

Municipal Government Act

progressive powers for municipalities

INFORMATION BULLETIN #9

MINIMUM TAX

Summary: New authority for most municipalities is a minimum property tax per dwelling unit.

Legislation: Specific - Section 74

Discussion: Section 74 of the *Municipal Government Act* permits councils to establish a minimum tax per dwelling unit as part of the budget process. The tax must be adopted by policy and is not simply part of the tax rate resolution.

The usual reason for considering a minimum tax is that a municipality has a large number of low-valued homes occupied by people whose income is at least the municipal average. In these communities, the usual rough correspondence between the assessed value of a home and the income of its residents has failed significantly. Otherwise, the minimum tax could be regressive (a tax on the poor).

The tax applies only to residential dwelling units. The number of dwelling units in a property is determined by the assessors. The minimum tax can be set at different levels in different parts of the municipality. This might be appropriate if service levels differ widely or if the municipality uses urban, suburban or rural tax rates.

How the tax works is that the usual tax is first calculated (rate times assessment). If the result for any dwelling unit is less than the minimum set by council, an additional tax is payable to bring the total tax payable up to the minimum. For example, if council establishes a minimum tax of \$400, and the normal property tax is only \$300, then an additional \$100 is payable. In the case of multi-unit buildings, each dwelling unit is subject to the minimum

tax. To continue the example, if the total tax bill on a three-unit building is \$1,000, an additional \$200 would be payable since the minimum for that property would be \$400 times three, or \$1,200. Of course, council has complete freedom to set the minimum at whatever level it considers appropriate, or not to levy a minimum tax at all.

Critics of a minimum tax tend to target the potential regressive nature of this tax policy. However, a minimum tax policy is one component of an overall taxation framework, with a municipal council empowered to provide tax deferrals and tax exemption if it so chooses to address issues of regressivity.

The minimum tax is not completely new money, and budgeting may be more complex than at first appears. Because a minimum tax applies only to residential property, and because budgeting for it can be complex, councils should be careful to consider the importance and impact of the minimum tax in their municipality before implementing it.

Date Produced: February 1999

Note: The reader is cautioned that preparation of this and subsequent Information Bulletins containing practical suggestions must necessarily involve interpretation of legislation as it applies in general situations. Specific situations may require careful legal analysis and therefore reference should be made to the *Municipal Government Act*, other relevant legislation and to legal advisors.