

February 26, 2014

Honourable Brad Wall
Premier
Government of Saskatchewan
Room 226, Legislative Building
2405 Legislative Drive
Regina SK S4S 0B3

Dear Premier Wall:

The Saskatchewan Chamber of Commerce, the Voice of Business in Saskatchewan, was struck by the comments you made at our Political Forum in January and repeated in your address to the Saskatchewan Urban Municipalities Association convention and we believe the insight of our business membership can offer you guidance on the issue.

First and foremost, the Saskatchewan Chamber of Commerce agrees with your government's position that the provincial budget needs to continue to be balanced and that our growing infrastructure needs have to be addressed. We understand that meeting both of these obligations puts pressure on the province's fiscal capacity; however we also know that business planning cycles stretch over several years and your government's continued postponement of the Corporate Income Tax reductions is starting to have unintended consequences.

Cash flow is essential to business, impacting payroll potential, capital investments and expansion plans and any reduction to this flow may lead to a compounding loss of economic activity. Historically corporate income tax rate reductions have led this province to greater corporate tax revenue, and we believe the reduction from 12% to 10% would have the same result. As the economy looks to be moving toward a plateau, now is the best time to inject cash flow into businesses. As such, the Saskatchewan Chamber strongly encourages your government to not postpone the promised corporate tax reductions. The continued delay of additional cash flow, as would be offered to businesses through the Corporate Income Tax reductions, is delaying business capital investments.

With regard to the potential increase in the education portion of property tax, the membership of the Saskatchewan Chamber of Commerce appreciates your government's careful consideration in relation to tax increases and as such we acknowledge that you will make the most economically viable determination to support additional education infrastructure funding. Should your government determine that increasing the education portion of property tax is the approach to take, we urge you to use this opportunity to implement an outstanding recommendation from *A Tax Framework for Saskatchewan's Continuing Prosperity*.

The Saskatchewan Chamber of Commerce, and all supporters of the *Tax Framework*, believe that any increase to the education portion of property tax should be implemented so that the differential in the

effective rate of education property tax for non-residential properties be capped at 1.43 of residential properties. This would equalize the effective rate of tax on residential and non-residential properties as businesses can deduct property taxes. While we are not in a position to endorse an increase in education property tax levels, should you do so, please correct the structural challenge at the same time. Additionally, any potential increase in rates should be matched with provincial funding allocations to preserve the province's 35/65 split.

We appreciate your consideration of our perspective on these matters; if you have any additional questions please do not hesitate to contact me at 306-352-2671.

Yours truly,

Steve McLellan
CEO

Background

January 2014

Education Portion of Property Tax

Core Issue: The government of Saskatchewan is looking at ways to fund additional investments in preK-12 education. One of the options being considered is an increase in the education portion of property tax. The purpose of this paper is to provide an understanding of the current situation with regard to the education component of property tax to allow for the Saskatchewan Chamber of Commerce to adopt an informed policy position.

Introduction

There are two components to property tax in Saskatchewan: the municipal property tax portion and the education property tax portion. Although often lumped together in discussions, these two portions are subject to very different rules. The education property tax is the property tax that is imposed on all properties to help finance expenditures related to K-12 education.

Recently, Saskatchewan government officials, including the Premier, have been publically musing about the most effective way to pay for the construction of new schools and support the province's growing student population. One of the options that the government appears to be seriously considering is increasing the amount property owners pay in education property tax. The purpose of this paper is to provide an understanding of the current situation with regard to the education component of property tax to allow the Saskatchewan Chamber of Commerce to adopt an informed policy position.

Background

Property tax calculations are expressed as a "per mille," which is the amount of tax per 1,000 units of value. Thus, property tax rates are often called mill rate.

To calculate the property tax owing, governments multiply the taxable assessed value of a property by the mill rate and then divide the total by 1,000. The Education Property Tax mill rates for 2013 were set at 2.67 for Agriculture, 5.03 for Residential, 8.28 for Commercial/Industrial, and 11.04 for Resource properties. Due to the 2012 reassessment of property values in the province, the government decided to lower the mill rates for 2013 from the 2012 level so that overall property taxes remained revenue-neutral in terms of re-assessment.

The Impact of the Education Portion of Property Tax Mill Rate

Commercial Property				Residential Property			
$\$500,000 \times 100\% = \$500,000$				$\$500,000 \times 70\% = \$350,000$			
Assessed Value	X	% of Value	= Taxable Assessment	Assessed Value	X	% of Value	= Taxable Assessment
<hr/>				<hr/>			
$\$500,000 \times 8.28^*/1000 = \$4,140$				$\$350,000 \times 5.03^*/1000 = \$1,760.50$			
Taxable Assessment	X	Education Mill Rate	= Education Property Tax Owing	Taxable Assessment	X	Education Mill Rate	= Education Property Tax Owing
* 2013 mill rate for the commercial/industrial education portion of property tax				* 2013 mill rate for the residential education portion of property tax			

% of value taxed is based on land type, Residential land and improvements = 70%, Commercial/industrial land and improvements = 100%, Agricultural (non-arable) = 40%, Other agricultural land & improvements = 55%.

Current Situation

Historically the education portion of property tax was a source of discontent in the province as equitability and consistency were not always present because of the degree of autonomous, local control held by the school divisions. In 2009 the government released a review of education property tax, the *Reiter Report (2009)*. Based on this report the province announced several structural changes to the system.

Most significantly, the government of Saskatchewan assumed more control over Saskatchewan's education property tax system and its authority now includes setting a province-wide education property tax mill rates. Based on this rate, amounts are remitted to school boards after they are collected by the municipality.

In response to the *Reiter Report*, the government also announced plans to cap the contribution of the education property tax by having preK-12 education funded 65% by the province and 35% from property taxes; previously about 60% of education funding had come from property taxes and 40% from the province.

For 2013 it is estimates education property tax will provide \$635 million for school funding (down from \$649 million in 2009) and the Government of Saskatchewan will provide \$1.139 billion in school operating funding. This represents a 35.8%/64.2% funding spilt. Capital funding is not including in these operating number, although almost all funding provided to the school divisions is unconditional so it could be used for capital funding if they deem it appropriate.

Other Considerations

The Saskatchewan Chamber of Commerce's currently adopted policy *A Tax Framework for Saskatchewan's Continuing Prosperity* recommends capping the differential in the effective rate of education property tax for non-residential properties at 1.43 of residential properties. This would equalize the effective rate of tax on residential and non-residential properties as businesses can deduct property taxes. It would be feasible that an increase in the total amount of education property taxes would still be able to achieve this recommendation; however it would result in a disproportionate amount of any education property tax increase being borne by residential property owners. Additionally, a potential increase in rates could be adjusted to preserve the province's 35/65 split, although it would require an even greater contribution of provincial revenues than currently utilized.

Nevertheless, property tax is a capital tax that acts as a major disincentive to investment. Any increase to it should be carefully evaluated for sustainability and competitiveness. Funding education through increased education property tax even more difficult to justify since a significant number of the taxpayers do not directly benefit from the service being funded.

Thus far the government has indicated there are no concrete plans for an education property tax increase in the budget but they are trying to figure out how to pay for some of the new infrastructure investments related to education.