

Municipal Government Act

progressive powers for municipalities

INFORMATION BULLETIN #34

URBAN, RURAL AND SUBURBAN TAX RATES

Summary: All municipalities are permitted to levy three general tax rates, for urban, rural and suburban areas of the municipality.

Legislation: Specific - MGA Section 73
Related - Section 72

Discussion: Section 72 of the *Municipal Government Act* provides that after estimating how much revenue council needs from taxation for the coming year, it sets a commercial tax rate and a residential tax rate that, between them, will raise the required amount. Section 73 gives municipalities additional choices.

The additional choices are that council may set different residential and commercial rates in the area it considers urban, the area it considers suburban, and the area it considers rural. In Halifax Regional Municipality, council must use this three-tier rate structure.

In order to apply the three-tier rate structure, council must first determine the boundaries of the areas it considers urban, those it considers suburban and those it considers rural. Council then has to determine how much it wants to recover from the three types of development. Usually this decision will be affected by council's view of the level of services provided to each of the three, since service levels are intended to guide council's decision as to the boundaries of the three.

Some councils have viewed an urban rate as a combination of a basic general rate and the combined area rates required to provide the additional services in all of the urban areas. A similar analysis applies to determining the suburban rate, generally at a somewhat lower level of services. The rural rate would usually be about the same as the general rate.

Other councils may feel more comfortable using an area rate structure instead, usually because the urban areas do not all receive the same services. Although area rates can be used along with the three-tier rate structure, some councils may regard that concept as too complex.

Of course, if a three-tier rate structure is used (involving up to six different tax rates), the total projected to be raised must at least equal the funds council requires. The balancing act is actually relatively simple.

One commercial rate across the municipality is another possibility.

Whether a council will want to use three sets of general rates, possibly supplemented by area rates in some cases depends a lot on the characteristics of the municipality. If the entire municipality is virtually the same character, the existing tax rate structure may be most appropriate. If there is a large rural area with some suburban developments receiving a different level of service that is roughly the same for all of them, separate rate structures may be desirable.

It is possible to have just an urban and rural rate, or a suburban and rural rate. A larger town might even have just an urban and a suburban rate.

Finally, it is not mandatory that a municipality (except HRM) adopt any of the three rates. The choice exists to allow municipalities to develop a structure of tax rates that best suits its own situation.

If council would like to develop a tax structure using the choices permitted by the *Municipal Government Act*, there may be a concern that the changes are too big to implement all at once. Transitional procedures could space these changes over a number of years and reduce year to year disruption. The easiest way to introduce a new rate structure could be to phase in the changes. The Act does not specify exactly how to calculate an urban, suburban or rural tax rate. Therefore council could construct a phased in approach that, for example, reduced or increased) the suburban rate over three to five years (depending on how big the changes were).

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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.