	Local
Ontario	current value	currently three year cycle; moving to annual reassessment by 2004	Ontario Property Assessment Corporation
Manitoba	market value	four year cycle	Provincial and local
Saskatchewan	fair value	four year cycle	Provincial and local
Alberta	market value	annual	Local
British Columbia	market value	annual	Provincial
Northwest Territories	land at market value and buildings at replacement cost	property reassessed at least once every 10 years	Territory
Yukon Territory	land at market value and buildings at replacement cost	five year cycle	Territory

Source: Provincial Departments or Ministries plus *Provincial and Municipal Finances 1999* (forthcoming), Toronto; Canadian Tax Foundation, chapter 6; 1998 *Tax Practices Across Canada Manual and Appeals Procedure Manual*, Canadian Property Tax Association Inc, Mississauga, 1998; and Harry Kitchen, *Property Taxation in Canada*, Canadian Tax Foundation, Toronto, 1992.

Table 4.2: Assessment Categories and Tax (mill) Rates for Municipal Purposes, Emphasizing the Treatment of Agricultural Property

Province	Assessment Categories	Municipal Tax Rates
Newfoundland	Residential, commercial, or part residential and part commercial. Productive farmland and buildings associated with this land are exempt.	Uniform rate except for St. John's where there may be 2 rates (residential and commercial). Tax rates are set locally.
Prince Edward Island	Commercial and non-commercial. Farm land is assessed as value in farm production and not at market value.	Provincial property tax rates are levied at a fixed rate — $1.50 per $100 of assessed value on both commercial and non-commercial property. Two municipal tax rates are set in each municipality — one for commercial assessment and another for non-commercial assessment. Tax rates are lower for residents than for non-residents; for example, residents are eligible for a tax credit of $0.50, $0.60, $0.70, $1.16, or $1.46 per $100 of assessed value (choice is left to municipality). Local councils set municipal property tax rates.
Nova Scotia	Residential, commercial, and resource which includes farm properties, forest properties if less than 50,000 hectares, community buildings used for commercial fishing boats, and the land of municipal water utilities.	Property tax rates are differentiated by property class. Halifax is permitted to levy a fire protection tax on top of its general property tax but this tax cannot vary by class of property. Tax rates are set locally.
New Brunswick	Residential and non-residential. Special provisions are in place for assessment of farm land — as value in farm production and not at market value, although buildings and up to five hectares of land are assessed at market value.	Two property taxes: a provincial tax of $1.50 and $2.25 per $100 of assessed value levied on residential and non-residential property, respectively. A municipal tax (rates set locally) with the non-residential rate equal to 1.5 times the residential rate. Owner-occupied residential properties within cities, towns and villages receive a full credit on the provincial tax rate. Owner-occupied residential properties outside of these municipalities receive a credit of $0.85 per $100 of assessed value. A rental levy of $0.5 per $100 is applied to non owner-occupied residential properties. Beginning in 1999, property taxes paid by registered farm operations are capped at the average rate charged by local service districts (non-incorporated municipalities) — currently 27 cents per $100 of assessed property value. This is to even out the tax burden for farmers in both incorporated and unincorporated municipalities.

Source: Same as previous tables.

Table 4.2: Assessment Categories and Tax (mill) Rates for Municipal Purposes, Emphasizing the Treatment of Agricultural Property (Continued)

Province	Assessment Categories	Municipal Tax Rates
Quebec	Properties are not differentiated except for farms, natural gas, electricity, and telecommunications systems. Farmland is assessed at market value although there is a ceiling of $375 per hectare at which such land may be assessed.	The general property tax rate is set by local councils at a uniform rate on all properties. For school tax purposes, farm land can only be assessed to a maximum of $375 per hectare. Public utilities are taxed on the basis of gross revenues rather than property values. For natural gas and electricity distribution systems, the tax is 3 percent of gross revenues. For cable television systems, the tax rates are 2 percent of that portion of revenue not exceeding $5 million, plus 3 percent of that portion exceeding $3 million. For other telecommunications systems, the rates are 3 and 5 percent, with the same threshold revenue level.
Ontario	Residential/farm; multi-residential, commercial, industrial, pipe lines, farmlands, and managed forests. Farm buildings and agricultural land assessed as value in agriculture and not at market value. Farm house and one acre of land are assessed at market value.	Municipalities are permitted to set different tax rates (related to the residential rate) for the different property categories. Farm buildings and agricultural land are taxed at 25 percent of the residential rate. Farm house and one acre of land are taxed at the residential rate. Railway rights-of-way and power utility transmission and distribution are taxed at a fixed rate per acre — the province sets per acre rates for nine geographic regions and indexes them to average provincial commercial tax rate changes. Tax rates for the residential/farm category are lower than for other properties.
Manitoba	Residential 1, residential 2, residential 3, farm, institutional, pipeline; railway, golf courses, and other. Farm land assessed at agricultural market value.	With the exception of Winnipeg where differential tax rates may be used, municipalities are not allowed to apply differential tax rates to different property types. Property taxes are levied on the basis of mill rates set by municipal councils.
Saskatchewan	Agricultural, residential, seasonal residential, commercial, and industrial. Agricultural land is assessed at 50% (rangeland) to 70% (cropland) percent of fair (market) value while buildings used for farm purposes in rural municipalities are exempt. Residences in rural municipalities outside of rural hamlets may also receive full or partial exemption.	Mill rate factors may be applied to four property classes in urban, rural, and northern municipalities. Cities may also set subclasses of property to which variable mill rates may apply. Tax rates are determined locally.

Source: Same as previous tables.

Table 4.2: Assessment Categories and Tax (mill) Rates for Municipal Purposes, Emphasizing the Treatment of Agricultural Property (Continued)

Province	Assessment Categories	Municipal Tax Rates
Alberta	Residential, non-residential (commercial and industrial), farm land, machinery and equipment. Farmland is assessed at productivity or agricultural use value. Farm in rural municipalities are partially exempt, while farm buildings are 100% exempt in rural areas.	Municipal councils have the power to levy differential tax rates on different property categories.
British Columbia	Residential, utilities, unmanaged forest land, major industry, light industry, business/other, managed forest land, recreational property/non-profit organization, and farm. Farm land is assessed at productivity or agricultural use value. Farm improvements, other than buildings, up to an assessed value of $50,000 are exempt from property taxation.	Municipal property tax (mill) rates are set by local councils. Variable mill rates are allowed for different classes of property. Separate tax rates may be created annually for each of eight categories of property.
Northwest Territories	Land, improvements (includes machinery and equipment), mobile units, pipelines, railway works, and transmission lines.	General property tax rates, set by the Territorial government, are levied at uniform mill rates in non-taxed based municipalities. Within municipalities, mill rates are set locally and may vary by class of property.
Yukon Territory	Land, buildings and machinery, public utilities, railroads, pipelines.	Municipal property tax rates are set by local councils. The tax rates may vary by class of property and across regions.

Source: Same as previous tables.

Table 4.3: School Property Tax Structure

Province	School Property Tax Structure
Newfoundland	Property taxes are not used to finance elementary and secondary school expenditures.
Prince Edward Island	The province funds 100 percent of education costs from general revenues. Included in these revenues is the money generated from a province-wide property tax. This property tax, however, is not earmarked specifically for education. The new School Act allows the regional administrative units to levy and collect a local tax for supplementary programs (upon approval by the Ministry and a plebiscite), but this power has never been used.
Nova Scotia	Public schools are financed from general revenues of the province and municipalities. The provincial share of school financing comes from the province's general revenues (there is no provincial property tax). The municipal portion comes from a uniform property tax rate set by the province; however, municipalities can raise the education tax rate to fund optional programs.
New Brunswick	All public education costs are funded from general provincial revenues. Included in these revenues is a provincial property tax on all properties. The property tax is not earmarked specifically for schools. Legislative provision for using local property taxes to raise revenue for supplementary programs is permitted but seldom used.
Quebec	The province is almost entirely responsible for financing school boards from general revenues (no provincial property tax exists). Local school boards have the authority to levy a property tax but it can not exceed $0.35 per $100 of assessed value unless referendum approval is obtained from the taxpayers within the school district. School boards use local property taxes only to finance the maintenance of school facilities.
Ontario	Education is funded from a combination of provincial grants and an education tax rate on property that is set by the province, collected by the municipality and remitted to school boards. The education tax rate on residential/farm and multi-residential properties is uniform across the province. The provincial plan is to have a uniform province-wide education rate for commercial and industrial properties, although it will be higher than the residential rate.
Manitoba	Provincial funding comes from the general revenues of the province and from the proceeds of a province-wide property tax for education. The provincial tax rate applied to residential property is less than the rate assigned to other properties. Farm properties (land and buildings) are exempt from the provincial tax. Local revenues come almost entirely from property taxes on both non-residential and residential property.
Saskatchewan	Provincial funding comes from general revenues while school divisions generate revenues from property taxes collected from residential and non-residential properties.

Source: Same as previous tables.

Table 4.3: School Property Tax Structure (Continued)

Province	School Property Tax Structure
Alberta	The province is responsible for funding education. About half of its funding requirement is supported from general provincial revenues and the remainder from a uniform province-wide mill rate on residential, non-residential and agricultural property. The tax rate on non-residential property is higher than that on residential and agricultural property.
British Columbia	Schools are funded entirely by provincial grants generated from provincial government revenues, which include provincially imposed non-residential and residential property taxes (property taxes account for about 30 percent of total funding). Although the provincial government sets the rate for school property taxes, there is no necessary connection between school property taxes and provincial grants to school districts. While everyone within a school district pays the same residential tax rate, rates vary between districts in order to moderate the effects of differences in assessed values across the provinces. If school boards wish to spend more than their provincial grant, the board must seek local taxpayer approval through a referendum for additional expenditures to be financed through local property taxes.
Northwest Territories	Education mill rates may differ by property class.
Yukon Territory	The Yukon government levies a territory-wide school tax, which accounts for about 5 percent of school revenues.

Source: Same as previous tables.

Table 4.4: Property Tax Relief Schemes by Province

Province	Property Tax Relief Schemes
Newfoundland	No specific property tax relief schemes.
Prince Edward Island	For senior citizens receiving guaranteed income payments, 100 per cent of property taxes can be deferred. Deferred taxes must be paid when the property is sold or transferred to someone other than the owner's spouse.
Nova Scotia	Local councils may exempt certain persons from property taxation if their income is below an amount specified by the local council. Eligible persons include those over 65, widows, and single parents supporting dependents.
New Brunswick	Property tax relief is provided through grants to low income homeowners with incomes less than $20,000. These grants are credited against property taxes of eligible homeowners up to a maximum of $200. Owner occupied residences receive a credit on provincial property taxes. Provincial property taxes on agricultural land may be deferred as long as the land is used for agricultural purposes.
Quebec	The province provides a refundable property tax credit administered through the personal income tax system. It is available to both homeowners and renters. In addition, the province provides a partial reimbursement for local property taxes paid on farm (and timber) properties as long as the farm is involved in farm production with an annual gross value of more than a specific amount (to ensure that it is a bona fide farm operation).
Ontario	The most apparent property tax relief scheme is the Ontario Property Tax Credit. This is a refundable tax credit applied against provincial income tax liability for low and modest income homeowners and renters. As well, there is a special credit for seniors. Owners of eligible farmlands and buildings pay lower property tax rates (25 percent of the residential rate). The province reimburses 100 of property taxes paid by owners of eligible managed forests and conservation lands. Municipalities also have the power to reduce, refund, cancel or defer residential and farm property taxes.
Manitoba	The property tax credit of $250 is administered through the personal income tax system, or deducted off of the property tax bill. Additional property tax relief is available to senior citizens, regardless of whether they are tenants or homeowners, through rebates of school taxes. For homeowners 55 years of age and over, the school tax rebate consists of a maximum grant of $175. Pensioners who are tenants and whose annual rent does not exceed $1,625 annually are allowed comparable grants for school tax assistance. Social allowance recipients no longer qualify for the property tax credit since both accommodation and living costs are included in the allowance rates. Only property taxes paid on a farmer's principal residence and up to 1/2 hectare of land are eligible for the property tax credit.
Saskatchewan	The province is reviewing property tax relief programs — none are currently in place. Local councils may exempt property taxes for up to 5 years.
Alberta	The province does not have a specific property tax relief program. There is, however, an income tested transfer program for seniors and a portion of the cash benefit paid to eligible senior homeowners is for assistance with municipal property taxes.

Source: Same as previous tables.

Table 4.4: Property Tax Relief Schemes by Province (Continued)

Province	Property Tax Relief Schemes
British Columbia	The provincial government's homeowners' grant program reduces property tax liability for owner-occupied principal residences. For seniors, handicapped, and veterans, the minimum tax is $100 and the grant may reach a maximum of $475, with a minimum tax payable of $350. The grant is phased out for property owners with properties worth more than $525,000. Seniors, widows and widowers, and the handicapped may elect to defer property tax payments until the property is sold.
Northwest Territories	50 percent of property taxes levied on the principal residence of senior citizens and disabled persons living in organized municipalities may be exempt from property taxation. 100 percent of property taxes levied on the principal residence of the same groups may be exempt in the general taxation area.
Yukon Territory	The general homeowners' grant program amounts to the lesser of $450 or half of property taxes paid on owner-occupied residential property. For senior citizen owner occupiers, it is the lesser of $500 or three-quarters of property taxes paid. The grant will not lower property taxes to less than $100 unless the taxpayer is a senior citizen.

Source: Same as previous tables.

Chapter 5: Summary of Agricultural Property Taxation Across Canada

The previous chapter of this report outlined the general taxation of property across Canada. In this chapter of the report, the important details of the taxation of agricultural property across the provinces are summarized. An appendix section of the report provides detailed profiles of the agricultural property taxation programs found in each province, since these reports for the 10 provinces are lengthy for the main body of the report. This chapter illustrates that the type of agricultural property taxation program differs across the provinces, with resulting different impacts. The value of concessions is the focus of the next chapter of the report.

5.1 Comparison of Farm Property Taxation by the Provinces

The programs and procedures used to tax agricultural property in each province are summarized in Table 5.1. The comparisons are made based on:

- the tax and assessment base, including exemptions,
- the assessment value ratio,
- rebates and other property tax programs used in the provinces,
- the effective tax rate — net taxes paid relative on farmland and buildings valued at agricultural market values.

The tax burden on agriculture (see Section 5.2) depends on four variables, which are:

- what real property is in the tax base
- the assessment ratio, or the assessment value relative to the agricultural market value of the property,
- the nominal tax rate, and
- any rebates of taxes paid, or deferral of taxes due.

The following sections summarize the taxation of agricultural property in each province. More detail on the taxation of agricultural property in each province is contained in the appendices. The following is not designed to be an exhaustive treatment of agricultural property taxation in each province, but rather a summary, which allows for comparison across provinces.

5.1.1 Tax Base

The applicable tax base can include farmland, farm buildings, and the farm residence. Farmland is in the tax base for all provinces, except for Nova Scotia where it is exempt, and in Newfoundland where farmland is exempt from property tax, but can be subject to business taxes imposed by the municipality. In a few provinces farm residences and farm buildings are not part of the tax base.

Farm residences and buildings are excluded from the tax base in Saskatchewan, whereas in Newfoundland, the farm land and the farm buildings are exempt from real property tax, but can be subject to a local business tax on the real property. In British Columbia and Alberta, farm buildings and residences are mostly exempt from taxation. In most provinces, farmland, buildings and the residence are in the tax base, however, they can be exempt (fully or partially) from tax. The farm residence is not in the tax base in Saskatchewan, mostly exempt from the tax base in Alberta, and not in the tax base in rural British Columbia.

5.1.2 Assessment Ratio

The assessment ratio is defined here to be the ratio of the assessed value of the property to the agricultural market value of the property. The agricultural market value is the market value for the property without any influence from other uses (such as urbanization). In western provinces, the assessed value for farmland ranges from 15% of the agricultural market value in British Columbia to 50 - 70% in Saskatchewan (with Manitoba at 30% and Alberta between 10% and 40%). In eastern Canada, except for Prince Edward Island, farmland and buildings are assessed at 100% of the agricultural market value.

5.1.3 Nominal Tax Rates

Nominal tax rates are provided for farmland, buildings and residences in Table 5.1. These rates range from under 0.5% to over 3.6% of assessed values. However, nominal tax rates can not be compared across provinces, since there is minimal comparability between provinces in the tax base and the assessment ratio. (This is why the effective tax rate is used to compare the tax burden across provinces).

Table 5.1: Summary of Agricultural Property Taxation

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P.E.I.	Nfld.
Tax base										
Land	yes	yes	yes	yes	yes	yes	yes	exempt	yes	business tax
Buildings	mostly exempt	mostly exempt	no	yes	yes	yes	yes	yes	yes	business tax
Residences	mostly exempt	mostly exempt	no	yes	yes	yes	yes	yes	yes	yes
Assessment Ratio										
Land	10 - 15%	10 - 40%	50 - 70%	30%	100%	100%	100%	exempt	10 - 50%	100%
Buildings	100%	100%	exempt	30%	100%	100%	100%	100%	100%	100%
Residences	100%	100%	exempt	45%	100%	100%	100%	100%	100%	100%
Nominal Tax Rates										
Land	0.7 - 1.5%	1.4 - 1.5%	2.3 - 3.6%	3.0 - 4.8%	0.2 - 0.5%	0.8 - 1.5%	1.5 - 3.0%	exempt	0.05 -1.74%	0.0 - 1.0%
Buildings	0.7 - 1.5%	1.4 - 1.5%	exempt	3.8 - 5.6%	0.2 - 0.5%	0.8 - 1.5%	1.5 - 3.0%	0.8 - 1.05%	0.05 -1.74%	0.0 - 1.0%
Residences	0.7 - 1.2%	1.0 - 1.5%	exempt	3.8 - 5.6%	0.2 - 0.5%	0.8 - 1.5%	1.5 - 3.0%	0.8 - 1.05%	0.05 -1.74%	0.0 - 1.0%
Agricultural Tax Programs										
Rebates					before 1998	yes				
Exemptions	yes	yes - buildings	yes - buildings	yes - ESL on land				yes - land		yes
Deferrals Assessment	yes	yes	yes	yes		yes - education	yes	yes	yes	
Maximum Tax Rates					since 1998		yes			
Effective Tax Rate										
1996	0.14%	0.38%	0.90%	0.67%	0.23%	0.49%	0.37%	0.30%	0.29%	0.14%
1997	0.13%	0.36%	0.90%	0.65%	0.21%	0.47%	0.35%	0.29%	0.26%	0.14%
Effective Tax Rate (with adjustment for residences)										
1996	0.14%	0.30%	0.66%	0.67%	0.23%	0.49%	0.37%	0.30%	0.29%	0.14%
1997	0.13%	0.28%	0.68%	0.65%	0.21%	0.47%	0.35%	0.29%	0.26%	0.14%
Effective Tax Rate (with adjustment for residences and asset values)										
1997	0.13%	0.28%	0.68%	0.65%	0.42%	0.53%	0.33%	0.29%	0.31%	0.14%

Source: Tables in Appendix Reports.

5.1.4 Tax Programs for Agriculture

The tax programs for agriculture in each province are summarized in Table 5.1.

- British Columbia uses exemptions on buildings and farm residences (in rural areas), and has assessment values on farmland that is much lower than agricultural market values.
- Alberta exempts most farm residences and buildings and its assessment program results in land being assessed at significantly below the agricultural market value.
- Saskatchewan excludes farm residences and buildings from property taxation, and the assessment value for cropland is 70% of the agricultural market value, and for rangeland is 50% of the agricultural market value.
- Manitoba assesses its farm properties at 30% of the market value (45% for the farm residence), and also excludes farmland from the education (school) levy.
- Ontario used to rebate 75% of the full tax burden, and now has a maximum tax rate for farmland and buildings (25% of the residential rate). Property is assessed at agricultural market values.
- Quebec provides a rebate on farm property taxes (around 50% of farm property taxes paid across all farms, and around 77% when considering eligible farms with over $10,000 in gross sales), and has a maximum assessment value on farmland for school taxation purposes.
- New Brunswick uses a tax deferral program, where farm property taxes assessed by the province are deferred. If the property use changes, then the last 15 years of property tax are due. There is a maximum local government tax rate that farmers pay on farm property. In New Brunswick all residences that are owner occupied receive a rebate from the province on provincial property taxes.
- Nova Scotia exempts farmland from taxation, with farm residences and buildings subject to the property tax.
- In Prince Edward Island, farmland is assessed at less than 50% of the agricultural market value.
- In Newfoundland, farmland and buildings are exempt from paying local real property taxes, however, the local government in some areas assesses a business tax on farm property.

5.1.5 Effective Tax Rates

The last three rows in Table 5.1 provide an indication of the effective tax rates. The effective tax rate is the tax yield (net taxes paid) divided by the market value for farmland and buildings. These tax rates indicate that taxes on farmland and buildings are from a low of 0.14% in British Columbia and Newfoundland to a high of 0.90% in Saskatchewan. The tax base used for calculating this effective tax rate is the value of farm land and buildings as captured by Statistics Canada, and the taxes paid are the net taxes paid by farmers after accounting for rebates received by farmers. Using this value of assets compiled by Statistics Canada provides for a comparable tax base that also has the same valuation approach across the provinces.

In some provinces the farm residence is excluded from tax. The farm tax was adjusted by subtracting the tax yield on farm residences based on an estimate of their assessed value and the residential tax rate. The resulting tax burden, after any adjustments for the implied tax burden on the farm house in those provinces where the farm house is exempt (e.g., Alberta and Saskatchewan), results in a lowering of the tax burden from 0.90% on farm land and buildings to 0.67% of farm land and buildings in Saskatchewan.

There are some measurement issues for computing the effective tax rate when using Statistics Canada's estimate of the value of farmland and buildings, namely that the estimate is based on the market value and not the agricultural market value. (This topic is discussed in the next section of the report). The effective tax rate, with adjustments to the value of farmland and buildings (adjustments for agricultural market values based on assessment information versus market values) in a few provinces is shown in the last row of Table 5.1. This correction increases the effective tax rate from 0.21% to 0.42% in Ontario, and slightly decreases the rate in New Brunswick.

5.2 Summary of the Agricultural Tax Program Problem

The effective tax rate is a convenient way to summarize the differing tax burden and the corresponding varying agricultural property tax programs across the provinces. As shown in Table 5.1, the effective tax rate ranges from a high of around 0.67% in Manitoba and Saskatchewan, to as low as 0.14% in the Newfoundland and British Columbia. Clearly there are different property tax burdens imposed on agricultural producers across the provinces.

At issue is how to measure the concessions in the different tax programs across the provinces. This is the focus of the next two chapters of the report. Chapter 6 focuses on some measurement and conceptual issues and chapter 7 provides recommendations on measuring property tax concessions in the agricultural sector.

Chapter 6: Property Tax Concessions and Government Transfers

The focus of this chapter is to outline and discuss some of the issues that impact on the decision to either include or exclude, a part or all, of the property tax programs noted in the previous chapter. A summary of the approaches used is provided at the end of this chapter. The discussion in this chapter leads to our recommendation in chapter 7 on inclusion and/or exclusion of property tax concessions.

6.1 Agricultural Property Taxes in Relation to Total Property Taxes in a Province

The first two rows in Table 6.1 indicate the distribution of total property taxes collected across the provinces, with the second row an estimate of the net property taxes paid by the farm sector (on the farm property excluding the farm residence) as a percent of all property taxes collected in the province. This ranges from a high of 16% in Saskatchewan to under 0.11% in Newfoundland. These net farm property taxes paid are the gross property taxes paid, with deductions for the value of any rebates to farmers and a deduction for the estimated tax burden on the farm residence.

6.2 Using the Rural Residential Rate as a Measure of Taxes not Paid by the Farm Sector

One approach to measure the value of property tax concessions is to apply the residential property tax rate in each province to the value of agricultural assets. This provides a bookend measure of the value of property tax proceeds given up in each province due to the concessions provided to farming. The residential rate is used since this rate is typically the base rate in each province, and is the default rate for real property, if not classified in another class. The rural residential rate is used, with the provincial property tax credit (0.85%) that applies to all owner occupied residences accounted for in New Brunswick. Table 6.1 captures the analysis conducted to measure the tax revenue that was given in each province.

The net farm taxes paid is calculated by taking the gross property taxes paid (as measured by Statistics Canada), with adjustments for the rebates received based on paid taxes and an estimate of the taxes that would have been paid on the farm residence if the farm residence were subject to tax. For example in Saskatchewan, the gross farm land tax payment of $201.5 million for 1997 is reduced by the estimated $50 million that farm residences would pay if they were in the tax base.

The tax rates used are rural residential tax rates, with adjustments to those rates in provinces where the assessment value for residences is a percentage of the market value (e.g., 45% in Manitoba). This analysis (see Table 6.1) suggests that using this approach, in 1997 the following amounts of tax revenue were foregone by not taxing the farm sector at the same rate as the residential sector;

- $104 million in British Columbia
- $236 million in Alberta
- $295 million in Saskatchewan
- $149 million in Manitoba
- $167 million in Ontario
- $93 million in Quebec
- $5 million in New Brunswick
- $6 million in Nova Scotia
- $6 million in Prince Edward Island
- $1 million in Newfoundland

The approach used in Table 6.1 provides one measure of the value of the tax burden not paid by the agricultural sector based on the assumption that the farm sector is taxed at the same rate as the residential sector in each province. This measurement should not be inferred as the suggested approach used to value government transfers attributed to agricultural property tax programs. This analysis does highlight a few issues that need to be addressed. These include:

- The differences in the value of farm and buildings when using Statistics Canada versus provincial assessment data,
- Adjusting the tax data to calculate an inferred farm residence tax in provinces where farm residences are exempt,
- Capturing farm property taxes actually paid,
- Which property tax concessions should be measured, and
- The approach used to measure the value of concessions, since the results will likely vary by the methods used.

Table 6.1: A Measure of Taxes not Paid by the Agriculture Sector Based on Using Rural Residential Tax Rates

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P.E.I.	Nfld.	Totals
Total Provincial Property Taxes ($ million)											
1996/97	3,635	3,048	929	1,114	14,757	6,842	505	630	70	190	
Agricultural Share of Net Property Taxes											
1996/97	0.43%	2.62%	16.31%	5.23%	0.49%	0.75%	0.51%	0.41%	3.57%	0.11%	
Gross Farm Taxes Paid ($ million)											
1996	15.2	103.2	188.4	56.0	177.4	97.5	2.5	2.5	2.6	0.2	646
1997	15.5	102.2	201.5	58.3	180.9	100.4	2.6	2.6	2.5	0.2	667
Adjustment for Excluded Residences											
1996		22.4	50.0								
1997		22.4	50.0								
Value of Rebates											
1996					106.5	49.3					
1997					108.9	49.4					
Net Farm Taxes Paid ($ million)											
1996	15.2	80.8	138.4	56.0	70.9	48.2	2.5	2.5	2.6	0.2	417
1997	15.5	79.8	151.5	58.3	72.0	51.0	2.6	2.6	2.5	0.2	436
Asset Values — Farm Land and Buildings											
1996	10,775	26,967	21,037	8,390	30,982	9,792	679	836	910	141	
1997	11,927	28,692	22,341	9,011	33,802	10,839	738	889	962	141	
Asset Values — Assessment Data											
1997	11,927	28,692	22,341	9,011	17,100	9,590	778	889	805	141	
Residential Tax Rate											
1996/97	1.0%	1.1%	2.0%	2.3%	1.4%	1.5%	0.9%	1.0%	1.0%	0.7%	
Taxes Paid at Residential Rate on Agricultural Asset Values											
1996	107.8	296.6	420.7	207.3	239.4	143.9	7.2	8.4	8.1	1.0	1,440
1997	119.3	315.6	446.8	207.3	239.4	143.9	7.2	8.9	8.1	1.0	1,497
Measure of Taxes Given Up in a Province (after Rebates and Residence Exclusions)											
1996	92.6	215.8	282.3	151.3	168.5	95.7	4.7	5.9	5.5	0.8	1,023
1997	103.8	235.8	295.3	149.0	167.4	92.9	4.6	6.3	5.6	0.8	1,061

Source: Calculations based on data assembled in Appendix Reports and Statistics Canada.

6.2.1 Value of Farm Land and Buildings at Agricultural Market Values

Statistics Canada captures the market value of farm land and buildings. In some provinces this value can vary from the agricultural market assessment value by a significant amount. For example, in Ontario the assessment process generates an Ontario wide value for farm land and buildings of $17 billion. These assets are valued at $33 billion by Statistics Canada. The difference in value is due to:

0 Statistics Canada measuring these assets at current market values, while the assessment process values these assets at their agricultural market (use) value. Urbanization significantly affects the value of farm land in certain areas of Ontario.

Provincial assessment data for farmland and buildings is not available in all of the provinces. For example, in some provinces the assessment process does not place an assessment value on farm buildings. As well, some provinces are still using historic (more than 20 year old) data to compute a productivity based land value. Thus a data source other than assessment data is needed to have a common measure of a comparable tax base across the provinces. The Statistics Canada value of farm assets is used as the common base to value the farm assets across Canada. A data series (such as the series compiled by Statistics Canada with some adjustments) is required to measure the current value of farmland. This adjustment was made in Table 6.1 for computing the residential tax rate impact on the sector.

6.2.2 Adjustments in Farm Tax Burden (Rates) when Farm Houses are not Taxed

Saskatchewan and Alberta stand out as two provinces where the farm residence is exempt from property taxation. This also occurs in parts of British Columbia in unincorporated rural areas. This exclusion can cloud comparisons of the farm property tax burden between provinces when the farm residence is subject to property taxes in other provinces. As shown in Table 5.1, the implied effective tax rate in Saskatchewan is close to 0.90% when the exemption on farm residences is not considered. However, to use these data for cross Canada policy decisions, this kind of exclusion should be neutralized. One way to offset this tax feature is to lower the farm property tax burden by the tax rate that is paid by the residential sector in the province. For example, in Alberta the farm residences are valued at $2.2 billion. With an average 1% residential tax rate, the tax on farm property can be reduced by $22 million. This then places all of the value of the farm property concessions on the farm business assets, and allows for a more valid comparison across the provinces. As shown in Table 5.1, by doing so, the effective tax rate for Alberta declines from 0.36% to 0.28% (and in Saskatchewan from 0.90% to 0.68%). Making this adjustment in British Columbia would lower the effective tax rate from its current value of 0.14%.

6.2.3 Capturing Property Taxes Paid on the Farm Property

Taxes paid by agricultural property are not uniformly captured across Canada by property tax administrators. There are two general sources of property tax information, each with its unique strengths and limitations. One source is from the provincial government, where in each province either the Ministry of Finance, the Assessment body, or Municipal Affairs has information on the tax yield by property class. In some provinces, the Ministry of Agriculture has tax yield information for farm property if the Ministry administers a farm property tax program. Each province has a farm property class, however, in some provinces farm buildings are not included in this class, but are commingled with other properties in usually the residential property class. This is the case in British Columbia and Nova Scotia, for example. (In these same provinces, there is usually not a separate assessment value for farm buildings). By not separating out farm buildings from other residential property, provincial tax data can not be used to measure the full property tax burden of farming.

Statistics Canada does measure property taxes paid by the farm sector. The basic starting point is tax filer data, where producers fill out a survey form. The (income) tax filer is asked to report property taxes paid, and the assumption is made that farmers fill out the full amount on their property tax bill. Usually, the tax information and bill for the farm property (land and buildings) and the farm house are included on the same invoice (since it is all part of the same property deed). Farmers are not asked the property taxes paid on the farm residence in these survey forms. Statistics Canada adjusts the information provided by the farmer in the tax filer data. The first adjustment removes the residential portion of the property tax information filled out in the tax filer data. This varies by province, and is illustrated in Table 6.2.

Table 6.2: Statistics Canada Adjustments of Tax Filer Property Tax Data, 1997

Province	House Value as a % of Land and Building Value	Personal Portion of House	Farm Property Tax Ratio
British Columbia	29.6%	85.0%	74.8%
Alberta	0.0%	0.0%	100.0%
Saskatchewan	0.0%	0.0%	100.0%
Manitoba	13.0%	85.0%	89.0%
Ontario	18.0%	85.0%	84.7%
Quebec	16.0%	85.0%	86.4%
New Brunswick	14.7%	85.0%	87.5%
Nova Scotia	19.4%	85.0%	83.5%
Prince Edward Island	16.8%	85.0%	85.7%
Newfoundland	10.9%	85.0%	90.7%

Source: Derived based on information provided by Statistics Canada.

The first column in Table 6.2 is the estimate used by Statistics Canada of the farm residence value relative to the value of all farm land and buildings in the province for those provinces where the farm house is subject to the property tax. The second column is the personal portion of the house, which is used to allow for 15% business use of the farm house (office etc.). The last column is the ratio used (by Statistics Canada) to adjust the provincial property taxes from farm tax filer data to estimate the property tax due to the farm land and buildings. Correspondingly, an estimate of $65 million of total farm property taxes (farmland, buildings and residence) paid in Manitoba through tax filer data would be multiplied by 89% to come up with a farm land and building tax estimate of $57.9 million for the province for farm income calculation purposes.

Given the data available (or rather the lack of comparable assessment data across the provinces), for purposes of measuring the concession to agriculture, the Statistic Canada estimate appears to be the preferred data source since it captures the value of farm land and buildings across all of the provinces.

6.3 Which Concessions should be Measured?

The property tax programs used by the provinces that should be considered when measuring concessions include:

- Rebates of taxes paid,
- Exemptions, including the farm residence, from the tax base,
- Tax deferrals and forgiveness of taxes due,
- Assessment values in the tax base assessed at values under agricultural market values, and
- Maximum tax rates.

A measure of the net tax burden on the agricultural sector resulting from the varying application of these different tax programs is the effective tax rate, which was illustrated in Table 5.1. This tax rate (with adjustments for the asset values above agricultural market values and exclusion of farm residences from tax) defines the problem. Tax burdens are different across provinces. The remaining issue is how to measure the value of concessions.

6.4 Approaches for Estimating the Value of Tax Concessions

There are a number of approaches available to measure property tax concession to farmers. Approaches can include:

- Concessions Based on Intra-Provincial Comparisons,
- Concessions Based on Inter-Provincial Comparisons,
- Concessions Based on Recorded Program Expenditures and Exemptions (current),
- Concessions Based on Deviations from a Base Effective Tax Rate, and
- Concessions Based on Applying the Benefits Taxation Principle.

The following is a brief discussion on each of these approaches, some of which are interrelated.

6.4.1 Concessions Based on Intra-Provincial Comparisons

One approach to measure concessions is to use intra-provincial comparisons of tax rates on different classes of property. An example is to use the average tax rate on assessed property as the rate for the agricultural sector. Any negative deviation from this average rate for farm property is then considered a benefit to farmers. Another approach is to use the residential tax rate in each province on the agricultural market value of farm assets as the comparison for and benefits conferred on agriculture. This approach assumes that access to benefits (use of services provided) is not a factor, or that use rates (of services provided) are similar between the residential property class and the farm property class.

Using the residential tax rate approach, the analysis in Table 6.1 (last two rows) suggests that across Canada around $1 billion in property tax concessions are conferred on Canadian farmers, with over $200 million in estimated concessions going to farmers in both Alberta and Saskatchewan. The 1997 tax bill across Canada would be close to $1.5 billion, in comparison to current taxes paid of over $400 million. These concessions are calculated after accounting for current taxes paid, with adjustments for rebates on taxes paid, and the exclusion of the fair tax burden on farm residences. While the approach has some merit, such as its simplicity, and basing concessions on comparisons to another property class in a province, there are difficulties with the approach, namely:

- The assumption that the farm sector has the same use pattern of municipal services as the residential sector,
- There is no correspondence between tax paid and services used by the farm assets, and
- Using residential tax rates results in a higher tax burden in those provinces that have a smaller industrial and commercial base relative to those that have a higher industrial base.

6.4.2 Concessions Based on Inter-Provincial Comparisons of Expenditures and Exemptions

Another approach that can be used to estimate concessions is to account for the value of individual concessions in each province. The working group (previously) used this accounting approach. Specifically the concession value was based on:

- compiling expenditure information on rebates to farmers,
- compiling expenditure information on transfers to local governments to offset land tax exemptions,
- accessing government records on the value of deferred tax, and
- computing the value of exemptions on farm buildings and farmland.

There were a few shortcomings with this approach, including exclusion of the value of lower assessments on farmland in the measurement of concession value. A fundamental issue is that this approach only measured what was readily available and did not treat all concessions equally, or on the same basis. For example, the full value of the tax rebate to Ontario farmers was captured (where property was assessed at agricultural market value and taxed at the residential rate), while the comparable benefit of lower farm assessment values (under 50% of agricultural use value) was ignored in other provinces. As a result, this approach does not consistently address across the provinces the various types of agricultural tax programs, and how to satisfactorily measure what is a concession.

The problems with this approach used by AAFC can be overcome by measuring the value of all concessions. When this is done, the resulting value of concessions will be similar in value to those when valuing concessions based on residential tax rates. This occurs because the valuation of concessions is usually done in relation to the default tax rate in each province, which is the residential rate. Therefore, full application of the AAFC approach to all concessions (exemptions, lower assessment values, tax rate maximums, rebates and tax deferrals) would produce the same result as using the residential tax rate to measure the value of concessions.

6.4.3 Concessions Based on Inter-Provincial Comparisons with a Uniform Effective Tax Rate

An inter-provincial comparison of the tax burden on the farm sector relative to an average tax rate is another way to assess the value of the concessions. For example, using an arbitrary effective tax rate of 0.50% on the agricultural market value of assets provides a measure of the same tax burden across each province. The tax rate chosen could be based on a principle, such as the average level of local government services used by the farm sector across Canada. (This approach (of a simple average) can be justified since many welfare related comparisons are made based on a Canada wide average such as poverty level income, or the CPI.)

Deviations from the tax burden based on the uniform effective tax rate would be a measure of tax concessions bestowed on agriculture. This approach is illustrated in Table 6.3, which shows that with a 0.50% tax rate applied to the agricultural market value of assets, then across Canada over $506 million in tax revenue would be collected (second last row in Table 6.3), versus the net of $436 today — implying a $70 million value of agricultural property tax concessions.

For British Columbia, the tax burden would be $59.6 million, compared to $15.5 under the current system, with an inference that the value of the concessions to British Columbia agriculture would be in the range of $44 million. In Alberta, the net tax paid today is $80 million (after adjusting for the farm residence). With a 0.5% tax rate on current asset values, the tax burden would increase to $143 million, with an inferred $63.7 million as concessions.

In Saskatchewan, the current property tax load on agriculture is $152 million (after adjusting for residential exemptions). The tax load decreases to $112 million with a 0.5% tax rate, implying that farmers in Saskatchewan are not receiving a concession.

Using this approach to capturing the value of concessions results in the agriculture sector in Quebec, Saskatchewan and Manitoba having a property tax system where there is no inferred (or calculated concession) due to property tax programs in agriculture.

There are two conceptual issues with this approach.

- First, how is the average effective tax rate chosen (based on a criteria or principle), and
- Second, are the services provided across the provinces by local governments the same to suggest that a uniform effective tax rate can be used.

Table 6.3: Value of Concessions Based on a Uniform Effective Tax Rate of 0.50%

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P.E.I.	Nfld.	Totals
Gross Farm Taxes Paid ($ million)											
1997	15.5	102.2	201.5	58.3	180.9	100.4	2.6	2.6	2.5	0.2	
Adjustment for Excluded Residences											
1997		22.4	50.0								
Value of Rebates											
1997					108.9	49.4					
Net Farm Taxes Paid ($ million)											
1997	15.5	79.8	151.5	58.3	72.0	51.0	2.6	2.6	2.5	0.2	436
Asset Values — Farm Land and Buildings ($ million)											
1997	11,927	28,692	22,341	9,011	33,802	10,839	738	889	962	141	
Asset Values — Based on Assessment Data ($ million)											
1997	11,927	28,692	22,341	9,011	17,100	9,590	778	889	805	141	
Taxes Paid with an Effective Tax Rate of 0.50% on Market Value of Assets ($ million)											
1997	59.6	143.5	111.7	45.1	169.0	54.2	3.7	4.4	4.8	0.7	597
Measure of Taxes Given Up in a Province (after Rebates and Residence Exclusions)											
1997	44.1	63.7	-39.8	-13.2	97.0	3.2	1.1	1.8	2.3	0.5	161
Taxes Paid with an Effective Tax Rate of 0.50% on Agricultural Market Value of Assets ($ million)											
1997	59.6	143.5	111.7	45.1	85.5	48.0	3.9	4.4	4.0	0.7	506
Measure of Taxes Given Up in a Province (after Rebates and Residence Exclusions)											
1997	44.1	63.7	-39.8	-13.2	13.5	-3.1	1.3	1.8	1.5	0.5	70

Source: Calculations based on data assembled in Appendix Reports and Statistics Canada.

6.4.4 Choosing an Average Canadian Tax Rate to Capture the Value of Concessions

The above discussion was based on a uniform 0.50% effective tax rate. The underlying issue is on what basis should this national tax rate be chosen to measure the value of concessions. One approach is to take the arbitrary tax rate one step further and compute the average tax rate across Canada, with the consequence that provinces with lower tax rates would be measured as having a concession, and the other provinces would not. The (weighted) average tax rate is 0.37%, after accounting for rebates and excluded farm residences. This approach would result in Saskatchewan, Alberta, and Quebec being measured as not having a property tax concession, and possibly a dis-benefit (tax) from the property tax programs.

While simple to calculate, this approach has no theoretical basis, and can vary as provinces change their tax burden, or as the asset values change in a region of the country. The use of an effective tax rate, such as 0.50% based on some criteria is a more preferred approach. Such a property tax rate can be established based on services that are paid for by the property tax that are used by the farm business. This includes activities such as protection, road maintenance, drainage, etc. By separating out the farm residence from the farm business, the farm residence is assigned the costs of education, libraries, public transportation, etc. that are included in the property tax.

At a national level this approach has some shortcomings, including no linkage between the tax rate and actual services used and paid for by property tax receipts in a province. This suggests that a provincial approach based on intra-provincial comparisons is a more preferred approach.

6.4.5 Application of the Benefits Based Principle — Intra-Provincial Comparison to Residential Tax Rates

In previous sections, various approaches were discussed. Using residential tax rates has its problems, as well as does using a uniform national tax rate approach. An improvement is to have a provincial tax rate for the farm sector established off of the residential tax rate and based on a set of principles. One such principle is to tax the farm sector based on a benefit based taxation principle.

The benefits principle suggests that property taxes should be based on services used by the class of property. The rationale for using a benefits based taxation approach is that the farm business (excluding the farm residence) should only pay for those services that it uses in the operation of the farm business. In Section 2 of this report, it was argued that when taxes are not designed to be redistributive in nature, then beneficiaries should pay for services received. User fees are an example of this, as well as a beneficiary based property tax, which is somewhat related to the use of services paid for by the property tax.

For agriculture some of the benefits based services that are paid for by the property tax include:

- protection of property (policing and fire protection),
- road maintenance,
- drainage,
- insect and weed control, and
- general administration.

Some of the services provided for from property tax proceeds and that are not used by the farm property (farmland and buildings only) include:

0 education,

0 culture and recreational activities, and

0 health and social services.

A comparable benefits based farm tax rate for each province can be developed that adjusts for services paid for out of the property tax, but not used by the farm property, and which uses the residential tax rate as the base tax rate.

The residential tax rate is usually the sum of the local tax rate plus the school tax rate. This rate can be adjusted by subtracting out the education tax rate, and adjusting the local tax rate for the percentage of local services used by the farm business that are funded out of property taxes. This is shown in the following equation.

(4) Farm tax rate = (% of services used by farm sector) x (local tax rate) - school tax rate

The data in Table 3.2 and 3.4 provide a breakdown of local expenditures into several categories. The local expenditure categories that are paid for out of property taxes and used by the farm business (see Table 3.4) include: general administration, protection, transportation, resource conservation, and regional planning. The distribution of funding on these services areas (and functions) from the property tax can be used to adjust the local tax rate to obtain a benefits based farm property tax rate. The environmental category is not included as a farm used service since its expenditures are mostly in the areas of sewage, garbage collection, etc.

Table 6.4 shows the computations used to adjust the residential tax rate in the rural areas of each province to develop an agriculture tax rate for each province. The local tax rate in the third row (of Table 6.4) is the full residential property tax rate minus the school tax rate. The rural residential tax rate used for New Brunswick accounts for the partial provincial property tax credit of 0.85% in unincorporated areas for owner occupied residences, and includes local property taxes.

Table 6.4: Derivation of a Benefits Based Effective Tax Rate for Agriculture, 1998

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P.E.I.	Nfld.
Rural Residential Tax Rate	1.00%	1.10%	2.72%	5.00%	1.40%	1.50%	0.92%	1.00%	1.00%	0.70%
School Tax Rate	0.45%	0.70%	1.74%	2.80%	0.46%	0.35%	0.00%	0.00%	0.00%	0.00%
Local Tax Rate	0.55%	0.41%	0.98%	2.20%	0.94%	1.15%	0.92%	1.00%	1.00%	0.70%
Assessment Ratio	100%	100%	75%	45%	100%	100%	100%	100%	100%	100%
Effective Local Tax Rate	0.55%	0.41%	0.74%	0.99%	0.94%	1.15%	0.92%	1.00%	1.00%	1.00%
Percent of Local Services Used by Agriculture	55.9%	74.4%	82.0%	67.7%	68.0%	65.2%	76.0%	57.5%	76.5%	66.1%
Benefit Based Farm Tax Rate	**0.31%**	**0.30%**	**0.60%**	**0.67%**	**0.64%**	**0.75%**	**0.70%**	**0.58%**	**0.77%**	**0.46%**

This local tax rate (excluding the education tax rate) is adjusted by the assessment ratio used for residential property. (Residential properties in Saskatchewan and Manitoba have assessment values that are less than market values, which are 75% and 45%, respectively). The resulting effective local tax rate is multiplied by the percentage of service expenditures paid for out of property taxes that are used by the farm sector. This ranges from 55.9% in British Columbia to 82% in Saskatchewan (see the second last row in Table 6.4 based on the information provided in Table 3.4).

The resulting effective tax rate for the farm sector ranges from 0.30% in Alberta to 0.75% in Quebec. The implied tax burden is illustrated in Table 6.5, where the implied tax burden is $516 million (eighth row in Table 6.5) versus the current net tax actually paid of $436 million across Canada.

This results in an estimated value of agricultural property tax concessions of $80 million across Canada. This approach implies that Ontario farmers received a $37 million property tax concession in 1997, and British Columbia received a $21.5 million property tax concession (before accounting for the imputed value of excluded farm residences in the rural areas). As well, this approach indicates that farmers in Saskatchewan do not receive a property tax concession.

Another benefits based approach is to exclude only the educational component of the property tax. This would not be a true benefits based approach, since farm land does not use services such as social services, recreational facilities, and cultural programs. The implication on the value of concessions is provided in the last three rows of Table 6.5. The tax rate is the residential tax rate, excluding only the educational tax component. The tax rates generate a tax obligation of $734 million across Canada, resulting in a $298 million estimate for property tax concessions. Ontario would be assessed the largest concession at $89 million, less than the $109 million rebate estimate by Statistics Canada for 1997. Concession to Quebec and British Columbia would be valued at over $50 million.

6.5 Approaches to Measure Value of Concessions and Government Transfers Criteria

The government transfers working group adopted a number of criteria that are used when measuring and estimating the financial transfers of any program or policy. These criteria (or attributes of financial transfer measures should:

1. make the effects of policies transparent,
2. be simple, easy to understand and amenable to calculation in a timely fashion,
3. employ reliable data, and be subject to duplication and verification,
4. be flexible enough to encompass a wide variety of policies, and
5. provide a consistent measure across commodities and provinces.

Table 6.5: Value of Concessions Based on a Benefits Based Effective Tax Rate for Agriculture

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P.E.I.	Nfld.	Totals
Gross Farm Taxes Paid ($ million)											
1997	15.5	102.2	201.5	58.3	180.9	100.4	2.6	2.6	2.5	0.2	
Adjustment for Excluded Residences*											
1997		22.4	50.0								
Value of Rebates											
1997					108.9	49.4					
Net Farm Taxes Paid ($ million)											
1997	15.5	79.8	151.5	58.3	72.0	51.0	2.6	2.6	2.5	0.2	436
Asset Values — Farm Land and Buildings ($ million)											
1997	11,927	28,692	22,341	9,011	33,802	10,839	738	889	962	141	
Asset Values — Based on Assessment Data ($ million)											
1997	11,927	28,692	22,341	9,011	17,100	9,590	778	889	805	141	
Implied Effective Agricultural Tax Rate											
1997	0.31%	0.30%	0.60%	0.67%	0.64%	0.75%	0.70%	0.58%	0.77%	0.46%	
Taxes Paid with Implied Provincial Effective Tax Rates on Agricultural Value of Assets ($ million)											
1997	37.0	86.1	134.0	60.4	109.4	71.9	5.4	5.2	6.2	0.6	516
Measure of Taxes Given Up in a Province (after Rebates and Residence Exclusions)											
1997	21.5	6.3	-17.5	2.1	37.4	20.9	2.8	2.6	3.7	0.4	80
Implied Effective Agricultural Tax Rate (excluding only education taxes)											
1997	0.55%	0.41%	0.74%	0.99%	0.94%	1.15%	0.92%	1.00%	1.00%	0.70%	
Taxes Paid with Implied Provincial Effective Tax Rates on Agricultural Value of Assets ($ million)											
1997	65.6	117.6	165.3	89.2	160.7	110.3	7.2	8.9	8.1	1.0	734
Measure of Taxes Given Up in a Province (after Rebates and Residence Exclusions) — Excluding only Education Taxes											
1997	50.1	37.8	13.8	30.9	88.7	59.3	4.6	6.3	5.6	0.8	298

Source: Calculations based on data assembled in Appendix Reports and Statistics Canada.

* Numbers need to be updated.

There are four general approaches provided in this section, they are:

0 value concessions based on the former AAFC approach of accounting for rebates and some exemptions,

0 value concessions based on taxing the farm sector using residential tax rates and agricultural market value assessment, versus the taxes actually paid,

0 value concession based on taxing the farm sector using a uniform tax rate across Canada and agricultural market value assessments, versus taxes actually paid, and

0 value concessions based on taxing the farm sector using a benefits based tax rate for each province and agricultural market value assessments, versus taxes actually paid.

The major difficulty with the first approach, *valuing concessions based on the former AAFC approach of accounting for rebates and some exemptions*, is that it does provide a consistent measure across the provinces since some farm tax programs are not included with this approach. An example would be the exclusion of the benefit of farm property tax assessments when they are below the agricultural fair market value.

Valuing concessions based on taxing the farm sector using residential tax rates and agricultural market value assessment, versus the taxes actually paid is not consistent with the criteria of having reasonable estimates of net benefits (concessions). The estimated value of the concessions exceeds $1 billion across Canada, or 20 to 25% of net farm income.

Valuing concessions based on taxing the farm sector using a uniform tax rate across Canada and agricultural market value assessments, versus taxes actually paid does not allow for a consistent measure between the provinces. The level of services received from local governments, and the tax rates can be quite different between each of the provinces.

Valuing concessions based on taxing the farm sector using a benefits based tax rate for each province and agricultural market value assessments, versus taxes actually paid is most consistent with the criteria adopted by the Government Transfers Working Group. The effects of the policies are made transparent through the gap between taxes actually paid, and what taxes should have been paid. The approach is relatively straightforward, and amenable to calculations in a timely manner. All property tax programs used by provinces are automatically incorporated using this approach. Most importantly, each province is treated in a consistent manner based on using a benefits based taxation approach for the farm sector. And, the estimates are reasonable in relation to other concessions provided to farmers

6.6 Summary of Approaches that can be used to Measure Property Tax Concessions

The net property taxes paid by the farm sector are estimated to be $436 million, after accounting for rebates and excluded residences on the farm property. The last AAFC estimate of the value of concessions was $296 million across Canada (second row in Table 6.6). This measure has a few problems, including the exclusion of specific property tax concessions. If all concessions were valued, the resulting measure would approximate the value of concessions based on the residential tax rate.

The total tax yield given up across the provinces is over $1 billion (third row in Table 6.6) if the residential tax rate was viewed to be the correct tax rate to apply to agriculture.

To overcome the problems associated with using the residential tax rate as the default tax rate for agriculture, one of two approaches can be used. One approach is to measure the tax concessions based on a uniform Canada wide tax rate. The value of concessions with a 0.50% tax rate is shown in the fourth row of Table 6.6. In this case, the results would suggest that there is no property tax concession in some provinces. Problems with this approach are how to choose the tax rate, and on what principle is the approach based.

The benefits based principle can be used to value the concessions provided to agriculture through the property tax system. The benefits based principle suggests that farm property should be taxed based on the services it uses that are provided by the local government (recipient of the tax) and funded out property tax revenues. (Agricultural property tax programs in many provinces are based on benefits type principles, such as "*farm land does not require schooling*".) This would suggest that the residential tax rate in each province could be modified to account for the local services funded out of the property tax and not used by the farm sector, such as education, recreation, culture, health and social services.

The results of applying a benefits based tax rate for the farm sector in each province are provided in the last two rows of Table 6.6. Excluding education tax rates, and adjusting residential tax rates for the proportion of local expenditures on services used by the farm sector, results in an estimated $80 million value for farm property tax concessions. When only the education tax is removed from the residential tax rate, the value of concessions across Canada is estimated to be $298 million, with the largest value of concessions occurring in British Columbia, Ontario and Quebec.

This chapter has discussed the advantages and disadvantages of a number of approaches to value the concessions provided through the property tax system. The next chapter provides a recommendation to AAFC and the provinces on how to proceed with measuring the value of property tax concessions.

Table 6.6: Estimates of Taxes Given Up by Agricultural Property Tax Programs — Summary

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P.E.I.	Nfld.	Totals
Net Farm Taxes Paid ($ million) with Adjustments											
1997	15.5	79.8	151.5	58.3	72	51	2.6	2.6	2.5	0.2	436
Measure of Taxes Given Up in a Province — AAFC Approach											
1997	10.5	41.5	17.6	13.8	151.2	54.1	2.6	1.0	3.6	0.0	296
Measure of Taxes Given Up in a Province — Taxed at Residential Rate											
1997	103.8	235.8	295.3	149.0	167.4	92.9	4.6	6.3	5.6	0.8	1,061
Measure of Taxes Given Up in a Province — 0.5% Effective Farm Tax Rate											
1997	44.1	63.7	-39.8	-13.2	13.5	-3.1	1.3	1.8	1.5	0.5	70
Measure of Taxes Given Up in a Province — Effective Farm Tax Rate (Adjustments to Residential Rate for Education and Local Services)											
1997	21.5	6.3	-17.5	2.1	37.4	20.9	2.8	2.6	3.7	0.4	80
Measure of Taxes Given Up in a Province — Effective Farm Tax Rate (Only Education Tax Adjustment to Residential Rate)											
1997	50.1	37.8	13.8	30.9	88.7	59.3	4.6	6.3	5.6	0.8	298

Source: Calculations based on data assembled in Appendix Reports and Statistics Canada.

Chapter 7: Recommendations on Estimating Property Tax Concessions

In this chapter of the report, a recommendation is provided with respect to which property tax concessions should be included or excluded from the calculations of government transfers. As well, a recommendation is provided on how the concessions should be calculated, and the associated data sources. The recommendations are for the value of concessions that flow from agricultural property tax programs, and explicitly from the property tax. The impact can vary between provinces based on the services paid out of the property tax, versus having such services paid for out of other local revenue sources, or paid directly by the province. The value of concessions due to agricultural property tax programs is measured in a consistent manner across provinces with this approach.

Recommendations

Tax Base

1	*Include all farmland and buildings assessed at agricultural market values*

All farmland and buildings should be included in the tax base, with these properties assessed at agricultural market value.

Data Sources

The data source is the market value of land and buildings as reported by Statistics Canada, in the Agricultural Economic Statistics publication. (See the first row in Table 7.2) This data reflects current market value, and not current use values. Information has been compiled through provincial Assessment Authorities for a few provinces on the estimated agricultural use value. Table 7.1 outlines the Statistics Canada values and the provincial assessment data, where available. (These values are also in the second row in Table 7.2). In provinces such as British Columbia where the current market value can vary from agricultural use value, some analysis by the provincial assessment authority is required to confirm whether the Statistics Canada data is a good measure. Presumably if land is in an agricultural reserve, then the current market value reflects the agricultural use value.

Table 7.1: Status of Current Use Agricultural Values by Province, 1997 ($ million)

Province	Market Value	Current Use Value
British Columbia	11,927	Analysis Required
Alberta	28,692	Analysis Required
Saskatchewan	22,341	Analysis Required
Manitoba	9,011	Analysis Required
Ontario	33,802	17,100
Quebec	10,839	9,590
New Brunswick	739	778
Nova Scotia	889	Analysis Required
Prince Edward Island	962	805
Newfoundland	141	Analysis Required

Table 7.2: Calculation of Agricultural Property Tax Concessions — Recommended Approach

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P.E.I.	Nfld.	Total
TAX BASE											
Land and Buildings — Market Value[1]											
1997	11,927	28,692	22,341	9,011	33,802	10,839	738	889	962	141	119,342
Agricultural Use Assessed Value[2]											
1997	0	0	0	0	17,100	9,590	778	0	805	0	0
Tax Rate[3]											
1997	0.31%	0.30%	0.60%	0.67%	0.64%	0.75%	0.70%	0.58%	0.77%	0.46%	
Tax Yield[4]											
1997	37.0	86.1	134.0	60.4	109.4	71.9	5.4	5.2	6.2	0.6	516.3
Taxes Actually Paid[5]											
1997	15.5	102.2	201.5	58.3	180.9	100.4	2.6	2.6	2.5	0.2	666.7
Tax Rebates[6]											
1997					108.9	49.4					158.3
Adjustment for Excluded Residences[7]											
1997		22.4	50.0								72.4
Net Taxes Paid on Farmland and Buildings[8]											
1997	15.5	79.8	151.5	58.3	72.0	51.0	2.6	2.6	2.5	0.2	436.0
Measure of Concession[9]											
1997	21.5	6.3	-17.5	2.1	37.4	20.9	2.8	2.6	3.7	0.4	80.3

1 From Statistics Canada, Agricultural Economic Statistics publication No. 21-603-UPE.
2 Based on information provided through provincial Assessment Authorities.
3 These implied tax rates, based on using the benefits based taxation principle, are from Table 6.4.
4 Row 3 (tax rate multiplied by the tax base (row 1 or row 2).
5 Taxes actually paid based on Statistics Canada, Agricultural Economic Statistics publication No. 21-603-UPE.
6 Tax rebates as measured by Statistics Canada, Agricultural Economic Statistics publication No. 21-603-UPE.
7 Information supplied by Alberta and estimated for Saskatchewan, and information required for British Columbia.
8 Row 5 minus rows 6 and 7.
9 Concessions are the difference between what taxes should have been paid based on a benefits based approach (row 4) minus the net taxes actually paid (row 8), which implicitly measures the value of agricultural tax property programs in each province.

Data Implications

In provinces such as British Columbia, Alberta, Saskatchewan, and Manitoba the provincial Assessment Authority with the Department of Agriculture should attempt to measure the agricultural value of farm land and buildings (separately). This can be based on many sources of data, and does not necessarily require field visits by assessors. In most other provinces, the Assessment Authority along with the Agriculture department should affirm that the current estimate provided through the assessment process is a good measure of agricultural asset values and/or the Statistics Canada value adequately reflects the current use assessment value.

Over time, each provincial assessment authority should as well provide assessment data, based on valuing farm property in its agricultural use.

Tax Rate — Benefits Based Effective Farm Tax Rate

> 2 *Use an adjusted rural residential tax rate to derive a benefits based farm tax rate*

The effective farm tax should be based on the beneficiary principle — implying that farm properties only pay for services used by the farm sector. A benefits based taxation principle is not inconsistent with using ad valorem tax rates. Such a tax rate can be based off of the rural residential tax rate, with the rural residential rate adjusted to:

- eliminate any school property tax rate (or inferred rate with the province collecting most of the property taxes),
- reflect benefits based taxation for the farm property by multiplying the resulting local tax rate (total tax rate minus education tax rate) by the percentage of local expenditures on services used by the farm sector, and
- calculate an effective farm tax rate by multiplying the assessment ratio by the above farm tax rate (e.g., a 2.2% tax rate on a tax base assessed at 45% of market value in Manitoba for residential property is effectively a 0.99% tax rate on a full market value assessment).

Data Needs

To derive the benefits based farm tax rate, the following information is required:

- Rural residential tax rate,
- School tax rate applicable to the rural residential sector,
- Proportion of local services used by the farm business (excluding farm residences) paid for out of the property tax base, and
- Assessment ratio (assessed value subject to tax relative to assessed market value) for the residential sector.

This data and the calculated tax rate are summarized in Table 7.3 and Table 7.4. In Table 7.3, the residential tax rates for the rural area in each province is provided, along with the school tax rate. A local tax rate is calculated by subtracting the school tax rate from the residential tax rate. (In New Brunswick, the partial provincial property tax credit of 0.85% is applied against the rural residential provincial property tax rate of 1.50%). The local tax rate is adjusted by the assessment ratio for those provinces where the assessed taxation value is a percentage of the assessed market value (i.e., 45% in Manitoba).

This local tax rate (in the fifth row of Table 7.3) is adjusted by the proportion of services paid for out of the property tax base that is used by the farm sector. Information on the amount of local expenditures that are paid for out of the property tax is provided in Table 7.4. Services not considered to be used by the farm business include:

- Health,
- Social services,
- Education,
- Environment (mostly water, sewer, solid waste collection, and recycling),
- Recreation/culture,
- Housing,
- Debt (since it is assumed that most debt is incurred in urban area projects), and
- Other.

By implication, the farm business will pay for its portion of local services used that are paid for out of the property tax base. This includes *general services, protection, transportation, resource conservation, and regional planning*. The proportion of municipal expenditures spent on these services, that are used by the farm sector and paid for out of the property tax, is contained in the sixth row in Table 7.3, which is the sum of the above expenditure areas in Table 7.4. In Manitoba, for example, 67.7% of expenditures paid for out of the property tax are for services that are used by the farm business.

The last row in Table 7.3 provides the effective benefits based tax rate for the farm sector. This tax ranges from 0.30% in Alberta to 0.64% in Ontario and 0.75% in Quebec. ***This tax rate (last row in Table 7.3 and third row in Table 7.2) is the tax rate that should apply to farm land and buildings if the farm sector were taxed using a benefit based taxation principle.***

Data Implications

Data requirements include:

0 average rural residential tax rates (school, and total) are required for each province (through Assessment Authorities or Municipal Affairs), which should be updated yearly,

0 assessment ratio for residential properties, and

0 updating of the expenditures by local governments on services paid for out of the property tax. This data (as summarized in Table 4) is prepared by Statistics Canada in the Financial Management Systems, and is based on information provided by each province.

Table 7.3: Calculation of the Benefits Based Effective Farm Tax Rate, 1998

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P.E.I.	Nfld.
Rural Residential Tax Rate	1.00%	1.10%	2.72%	5.00%	1.40%	1.50%	0.92%	1.00%	1.00%	0.70%
School Tax Rate	0.45%	0.70%	1.74%	2.80%	0.46%	0.35%	0.00%	0.00%	0.00%	0.00%
Local Tax Rate	0.55%	0.41%	0.98%	2.20%	0.94%	1.15%	0.92%	1.00%	1.00%	0.70%
Assessment Ratio	100%	100%	75%	45%	100%	100%	100%	100%	100%	100%
Effective Local Tax Rate	0.55%	0.41%	0.74%	0.99%	0.94%	1.15%	0.92%	1.00%	1.00%	1.00%
Percent of Local Services Used by Agriculture	55.9%	74.4%	82.0%	67.7%	68.0%	65.2%	76.0%	57.5%	76.5%	66.1%
Effective Agriculture Tax Rate	0.31%	0.30%	0.60%	0.67%	0.64%	0.75%	0.70%	0.58%	0.77%	0.46%

Table 7.4: Distribution of Municipal Government Expenditures Funded by Property Taxes, by Function, 1997

Municipal Services	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Y.T.	N.W.T.	Canada
General Administration	22.4	17.2	8.4	13.1	15.4	15.8	19.3	18.6	17.9	12.5	25.5	47.5	15.5
Protection	12.3	37.2	20.9	34.4	22.0	28.6	25.3	22.5	23.8	26.5	12.4	12.5	25.2
Transportation	29.8	20.0	19.5	23.7	23.1	19.0	18.5	31.1	26.3	12.7	23.6	0.0	20.6
Health	0.0	0.0	0.1	0.3	0.1	2.0	3.1	1.4	2.6	4.8	0.4	2.7	1.7
Social Services	0.1	0.0	5.9	0.0	0.1	12.0	0.0	0.9	1.6	0.0	0.0	1.8	4.6
Education	0.0	0.0	19.4	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7
Resource Conservation	0.4	1.0	4.0	3.0	2.2	2.6	2.4	8.0	2.6	1.7	1.9	0.2	2.5
Environment	13.1	16.2	10.6	13.0	9.5	9.8	10.9	4.0	1.9	17.2	11.3	28.1	10.0
Recreation/Culture	4.7	0.0	0.0	3.5	7.4	0.0	4.2	6.6	0.0	7.9	19.1	0.0	3.8
Housing	0.0	0.0	1.0	0.0	3.9	0.2	0.0	0.2	0.2	0.5	0.0	1.2	1.5
Regional Planning	1.2	1.1	4.7	1.8	2.5	2.0	2.2	1.8	3.8	2.5	3.4	0.3	2.5
Debt Charges	15.9	7.1	5.1	7.0	13.6	6.9	14.2	3.9	17.9	12.0	2.0	5.8	10.8
Other	0.0	0.2	0.3	0.0	0.0	1.0	0.0	1.0	1.4	1.7	0.5	0.0	0.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
1996 School Board Exp. Funded as a % of all municipal and school property taxes[1]	1.7	62.3	0.0	45.3	9.9	54.8	48.3	48.2	43.7	33.6	8.20	19.9	39.5

1 This line refers to 1996 expenditures since the 1997 school board expenditures were not available at time of writing.

Data in this table were derived based on FMS data, provided by Statistics Canada. The base data was total expenditures by function as recorded by FMS data. Conditional grants by function were subtracted from each function they applied to. Then user fees were subtracted from the remaining expenditures areas (e.g., water and sewer). For other user fees, they were apportioned to (subtracted from expenditures) solid waste collection (10%), public transit (20%), and the remainder to parks and recreation. Conditional grants and other own source revenues were prorated across all areas based on remaining expenditures since these revenues sources are not assigned to a specific expenditure function.

Measuring the Value of Concessions

> 3 *Tax yield is the agricultural market value for farmland and buildings multiplied by the benefits based farm tax rate*

The benefits based tax yield is the agricultural market value of land and buildings (recommendation #1) multiplied by the benefits based effective tax rate (recommendation #2). The tax yield based on using this approach is shown in the fourth row on Table 7.2. ***This tax yield results from taxing farm land and buildings using a benefit based taxation principle.***

The above three recommendations provide the level of taxes that should be paid in each province when the farm sector is taxed using a benefits based taxation principle. The following recommendations are on the amount of taxes actually paid by the farm sector. The difference between the amount actually paid and the amount that should have been paid using a benefits based taxation principle is the value of property tax concessions (government financial transfers) to farmers. This approach implicitly accounts for farm property tax program features such as lower assessment levels, exemptions, rebates, etc.

> 4 *Measure current taxes paid using Statistics Canada data*

To calculate the tax concession, a measure of current taxes paid by farmers on the farm enterprise is required.

Data Sources

Statistics Canada measures the property taxes paid by farmers based on information compiled through the farm income tax-filer data collection process. (See row 5 in the Table 7.2). This information is readily available and updated by Statistics Canada. As illustrated in the Phase I report, Statistics Canada ensures that any property tax paid on the farm residence (except for 15% of the value for home office use) is not included in the measure of farm property (farm land and buildings) taxes paid. Taxes paid by farmers based on provincial tax records and based on administration of farm property tax programs will not always exactly equal the value of farm property taxes paid by farmers as measured by Statistics Canada since each agency can use a different definition of eligible farmers, etc.

The measure of current taxes paid must also account for the rebates that farmers receive after the tax has been paid. This information is also compiled by Statistics Canada and is shown in the sixth row of Table 7.2. The actual rebate reported by Statistics Canada can be lower than the rebates paid by a provincial government since rebates paid to non-farmer landlords on rented land is not considered income to the farm sector.

Statistics Canada data on farm property taxes paid, and on rebates received by farmers should be used in the calculation as current taxes paid. This information is summarized in Statistic Canada's Agriculture Economic Statistics publication.

5 *Adjust for the taxes that would have been paid on exempt farm residences*

In provinces such as British Columbia, Alberta, and Saskatchewan some, or all, of the farm residences are exempt from paying property tax. Before any tax benefit is measured for farming, the taxes that would have been paid on farm residences should be deducted from the taxes paid by the farm property. This adjustments ensures that all farm residence are treated equally across all of the provinces, and this adjustment ensures that any concession conferred to farm residences is placed on the farm enterprise, which consists of farm land and buildings. Imputed values of the taxes that can be attributed to exclude farm residences are shown in row seven of Table 7.2.

Data Approach

In Alberta, the value of excluded farm residences has been measured by the Assessment Authority, and has placed the assessment value at $2.2 billion. Using a 1% rural residential tax rate results in shifting $22 million of tax burden from the farm enterprise to the farm residence. In Saskatchewan this was estimated as $50 million based on average assessment values for the number of farm households multiplied by a rural residential tax rate. A refinement of this approach is suggested based on better information on the number of farm households (residences, average assessed values, etc.). This same approach can be used in British Columbia, where farm residences in rural unincorporated areas are exempt. An estimate has not been provided for British Columbia in Table 7.2.

The Assessment Authorities in each of these provinces should be able to provide an estimate of the number of farm residences; the average assessed value, and an average rural residential tax rate.

Data Needs

Information is required from the provincial Assessment Authority in British Columbia, Alberta, and Saskatchewan each year on:

- The rural residential tax rate, and

0 The assessed values of farm residences, which are exempt or excluded from the tax base in British Columbia, Alberta, and Saskatchewan.

6 *Measure the value of concessions as the difference between the tax yield based on a benefits based farm tax rate and the current tax burden on the farm sector*

The value of concessions for each province should be calculated as the difference between the tax yield based on using a benefits based farm tax rate on the assessed agricultural market value of farm land and buildings (recommendation #3), and the current tax burden as measured by Statistics Canada (recommendation #4). The latter should be adjusted for the tax burden not placed on farm residences in a province (recommendation #5). The value of tax concessions is the difference between the taxes actually paid in the farm sector, and the tax yield suggested by using the benefits based tax rate. This difference accounts for all, or part, of the value of existing agricultural tax programs, such as rebates, lower assessment values, exemptions, etc. The estimated difference will not be identical to that based on an accounting approach since the calculation is based on taxation using the benefits principle applied to the farm sector.

The net taxes actually paid after rebates and impact of excluding residences is shown in row 8 of Table 7.2. The calculated value of any property tax concessions, when farm property is taxed based on the recommended approach, is shown in row 9 of Table 7.2. (The estimated concessions can change with new information on variables, such as agricultural market assessment values for farm land and buildings, and the value of excluded residences).

7 *There is no property tax concession when the current tax burden is larger than calculated the benefits based tax yield*

In some provinces (e.g., Saskatchewan), this approach to measuring property tax concessions can result in a determination of no financial benefit inferred on the farm sector through agricultural property tax programs. This occurs when the current tax burden (taxes actually paid in row 8 of Table 7.2) is larger than the taxes that should have been paid (row 4 in Table 7.2). However, it should be noted that the value attributed to exempt farm residences in Saskatchewan (and British Columbia) can change from the $50 million estimate ($0 million), and thereby change the value of the concessions attributed to farm property taxation programs. For example, if the value attributed to exempt farm dwellings in Saskatchewan turns out to be $25 million, then a $7.5 million concession would be estimated for the province.

Allocations to Commodities

> **8** *Allocate concessions to both land and buildings based on property tax programming*

Some property tax concessions apply equally to farm land and farm buildings, while other concessions apply to either farmland or buildings. The following allocations are suggested:

- for programs that apply equally to land and buildings, the land concession is the total concession multiplied by the land share of land and building value, with the remainder allocated to buildings, and
- for programs targeted to land, all of the implied concessions (or percent of total concession) will be allocated to land (with a similar process for farm buildings.

The result will be an estimate of the concessions applicable to farmland and the value of concessions applicable to farm buildings.

Data Needs

Information on the agricultural market value of farm land and on the market value of farm buildings is required for each province. In most provinces, property tax assessors can provide this information.

> **9** *Allocate concessions to crops based on the farmland concessions and allocate concessions to livestock based on building concessions, with adjustments for the value of crops relative to hay, pasture and forage values*

The concessions to land and buildings need to be allocated to crops (harvested for sale) and livestock. The following allocations are suggested:

- Allocate the land-based concessions to crops (versus hay, pasture and forage crops) based on the value of production for crops that are harvested and sold (cash crops, such as wheat and corn) versus the value of crops used to feed livestock (forages, rangeland), and
- Allocate to livestock the farm building estimated concessions plus the share of land based concessions for crops used to feed livestock (rangeland, hay, etc.).

The net result is a value of concessions for cash crops, and a value of concessions due to property tax programs for livestock.

10 *Allocate concessions to commodity groups based on the value of production for each commodity group*

This recommendation is to attribute the concession for field crops to individual crops based on each crop's share of the value of crop production. For example, if coarse grains accounted for 25% of the value of cash crop production, then coarse grains would be allocated 25% of the field crop concessions. Similarly if dairy has 20% of the livestock value of production, then the dairy sector receives 20% of the livestock concession.

Suggestions

To Statistics Canada

11 *Directly request farm residence and farm property taxes paid*

Statistics Canada (or Revenue Canada) could consider asking farmers on the farm tax-filer forms, the exact amount of property taxes paid on the farm residence, separately from the property taxes paid on the farmland and buildings.

To Provincial Governments

12 *Include all farm property in separate property class*

On a go forward basis, provinces could consider the benefits of having all farm property (farm land and buildings — with separate assessment values) in the farm (or farmland) property class, which is separate from all other property classes (residential, etc.). In the case where farm land is part of a resource property class, provinces should consider the benefits of assembling information from local governments on an agriculture (farmland and buildings) sub-class basis. Doing so will allow for more comparable information, and analysis, across provinces.

13 *Compile information on current agricultural market values*

In those provinces that have farm property assessments based on historic productivity factors and values, the provinces can consider compiling information through the assessment offices on the current agricultural (use) market value. This information would benefit governments and agencies computing tax benefits to the agriculture sector.

The Recommendations and Government Transfers Criteria

The government transfers working group adopted a number of criteria that are used when measuring and estimating the financial transfers of any program or policy. These criteria (or attributes[3]) of financial transfer measures should:

1. make the effects of policies transparent,
2. be simple, easy to understand and amenable to calculation in a timely fashion,
3. employ reliable data, and be subject to duplication and verification,
4. be flexible enough to encompass a wide variety of policies, and
5. provide a consistent measure across commodities and provinces.

The above recommendations (#'s 1 to 7) are assessed against these criteria in Table 7.5. These recommendations are quite compatible with the criteria used by the working group to determine the financial transfers resulting from a particular type of government program.

Table 7.5: Recommendations and Government Transfer Criteria

	Recommendations	Comments	Compatibility with Criteria
1	Include all farmland and buildings assessed at agricultural market values	Having all farm buildings in the tax base valued at agricultural market values can highlight the impact of policies across provinces	#'s 1,2,3,4,5
2	Use an adjusted rural residential tax rate to derive a benefits based farm tax rate	A benefits based tax rate allows for provincial tax rates based on service offerings and local expenditures	#'s 1,2,3,4,5
3	Tax yield is the agricultural market value for farmland and buildings multiplied by the benefits based farm tax rate	This tax yield measures the level of taxation that applies based on a set of principles	#'s 1,2,3,4,5
4	Measure current taxes paid using Statistics Canada data	Statistics Canada provides a reliable data series on agricultural property taxes	#'s 2,3
5	Adjust for the taxes that would have been paid on exempt farm residences	This adjustment makes the policy transparent and apportions any concessions to the farm business	#'s 1,2,3,4,5
6	Measure the value of concessions as the difference between the tax yield based on a benefits based farm tax rate and the current tax burden on the farm sector	Comparing the tax yield based on a benefits approach to actual taxes paid highlights the concessions provided to farmers across many agricultural tax programs across all provinces	#'s 1,2,3,4,5
7	Current tax burden above the benefits base tax yield should be considered a net tax on the agriculture sector	Based on a Canada wide set of taxation principles, agricultural property can be overtaxed in some provinces	#'s 1,2,3,4,5

3. Page 2 in a report prepared by Dr. Karl Meilke for the Agricultural Stabilization Board, entitled "*Extending the Methodology for Calculating Net Benefits to Additional Commodities: An Appraisal*" January, 1991

Glossary of Terms

Agricultural Market Value
The market value of farm property (based on transactions) for agricultural use. This excludes any value for non-agricultural uses, such as urbanization.

Assessment Ratio
The ratio of the assessed value of property relative to the agricultural market value of the property.

Beneficiary Principle
Taxation based on services received or used. User fees are the most direct form of benefits based taxation.

Effective Tax Rates
The net tax burden on agricultural property divided by the agricultural market value of the property.

Tax Rate
The rate of tax paid on the assessed value of the property expressed as a percent. This is the same as the nominal tax rate referred to in the report. This percent tax rate is comparable to the mill rate (taxes collected per $1,000 in assessed value), except that the decimal place is move one place to the left. For example, a 12.5 mill rate is equivalent to a 1.25% tax rate.

Appendix A: Taxation of Agricultural Property In British Columbia

In British Columbia, taxation of farmland is governed by the classification and assessment of farm property by British Columbia Assessment. The provincial program is referred to as the *Farm Classification in British Columbia*. Through this program eligible farmland is assessed at a much lower rate than its current market value. On average the assessed values of farmland can be 10% to 15% of market value.

There are other concessions provided to farmers. In incorporated municipalities, the first $50,000 of farm building value is exempt from tax. In the rural areas (outside of incorporated municipalities) farm buildings and farm residences are exempt from local taxation. Farm residences pay the school tax, with the farmland taxed based on a 50% reduction in assessed values for school taxes.

The British Columbia government is investigating some policy options of how to modify the taxation of agricultural property. Under consideration is the approach used in other jurisdictions (in Canada and US) where farm property is assessed at current market values, with other tax policies lowering the tax burden on agricultural (rebates or farm specific tax rates relative to the residential sector).

A.1 Overview of Property Taxation in British Columbia

British Columbia Assessment classifies property into one of nine classes, as part of the assessment process. Classification is based on a property's use and whether it meets the requirements for the class as specified by government regulation. The nine classes of property in British Columbia are:

Classes

Class	Description
1 *Residential*	Includes single-family residences, multi-family residences, duplexes, apartments, condominiums, nursing homes, seasonal dwellings, manufactured homes, recreational property, some vacant land, *farm buildings* and day care facilities.
2 *Utilities*	Includes structures and land of railways, pipelines, telegraph/telephone systems, electrical systems and closed circuit TV systems, but does not include offices or sales outlets.
3 *Unmanaged Forest Land*	Includes forest land that is not managed in accordance with an approved Forest Management Plan. This land may be in or out of the Forest Land Reserve. Land outside of the Forest Land Reserve in this class must have as its highest and best use, the growing and harvesting of trees.
4 *Major Industry*	Includes land and improvements (buildings) of major industrial properties. Improvements such as lumber mills and pulp mills are generally used for heavy manufacturing, mining, smelting, ship building and loading terminals.
5 *Light Industry*	Property used or held for extracting, manufacturing or transporting products, including ancillary storage. A scrap metal yard, winery or boat building operation all fall within this category. Exceptions include properties used for the production of food and nonalcoholic beverages, which fall into Class 6.
6 *Business Other*	Includes properties that do not fall into the other classes. Property used for offices, retail, warehousing, hotels and motels all fall within this category.
7 *Managed Forest Land*	Privately-owned land for which a Forest Management Plan has been submitted to, and approved by, BC Assessment. To be eligible, owners must also have their land designated as Forest Land Reserve. Property owners have an obligation to provide good resource management practices, such as reforestation, care of young trees, protection from fire and disease and sound harvesting methods. (Managed Forest Land is taxed at a lower rate than Unmanaged Forest Land.)

8	*Recreational Property Non-Profit Org.*

Covers two very different categories: land used solely as an outdoor recreational facility for such activities as golf, skiing, tennis, public swimming pools, waterslides, amusement parks, marinas and hang gliding. Improvements on the land (such as a clubhouse) fall in Class 6. Property used for at least 150 days per year by a non-profit organization for a meeting hall or place of public worship. (The 150 days cannot include activities with paid admission or the sale/consumption of alcohol).

9	*Farm Land*

Farm land must produce primary agricultural products for sale such as a crop or livestock.

A.2 Assessment of Agricultural Property

Except for farmland, most classes of real property are assessed based on a current market value approach. Farmland assessment values are based on productivity values developed in the 1950s to 1970s period. As a result, farmland assessment values have not changed over the last 20 years. Assessment can average around $200/acre, with these assessed values estimated to be between 10 and 15% of the actual market value.

Farmland assessments are based on agricultural capability (Canada Land Inventory Classification 1-7) and land use (cultivated, irrigated, pasture, unimproved, rangeland). There are also some special rates developed that are commodity specific (cattle ranch, aquaculture, orchard/vineyard, grains/oilseeds). The assessment values were originally developed back in the 1950-1970s using a combination of capitalized net return to land (commodity specific) and capitalized net rents (non-commodity specific).

Farm buildings are assessed based on market value, with the first $50,000 in value exempt from taxation. In rural areas, the farm residence and farm buildings are exempt from some local taxes, but not school taxes. Farm residences are taxed as residential property in municipalities. For the school tax, the assessment value on farmland is reduced by 50%.

A.3 Property Tax Rates

In British Columbia, local governments can establish their own tax rates. The exception is that the school tax rate is established by the provincial government for most property classes. Since farm property assessments are below market value and farm building are partially exempt (first $50,000), a number of municipalities have increased farm tax rates above residential rates to offset some of the revenue loss.

A sample of 1998 tax (mill) rates by class of properties for a number of municipalities is illustrated below in Table A.1. The school tax rate is 0.68% (mill rate of 6.8) for farm property, 0.41 to 0.45% for residential property, and 0.99% for light industry and business in each municipality.

The tax rate data in Table A.1 shows that the tax rate on the farm sector (farm land) is higher than the residential sector. However, this masks the benefit provided to the farm sector through lower assessment values on farm land, the exemption of farm houses and buildings in the rural areas from rural area taxation, and the first $50,000 exemption in school taxation for farm residences and buildings. Farm buildings are taxed at the residential rate since they are classified in that property class.

Table A.1: Tax Rates by Class of Property, Selected Municipalities, 1998

Property	Summerland	Penticton	Abbotsford	Kamloops Rural	Chilliwack Rural	Osoyoos Rural
Residential	1.01%	1.31%	0.92%	0.79%	0.92%	0.93%
Utilities	3.97%	3.59%	5.89%			
Forestry (unmanaged)	3.21%	2.33%	4.32%			
Major Industry	3.03%	2.39%	3.34%			
Light Industry	2.17%	2.10%	2.43%			
Business/Other	2.09%	2.10%	2.21%			
Managed Forests	1.75%	1.68%	2.95%			
Recreation	1.39%	1.13%	1.07%			
Farm	1.63%	1.37%	1.60%	0.96%	1.07%	1.05%

Source: Information provided by various municipal tax offices, and includes the school tax rate.

A.4 Government Responsibilities

British Columbia Assessment is responsible for classifying property, and providing property assessment values. The municipalities in incorporated municipal areas collect property tax, and the Surveyor of Taxes, a division of the Ministry of Finance and Corporate Relations collects the property taxes in the rural areas. The provincial government establishes the school tax rate, with the municipalities free to establish tax rates based on the assessed values provided by British Columbia Assessment.

A.5 Administration of the Farm Classification in British Columbia

Eligibility for farm classification is based on the following:

1. The property is classified as a farm by British Columbia Assessment, and
2. The farm business generates over $2,500 of gross income if the land area is between 2 acres and 10 acres, and the gross income minimum increase by 5% of the land value for areas over 10 acres. For farms under 2 acres, the gross income minimum is $10,000.

A.6 Tax Treatment of Farmland and Farm Buildings

Farm land and farm buildings are treated differently. Farm land is assessed at an historic productivity rate, while farm buildings are assessed based on market value (replacement costs with a depreciation allowance). Greenhouses are assessed based on this approach for the building, with the land under the green houses assessed as farm land.

Farm buildings are exempt from the first $50,000 in assessed value on each farm in municipalities. In rural areas, farm buildings are exempt from local tax, but not the school tax. This feature also applies to farm residences in the unincorporated rural areas. Farm buildings are classified in the residential property class.

A.7 Comparison to Other Property Classes

Taxation of forests is similar to the taxation of farmland. The forest is assessed based on its productive value as a forest. To be classified as a forest, the land's highest and best use has to be in forestry. This applies to both managed and unmanaged forests. A managed forest is placed in the Forest Land Reserve, and the owner agrees to follow certain management practices. Managed forests are assessed based on its use as a forest, and not its value in other uses. Managed forests receive a preferential tax rate; for example the school tax rate is 50% of the unmanaged forest's tax rate. In most municipalities the managed tax rate (total) is 50 to 75% of the unmanaged forest tax rate.

A.8 Services Paid for in the Farm Property Tax Rate

Since the full local tax rate applies to farm land, all services are implicitly in the farm tax. However, the tax burden is reduced due to the lower assessment values on farm land.

A.9 Property Taxes and Average Implied Tax Rates for Various Property Classes

The following table (Table A.2) overviews some of the taxes paid by class of property in British Columbia in 1998. The data is assembled by incorporated municipality and rural area of the province. Municipal tax revenues are for incorporated municipalities, and do not include school tax revenue nor hospital tax revenues. Rural area tax revenues include all taxes on property in the unincorporated rural areas.

Table A.2: Distribution of Selected Property Taxes Across Property Classes, 1997

Class	Municipal Tax Revenues*		Rural Area Tax Revenues*	
	$ million	%	$ million	%
Residential	961.9	55.6	263.8	51.7
Utilities	36.7	2.1	147.9	
Forestry	0.1	0.0	1.0	
Major Industries	36.3	7.9	23.4	
Light Industries	30.7	1.8	21.8	
Business	555.3	32.1	26.1	
Managed Forests	0.3	0.1	12.6	
Recreation	3.8	0.2	1.3	
Farm	4.3	0.3	3.5	
Total	**1,719.3**	**100.0**	**510.1**	**100.0**

* Municipal taxes do not include school taxes, regional district and hospital taxes.
Source: Data provided by Municipal Affairs and Surveyor of Taxes (Ministry of Finance).

For all of British Columbia, data compiled by Statistics Canada indicate that $3.6 billion is raised as property tax. This includes:

- $2.3 billion in municipal (local) property taxes, and
- $1.3 billion in provincial property taxes, which includes school taxes.

The data in Table A.2 underestimates the farm sector tax burden in a number of ways:

- in municipal areas by the school tax and other local taxes, and
- the tax proceeds from farm buildings are captured in the residential class.

For many municipalities, the total tax burden for farm land is double the municipal tax. This suggests that the farm sector paid just over $8 million in municipalities and $3.5 in rural areas — for a total of $11.5 million on farm land. This is before the property taxes paid by farm buildings are considered (since they are included in the residential property class).

A.10 Agricultural Property Taxes

Statistics Canada calculates based on tax-filer data that $15.5 million in property tax is paid by the farm sector. (Table A.3)

The data in Table A.3 suggests that farm property taxes are 9.5% of net farm income and 0.9% of gross farm income in 1997 in British Columbia. If the estimated $96 million in concessions to British Columbia farmers were eliminated, then the tax bill would increase from $15.5 million to $111 million, and net farm income would be reduced to $67 million from the current $163 million. Property taxes would then be 6.3% of gross sales by the farm sector.

Table A.3: British Columbia Farm Property Tax Data, 1986 to 1997

Year	Value of Land and Buildings	Gross Farm Income	Gross Farm Property Taxes	Taxes as Percent of Assets	Taxes as Percent of Sales	Capital Turnover Ratio
		$'000				
1986	5,263,842	1,104,841	11,025			
1987	4,955,420	1,119,601	11,007			
1988	5,186,337	1,204,466	12,448			
1989	5,703,546	1,253,867	12,825			
1990	6,411,720	1,297,108	12,010			
1991	7,037,507	1,324,891	12,608			
1992	7,241,595	1,397,280	14,124			
1993	8,045,412	1,431,996	14,553			
1994	9,010,861	1,520,860	14,372			
1995	9,884,915	1,564,421	14,588	0.15%	0.93%	6.3 years
1996	10,774,557	1,672,931	15,171	0.14%	0.91%	6.4 years
1997	11,927,435	1,764,800	15,475	0.13%	0.88%	6.8 years

Source: Statistics Canada, Catalogue no. 21-603, *Agriculture Economic Statistics.*

A.11 Value of Agricultural Property Tax Concessions

The value of concessions in British Columbia to the farm sector is the sum of:

- Lower assessment on farmland,
- Exemption of farm buildings from the school tax, and
- Exemption of first $50,000 in farm buildings in municipalities.

The value of the lower assessment on land values can be calculated using the ratio of assessment value to current market value (in agricultural use), which is estimated to be around 15 percent. The value of land and buildings is estimated to be $12 billion by Statistics Canada. With land valued at $10 billion and with a tax rate of 1% (on the higher values), the property tax on land would be $100 million. In contrast, the current tax collected is around $15 million — for an implied concession of $85 million.

Farm buildings are assessed at $1.9 billion by British Columbia Assessment, with the current net building assessment (with the $50,000 exemption) estimated by British Columbia Assessment to be $1.5 billion. School taxes at 0.68% generate $13 million in tax, compared to $10 million with the $50,000 exemption, leaving an implied $3 million concession.

In the rural areas, with farm buildings exempt from local tax, only $265 million in assessment values of buildings in the municipal areas (after the $50,00 exemption) are subject to the local tax. A local tax rate of 0.5% would produce $9.5 million on the current market value of $1.9 billion. The current tax yield on the $265 million generates $1.3 million in local taxes. The value of this concession is estimated to be $8 million.

These three separate concessions suggest a value of $96 million in tax savings to the British Columbia farm sector, before considering the savings to farm residences.

Appendix B: Taxation of Agricultural Property in Alberta

B.1 Government Legislation

On January 1, 1995 the new *Municipal Government Act* came into force, giving municipalities greater flexibility and more authority to make decisions at the local level. The Act reflects the province's commitment to deregulation and streamlining processes. This has resulted in a lengthy procedure to review assessment provisions and ensure their fair and equitable application. A key feature is the initiation of a review to gather input from stakeholders on rates and regulations applied to industrial and farm assessment.

B.2 Responsibility for Assessment

Each municipality is responsible for the provision and maintenance of their own property assessment function and role. All assessments are based on the value on July of the year prior to taxation and their physical condition and state as of December 31 in the year prior to taxation. Assessments are done on a yearly basis using the provincial guidelines. The Alberta Farm Land Assessment Minister's Guidelines are used for farm properties and are established and maintained by the Department of Municipal Affairs.

Under Section 297 of the Municipal Government Act after an assessment of property is prepared, the assessor must assign the property to one or more of the following assessment classes — residential, non-residential, farmland, and machinery and equipment. A council may by bylaw divide the residential class into as many sub-classes as it considers appropriate. Farm property cannot be assessed different tax rates for different types of farm property. Non-residential may also be sub-divided into vacant non-residential and improved non-residential. Machinery and equipment does not include utilities (linear property) or manufacturing or processing facilities used for the co-generation of power. Non-residential includes linear property, power generation and property on which industry, commerce or another use. Section 354 allows the mill rates to vary across all classes of property.

All land, other than farmland, is assessed on the basis of market value. Assessment is based on 100% of the market value except for manufacturing machinery and equipment that is assessed at 77%. Manufacturing machinery and equipment and forest management leases are not subject to education tax levies.

B.3 Basis for Farm Assessment

To qualify as farmland, the land must be used in the raising, production and sale of agricultural products. There is no minimum level of income requirement for the property to be considered a farming operation. Farmlands are assessed at their productive value rather than market value. Present values range from 10% to 40% of market value. Productive values have not been updated since 1992. To qualify as farmland, the land must be used for farming operations. Similarly, buildings must be used for farming operations to qualify for exemption from taxation. The exemption for farm buildings is 100% for those located in rural municipalities and 50% of the market value assessment for those located in urban municipalities.

There are three classes of farmland:

1. Irrigated arable — all land with water rights were the highest and best use could be derived under irrigation.

2. Dryland arable — all land were the highest and best use is production of annual field crops.

3. Pasture — all land were the highest and best agricultural use is either native or improved forages for use as pasture.

These classes have not changed since 1986.

The actual calculation of the productivity of the farmland is a complex process. All land, other than farmland, is assessed on the basis of its market value. Farmland is valued based upon its productive value.

Alberta is divided into 16 agro-climatic areas and a pre-calculated rating schedule is provided for each identified area. The pre-calculated rates reflect the economic effect that each physical or landscape feature of a parcel of land may have upon the net income of that parcel as compared to the balance of the province. The agro-climatic areas determine what rotations are the best and highest return for pasture, dry land and irrigated land. These form the base rates to which other farmland is compared.

Rental rates and resulting values form the base rate. The base rate values for each category of farmland is determined by a rather simple formula known as the income approach. The net rental income is divided by the capitalization rate that is realized by owners of farmland to determine the Agricultural Use Value. Agricultural land rentals are established by one of three methods: crop share, fixed cash amount or a commodity equivalent. The rental value realized by the three methods is comparable so the net crop share basis is used for the base rate establishment. A crop weighting has been established that reflects the highest and best returns for each of the three land use categories. All areas of the province were reviewed to determine the area within each land use category that produced the highest net income. The crop rotation weightings were determined by interviewing agricultural professionals and confirmed by Alberta Hail and Crop data.

Dryland arable assumes an income stream mainly of wheat, barley, canola and hay. The soil group type is used as the basis for the rating, with adjustments for conditions deemed to be detrimental to the income stream. Irrigation Arable assumes an income stream from the four basic crops plus a wide range of economic crop options that are not usually grown on dryland. Pasture land assumes an income stream from the livestock that can utilize the forage produced (animal units per acre). By using a three-year rolling average of agricultural use value in each category, the tax base has some stability yet reflects the economic environment the taxpayer is experiencing.

Alberta has many geological and climatic characteristics that limit Alberta farmland from achieving the quantum of agricultural use value that forms the base rates. A ranking system was developed to recognize most limiting factors in comparison to those established for the base rate. The ranking system is the site specific comparison of a subject parcel with the base rate or area. The ranking system allows for pre-calculated adjustments, recognizing features that affect both production limitations and physical attributes that cause higher than optimum production costs.

A comparative measure of the product capability is provided by the net productivity rating. Climatic and physical features for items that reflect the volume and quality of production are recognized using a pre-calculated adjustment schedule that compares the parcel being assessed to those in the base area. A second section of the ranking measures the loss in value that occurs because physical features or configuration causes the farm operator to experience higher than optimum operation costs. Reduction for cost items is known as the increased cost of production factor.

The net productivity rating less the increased cost of production provides an index number that is then multiplied by the base rate for the category to form a value relative to the base value.

Ranking system elements are made up of factors of the net productivity rating and factors of the increased cost rating. The net productivity rating factors are:

0 Soil group master rating,

0 Soil group variation,

0 Subsoil texture variation, and

0 Miscellaneous production factors (chemical, micro climatic and flood factors).

The factors of the increased cost rating are:

0 Topography,

0 Stones, and

0 Miscellaneous cost factors (shape, obstacles and size).

B.4 Farm Residences

The site of a residence on farmland is assessed on the basis of the market value of three acres, or a larger area in actual use, as if the site were a separate parcel. This regulated valuation applies whether the property is located in an urban or rural municipality. Rural residences are exempt to the extent of the farmland owned to a maximum of $61,540. The exemption applies to the first house on a property. Each additional house is eligible for an exemption based on the land that remains after the exemption is made to the first residence to a maximum of $30,770 for each additional residence. Only land owned by the owner of the parcel, or leased from the Crown or a municipality, qualifies to be included in the owner's unit. Land that is leased by the owner from private individuals does not qualify. A farmer cannot use land that he owns as the basis for exemption of his residence if his residence is situated on land that he does not own. The following example illustrates the impact of land rental:

Farmer #1	Farmer #2
owns 4 quarters	owns 1 quarter; rents 3
house valued $100,000	house valued $100,000
assessment $16,000/quarter	assessment $16,000/quarter
receives exemption $61,540	receives exemption $16,000
house assessed $38,460	house assessed $84,000
Tax = $578	Tax = $1,260

Farm buildings in rural municipalities also are exempt from assessment and subsequent taxation. The exempt portion of properties is not taxed. Utilities servicing farms are also exempt.

B.5 Equalized Assessment

Complete reassessments within each municipality are prepared every year. Assessment equalization provides a means of comparing wealth among areas of the province that cost share and is based on the municipality's actual assessment. Farmland value is updated using indices related to the economic value of the land used for purely agricultural purposes.

Residential, commercial and industrial land values are updated using assessment/market value ratios that are determined annually by each municipality's assessor. The Assessment Inspection Services Branch of Alberta Municipal Affairs monitors and audits the values.

Assessment values for 1998 are shown in Table B.1 for the province.

Table B.1: Property Assessment Values, 1998

Property Class	Assessment
	$ million
Residential and Farmland	102,463
Non-residential	31,853
Machinery and Equipment	14,907
Linear	23,381
Total	**172,583**

Source: Alberta Municipal Affairs.

B.6 Tax Rates

Tax rates for a few municipalities are provided in the following Table B.2.

Table B.2: Tax Rates by Class of Property, Selected Municipalities

Property	Wainwright	Lethbridge County	Edgerton	Irma	Chauvin
Residential	1.314%	1.439%	1.005%	1.101%	1.009%
Farmland	1.449%	1.486%	1.423%	1.519%	1.427%
Non-residential	1.835%	1.506%	1.809%	1.909%	1.813%

Source: Information provided by various municipal tax offices, and includes the education tax rate.

B.7 Educational Taxes

A basic level of education is provided through the Provincial School Foundation Program administered by Alberta Education. Although the major portion of education funding is borne by the province, each municipality contributes by applying an annually established provincial mill rate to the municipal equalized assessment.

The province sets the education mill rate at 6.95 mills for farmland, residential and recreational properties. Other properties (industrial, commercial, privately held timberland or facilities and linear properties and oil fields) are levied at a rate of 10.20 mills. Processing machinery and equipment is not levied an education tax.

Similarly, hospital costs are covered by the province under the Alberta Hospital Plan. Hospital boards can however requisition the municipalities to fund capital expenditures through property taxation. This is an unusual occurrence and, if it is used, it tends to be less than one mill.

B.8 Local Programs and Services

Table B.3 indicates what local services are paid for within the local mill rate and those services that are consumed by farmland and/or farm buildings. Programs and services delivered by the provinces through the municipalities include policing that is 70% funded by the province and 30% by the municipality.

Table B.3: Local Services Paid for within the Local Mill Rate

Service	Local Mill Rate		Used by Farmland		Used by Farm Buildings	
	yes	no	yes	no	yes	no
Education	X		X			X
Roads	X		X		X	X
Policing		X		X	X	
Social Programs	5%	95%	5%	95%		X
Health Care	5%	95%	5%	95%		X
Garbage Collection	X + User Fees		X + User Fees		User Fees	
Debt Servicing	X		X		X	

Table B.4 indicates the shares and amounts of funding of services in 1997/98.

Table B.4: Funding of Services, 1997/98

Service	Provincial Share	Municipal Share	Provincial Contribution	Municipal Contribution
Education	61%	39%	$1,930,000,000	$1,258,000,000
Roads	NA	NA		
Policing	70%	30%	81,000,000	116,000,000
Social Programs	>99%	<1%		
Health Care	100%	0%		
Garbage Collection	0%	100%		
Debt Servicing	0%	100%		

Source: Alberta

B.9 Value of Concessions and Tax Paid by the Farm Sector

The farm sector in Alberta pays just over $100 million in property taxes (mostly land based). As shown in Table B.5, these taxes represent 0.36% to 0.46% of the value of farm land and buildings. (This ratio can not be directly compared to most other provinces since farm residences are excluded from property tax in Alberta, and some of the tax yield should be attributed to the farm residence).

Table B.5: Alberta Farm Property Tax Data, 1986 to 1997

Year	Value of Land and Buildings	Gross Farm Income	Gross Farm Property Taxes	Taxes as Percent of Assets	Taxes as Percent of Sales	Capital Turnover Ratio
		$'000				
1986	20,773,520	3,767,058	68,774			
1987	19,744,120	4,029,466	68,965			
1988	19,159,142	4,457,463	71,811			
1989	21,091,994	4,590,873	76,441			
1990	22,169,169	4,281,274	84,478			
1991	21,291,475	4,227,751	90,756			
1992	20,312,067	4,922,670	94,091			
1993	20,169,883	4,997,813	95,728			
1994	21,440,586	5,522,549	99,121	0.46%	1.79%	4.1 years
1995	23,927,694	5,894,489	103,001	0.43%	1.75%	4.1 years
1996	26,966,511	6,460,227	103,207	0.38%	1.59%	4.2 years
1997	28,692,358	6,369,973	102,175	0.36%	1.60%	4.5 years

Source: Statistics Canada, Catalogue no. 21-603, *Agriculture Economic Statistics.*

Using estimates of the market value of farmland (in comparison with the assessed value of farmland), the depreciated market value of farm buildings along with the actual assessment of farm residences, Municipal Affairs staff provided an estimate of the value of concessions (assessment and exemption). (For example, the estimated value of farm land assessment is $12.1 billion, which is around 50% of the market value of land, assuming farm buildings are valued at $5 billion.) This is shown in Table B.6, with a corresponding estimate of the foregone tax revenue of $262 million. This $260 million can not be interpreted as an estimate of the government transfer paid to Alberta farmers since the tax rates would be lower if farm buildings and farm residences were in the tax base for farmers.

Table B.6: Estimates of the Value of Agricultural Property Tax Concessions

Item	Concession	Estimated Concession Value	Estimated Foregone Tax*
		$ million	
Farmland	Assessment	12,144	$170.0
Non-residential	Exemption	5,000	$ 70.0
Farm Residences	Exemption	2,237	$ 22.4
Total			**$262.4**

* Based on a 1% tax rate on residences and a 1.4% tax rate for farm land.

B.10 Future Issues and Concerns

The present system uses a comprehensive set of rating schedules based on typical cropping and management practices, costs of production, crop yields and crop prices from the 1971/72 crop year to the 1981/82 crop year. Although the base values for farmland assessment are set on a capitalized cash/crop share rental basis, the rating systems have not been updated since the mid-1980s. The present rating schedules do not allow for adjustments in the assessment to account for changes in farming practices and income levels from one region to another.

Crop prices are based on the average price received by producers in Alberta as recorded in the Canada Grains Council Handbook. With the elimination of the Crow Benefit, there have been dramatic shifts in income levels between locations in the province. Secondary by-products, such as the value of straw, are also not considered in determining the productivity of the land. These price relationships are not being adequately reflected in the assessed land values.

Shifts in cropping rotations in the last ten years have also occurred. However, these changes to cropping rotations have had less of a dramatic effect on property values. As the assessment process considers net income, it is important to review and update the cost of production to reflect new technologies. Municipal Affairs would prefer to undertake a comprehensive review of farming practices to update its costing formulas. A comprehensive study would cost approximately $6 million.

Farm buildings are exempted entirely from assessment and subsequent taxation when located in a rural municipality. Given that growth in the value-added sector in recent years, rural municipalities have seen increasing demand for services such as road maintenance with no growth in the tax base. In some instances, the intensive operations have reduced the tax base as land is taken out of production for construction of these facilities. In effect, the added infrastructure costs resulting from value-added production have been borne by all the other taxpayers of the municipality through the property assessment and taxation system. Examples of the disparity between intensive versus extensive farming operations can be illustrated as follows:

Grain/Oilseed Operation	**Confined Livestock Operation**
$900,000 land	$100,000 land
$100,000 buildings	$900,000 buildings
Taxes = $6,300	Taxes = $700

Municipalities have the right to apply a business tax on farming operations to offset the additional costs that are created by the presence of the business. These fees can be based upon the assessed value of the property, gross rentals, capacity of tanks (e.g. bulk oil tanks) or square footage. To date, Lethbridge is the only municipality charging a business tax on intensive livestock operations. Their fee is based on square footage. Some municipalities are charging development fees. The result is that inconsistent treatment of intensive operations between municipalities.

The changes in farming practices and income levels, plus the issue of non-taxation of intensive livestock operations suggests that Alberta will undertake a comprehensive re-examination of its assessment practices in the near future.

Appendix C: Taxation of Agricultural Property in Saskatchewan

The agriculture sector in Saskatchewan paid over $200 million in farm property taxes in 1997, and has the most farmland of any province. This amount is close to 1% of the value of farm land and buildings. Farmland is only subject to property tax, with farm buildings and residences exempt from local government and education taxes.

C.1 Assessment Legislation

The provincial legislation that governs taxation of farm properties in Saskatchewan is the Rural Municipality Act (RMA), 1989.

Saskatchewan uses the concept of "fair value" at the present use of the land to assess properties. "Fair value" considers productivity of the land, land sale prices and the replacement cost of structures taking into account their condition. It does not use highest or best use of the land and therefore more closely is related to the individual's ability to pay. No overall reassessments were done between 1965 and 1994.

In 1994, the province placed more emphasis on market value. Revised statutes removed the principle of the primary source of income being the farming operation. Between 1978 and 1989, a residential tax exemption applied to farmers who earned 50% or more of their income from farming if the house was located on a parcel of three acres or more. With farmers using off-farm work to supplement their farm incomes during poor price periods, the administration of this exemption grew more difficult to apply in a fair manner. New legislation in 1989 expanded the exemption to apply to all dwellings in a rural municipality, outside of organized hamlets. Rather than farm income, the exemption was based on the assessed value of an owner's land. This exemption therefore benefits both farmers and country/seasonal residential property owners.

C.2 Responsibility for Assessment

The Saskatchewan Assessment Management Agency (SAMA) is responsible for ensuring consistency in assessment measures between rural and urban areas in Saskatchewan. The Agency has representation from Saskatchewan Urban Municipalities Association (SUMA), Saskatchewan Association of Rural Municipalities (SARM), the Saskatchewan School Trustees Association (SSTA), the Saskatchewan Assessors' Association (SAA), and the provincial government. The legislation the Agency operates under is the Assessment Management Agency Act.

C.3 Basis for Assessment

The "fair value" assessment completed in 1997 used data from June 30, 1994. The re-evaluation of the assessment is conducted every four years with the next assessment occurring in 2001, using 1998 data.

The 1997 Assessment Valuation System is a true depreciated replacement cost system. The assessment reflects the "fair value" of the property using sales to assess land and the depreciated replacement cost (with market adjustments) to assess buildings. Implementation of this system resulted in a number of changes to assessment procedures for non-agricultural land. Analysis of sales values along with the cost approach (replacement less depreciation) are used.

In the 1997 assessment for agricultural land, the crop and soil information was updated for agricultural land and more up-to-date sales values were used in the assessment of the land. The productivity multiple was retained but allowed to vary to reflect differing land value relationships to productivity throughout the province.

To determine productivity under the "fair value" assessment, productivity is established using soil survey data and supplementing it where possible with information from Saskatchewan Crop Insurance. Yield data has been updated to reflect the yields that can be expected using current technology. The soil with the highest yield is given the highest index and all other soils are compared to the best. Refinements to the productivity adjustments for climate, organic matter, texture, profile, maximum depth and physical factors have improved the relationship of the index to recent yield data. Economic adjustments consider factors such as stones, topography, man-made hazards, natural hazards and tree cover. The use of a productivity multiple allows for adjustments on a regional basis to bring the value of the property closer to the actual market value. This economic adjustment (i.e., provincial market index and local market index) is accomplished by comparing sales data on similar properties. Agricultural assessments for arable land use the long-term wheat yield data to provide a measure of productivity. For pasture land, potential carrying capacity for cattle in animal units per acre are used. Hay land uses long-term hay yields as provided by Saskatchewan Crop Insurance Corporation.

C.4 Assessment Classes

For assessment purposes, SAMA has different assessment classes. They are:

0 Agricultural,

0 Residential,

0 Commercial,

0 Industrial,

0 Transportation, communication and utility,

0 Recreational and cultural,

0 Institutional, and

0 Undeveloped land and water areas.

For taxation purposes, under the Rural Municipality Assessment and Taxation Regulations, the following classes and assessed percentages of “fair value” are used:

0 Non-arable (range) and improvements	50%
0 Other agricultural land and improvements	70%
0 Residential (single homes)	75%
0 Multiunit residential (condos, apartments, etc.)	85%
0 Seasonal residential	70%
0 Commercial and industrial	100%
0 Elevators (except condo storage)	60%
0 Railway rights of way and pipelines	70%.

Under regulations prior to 1997, all agricultural land was assessed at 60% and all other land were assessed at 100% of the assessed values. The changes have therefore recognized the productivity of rangeland versus cropland. Intensive livestock operation buildings are exempt. Greenhouses are also considered agricultural buildings and exempt in rural municipalities. Grain condominiums that are either leased to a farmer or sold to a farmer are also exempt. Mining and oil/gas equipment are assessed based on their replacement cost less depreciation. Other classes of property that receive statutory exemptions are Crown properties, educational institutions, parks, religious and charitable groups, community halls owned by cooperatives, agricultural societies and health institutions. Airports or landing fields owned by the municipality and land and improvements used in connection with them are also exempt from taxation. Private airports are taxed.

C.5 Property Taxes

Farmland is taxed for both property and education taxes but farm dwellings and buildings are exempt from property and education taxes when the land assessment covers the residence. These exemptions ensure that the agriculture industry is not assessed too high a tax burden. There is a provision that allows for the exemption of a residence (outside an organized hamlet) for an amount equal to the value of the land owned in the rural municipality or an adjacent municipality. The land that may be used for this deduction includes land used for agricultural, residential or industrial purposes. For example, if the house is worth $100,000 and the value of the land is $75,000, then the homeowner would pay tax on $25,000 at a rate of 75%. Revisions to Section 331 of the RMA in the spring of 1996 ensure that lessees and owners cannot both deduct from their residential assessment on the same land holdings. This exemption also applies to vacant rural dwellings (residences).

Under Section 331 of the Act, improvements for intensive agricultural operations were fully exempted on the same basis as other farming operations. Court challenges have also resulted in horse riding and boarding stables to also be exempt. Because of these exemptions, some municipalities have negotiated road maintenance agreements with intensive livestock operations to offset some of the costs of the services that they receive.

Individual municipalities set their mill rates based on actual assessed tax values and anticipated revenues required. Property tax rates for a few municipalities are listed in Table C.1. The average tax rate for farm land in the rural areas is calculated to be 2.4%.

Table C.1: Tax Rates in Selected Municipalities

Tax Rates	Battleford	Estevan	Biggar	Humbolt
Municipal Tax	1.5%	0.7%	0.9%	1.7%
School Tax	1.7%	1.6%	1.5%	1.9%
Total	**3.2%**	**2.3%**	**2.4%**	**3.6%**

Education taxes are to either public or Catholic schools. The homeowner designates the system to be supported. This situation can result in slight variations in actual dollar support to public and Catholic schools each tax year as shifts in support occur. The province provides school divisions with Foundation Operating Grants to equalize based on the number of students, the assessment level and other factors. As the taxable assessment level increases, provincial support declines. At a constant mill rate, any additional taxable assessment may be offset by a reduction in grant funding. The residential exemption leads to shifts in taxable assessment and actual school taxes paid among municipalities within a school division and within a municipality between residential properties within organized hamlets and those in the rest of the municipality. Any legislative change on rural dwelling (residential) tax exemption could shift taxes to municipalities with large amounts of country and seasonal residential properties.

C.6 Government Responsibilities

Table C.2 identifies the local programs and services delivered by the province and municipalities.

Table C.2: Local Programs and Services

Service	Provincial	Municipal	Comments
Education			School division and grant from province
Roads		X	
Social Programs	X		
Health Care			Health districts funded by province
Garbage Collection		X	
Policing		X	Villages and towns of over 500 people pay for the RCMP with some provincial assistance. RCMP contract with municipality.
Debt Servicing		X	

In 1997/98, the province contributed 40% or $380 million to education while the municipalities contributed 60% or $565 million.

Municipal contributions to road expenses are shown below (with the provincial contribution to rural road funding is 24%):

Road construction expenditures	$ 32,332,453
Road maintenance expenditures	$ 70,912,644
Total road costs	**$103,245,097**
Less provincial grants	$ 24,945,483[4]
Municipal contribution	$ 78,299,614

C.7 Agricultural Property Tax Data

A municipality can set different tax rates across the property classes. Table C.3 indicates the assessed values and taxes collected for each class of property. Because of the exemption for farm dwellings and the fact that they have not been physically assessed, it is not known what the values of these properties are. Rural residential tax exemptions under Section 331(1)(q) are known for only 19 municipalities. SAMA does not have the data on the remaining municipalities since either the exemptions have not been confirmed or the residences have not been assessed. SAMA began assessing rural improvements, including residences in 1995 as part of its regular re-inspection program. However, only about 10 to 12 municipalities were completed by 1998.

Data collected by Statistics Canada on property taxes collected is shown in Table C.4. This data is not consistent with the property tax data shown for 1997 in Table C.3. This is due to the fact that Statistics Canada makes a deduction to eliminate the personal share of the taxes paid on a farm. Thus, Statistics Canada figures are consistently lower.

The data in Table C.3 indicates that in Saskatchewan, property taxes paid by the agricultural sector are $200 million, which implies an effective tax rate of 0.9 to 1.02% of the value of farm land and buildings. The only caveat is that the property tax on the farm residence is implicitly within the land tax since, farm houses are generally exempt, (they are generally not exempt in most other provinces).

4. Includes all provincial grants. However, not all grants were used for rural roads.

Table C.3: Assessment Values, Mill Rates and Taxes Collected for each Class of Land, 1997 (excludes cities, towns and villages)

	Agriculture	Residential	Seasonal Residential	Commercial Industrial	Business	Potash	Total Assessment
Taxable Assessment	8,800,963,310	711,571,841	191,498,598	3,523,318,170	158,620,304	657,615,500	13,385,972,223
Municipal Tax Levy	85,479,972	6,921,254	1,774,907	32,920,152	1,202,231	5,552,398	128,298,516
Average Mill Rate by Property Class	9.7126	9.7651	10.4314	9.3457	7.5793	8.4432	9.6025
School Tax Levy	128,644,452	12,371,319	3,496,316	62,585,528	2,658,663	11,205,217	220,961,495
Average Mill Rate by Property Class	14.6171	17.3859	18.2577	17.7632	16.7612	17.0392	15.7340
Total Tax Levy	214,124,423	19,292,573	5,271,223	95,505,680	3,860,894	16,757,615	349,260,011
Average Mill Rate by Property Class	24.3297	27.1510	28.6890	27.1090	24.3405	25.4824	25.3364

Note: The mill rates and tax levies were obtained from the 1997 Mill Rate returns completed by the municipalities.

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Table C.4: Saskatchewan Farm Property Tax Data, 1986 to 1997

Year	Value of Land and Buildings	Gross Farm Income	Gross Farm Property Taxes	Taxes as Percent of Assets	Taxes as Percent of Sales	Capital Turnover Ratio
		$'000				
1986	21,830,015		125,691			
1987	19,649,200		137,526			
1988	18,853,232		138,036			
1989	18,882,095		141,447			
1990	18,806,567		151,114			
1991	17,588,836		156,452			
1992	16,744,572		159,863			
1993	16,476,659	4,548,096	168,652	1.02%		
1994	17,481,735	5,045,633	174,547	1.00%		
1995	19,125,018	5,373,686	177,691	0.93%	3.31%	3.6 years
1996	21,037,620	5,445,185	188,352	0.89%	3.45%	3.9 years
1997	22,341,846	5,902,498	201,537	0.90%	3.41%	3.8 years

Source: Statistics Canada, Catalogue no. 21-603, *Agriculture Economic Statistics.*

In summary, the province of Saskatchewan holds the view that there are no concessions provided to the agriculture sector. If farm buildings and residential property were included in the tax base, this would simply change the mill rate assessed on farmland and generate the same net revenue.

Appendix D: Taxation of Agricultural Property in Manitoba

D.1 Introduction

Farmers pay property taxes on only 30% of the market value of their farmland and buildings but 45% on the principal residence (plus one acre of land). The farmland is not assessed the educational support levy (ESL). The ESL is assessed however on the residence plus one acre of land. All the property (farmland, buildings and residence) is assessed the school board education tax. Because the farmland and buildings are assessed at only 30% of market value, the mill rate for the local school board tends to be higher as there is less total market value on which to collect the required revenue. This amounts to a lower contribution than if they were assessed at the 45% level. Exemption from the ESL is the second benefit received by farmland

D.2 Assessment Legislation

The provincial legislation that governs taxation of farm properties in Manitoba is the Municipal Assessment Act. Using regulations under this Act, the Province has defined nine property classes.

These nine classes are:

1. Farm,
2. Residential 1 (homes),
3. Residential 2 (apartments),
4. Residential 3 (condominiums and co-operatives),
5. Institutional,
6. Pipeline,
7. Railway,
8. Golf course, and
9. Other (commercial).

Farm property consists of land and buildings used solely for farming purposes. Institutions include nursing or personal care homes, psychiatric facilities, correctional institutions, schools (with a maximum of ten acres) and similar structures. Community halls, museums, agricultural and horticultural societies and YMCA/YWCAs pay no education tax. Schools are exempt but pay local improvement levy. The University of Manitoba and all lands owned, rented and used by it are tax exempt. Railway property represents land on which tracks are located and includes a strip of land 100 feet wide. The value of this railway property is determined to be the average value of all lands in the municipality through which it passes. Other railway property is deemed commercial and falls within the "other" classification.

D.3 Responsibility for Assessment

Manitoba has two assessment jurisdictions, the Province and the City of Winnipeg. The City of Winnipeg has its own assessors. However, the provincial municipal assessor at the Assessment Branch of Rural Development, in addition to assessing properties outside the City of Winnipeg, has the responsibility for ensuring procedural uniformity and consistency in assessment practices between the rural municipalities and the City of Winnipeg. The province maintains and uses an assessment manual to guide procedures.

D.4 Basis for the Assessment

Prior to 1990, assessments in the province were cost based. Farm and residential property were in the same class with farm buildings exempt from property tax. In 1990, new assessment legislation created classification and portioning regulations. Province-wide assessments are undertaken every four years based on the market value of the property. Assessments have therefore been conducted in 1990, 1994 and 1998. Each reassessment pegs the market value of the property as of a reference year. The reference year for the 1994 reassessment was 1991 while for 1998 it was based on 1995 market values. The reassessment in the year 2002 will use 1999 market values.

All property types are assessed at their market value. Several methodologies are employed to measure market value i.e. sales, cost and income. Farm and residential property taxes are based on a sales of comparable properties. Larger commercial units consider rent less operating costs. Large industrial plants are based on replacement costs less depreciation. Equipment associated with gas distribution, oil wells and track spurs are included in property assessments. All methodologies arrive at market value.

The market value of the property is deemed to reflect the level of services provided by the municipality or the city. Assessments are based on the value of the land and buildings. Municipalities through by-laws can tax personal property. Only two municipalities have enacted by-laws to do this. They are Leaf Rapids, a mining community, and Garrison that has quarries.

To determine the market value of residential property and farmland, the assessors consider the description of the property and sales of comparable properties (the direct sales approach). Soil types are mapped to assist in determining the properties within the same soil zone or neighbourhood. Both buildings and land are included. Buildings that are vacant or abandoned but are designed or intended for farming purposes and located on farm property are subject to taxation. Storage facilities are assessed although a tank used in a process is not.

D.5 Assessment of Farm Property

Farmland and farm buildings are taxed as “farm” class and are exempt from the education support levy. Farm buildings are included in the property assessment. Exemptions apply to buildings over 60 years old and permanently abandoned. Criteria for determining eligibility for farmer concessions are that the lands must meet the “commercial crop production” definition. Commercial crop, according to the Municipal Assessment Act, means “agricultural products grown on a commercial basis and includes wheat, oats, barley, rye, corn and other cereal crops and feed crops, flax, canola, sunflower, mustard, millet, grass and other oil seed and seed crops, alfalfa and other forage crops, root crops, vegetables, pulses and fruit.” Farming means “commercial crop production and includes tillage of the soil, livestock production, raising poultry, dairy farming, fur farming, tree farming, bee keeping, fish farming, horticultural production, including flowers and shrubs, and any other activity taken to produce agricultural products on a commercial basis; and does not include the purchase and resale of agricultural products, or the commercial processing of agricultural products”. Based on this definition of farming, a farmer having a value-added processing facility on his property would not be taxed on this equipment so long as it is for his own personal use. Should he sell value-added products or do contract work for other farmers, it would be a commercial enterprise and subject to a commercial property taxes. Co-operatives that allow farmer use of facilities but do not sell products would be deemed non-commercial.

Farm properties in close proximity to large urban centers, provincial parks or other locations where development pressure could inflate the market value may have their properties assessed at their value for farming only upon application by the landowner. These properties assessed at “farm use” values are subject to a tax deferral system where, if the property is taken out of farming, the person who changes the use of the property must pay the difference in the property taxes for the previous five years. For most developers, this penalty is not an issue.

Farm residences plus one acre of land are subject to the provincial educational tax. In 1998, the mill rate for the Educational Support Levy (ESL) was 7.930 mills across the province. Commercial properties pay a higher rate than farms or residences (approximately 18 mills). Farm property (land and buildings as defined under Section 23(2) of the Act) is exempt from the educational support levy. The province provided to municipalities until 1989/90 additional monies to offset the loss of revenue from not taxing farmland and buildings. Manitoba Education has indicated that had farmland and buildings been assessed ESL, the total dollars collected would have been the same. The rate for the other taxpayers would have simply been lower. Had farm property been assessed the mill rate, the revenue foregone according to Manitoba Agriculture would have amounted to between $14.2 million and $15.5 million dollars annually.

In addition, the school division will assess local school taxes. These local school taxes are calculated based on the required revenue divided by the total property values. The farm property pays the local education taxes on 45% of the assessed value of the home and one acre of property plus 30% of the value of the farmland.

D.6 Impact of Changing to a Market Based Approach

Table D.1 indicates the percentages applied to the market value for each classification of property for the years 1990 to 2001 and beyond. One can see that the percentages for homes and apartments have declined while that for golf courses and farms has increased. The percentages for the other classifications have remained static.

When the province shifted to a market based approach in 1990, it kept the dollar contribution from each of the nine classes of properties equal to the dollars collected in 1989. Because the value of farm properties declined in 1990, the percentage contribution rose in order to maintain the total dollar contribution from farm properties.

Table D.1: Property Tax Percentages by Classification, 1990 to 2001 and Beyond

Classification	Percentages by Classification										
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999 & 2000	2001 and Beyond
Residential 1	48.6	48.6	47.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
Residential 2	73.0	73.0	68.0	64.0	64.0	61.0	57.0	57.0	53.0	49.0	45.0
Residential 3	32.7	32.7	33.0	34.0	35.0	37.0	38.0	39.0	41.0	43.0	45.0
Farm	27.1	27.1	27.0	27.0	30.3	30.0	30.0	30.0	30.0	30.0	30.0
Institutional	67.2	67.2	65.0	65.0	65.0	65.0	65.0	65.0	65.5	65.0	65.0
Pipeline	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Railway	24.5	24.5	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Golf Course	7.5	7.5	7.7	7.9	7.9	8.3	8.7	8.7	9.1	9.5	10.0
Other	65.5	65.5	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0

Source: The Municipal Assessment Act, Regulation 184/93, Registered October 23, 1998.

D.7 Tax Rates

Tax rates for a few municipalities in Manitoba are presented in Table D.2. These nominal tax rates are high compared to other provinces. With assessed values at 45% of market values, the effective residential tax rates would be closer to 2% to 2.5% of market value.

Table D.2: Tax Rates in Selected Municipalities

Tax Rates	Elm Creek	St. Andrews	Russell	Shell River
Municipal Tax	2.12%	2.51%	2.51%	1.81%
Provincial Education Tax	0.79%	0.81%	0.81%	0.80%
Local School Tax	1.88%	2.25%	2.06%	1.77%
Total	**4.79%**	**5.57%**	**5.38%**	**4.38%**

Source: Manitoba Rural Development Assessment and information from municipalities.

The farm property is subject to these tax rates (on a 30% assessment value basis), with only the farm land exempt from the provincial education tax rate.

D.8 Government Responsibilities

Table D.3 identifies the local programs and services delivered by the province and municipalities. Urban and rural municipalities with less than 750 residents receive full funding from the Province for policing. However, the Province does adjust the Provincial Tax Sharing grants to municipalities to reflect the fact that those municipalities do not pay for policing. Municipalities with more than 750 residents must contract their policing needs directly with the RCMP and pay for those services. Again, the Province adjusts the grants to provide addition funds to offset this cost to municipalities.

Recently, the province has been designating some roads as municipal rather than provincial responsibility. To offset the added cost of maintaining these roads, the province has provided interim funding to the municipalities. When this interim funding terminates, the municipalities will have to rely on their tax base to meet these additional road costs.

As in Saskatchewan, road upgrading and maintenance may be an important issue for municipalities.

Table D.3: Local Programs and Services

Service	Provincial	Municipal	Comments
Education	X		
Roads	X	X	Some roads within municipality's jurisdiction
Social Programs	X	X	
Health Care	X		
Garbage Collection		X	
Policing		X	Paid to RCMP (confirm)
Debt Servicing		X	

Agricultural Property Tax Data

Table D.4 indicates the assessment values and taxes collected for 1998. Agricultural lands contribute in total $68.1 million or 6.1% of the total of $1,108.4 million of taxes collected. In terms of assessed values, agricultural land was valued at $1.925 billion or 22.4% of the total tax base.

Table D.4: Assessment Values and Taxes Collected for each Class of Land, 1998

Class of Land	Total Assessed Values		Total Taxes Collected	
	$	% of total	$	% of total
Farm	1,925,619,360	(22.4)	68,100,000	(6.1)
Residential	4,474,684,260	(52.0)	652,100,000	(58.8)
Other (Commercial)	1,477,531,200	(17.2)	327,200,000	(29.5)
Golf Courses	3,935,500	(0.05)	400,000	(0.04)
Railway	67,929,030	(0.8)	5,000,000	(0.5)
Pipeline	379,470,750	(4.5)	19,200,000	(1.7)
Institutional	267,877,480	(3.1)	36,400,000	(3.3)
Total	**8,597,047,580**		**1,108,400,000**	

Source: Manitoba Municipal Affairs.

Under the Manitoba Resident Homeowner Tax Assistance Program, all Manitoba residents are eligible for a $250 property tax credit, regardless of whether they own or rent the property. Owners see the $250 credit on their tax bill while renters receive the credit when filing their income tax.

Farm property taxes are estimated at $58 million in the province by Statistics Canada, (Table D.5) with these taxes ranging from 0.65% to 0.7% of the value of real farm property. These taxes are around 2% of gross farm sales.

Table D.5: Manitoba Farm Property Tax Data, 1986 to 1997

Year	Value of Land and Buildings	Gross Farm Income	Gross Farm Property Taxes	Taxes as Percent of Assets	Taxes as Percent of Sales	Capital Turnover Ratio
		$'000				
1986	6,584,281		47,373			
1987	6,222,385		49,604			
1988	5,817,154		51,280			
1989	6,265,891		49,963			
1990	6,863,831		39,811			
1991	6,814,388		40,605			
1992	6,853,938		42,809			
1993	7,005,191	2,382,178	47,090			
1994	7,236,362	2,440,652	51,791			
1995	7,641,598	2,508,386	53,345	0.70%	2.13%	
1996	8,390,475	2,777,698	56,012	0.67%	2.01%	3.0 years
1997	9,011,370	2,975,240	58,252	0.65%	1.96%	3.0 years

Source: Statistics Canada, Catalogue no. 21-603, *Agriculture Economic Statistics.*

Appendix E: Taxation of Agricultural Property in Ontario

The provincial program, which governs taxation of farm properties, is the *Farmland Property Tax Program*. Eligible farm property is taxed at a rate that is 25% of the residential tax rate in each municipality. The farm residence is taxed in the same manner as other residential property.

E.1 Overview of Property Taxation in Ontario

Real property is assessed based on market value for a number of different classes of property. These classes are:

1. Residential/Farm,
2. Multi-residential,
3. Commercial,
4. Industrial,
5. Pipelines,
6. Farmlands, and
7. Managed Forests.

Farmland and buildings are in the farmland property class, whereas the farm residence is in the residential/farm property class. (Before 1998, farmland and buildings were taxed at the same rate as the residential sector, with rebates provided by the province. Since then, farmland and buildings are taxed at a different tax rate).

Each property class can have a different tax rate, and within a property class there can be a number of classification with their own tax rate (e.g., industrial, vacant industrial). The establishment of these tax rates is within the jurisdiction of the municipality. (The exception is the recent change where the province establishes the education tax assessed on real property).

The farm residence is assessed separately from the farmland and buildings, with the farm residence (including up to 1 acre of land) assessed and taxed as other residential property.

E.2 Assessment of Agricultural Property

Agricultural property is assessed based on current market value. Assessors use bona fide farm sales as reference values to get at the actual market value. This also occurs for farm on the urban fringe, such that most of the speculative value is removed from the assessed farm value. Productivity factors and production potential are automatically included in the assessed values of farmland, since assessed values are based on market values, with market values reflecting land productivity.

All classes of land are assessed based on a current market value approach. The assessment base by property class are illustrated in Table E.1. The assessment data is for 1998. Tax yields for 1997 are:

- $9.3 billion for residential and farm,
- $5.7 billion for commercial, industrial and business, for
- $14.9 billion in 1997 property taxes (including school board taxes levied).

Table E.1: Assessment Values by Property Class ($ million)

Class	Descriptor	1998 Assessment
1	Residential/Farm	$503,263
2	Multi-residential	29,172
3	Commercial	87,919
4	Industrial	23,654
5	Pipelines	3,571
6	Farmlands	17,105
7	Managed Forests	277
		$664,961

Source: Ontario Ministry of Municipal Affairs and Housing correspondence.

E.3 Property Tax Rates

In Ontario, the municipality has the authority to impose different tax rates (mill rates) on each class of property. In Ontario, farm land and farm buildings are currently taxed at 25% of the residential rate. This rate relative to the residential rate applies to all municipalities. By implication, two farm properties, in separate municipalities, with the same assessed values can have different tax rates, and tax burden due to the authority of the local government to establish property tax rates (as a revenue source for local services).

A sample of tax (mill) rates by class of properties for a number of municipalities is illustrated below in Table E.2.

Table E.2: Tax Rates by Class of Property, Selected Municipalities

Property	Arthur Township	Town of Orangeville	Delhi Township	Orford Township
Residential	0.85%	1.57%	1.56%	1.28%
Agricultural	0.21%	0.39%	0.39%	0.32%
Managed Forests	0.21%	0.39%	0.39%	0.32%
Commercial Vacant	0.59%	2.14%	2.95%	2.76%
Commercial	3.36%	3.06%	4.21%	3.95%
Industrial	5.23%	5.49%	7.35%	6.12%
Pipelines	3.16%	2.12%	3.70%	3.03%

Source: Information provided by various municipal tax offices, and includes the education tax rate.

E.4 Government Responsibilities

The Ontario Property Assessment Corporation is responsible for providing property assessments for each of the municipalities. (This service was formerly provided by the provincial Ministry of Finance). Each municipality has the authority to establish its property tax rates for each of the property classes. The exception is that the province sets the education tax rate for the residential and multi-residential sectors at 0.46%, and implicitly for farmland at 0.115% (see below). Municipalities can establish the education tax rate for the other classes of property.

The tax rate for agricultural land (25% of the residential rate) is established by the provincial government. The Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) provides information to the municipalities that indicates the properties which are eligible for the farm tax rate.

(Prior to 1998, when the program for agricultural was a rebate program, the provincial government provided the rebate directly to farmers. Farmers paid the same tax rate as the residential sector on assessed property values, and the province then rebated farmers at 75% of the property tax bill applicable to farmland and buildings).

E.5 Administration of the Farmland Property Tax Program

The objective of the Farmland Property Tax Program is to provide fair taxation to farmland (not contained in documents). Class 6 farmland is eligible for the program (at 25 of the residential tax rate), with eligibility consistent with the prior program (Farm Tax Rebate Program).

Eligibility is based on the following:

0 The property is assessed as farmland by the Ontario Property Assessment Corporation,

0 A farm business that generates over $7,000 of gross income must be carried out on the property (or in combination with other properties). The land can be rented out by the owner and still be eligible if the tenant meets the income threshold,

0 The farm business operating on the property must have a valid farm business registration, and

0 The property must be owned by a Canadian citizen, or permanent resident. With partnerships or corporations, more than 50% must be controlled by a Canadian or permanent resident.

Program administration begins with the assessment of land as farmland by the Ontario Property Tax Assessment Corporation. The Corporation provides information on approximately 200,000 properties to OMAFRA, with OMAFRA ascertaining whether the property is eligible for the Farmland Property Tax Program. OMAFRA determines the other three eligibility criteria, with approximately 160,000 properties deemed eligible. This information is then sent electronically to the municipalities for their calculation of taxes due by class of property. The Farmland Property Tax Program started in 1998, which replaced the previous Farm Tax Rebate Program.

The Farm Tax Rebate Program operated prior to 1998 and had the same net effect on farmland, but was administered differently. Under this program, farmers paid the same tax rate as the residential sector (on farm assessed at current market value) with farms then applying to OMAFRA for a rebate (75% of taxes paid). OMAFRA would provide the rebate directly to farmers after determining eligibility. This rebate was OMAFRA's largest program outlay at $109 million in 1997.

E.6 Tax Treatment of Farmland and Farm Buildings

Farmland and farm buildings are taxed at the same rate in Ontario. De facto farm buildings receive the same taxation concession as farmland. Greenhouses are considered farm buildings. The assessment base is the farm buildings, exclusive of equipment in the building.

However, if a farm building is used for commercial purposes (e.g., storage of apple for neighbours, farm sales of produce, or drying of corn for neighbours), then the portion of the building used for commercial purposes is assessed and taxed as commercial property. Included in the commercial assessment (of value) is the value of the equipment in the building (pro-rated).

When a farm building is used to transform an agricultural product (such as apples into apple juice, or slaughtering of animals for meat sales), the portion of the building used for these purposes is assessed as industrial property.

The Farmland Property Tax Program rate does not apply to the portion of the building assessed as commercial or industrial.

E.7 Comparison to Other Property Classes

Ontario has a program that is comparable to the Farmland Property Tax Program, which is the Managed Forest Tax Incentive Program. Managed forests are eligible for having their woodlots assessed in the same way as farmland, and have a tax rate which is 25% of the residential tax rate, if the managed forest is deemed eligible. Eligibility requires that the owner prepare a Managed Forest Plan, which inventories the forest, and outlines how the forest is to be managed relative to some goals over a five-year period. The Plan is then reviewed and approved by a forestry consultant. Once approved by the forestry consultant, the Ontario Woodlot Association or the Ontario Forestry Association indicates which properties are eligible for the Managed Forest Tax Incentive Program.

This is the first year of the program, since in prior years the program was a rebate program from the provincial government. Currently, Ontario has around 9,000 acres in the program, with an expected expansion in eligible acres in subsequent years.

Another program in Ontario is the Ontario Conservation Land Tax Incentive Program. This program provides a property tax exemption to owners of conservation land. These lands are wetlands, areas of significant natural and scientific interest, lands where some endangered species reside, and parts of the Niagara Escarpment. The Ministry of Natural Resources identifies the properties that may be eligible, and eligibility is based on maintaining the property as conservation land. There are constraints on the use off the land, and if not complying with the agreement, the municipality can claim for taxes that would have been paid if not in this classification (for up to the prior 5 years).

E.8 Taxation Principles Used to Tax Agricultural Property

The history of the Farm Tax Rebate Program and the current Farmland Property Tax Program suggests that farm property is taxed based on the ability to pay principle and beneficiary principle. Variations of these principle were used when Ontario moved from a 100% rebate in 1989 to a 75% rebate in 1990.

E.9 Services Paid for in the Farm Property Tax Rate

The farm property tax rate (at 25% of the residential rate) in one way includes all of the services used by the farm property, excluding the residence.

E.10 Municipal Services Consumed by the Farm Sector

The 25% of residential tax rates can imply that farm property (exclusive of the farm residence) does not consume all of the same services as other classes of property. This includes social programs, education services, etc.

E.11 Agricultural Property Taxation Data

Table E.3 provides data on farm property taxes (gross and net), the value of farm property, and net income. The data in Table E.3 suggests that net taxes paid by farmers are 0.23% of asset value.

Table E.3: Ontario Farm Property Tax Data, 1986 to 1997

Year	Value of Land and Buildings	Gross Farm Property Taxes	Property Tax Rebates*	Percent Rebate	Net Farm Property Taxes	Net Taxes as a % of Asset Value
		$'000				
1986	17,972,487	133,613	81,313	60%	52,300	
1987	17,842,015	139,355	115,748	100%	23,607	
1988	20,480,652	146,385	122,399	100%	23,959	
1989	26,064,429	159,324	109,272	75%	50,052	
1990	29,126,692	163,105	110,363	75%	52,742	0.18%
1991	31,022,059	172,348	116,384	75%	55,964	
1992	28,973,007	177,876	116,972	75%	60,904	
1993	27,998,032	176,337	112,323	75%	64,014	0.23%
1994	27,447,848	173,892	110,986	75%	62,906	0.23%
1995	27,713,602	175,631	110,633	75%	64,998	0.23%
1996	30,982,331	177,387	106,457	75%	70,930	0.23%
1997	33,801,723	180,935	108,883	75%	72,052	0.21%
1998				75%**		

* The tax rebate data measures the rebate to farmers, and excludes (by Statistics Canada) the rebate to non-farmers (land rented to farmers) to enhance the accuracy of net income calculations.

** In 1998 the program changed from a rebate program to a differential tax rate program.

Source: Statistics Canada, Catalogue no. 21-603, Agriculture Economic Statistics, and OMAFRA Statistical Services Unit.

The rebate data in Table E.3 are a measurement of the rebate paid to farmers. Excluded from this rebate data is the rebate paid to owners of farm land that are not farmers, but that rent out their land to farmers. Statistics Canada excludes the latter to better measure net income in the farm sector. Table E.4 reports the actual level of rebates paid to all owner of farmland. The data are not perfectly comparable since one data set are based on a calendar year data, while the other is based on an April to March fiscal year.

Table E.4: Farm Tax Rebates — Total and Allocated to Farmers

Year	Gross Farm Property Taxes	Total Farm Tax Rebates*	Property Tax Rebates**
		$'000	
1986	133,613	108,562	81,313
1987	139,355	154,537	115,748
1988	146,385	163,439	122,399
1989	159,324	145,881	109,272
1990	163,105	147,349	110,363
1991	172,348	158,560	116,384
1992	177,876	159,363	116,972
1993	176,337	153,029	112,323
1994	173,892	151,029	110,986
1995	175,631	147,825	110,633
1996	177,387	150,615	106,457
1997	180,935	164,817	108,883

* Total farm tax rebates are on a fiscal year basis, with FY 1997/98 allocated to the 1997 calendar year.

** The tax rebate data measures the rebate to farmers, and excludes (by Statistics Canada) the rebate to non-farmers (land rented to farmers) to enhance the accuracy of net income calculations.

Appendix F: Taxation of Agricultural Property in Quebec

Farmers in Quebec are eligible for property tax relief through a rebate program administered by the "Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec (MAPAQ). For 1997, Quebec producers paid $100 million in property taxes to the municipalities and received $49 million in rebates from MAPAQ, for a net tax burden of $51 million. Taxation of real property in Quebec has gone through many changes over the past decade. Although in the past the agricultural sector benefited from differential municipal tax assessments concessions, this has been abolished and only exist today in the case of the school tax assessments. The Provincial government does not collect property taxes; this is the role of the local government, the municipalities.

F.1 Overview of Property Taxation in Quebec

The province can be divided in three main tiers:

The Regional Municipalities (*Municipalités régionales de comtés* — referred to by their acronym MRC). These are made-up and include several regional municipalities and are mainly responsible for overall regional planning and real property assessment in those municipalities that do not have their own.

The Urban Communities (*Communautés urbaines* — referred to by their acronym CU followed by the city first letter (such as CUM in the case of Montreal or the MUC, The Montreal Urban Community, in English). These urban communities are composed of several municipalities. They have their own evaluation service to cover their territory. These CU's include Montreal, Quebec City, and the Outaouais. They are primarily the large urban centres in the province with very limited agricultural presence in their territory.

The Municipal Level – This represents the smaller administrative units scattered throughout the province where agriculture activities are often more prevalent. Any change in zoning will have to be accepted by the MRC. There are around 1,400 municipalities in the province.

The above-mentioned institutions must operate within specific provincial legislation[5], including some specific parameters for tax assessment on real estate property.

Very little agriculture takes place on the CUs territory mainly due to problems arising when country and city life co-exist (such as odour, noise, and dust.)

The property classes used in Quebec include:

- Residential,
- Manufacturing Industries,
- Commercial (commercial centres, etc.),
- Services (office buildings),
- Recreation and Cultural facilities, and
- Natural Resources (farms, forestry, mines).

Each municipality establishes its own tax rates by real property class. The only exception is the education tax rate established by the province.

F.2 Assessment of Agricultural Property

An important role has been played over the years by the evaluators. He has moved from an *ad hoc* estimator to a sophisticated, well-trained, professional. Each evaluator must now be a member of the professional corporation called the *Corporation des évaluateurs agréés du Québec*. Historically the evaluators through their associations have provided prominent input to the reform of the province's property assessment and taxation laws.

Today's municipal and/or independent evaluators use recognized, scientifically-based, appraisal techniques to assess property values. Their methods attempt to accurately reflect the local property market value of all real property, be it residential, commercial, or agricultural while the local government (municipalities) perceives the municipal and school taxes of all property owners in the province.

Some municipalities have their own municipal administrative unit to evaluate real property in their territory. Other municipalities may hire independent evaluators or firms to accurately establish their property values. These findings are then entered into their individual municipal computer database system.

Most agricultural activities have shifted away from the province's main urban centres to the rural areas. The rural areas have the geophysical environment, soil, forests, and other natural resources appropriate for farming. Rural land prices are also less vulnerable to speculation when compared to those closer to the larger urban areas. (Cities that have experienced rapid urban development have often lost valuable farm land and/or large tracts of land — including agricultural land — to speculative markets driven by independent developers.) In order to counter this phenomenon, as well as to preserve the good agricultural soils for future generations, the provincial government has brought into effect land protection legislation, the LPTA, an act dedicated to preserving agricultural land[6].

5. Examples of legislation under which these institutions operate in Quebec: 1) Loi sur l'aménagement et l'urbanisme. 2) Loi sur les cités et villes. 3) Code municipal du Québec. 4) Loi sur la fiscalité municipale. Etc.
6. The act was passed in 1978 and has been updated several times. It is referred to as the "Loi de protection du territoire agricole" (LPTA), re-issued as the "Loi sur la protection du territoire et des activités agricoles". L.R.Q., chapitre P-41.1 1998.

This law has been highly successful at maintaining a more realistic market values for farms or agricultural land over time. Through a government decree, the LPTA law designated throughout the province a specific "green zone" destined solely for agriculture activities, and a "white zone", which falls under the jurisdiction of the individual municipal urban development plan.

The development planning process falls under the jurisdiction of the municipality. Each municipality assigns land use in areas destined for residential and commercial development, roads, services, and parks in accordance of course with Regional Development Plan[7]. For agricultural land it would possess its acquired rights for continual farming based on the legislation that will be discussed further.

Agricultural real property is subject to the same evaluation process or appraisal by the tax assessor as any other property under the same legislation (plus some specific items within the law applicable only to agriculture[8]). The overall objective is to reflect, as much as possible, an equitable and uniform way of assessment when compared to all other properties in the province. As a consequence, assessment values for taxing agricultural properties are based on current market values for land in agricultural use.

All agricultural property assessments and tax reimbursements fall under very specific provincial legislation. Although the assessment rules are the same as they are for all real estate property in the province — be it farm buildings, land, public buildings such as hospitals, or *any* property, an effort is made to ensure that the real property reflects the market value within that locality.

Residential properties are assessed as uniformly as possible, using appropriate criteria during the appraisal, in order to reflect their true market value. The same is true for commercial, public, industrial, and utility (e.g. Hydro Quebec) properties. The evaluator may use different evaluation methods in order to establish the market value.

In general, the trend in value of property is comparable to a downward sloping curve, with the highest point and value reflecting the closeness of the property to urban centres under development (where speculation is often more pronounced). Normally, the value of property slides gradually downward as one moves away from these centres.

F.3 Property Tax Rates

The real property taxation system is the means these institutions get their finances for individual administration, infrastructure (for example, water, sewers, roads, and parks), and services (such as police, fire department, and planning). Since these vary greatly from one municipality to another, the tax rate also varies. On average, in rural municipalities the general taxation (municipal) rate varies between $0.90 to $1.50 per $100.00 assessed, compared to $1.50 to $2.00 per $100.00 in more urban areas. For school taxes, there is a fixed rate of $0.35 per $100.00 with very few exceptions. Appeal mechanisms exist for individuals who feel they have not been evaluated fairly.

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7. The Regional Development Plan is referred to as: "Le schéma d'aménagement" which is under the legal jurisdiction of the Regional government referred to as: "Municipalités régionales de comtés" MRC.
8. One of the specific laws for agriculture, which will be discussed later in the text, is: Loi sur le ministère de l'Agriculture des Pêcheries et de l'Alimentation et diverses disposition législatives.

F.4 Administration of the Farm Tax Program in Quebec

The agricultural sector, however, benefits from a number of special privileges in Quebec based upon a number of criteria[9]. These are outlined specifically in the legislation. As an example farmers eligible for special benefits have to be *bona fide* agricultural producers or enterprises as defined by the law[10] in order to qualify for any government tax reimbursements and/or compensations.

Most of the farms operate in the *Loi de protection du territoire agricole et des activités agricoles* (LPTA) designated "green zone" (although there have been exceptions in the past whereby farms were included in the white zone during a re-zoning and have thus lost in some cases their eligibility for tax rebates).

All agricultural producers have to be registered as farmers[11] with the Ministry of Agriculture of the Province of Quebec, normally referred to by its acronym MAPAQ). They also have to be recognized as a member in good standing of the Farmer's Union (*l'Union des producteurs agricoles,* UPA). This same framework is also used at times for the administration of agricultural programs and farm subsidies.

The agriculture tax refund system falls under the jurisdiction, and is closely monitored and administered, by MAPAQ, who has the responsibility of analyzing each applicant and issuing tax reimbursements to those farmers that qualify and are eligible.

As a result, all agricultural producers in the province are closely scrutinized regarding eligibility for the tax reimbursement programs coordinated by MAPAQ. Some of the specific rules and regulations that farmers must heed in order to qualify will be discussed later on.

MAPAQ is a main administrative arm of the provincial government that is responsible for the management and execution of partial municipal and school taxes reimbursements to farmers and agricultural enterprises. The farmer receives his tax bill for full taxation of real property and has to pay this amount to his municipality. The partial reimbursement of his municipal and school taxes is made directly to the produce through the MAPAQ program.

In order to be eligible, the applicant farmer must fulfil a series of requirements as stipulated by law:

- ***The farmer must be registered with MAPAQ as a bona fide agricultural producer (EAE).*** This requires that the farmer prove that his gross revenue, derived directly from his farming, is over $5,000.00 per year[12].
- ***The farmer must have a gross agricultural revenue of over $10,000.00 a year.*** This change became effective in 1995. It was also the year that farm residences were omitted on a *pro rata* basis for eligibility in the reimbursement program.

9. Idem
10. This law is called: Loi sur les producteurs agricoles (L.R.Q. chapitre P-28.) All farmers have to pay an annual fee to remain in good standing and to continue to be eligible for tax reimbursements.
11. Normally referred to as "exploitations agricoles enregistrées" (EAE), registered agricultural enterprises.
12. The term and definition as well as the profile of the "exploitations agricoles enregistrées" (EAE), translated as a Registered Agricultural Enterprise came in the nomenclature through Law 142 in 1991 with all the criteria. It was further modified and the criteria changed as well as farmers eligibility in 1995.

- ***Most of the criteria on the application form have to be documented***. For example, the original municipal and school tax bills have to be enclosed, along with the applicant's proof of good standing in the provincial Farmer's Union (UPA). In order to be accepted as a member of UPA, the farmer also has to fulfil certain criteria.

The application form[13] for municipal and school tax reimbursement is available from MAPAQ. This form is updated regularly, sometimes with major changes. For example, a 1995 change required gross income from farming to be $10,000.00 instead of the previous $3,000.00. The application form has to be filled out with information showing the farmer's eligibility. The completed form has to be submitted yearly before the 31st of March. Therefore, in order to qualify for the MAPAQ tax reimbursement program, the applicant must meet verifiable criteria, and must pass a test established and administered by MAPAQ. There is an appeal mechanism if the farmer disagrees with the MAPAQ on some items reported in the form.

For eligible farmers, the rebate averages around 77% of farm (land and buildings) property taxes paid. (For many eligible farmers, the program rebates the first $300 in property tax, and rebates 70% of the farm property taxes paid on the reminder).

F.5 Tax Treatment of Farm Land and Farm Buildings

New tax roles are established tri-annually in each municipality's jurisdiction (although the base year may vary from municipality to municipality). In the case of agriculture, there is also a ceiling, established by legislation, regarding the assessment of school taxes. The law[14] indicates that the value assigned for land for tax assessment cannot exceed $375.00 per hectare for the school tax. For municipal taxes, these ceilings and/or exemptions do not longer exist.

The main farm residence, and part of the land on which it is built, was also excluded from the MAPAQ tax reimbursements in the 1995 revision. The latter is, with a certain size of terrain, subtracted on a pro-rata basis from the overall agricultural property assessment and the balance is eligible for tax reimbursement. This amendment is however part of the MAPAQ reimbursement procedure and not in the property tax assessment process. Because agricultural enterprises are often complex and difficult for evaluators to assess, and because they fall under the same evaluation process as that for other real property, a number of issues have surfaced over the past years.

The evaluation method looks at a number of similar unbiased real transactions made in the territory. Often the number of similar property transactions is limited. If there are a number of similar property transactions, they often occur in order to consolidate farms, or are transactions made between members of the same family. These transactions may introduce a bias in assessing the value of the agricultural property under consideration.

Property value assessments by evaluators give consideration to the farm's location within the boundaries of the LPTA "green zone". This is especially important when these farm

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13. The form is referred to as: "Demande de remboursement des taxes municipales 1998 et scolaires 1997-1998". This form comes with a detailed guide to assist the farmer in properly filling in the information requested by MAPAQ.
14. The law concerned is: Loi sur la fiscalité municipale. L.R.Q. chapitre F-2.1 and cites a number of other exceptions for cases other than agriculture.

properties are located near the urban periphery. Any re-zoning of agricultural land falls under the jurisdiction of a CPTAQ "Commission de protection du territoire agricole du Québec[15]." Once farm land has been re-zoned and/or CPTAQ has given the authorization for farm land in the "green zone" to be used for other purposes than agriculture, the property increases significantly in market value.

The goal is to attain an equitable estimate accurately reflecting the agricultural market value without to many outside distortions. All these issues have an impact on the tax assessment and reimbursement programme from MAPAQ to agricultural producers.

F.6 Government Responsibilities

MAPAQ is responsible for administering the rebate to producers. The evaluator (a municipal employee or an independent agent) is responsible for providing an assessed value for farm property.

F.7 Some Data Assembly and Comparisons

There are many difficulties in analyzing aggregate data in the assembly of statistical information over time. First of all, there are the many laws that are regularly updated and consequently definitions and parameters change of the raw data that is collected at the municipal or census level over time. For this reason we only have used data starting from the nineties, see Table F.1. Also the EAE and LPTA was in force which give some sort of a window of what is the profile of agricultural assessment in the province. As is the case in many situations, statistics have a story in numbers and in fact. In the year 1998, there were 39,734 UPA members in the province, down from 43,769 in 1993, the number of members from 1990 to 1992 in Table F.1, the years previous were subjected to a different enumeration parameters. The number of farm producers that benefited from the MAPAQ tax reimbursement program in 1997 were 24,637 farmers. This represented over 60% of the members of UPA that benefited from the MAPAQ program. The direct reimbursement by MAPAQ was made of approximately $51.6 million dollars, which amounts to an average reimbursement of over $2,000.00 per eligible farmer in 1997. The typical reimbursement to a qualifying producer is a full rebate of the first $300 in property taxes, with a 70% rebate on the remaining farm land and building property taxes. The average rebate is around 70% for qualifying producers.

It is difficult to make an historical comparative analysis or time series analysis with the aggregated data, since the program parameters for qualifying producers that change over time. As an example, even if the number of UPA members changed little between 1996/97 there was an increment of $3.4 million in reimbursements to farmers from 1996 to 1997. This could indicate that the size of farmers' operations that have applied are changing towards larger units, or the farm tax assessment per farm has gone up, resulting in larger reimbursement margins per farmer.

There is an interesting dichotomy that results from the dimension of municipal real property tax assessment. Since only those that qualify from the MAPAQ benefit from the reimbursements this does not necessarily means that it includes and reflects all the farm

15. This organisation is entrusted with enforcing the LPTA act to secure the preservation of agricultural land in the Province of Quebec.

buildings used for agriculture in the municipality. This discrepancy can be noticed from the number of EAE units in Table F.1 and the number of farmers that benefited from the tax reimbursement. This may be explained when we encounter the case were a part time farmer, or simply a agricultural classified property owner do not comply to the second level of the MAPAQ criteria. These operations and/or buildings, however, are assessed and categorized as for agricultural purposes from the evaluator's point of view. But, the unit may not reach the second target of $10,000.00 of agricultural produce sold per year and therefore is not eligible for any tax reimbursements.

Table F.1: Some Data Reflecting the Value of Agricultural Buildings and Land Assessment (incl. forestry)

Description	1990	1991	1992	1993	1994	1995	1996	1997	1998
AGRICULTURE*									
Number	N/A	118,521	114,817	112,202	113,460	112,732	112,419	110,614	10,927
Land $000	N/A	1,733,559	3,706,727	4,300,709	4,334,914	4,385,299	4,467,157	4,516,135	47,318
Buildings $000	N/A	5,013,253	4,989,082	4,978,325	5,074,129	5,142,856	5,248,275	5,173,987	51,450
Real Estate $000	N/A	5,748,847	8,683,656	9,276,959	9,409,101	9,524,390	9,715,430	9,590,122	98,768
FORESTRY									
Number	N/A	17,140	17,226	17,028	18,668	16,343	N/A	16,164	16,354
Land $000	N/A	340,685	376,286	394,984	41,123	415,879	N/A	451,648	465,809
Buildings $000	N/A	95,122	91,011	105,125	99,620	97,889	N/A	124,939	128,943
Real Estate $000	N/A	435,807	467,297	500,109	510,852	513,768	N/A	576,587	594,752
DISTINCT ASSESSMENT REGIMES ZONED AGRICULTURE (EAE)									
Number	N/A	99,137	30,400	N/A	87,707	90,001	N/A	87,074	83,135
Taxable	N/A	5,835,382	2,162,048	N/A	7,288,899	8,062,969	N/A	6,199,899	635,515
UPA Members	48160	48,236	51,598	43,769	43,341	42,656	41,302	40,347	39,734
MAPAQ** Tax Reimb.	$31.8 mill.	$31.3 mill.	$58.6 mill.	$61.8 mill.	$62.6 mill.	$62.6 mill.	$48.4 mill.	$51.8 mill.	N/A
No Farms Rcvd Reimb.	34,779	34134	32,852	32,436	30,510	27,115	25,892	25,031	N/A

* Source: Sommaire du rôle d'évaluation foncier, Ministère des Affaires municipales (MAM), Direction des politiques et de la fiscalité, Gouvernement de Québec, 1999.

** Source: MAPAQ, Direction des ressources financières et matérielles, 1999 idem for the number of farmers that have received the reimbursements from 1990 till 1997.

Table F.2 presents the aggregate real property, land and buildings, compared to the agricultural component. This is the cumulative summary of all tax value assessed by all the municipalities in the province. For agriculture it indicates the taxable value of the real property that is grouped by the evaluator under agriculture. Again, we must caution that this does not necessarily reflect that all that is grouped in this category is necessarily a farming enterprise.

Table F.2: Real Estate Values for the Province and Agriculture 1997/98.

Description	1997	1998
PROVINCIAL TAXABLE VAL.*	**$(000)**	**$(000)**
Land	84,063,881	82,235,420
Buildings	204,033,133	202,037,526
Real Estate	282,097,014	284,272,946
AGRICULTURE TAXABLE VAL.**		
Land	4,516,135	4,731,806
Buildings	5,173,987	5,145,008
Real Estate	9,590,122	9,876,814
AGRICULTURE % OF TOTAL	**approx. 3%**	**approx. 3%**

* Source: Ministère des Affaires municipales, Direction des politiques et de la fiscalité, Gouvernement du Québec, 1999. This comprises only those real estate items that are taxable and does not include the non taxable items such as Government buildings, Federal and Provincial etc.

** Source: idem MAM 1999. This reflects the inventory by utilization and includes the EAE's as defined by law.

F.8 Concessions Provided to Farmers

Farmers receive two general concessions. One is a cap on the assessment value of farm land to a maximum of $375 per acre for school tax purposes. The other is a rebate from MAPAQ on a good portion of the property tax paid on farm land and buildings (excluding the residence). For eligible farmers, this rebate is around 77% of farm property taxes paid.

Statistics Canada's calculated value of gross property taxes paid, and the value of the rebate to Quebec farmers is provided in Table F.3. This table indicates that in 1997 gross farm property taxes were $100 million, with a $49 million rebate provided by MAPAQ. (This does not include the value of the concession for school taxes where the tax base is a maximum of $375 per acre). This suggests that across all farmers in Quebec, the rebate is around 50% of farm land and building taxes paid.

The net tax of $51 million, is estimated to be 0.47% of asset values.

As a conclusion the general tax assessment (municipal) for agriculture falls under the same evaluation system as all real property in the province, with the exception of school tax assessment. There is, however, a tax reimbursement program managed by the Ministry of Agriculture MAPAQ. The farmer pays his general (municipal) and school tax bill directly to the local government, his municipality. As an agricultural producer he is entitled to part refund upon completing an application form annually with MAPAQ. And if certain specific criteria of eligibility are met is reimbursed directly in part for his municipal and school tax by MAPAQ.

Table F.3: Quebec Farm Property Tax Data, 1986 to 1997

Year	Value of Land and Buildings	Gross Farm Income	Net Farm Income	Gross Farm Property Taxes	Property Tax Rebate	Net Property Taxes	Net Taxes % of Asset Value
			$'000				
1986	5,951,371	3,246,940	650,401	33,739	25,754		
1987	6,194,453	3,308,134	637,606	36,171	26,486		
1988	6,383,754	3,564,675	790,852	38,420	27,913		
1989	6,775,811	3,735,585	808,545	38,105	29,969		
1990	7,366,169	3,762,736	738,578	42,205	31,217		
1991	7,780,680	3,829,126	703,556	55,800	38,900		
1992	7,819,583	3,868,914	618,466	78,400	56,344		
1993	7,929,057	3,966,600	786,727	82,574	60,279	22,295	0.28%
1994	8,190,716	4,236,077	841,039	88,455	64,752		
1995	8,657,587	4,369,150	738,156	91,993	61,391		
1996	9,791,731	4,669,024	890,481	97,513	49,308		
1997	10,839,446	4,731,388	667,427	100,438	49,370	51,066	0.47%

Source: Statistics Canada, Catalogue no. 21-603, *Agriculture Economic Statistics.*

Appendix G: Taxation of Agricultural Property in New Brunswick

G.1 Introduction

Farm taxation concessions valued at about $4.4 million per year are extended to farmers and landowners by means of a property tax deferral system. Lands which may be farmed and farm buildings associated with these properties have their provincial realty taxes deferred for 15 years, then forgiven one year at a time if the property remains in or is available for rental to a farmer. A deferral is also provided on municipal taxes that exceed the provincial average local tax rate.

G.2 The Assessment System

The Assessment Division of Service New Brunswick is responsible for the assessment of property. Assessment is updated annually on the basis of current market values. Property Classes include:

1. Residential Land: Large parcels,
2. Residential Land: Lots,
3. Farm Land,
4. Timber Land,
5. Recreational Land, and
6. Industrial/Commercial Land.

G.3 Property Taxation

Both the province and municipalities tax real estate property. The provincial tax on farm residences, farm land and forest land taxed at the Residential Rate is $1.50/$100 assessment. Commercial/industrial lands are taxed at a $2.25/$100 assessment. The province provides tax exemptions on provincial, municipal, religious, educational and health facilities. Relatively small areas of environmental and wildlife reserves are also exempted. The provincial government also collects a tax for the municipalities which varies by municipality. The average municipal rate is $0.2728/$100 assessment for residential properties and farmlands. It ranges from $0.05 to $1.58 across the province. The municipal rate on non-residential property is 50% higher. Property tax rates for a few municipalities are illustrated in Table G.1. The assessment base is illustrated in Table G.2.

Table G.1: Tax Rates by Class of Property, Selected Municipalities

Property	Grand Falls L.S.D.	Florenceville	Drummond	Upper Kent L.S.D.
RESIDENTIAL				
Provincial	1.50%	1.50%	1.50%	1.50%
Municipal	0.227%	1.089%	1.01%	0.503%
Total	**1.727%**	**2.589%**	**2.51%**	**2.003%**
NON-RESIDENTIAL				
Provincial	2.25%	2.25%	2.25%	2.25%
Municipal	0.34%	1.633%	1.515%	0.754%
Total	**2.59%**	**3.883%**	**3.765%**	**3.004%**

Source: Information provided by various municipal tax offices, and includes the education tax rate.

In incorporated cities, towns and villages, the owner occupied dwelling (residences) receives a full property tax credit (1.50%) on provincial property taxes. In the rural areas, and in unincorporated areas of the province, the credit on provincial property taxes is established at 0.85%, implying the net provincial property tax is 0.65% in the rural areas on owner occupied residences.

Table G.2: Assessment Base and Tax Yield by Property Class New Brunswick

Assessment Class	Assessment	Provincial Taxes	Municipal Taxes*	Total Tax
		$,000		
Residential	514,367	7,716	5,514	13,230
Recreational	114,643	1,720	1,229	2,949
Industrial/Commercial	577,400	8,661/12,992	6,189/9,307	14,850/22,299
Residential - Large Lots	1,351,183	20,268	14,483	34,751
Farm Land	778,307	11,675	8,343	20,018
Timberland	717,184	10,758	7,688	18,446
Total	**4,053,084**	**73,790**	**52,753**	**126,543**

* Includes LSD tax revenues.

Source: New Brunswick Department of Finance correspondence.

G.4 Government Responsibilities

The Assessment Division of Service New Brunswick is responsible for providing assessments for all properties. These assessment figures are utilized by the provincial and municipal governments to establish the property tax rates. While municipalities have the authority to collect taxes themselves, they all have the province issue the notices and make the collections.

G.5 Administration of the Agricultural Concession Program

The Farm Land Identification Program (FLIP) which began in 1979 is administered by the Department of Agriculture and Rural Development. The program provides registered owners of farmlands with the deferral of taxes on their lands and farm buildings for 15 years. From 1979-1996, the provincial taxes on lands and buildings were deferred for 10 years.

Beginning January 1, 1998, the program extended the deferral to 15 years on provincial taxes on lands and farm buildings and on municipal taxes. In order to qualify, the land must:

1. Be clear of trees, brush or obstructions that would restrict normal farming operations. Exceptions allowed are apple, maple or Christmas tree plantations.

2. Have a combination of soil texture, depth, drainage, slope and climate which makes it possible to sustain an agricultural operation.

3. Either is farmed or available for rent to a farmer.

Farm buildings but not residences qualify for a deferral if they are located on lands registered under the FLIP. Farm lands, residences and farm buildings are assessed at market value and taxed for provincial purposes at the residential rate of $1.50/$100 assessment. Free hold woodlots are assessed at $1.00/hectare and taxed at $1.50/$100 assessment for an effective rate of $1.50/hectare. The tax on improved woodlots, which are registered with FLIP, is established at $1.00 per hectare for the combined provincial and municipal taxes.

Municipal tax rates on farm land and farm buildings are capped at the provincial average municipal rate for municipalities and Local Service Districts. The current average is $0.2728/$100 assessed value. The cost of this cap was $278,000 for the whole province in 1998.

Those farms registered under the program qualified for a 10-year deferral from 1979 to 1997 on the farmland and farm building provincial property taxes. Beginning on January 1, 1998, the deferral period was extended to 15 years and municipal taxes in excess of the provincial average were also deferred and treated as a loan from the province. In 1998 and in the future, if land reverts to forest growth or the buildings are no longer capable of agricultural use because of a lack of maintenance, the properties may be put in Changing Status. These properties will have to begin paying taxes, but the previous deferred taxes remain deferred. Lands and/or buildings may be de-registered if they are not maintained to be capable for agricultural use.

If lands are registered for a sub-division, they are delisted and all the deferred taxes for 15 years plus a penalty are due. The penalty is, in effect, an interest charge which exceeds 1% per month. The deferral of municipal taxes that began January 1, 1998, is treated as a loan from the provincial government which becomes due when the uses of land changes.

In 1998, when the deferred period increased from 10 to 15 years, landowners were given the option of electing for Changing Status. They were given the alternatives of:

1. Entering a 15 year deferral program which included farm lands and farm building other than the residence;
2. Opting out of the program and having the oldest deferral removed one year at a time for 10 years; or
3. Withdrawing and paying all deferred taxes. About 100 property owners chose the last option.

In 1996 there were 8,152 FLIP accounts (3,405 census farms). A FLIP is based on a deed of property and not the farm unit.

G.6 Tax Treatment of Farm Land and Farm Buildings

Farm land and farm buildings are taxed at the same rate along with residential property, which includes residences, recreational property and managed woodlots. Farm woodlots receive a small tax concession in that farm woodlots are taxed at $1.00 per hectare compared to $1.50/hectare for free hold woodlots. Farm lands and farm buildings outside of the FLIP are taxed at the same level of assessment, market value and the same tax rate (residential) as other non-commercial properties.

G.7 Comparison to other Property Classes

The largest property class benefit in New Brunswick is a property tax credit for provincial property taxes on owner occupied residences and up to one acre if the owner occupies the house. Farmers qualify for this tax concession along with all other homeowners.

Tax exemptions are provided to the following property owners: church property used solely for religious, educational or charitable uses; cemeteries; literary and historical societies; agricultural society or fair associations; voluntary fire associations; parks; arenas; airports; railway rights-of-way; and cargo ports. Assessment reductions may also be made, ranging from 100% to 35% in the property value of charitable organization, not-for-profit organization or municipality, based upon an annual application by the organization to the Director of Assessment.

Freehold and farm woodlots are assessed at $100 per hectare. They are taxed by the province at $1.50 per $100 assessment for an effective rate of $1.50/hectare. The FLIP improved woodlots are taxed at $1.00 per hectare for the combined provincial and municipal taxes.

G.8 Taxation Principles used to Tax Agricultural Property

The FLIP was developed to preserve farmland and maintain a land base for agricultural production. The program is perceived to be benefit-based in that it relates to services provided not ability to pay.

G.9 Services Paid for in Farm Property Tax Rate

The farm property tax rate is equivalent to the Residential tax and the provincial component even though deferred would be utilized for all the services provided by the province. It is very difficult to allocate tax monies to services when most are provincially financed.

G.10 Municipal Services Consumed by the Farm Sector

In New Brunswick, the Province appears to deliver either alone or with the municipalities almost all services except garbage collection and fire protection. Policing is a joint service in the sense that the RCMP provide provincial policing and most municipalities pay for local policing either with their own force or under contract with the RCMP.

Education, health, social programs, welfare programs, roads and debt servicing are delivered by the province. The farm sector, the farmers and their families consume all of the usual people services. Farmland requires roads and policing and farm buildings fire protection.

G.11 Amount of Concessions

The annual concessions received by farmers under the Food Land Identification Program from 1986 to 1998 are shown in Table G.3. The amount increased from $769,250 in 1986 to $3,534,806 in 1998. It is noteworthy that the current concessions to buildings exceed those of lands.

Table G.3: Value of Agricultural Tax Concessions

	Concessions to Farmers			
	Provincial		Municipal	
Tax Year	Farm Land	Buildings		Total
1986	769,250	—	—	769,250
1987	918,610	—	—	918,610
1988	1,025,548	—	—	1,025,548
1989	1,268,448	930,586	—	2,199,034
1990	1,391,634	1,180,549	—	2,572,183
1991	1,520,689	1,299,996	—	2,820,685
1992	1,563,676	1,383,633	—	2,947,309
1993	1,634,713	1,454,556	—	3,089,269
1994	1,685,949	1,531,885	—	3,217,834
1995	1,756,086	1,667,043	—	3,423,129
1996	1,781,475	1,735,485	—	3,516,960
1997	1,843,959	1,812,784	—	3,656,743
1998	1,530,114	1,727,115	277,577	3,534,806
Total	**18,690,151**	**14,723,632**	**277,577**	**33,691,360**

In 1997, farmers in New Brunswick paid $2.6 million in farm property taxes. This amounts to 0.35% of the value of farmland and buildings (see Table G.4)

Table G.4: New Brunswick Farm Property Tax Data, 1986 to 1997

Year	Value of Land and Buildings	Gross Farm Income	Gross Farm Property Taxes	Taxes as % of Assets	Taxes as % of Sales	Capital Turnover Ratio
		$'000				
1986		225,243	2,054			
1987		241,176	2,380			
1988		252,392	2,403			
1989		273,559	2,176			
1990		279,560	2,007			
1991	598,540	256,541	1,967			
1992	588,365	270,025	2,070			
1993	578,363	284,254	2,137			
1994	568,531	295,174	2,294			
1995	587,526	294,436	2,443			
1996	678,790	314,283	2,467	0.36%	0.78%	2.2 years
1997	737,845	301,249	2,591	0.35%	0.86%	2.5 years

Source: Statistics Canada, Catalogue no. 21-603, Agriculture Economic Statistics.

Appendix H: Taxation of Agricultural Property in Nova Scotia

H.1 Introduction

Farm taxation concessions valued at approximately $1.3 million per year are extended by means of a tax exemption on farmland. All registered land either farmed or capable of being farmed pays no municipal real estate taxes. The Province compensates the municipalities at the rate of $2.10 per acre. The province does not tax real estate. In the event of a change in the use of farmland, the individual changing the use is assessed 20% of the land value based on the new use.

H.2 The Assessment System

All land is assessed by the province on the basis of market value. Revisions were made in 1987, 1990 and 1993. Beginning in 1997, the values are updated annually based upon sales. The assessment categories utilized are residential, resource and commercial. Farm buildings, including greenhouses, farm lands, woodlots and unmanaged lands are all assessed as resource. Farm residences are assessed as residential. All other lands are considered commercial. Within resource lands, there are three categories: farm lands; woodlands which are managed; and unmanaged lands. Property class assessments are provided in Table H.1.

Table H.1: Nova Scotia Property Class Assessments, 1997-98

Tax Class	Assessment
Commercial	7,177,084,270
Residential	24,506,764,300
Resource	915,220,800
Other - exempt or grantable	8,578,721,977
Total	**41,177,791,347**

H.3 Taxation Levels

The taxation rates for residential and resource are the same and are about half of the commercial rate. Farm buildings and residences are taxed at a residential rate established by each municipality. Farmlands which are registered with the Department of Agriculture are given a tax exemption. Managed woodlands pay a flat tax of $0.25 per acre. All other resource lands pay at the resource rate which is equivalent to the residential rate. The tax rates for a few municipalities are shown in the Table H.2.

Table H.2: Tax Rates by Class of Property, Selected Municipalities, 1996-97

Property	Annapolis	Colchester, Truro	Cumberland	Hants East
Residential/Resource	1.05%	0.82%	1.05%	0.99%
Non-residential	2.10%	1.92%	1.95%	1.88%

Source: Information acquired from Nova Scotia government web site.

H.4 Government Responsibilities

The provincial government is responsible for maintaining and updating the assessment records. The mill rate for the tax categories residential, resource and commercial may vary by municipality.

H.5 Administration of the Farm Tax Program

The farm tax exemption is available to all landowners whose land is being used for agricultural purposes. It is not dependent on farmer ownership. About one-third of lands which are exempted are not farmer-owned. The province pays a grant in lieu of taxes to each municipality at the present rate of $2.10 per acre to compensate for lands given the tax exemption. The program began in 1976 and continued until 1995-96 when it was terminated for two years. Farmers were taxed at a residential/resource rate of up to $2.10/acre for those two years. Some municipalities gave the farmers an exemption which reduced their tax rates. The program was reinstated beginning January 1, 1998.

The Ministry of Agriculture and Marketing registers all lands which qualify for the program. The only requirement is that the land be used for farm production. The last year it was in operation, 1995-96, transfers to the municipalities totaled $1.26 million. The 1998-99 fiscal year budget is $1.2 million.

The program stipulates that farmland which has received the tax exemption must make a payment to the province if its use is changed. The person changing the use to residential or commercial must pay 20% of the value of the land in its new use.

The farm tax exemption may be considered a concession on farmland taxes because few farmers will ever have to repay it. On farmland in urban areas, it is equivalent to a deferral program which must be paid back when land uses are changed.

H.6 Tax Treatment of Farm Buildings

Farm residences are assessed at market value and taxed at residential rates. Farm buildings are assessed at market value and taxed at resource rates which are equivalent to residential rates and about half those of commercial. This may provide an implied concession to farmers but because commercial/industrial rates generally are higher than farm or residential rates, it is argued that no tax concession exists. The issue becomes, what is the appropriate tax rate on farm buildings, a residential/resource rate or a commercial/industrial rate?

H.7 Taxation Principles used to Tax Agricultural Property

The intent of the program which began in 1976 was to discourage the conversion of land to non-farm uses and keep it in production. The program was sold as a land use tool. The benefit-based principle was mentioned in the sense that farmland requires no policing or education. The farmland tax exemption is, in effect, an income transfer from the general population to farm landowners. While couched in land preservation arguments, it is a defacto transfer based mainly on ability to pay. The amount involved at $1.2 million is not large.

H.8 Services Paid for in Farm Property Tax Rate

The monies collected directly from farm buildings and residences and indirectly in lieu of farmland taxes from the Province are all acquired by the municipalities. Thus, all farm taxes are utilized by municipalities to pay for the services they provide. Municipalities are primarily responsible for: protective services such as fire protection, building inspection and local policing; transportation excluding arterial highways which are jointly shared; environmental; community development; and recreation.

In Nova Scotia, all health and most education and social services are paid for by the province.

H.9 Municipal Services Consumed by the Farm Sector

The municipal services consumed by the farm sector are limited by the fact that many services in Nova Scotia are provided by the province. Most services to people including health, education and social services are mainly provincially financed. The actual amounts spent by the province or municipalities are not readily available. Farmers receive educational, some welfare, garbage collection and debt servicing services. Farm lands and buildings consume transportation, policing and fire protection services.

H.10 Tax Concessions

The amount of the farm tax concession was reported to be $1.26 million in 1997-98 and the budget for 1998-99 is $1.2 million. The grant in lieu of taxes made by the province to municipalities began at $1.25 per acre in 1976 and has been increased, consistent with inflation rates, to the present rate of $2.10 per acre. This tax concession is just under 50% of current property taxes paid on farmland and buildings.

Table H.3 indicates that farmers in Nova Scotia paid $2.5 million in property tax, with these taxes 0.30% of the value of farmland and buildings.

Table H.3: Nova Scotia Farm Property Tax Data, 1986 to 1997

Year	Value of Land and Buildings	Gross Farm Income	Gross Farm Property Taxes	Taxes as Percent of Assets	Taxes as Percent of Sales	Capital Turnover Ratio
		$'000				
1986	655,173		1,613			
1987	678,448		1,837			
1988	702,549		1,935			
1989	756,695		1,942			
1990	812,657		1,961			
1991	801,011		2,195			
1992	793,001		2,269			
1993	785,071		2,235			
1994	777,220		2,278			
1995	769,448	329,919	2,342	0.30%	0.71%	2.3 years
1996	836,390	380,756	2,529	0.30%	0.66%	2.2 years
1997	889,083	365,142	2,555	0.29%	0.70%	2.4 years

Source: Statistics Canada, Catalogue no. 21-603 Agriculture Economic Statistics.

Appendix I: Taxation of Agricultural Property in Prince Edward Island

I.1 Introduction

Farm taxation concessions valued at approximately $4.9 million per year are extended to the agricultural industry in Prince Edward Island by means of a preferential assessment system. Farmlands are assessed at below market values in order to reduce both provincial and municipal land taxes. This benefit is restricted to bona fide farmers who, in general terms, either spend over half their working time on a farm or receive more income from farm sales than wages.

Within a municipal area, farm properties are taxed at the same mill rate as residential and other non-commercial properties. Taxes are collected by the provincial government on all farm properties. Some municipalities do and others do not have the province collect property taxes for them.

I.2 Assessment System

All land in the province is assessed by the provincial government. Values are established at market value and are updated annually based upon recorded sales. The assessment values follow the Canada Land Inventory in a general manner. Property classes utilized include:

1. Residential,
2. Farm Lot,
3. Farm Land,
4. Water Frontage,
5. Apartment Unit,
6. Commercial,
7. Industrial,
8. Institutional,
9. Natural Area Protection, and
10. Wildlife Management.

While farm property, including the residence and farm buildings, are assessed at market value, farm woodlots are assessed at half the rate of cleared farmland. Farm lots, the area surrounding the farm residence and buildings are assessed at half the value of rural residential lots.

The farm tax concession is delivered by means of the Farm Tax Rate which is, in effect, an assessment system applied only to land operated by bona fide farmers. This assessment system was established in 1971 and the values have not been updated since. There are three classes, Class 1 with an assessed value of $150 per acre, Class 2 $100 per acre and Class 3 $50 per acre. Farm woodlots are also assessed at $50 per acre.

The three classes are representative of potato, mixed grain and pasture land. The assessment market values of land in the Class I category ranges up to $2,500 per acre. In effect, on some farm properties, the Farm Tax Rate creates a reduction in assessment of $2,350 per acre.

Farm buildings and farm residences are assessed at market value. New buildings are assessed on the basis of building permits and older ones on a depreciated basis. Equipment in farm buildings is neither assessed nor taxed. Buildings used for farm related processing as opposed to production or storage activities are assessed as industrial.

I.3 Property Taxation

The provincial government levies a tax on all properties with the exception of those owned by the province, municipalities, religious, educational and health institutions and environmental areas. These latter are relatively small in area, about 8,000 acres and consist of natural area protection zones, wildlands, wildlife management areas and designated shorelines.

There are two general tax rates, commercial which applies to all commercial and industrial property and non-commercial which applies to all residential and farm properties. The commercial rate is $1.50/$100 assessment. The non-commercial rate is $1.50 less a variable credit which, in rural areas, is usually $0.50/$100 assessed value. The provincial tax rate varies by municipality depending upon what services the municipality provides. The effective provincial rate in Charlottetown is $0.34/$100 assessment and for Summerside, only $0.04/$100 assessment.

The effective provincial land tax on top valued farm land operated by a bona fide farmer is:

$$\frac{\$150}{100} \times 1.00 = \$1.50/\text{acre}$$

Some municipalities request the province to also collect a land tax for their use. The same assessment values are utilized and the municipality establishes the mill rate. The mill rate values ranged in 1997 from a high of $1.74 to a low of $0.045/$100 assessment for those municipalities which collected a tax on non-commercial property. Some municipalities are part of Fire Districts. The Province collects, for the local municipalities, a flat fee of from $5.00 to $500.00 on properties within these fire districts. Tax yields by broad property class are shown in Table I.1. For 1998, tax rates for a few municipalities are provided in Table I.2.

Table I.1: Assessment Values and Tax Yields, Prince Edward Island, 1998

Tax Class	Assessment	Taxes		
		Provincial	Local	Total
Commercial	719,372,000	10,659,931	10,610,825	21,270,756
Non-commercial	3,787,068,800	28,659,311	23,323,734	51,983,045
Flat Rate	—	1,663,333	642,323	2,305,656
Total	4,506,440,800	40,981,575	34,576,882	75,559,457

Source: Prince Edward Island government.

Table I.2: Tax Rates by Class of Property, Selected Municipalities

Property	Malpeque Bay	O'Leary	Belfast	Eastern Kings	Summerside
COMMERCIAL					
Provincial	1.50%	1.50%	1.50%	1.50%	0.04%
Municipal	0.05%	—	0.20%	0.22%	1.90%
Total	1.55%	1.50%	1.70%	1.72%	1.94%
NON-COMMERCIAL					
Provincial	1.00%	1.00%	1.00%	1.00%	0.04%
Municipal	0.05%	—	—	—	1.71%
Total	1.05%	1.00%	1.00%	1.00%	1.75%

Source: Information provided by various municipal tax offices.

I.4 Government Responsibilities

Taxation and Property Records Division of the Provincial Treasury is responsible for establishing provincial assessment levels. They also determine which properties are granted a Farm Assessment. The Province is responsible for collecting all land taxes, both their own and those for selected municipalities which impose a land tax.

I.5 Administration of the Farm Tax Program

The program is available on the basis of application of the landowner to the Provincial Treasury. Since it has been in place since 1971, most applications are for recently acquired new or additional properties. Participation in the program is on the basis of the farm operator, not ownership. The operator must meet both farm enterprise and personal business criteria. In effect, the operator must have owned and operated 20 acres for 10 years or more or lands from which gross sales for the previous calendar year were in excess of $2,500. Alternatively, a more intensive poultry, hog or market garden enterprise must be operated for 10 years or more or produce gross sales for the previous calendar year in excess of $10,000. The farm enterprise must be operated in the name of a person with bona fide farmer status.

Bona fide farmer status requires that the operator spend 50% or more of their working time on the farm or to receive more gross cash income from the sale of farm products than from wages for work performed off the farm. Bonafide Farmer status is also available to former bona fide farmers who retire, have a life interest in a property or is the widow or widower of a former bona fide farmer.

Firms which own land may qualify for the lower assessment levels if the firm is registered in Prince Edward Island, operates a farm enterprise and has one officer who either spends more than 50% of their working time on the farm or annually receives more gross cash income from the farm products of the farm than wages for work performed off the farm.

The Provincial Treasury, under the Real Property Assessment Act, defines “Farm Property” as arable land and complementary buildings, operated as a farm enterprise by a bonafide farmer. It does not include land rented from a non-bonafide farmer. Where less than all of a real property is used for farming purposes, the farm assessment shall be calculated only on the portion used in the farm enterprise.

The Provincial Treasury keeps a record of all Farm Property and issues taxation bills on the basis of these records. As of the end of 1998, 10,531 farm properties were assessed as non-commercial and had an assessed value of $877,249,100. Of these, 10,527 were assessed at Farm Property rates as having a value of $346,158,100. These farms encompassed 638,023 acres.

I.6 Tax Treatment of Farm Land and Farm Buildings

Farmland owned by a bona fide farmer is assessed at a Farm Tax Rate. Farm residences and farm buildings are assessed at market value. All farmlands, buildings and residences are taxed by the Province at the Non-Commercial Rate which varies from municipality to municipality but generally is in the range of $1.00 per $100 assessed value. Some municipalities have the Province collect a modest tax on properties in their jurisdiction. Farmers receive a benefit in relation to both provincially and municipally levied taxes because of the lower than market value assessment of farmland.

A very few, 35 farms, had buildings or lands which were assessed as commercial and had a value of $2,855,700. Buildings used to process farm produce are assessed as commercial. No distinction is made in taxation rates between commercial and industrial. Equipment is not included in assessed values unless it is an integral component of a building, such as ventilation equipment.

I.7 Services Paid for in Farm Property Tax Rate

The farm tax collected by the Provincial government is included in General Revenue. As such, it contributes in some manner to all services provided by the province. These include: education; health; security; welfare; roads; sanitation; and debt servicing.

The municipal taxes in urban areas cover services such as security, roads and sanitation. Most rural municipalities collect relatively small amounts by means of taxes. Many collect nothing or only a fee for fire services. It is not especially meaningful to attempt to allocate property taxes to various services when most of them go to general revenue.

I.8 Comparisons to other Property Classes

Woodlands are assessed at half the Farm Tax Program rate for top farmland, i.e. $50/acre. The Market Assessed Value of Class 2 land which is cleared goes up to $2,500 and the same land not cleared (woodlots) goes up to $150/acre. The $50/acre is a concession given to bona fide farmers. Wildlife management areas totally exempt — 8,000 acres total.

I.9 Municipal Services Consumed by the Farm Sector

The farm sector, consisting of land, buildings and residences which house farm families make demands upon education, social welfare, health and protection in direct proportion to the number of people involved and at a rate relatively similar to urban areas. One area where farms may make greater claims than residential areas are on roads due to the necessity to transport farm inputs and farm products. Land per se makes few demands for services, but when it is cultivated and cropped, it makes some claims to the movement of products and requires small inputs of policing.

I.10 Agricultural Tax Concessions

For the years 1995, 1996 and 1997, the Provincial Treasury has calculated the amount of the Bonafide Farm Tax benefit based upon both the Provincial and municipal rates. The saving on Provincial property taxes because of a lower assessed value of farmlands was estimated in 1995 at $4,169,565. The saving on municipal and fire district rates was estimated at $297,188 for a total benefit of $4,466,753. The estimates for 1996 and 1997 were $4,840,029 and $4,873,008 respectively. For details of the calculation, see following page.

Table I.3: Dollar Benefits from Preferential Assessment of Farm Lands Based on Tax Rates, 1997

Provincial Tax Rates		
Bonafide Farm Lands Non-Comm. Market Value Assessment		$804,690,800
Farm Rate Assessment on same Lands		$341,879,900
Net Difference		$462,810,900
Benefit when Municipalities Receive:		
1) $0.70 credit	$7,068,436 x 0.0080 =	$56,547
2) $0.60 credit	$3,297,547 x 0.0090 =	$29,678
3) $1.16 credit	$3,313,400 x 0.0034 =	$11,266
4) $1.46 credit	$3,585,052 x 0.0040 =	$1,434
5) Residual Receiving $0.50 Credit	$445,546,465 x 0.010 =	$4,445,465
Total Benefit		$4,554,390
Municipal and Fire District Rates		
Bonafide Farm Lands Non-Comm. Market Value Assessment		$353,246,301
Farm Rate Assessment on same Lands		$159,584,470
Net Difference		$193,661,831
Dollar Benefit on Municipal Taxes		$318,618
This was calculated by multiplying the difference between market value of Bonafide farmlands and the Farm Tax rate assessment by the rate in each municipality which levied a municipal tax.		
The Total Benefit is	$4,554,390 + $318,618 =	$4,873,008

The data in Table I.4 indicates that $2.6 million of property taxes paid by the agricultural sector are around 0.30% of assets (land and buildings) value and just under 1 percent of gross farm sales.

Table I.4: Prince Edward Island Farm Property Tax Data, 1986 to 1997

Year	Value of Land and Buildings	Gross Farm Income	Gross Farm Property Taxes	Taxes as Percent of Assets	Taxes as Percent of Sales	Capital Turnover Ratio
		$'000				
1986	489,545	186,970	1,314			
1987	497,584	215,097	1,398			
1988	505,755	208,614	1,456			
1989	545,153	257,650	1,481			
1990	645,711	252,953	1,515			
1991	658,314	243,232	1,618			
1992	683,223	227,066	1,683			
1993	676,391	238,821	2,065			
1994	744,706	307,297	2,359			
1995	846,731	311,999	2,592	0.31%	0.83%	2.7 years
1996	910,236	290,220	2,567	0.28%	0.88%	3.1 years
1997	962,119	274,822	2,641	0.27%	0.96%	3.5 years

Source: Statistics Canada, Catalogue no. 21-603, Agriculture Economic Statistics.

Appendix J: Taxation of Agricultural Property in Newfoundland

The Real Property Tax Exemption Program for Agricultural Land provides for some property tax relief for farmers in Newfoundland. Eligible farm property is exempt from the real property tax by provincial statute (The Municipalities Act), however, some municipalities assess a business tax on farm properties as a source of local revenue. The farm residence is taxed in the same manner as other residential property — this can include a poll tax in addition to a real property tax.

J.1 Overview of Property Taxation in Newfoundland

Real property is assessed based on market value for a number of different classes of property. These classes can vary by municipality, and can include:

- Residential Realty,
- Business Realty (including farmland), and
- Business Occupancy (including farmland).

Each municipality has the authority to set its own property tax rates, with all revenues collected staying in the municipality. Within the business tax grouping, each municipality can establish separate business tax rates for each type of business. In addition to the property tax some municipalities assess a business tax, based on assessed property values or based on gross receipts. Farm property can be subject to the business tax. The business tax can be based on assessed property values, or it can be a gross receipts based tax. In some municipalities, there is a minimum realty tax.

As well, some jurisdictions have a poll tax (applicable to residents over 18), which can substitute for the real property tax, or be in addition to a realty tax.

The farm residence is assessed separately from the farmland and buildings, with the farm residence assessed and taxed as other residential property.

J.2 Assessment of Agricultural Property

All classes of land are assessed based on a current market value approach, with current assessment values based on 1996 values. Agricultural property is assessed based on current market value — land is valued based on market value in the area, and buildings are valued based on replacement value with a depreciated cost reflecting the age of the building.

J.3 Property Tax Rates

In Newfoundland each municipality has the authority to establish property tax rates (mill rates). A sample of tax rates (expressed in percentage terms) by class of properties for a number of municipalities is illustrated below in Table J.1. Some areas have no realty tax, for example Musgraveton, which instead assesses a $150 poll tax (residents over 18) and has a 0.33% gross receipts business tax — which includes the farm sector. For the municipalities listed in the table, the business tax on farm property ranges from 0.0% to 1.0% of assessed property values.

Table J.1: Tax Rates by Class of Property, Selected Municipalities

Tax Area	Town of Cormack	Town of Pasadena	City of St. John's	Conception Bay South	Logy Bay/ Outer Cove
Residential Property Tax	0.60%	0.70%	1.10%	0.70%	0.60%
Business Property Tax	0.60%	0.70%	1.70%	0.70%	0.60%
Minimum Property Tax	$200	$200	—	—	$125
Agr. Property Tax	0.0%	0.0%	0.0%	0.0%	0.0%
Poll Tax	$200	$200	—	—	$125*
BUSINESS TAX					
Agricultural	0.55%	0.8%	0.0275%	0.0%	1.00%
Manufacturing	0.60%	1.10%	1.80%	1.25%	1.20%
Other	1.10%	1.10%	1.80%	1.30%	1.20%
Minimum Tax	$100	$150	—	$350	$200

* For non-property owners.

Source: Information provided by various municipal tax offices.

J.4 Government Responsibilities

The Municipal Assessment Agency (a provincial agency) provides an assessment of real properties in each municipality, except for St. John's where the city assesses property in the municipality. Each municipality has the authority to establish its property tax rates for each of the property classes. Municipalities can also establish a business tax rate, which also applies to farm property.

Exemption of farm property is based on provincial legislation. The Department of Forest Resources and Agrifood verifies eligibility, and forwards this information to the municipality and to Municipal Affairs. The latter indicates to the municipalities which properties are exempt from the real property tax. Local governments are not compensated by the provincial government for foregone revenues on exempt properties. It is for this reason that some municipalities impose a business tax on farms.

J.5 Administration of the Real Property Tax Exemption Program for Agricultural Land

The objective of the *Real Property Tax Exemption Program for Agricultural Land* is to identify productive farm land and farm buildings that may be eligible for exemption from the real property tax. Exemption is based on the assumption that not all an individual's land is capable of agricultural production, due to bogs, rocks, etc. The farmhouse (residence) and 0.5 acres are excluded, and taxed at the residential rate.

Eligibility is based on the following:

- Gross farm sales must exceed $5,000 per annum (with income averaging between years);
- Rented land is eligible — with benefits to the landlord;
- Not all of the farmland is necessarily exempt, but is based on a formula that includes acreage based on sales of $250 per acre. With $50,000 of gross sales, 200 acres are eligible for the exemption; and
- The gross sales minimum does not apply to new entrants and expanding farmers.

Program administration begins with farmers applying for the exemption to Department of Forest Resources and Agrifood. The Soils and Land Management Division reviews the applications for eligibility and recommends an exemption to the Department of Municipal Affairs. Municipal Affairs and the Department of Forest Resources and Agrifoods provide the exemption information to the municipalities. In 1998, 227 farms received property tax exemptions. These exemptions applied to 69 municipalities. The municipalities of Cormak, Conception Bay South, and St. John's have the bulk of the farm exemptions.

J.6 Tax Treatment of Farmland and Farm Buildings

Farmland and farm buildings are both exempt from the local real property tax. Greenhouse operations are eligible if they filed their income tax with Revenue Canada as a farmer. These farming operations can be subject to a business tax.

J.7 Comparison to Other Property Classes

Newfoundland has a tax program for managed forests. If the forest is managed as per an agreed upon forest management plan, the province provides a preferential property tax rate. For 1998, this rate was $0.579/ha for managed forests, and $28/ha for unmanaged forests. This tax is administered by the province, with revenues going to the province.

J.8 Agricultural Property Tax Concessions

In some municipalities farmers receive a concession since the farm is exempt from any local tax, while in other jurisdictions farms, even though exempt from the real property tax, are subject to a business tax. This business tax is assessed to ensure the municipality generates sufficient revenue for local expenditures. The property related taxes raised from the agricultural sector are estimated at just over $200,000 by Statistics Canada (Table J.2). These taxes are 0.15% of asset value in the agricultural sector.

Table J.2: Newfoundland Farm Property Tax Data, 1986 to 1997

Year	Value of Land and Buildings	Gross Farm Income	Gross Farm Property Taxes	Taxes as Percent of Assets	Taxes as Percent of Sales	Capital Turnover Ratio
		$'000				
1986	78,386		87			
1987	87,003		112			
1988	96,567		130			
1989	107,182		152			
1990	118,965		178			
1991	132,951		186			
1992	134,148		193			
1993	135,355		193			
1994	139,416		204			
1995	143,598	66,825	214			2.1 years
1996	140,726	73,786	216	0.15%	0.30%	1.9 years
1997	141,430	71,438	219	0.15%	0.31%	2.0 years

Source: Statistics Canada, Catalogue no. 21-603 Economic Economic Statistics.