

Property Taxation Supporting Education:

FACT and FICTION

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Each year as school divisions prepare their budgets, deliberations resume about the funding of public education. The media publishes stories about increased expenditures, the confusion regarding the provincial funding formula, property tax bases and assessment. To further complicate things, policy analysts, think tanks and real estate associations comment on property taxation and equity. Even municipal officials chime in about the collection and the relative level of municipal and education taxes. Unfortunately, some of the statements are misleading.

One would be led to believe that Manitoba is the only province in Canada where property taxation is utilized to support education. Some have argued that education property taxation is higher in Manitoba than in other provinces. Others have even oversimplified the impact of moving away from property taxation as a support for public education and trivialized what would be required to replace this revenue source. Last but not least, the impact on programs and services for students is underestimated.

Revenue from Property Taxes

The reality is that the different levels of government derive revenues from taxes on real estate properties for various purposes. Typically, municipalities and cities use those revenues for normal operations such as snow clearing, libraries, recreation services, fire and police services and solid waste collection as well as for providing and maintaining street and other infrastructure. Fees charged for services often assist in addressing a portion of the costs.

Throughout Canada, with the exception of some maritime provinces, property taxes are levied to support education. In most cases, the province levies the taxes and redistributes these monies to school divisions and districts. The funding and grants pays for virtually all costs of providing programs and services to students. Other sources of revenue are negligible.

In Manitoba, school divisions levy property taxes. Approximately one third of the revenue required to deliver programs and services to students is raised through taxes levied. Many have sited this as an unfair burden to property owners which is unique to this Province.

Actually, a recent review of property taxes for education in western provinces shows that education property tax is the source of 34–35 per cent of the grants and funding for school divisions and districts. The general revenue of the provinces (income taxation, royalties, etc.) is the source for the balance of the funding.

Taxation for Education in Western Provinces

From British Columbia to Manitoba, property taxation is utilized to provide support education from kindergarten to grade 12. Although the method of setting tax levies, property assessment processes, the application of tax to various property classes, tax relief, incentives and exemptions vary from province to province, there are many commonalities.

In British Columbia, the provincial government determines the tax to be raised and the municipalities collect the tax and remit it to the province. The residential rates are set annually

by the province for each school district. The tax rates for other non-residential property classes including industrial, business, forest, farm and recreation, are set on a uniform province-wide basis. School boards have the option of raising local tax by referendum.

In Alberta, the province determines the level of taxation that is paid to municipalities for remittance to the Alberta School Foundation Fund (ASFF). This Fund was established by the Province to ensure the education property tax is accounted for separately from general revenues. The ASFF distributes monies to school boards on a per-pupil basis and to opted-out school boards net of the taxes they directly receive. The opted-out school boards requisition revenues by holding a plebiscite to obtain approval of the electors of that district or division for a Special School Tax Levy. In addition to residential rates, the Province also has rates for non-residential and farm properties.

Much like British Columbia, properties in Alberta are assessed annually based on market value. Education property tax relief is available to Albertan seniors with low to moderate incomes and beginning in 2013, the Seniors Property Tax Deferral Program has allowed eligible senior homeowners to defer all or part of their property taxes through a low-interest home equity loan with the Alberta Government.

As in the other western provinces, the provincial government in Saskatchewan determines the property tax to be raised for education. Municipalities collect education property tax from property owners, based on tax rates set by government and remit the tax to boards of education. The assessment is conducted

every four years based on market value, with properties falling in classes including residential, agricultural, commercial and resource. A percentage of the assessed value is taxable depending on the property class, which allows the province to determine the distribution of the tax burden.

School divisions in Manitoba individually determine the revenue they require to be raised from property taxation. This revenue is collected for the school division by the local municipalities through a uniform mill rate applied to all classifications of property. The provincial government also sets an Educational Support Levy, which is collected by municipalities mainly from commercial properties, and remitted to the Province. The property assessments to which the mill rates are applied are generally reassessed every two years based on market value. Similar to Saskatchewan, a percentage or portion of each property's assessment is taxable depending on the classification. A 45 per cent portioning rate applicable to the residential property class assessment, for instance, results in a lesser tax burden than commercial

property which has a 60 per cent portion rate.

Tax relief provided in Manitoba is significant. In addition to the \$700 Education Property Tax Credit provided to resident homeowners, the Province also provides Pensioner's School Tax Assistance and a Farmland School Tax Rebate. A senior tax exemption is also being introduced. Exemptions are also provided for non-profit organizations.

Comparison of School Tax

Sorting through the various rates, property assessment practices and tax relief measures might leave a person wondering what it all means to a resident taxpayer. In an effort to provide a practical comparison, a recent review looked at two types of homes in major cities in western Canada (See Tables 1 & 2). The results of the comparison were very revealing.

The first comparison was for a detached three-bedroom bungalow with one and one-half bathrooms, a one car garage and a full basement. The total living space in this representative home was 1,200 square feet and the lot size was 5,500 square feet. The houses

were situated in Vancouver, Calgary, Regina/Saskatoon and Winnipeg. In order to be consistent with tax relief, the base grant for the Vancouver house and the tax credit for Manitoba were applied. As would be expected, although the homes were comparable, the market value varied significantly. The net taxes payable after applying the respective mill rate, applicable portion/percentage rate and available tax grant/credit were very different.

The lowest taxes payable was for the house in Vancouver. Property taxes on the house in Winnipeg was the second lowest, well below those of the houses in Saskatchewan and Alberta.

A second comparison was conducted of a representative executive two story, 2000 square foot, four bedroom house with two and one-half bathrooms, a main floor family room, one fireplace, and an attached two car garage on a 6500 square foot lot. The results for the comparison of the houses showed the Vancouver net taxes again being the lowest. As in the first comparison, the Manitoba house had the second lowest taxes although

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Table 1

	British Columbia	Manitoba	Alberta	Saskatchewan
<i>Taxable Portion</i>	100%	45%	100%	70%
<i>Education Mill Rate</i>	1.53	14.07	2.7	9.51
Detached Bungalow*				
<i>Market Value**</i>	\$840,000	\$259,300	\$411,700	\$173,400
<i>Assessed Value for Tax</i>	\$840,000	\$116,685	\$411,700	\$121,380
Education Tax	\$1,289	\$1,642	\$1,112	\$1,154
Less: Grant/Tax Credit	-\$570	-\$700	–	–
Net School Tax	\$719	\$942	\$1,112	\$1,154

** Using appropriate valuation dates.

Table 2

Executive Two-Storey*	British Columbia	Manitoba	Alberta	Saskatchewan
<i>Market Value**</i>	\$975,400	\$351,700	\$570,500	\$235,200
<i>Assessed Value for Tax</i>	\$975,400	\$158,265	\$570,500	\$164,640
Education Tax	\$1,497	\$2,226	\$1,540	\$1,566
Less: Grant/Tax Credit	-\$570	-\$700	–	–
Net School Tax	\$927	\$1,526	\$1,540	\$1,566

** Using appropriate valuation dates.

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the beneficial effect of the education property tax credit was lessened due to the higher house value.

Alternative Revenue Sources

It has been suggested that education property taxes in Manitoba should be replaced with a different source of funding for school divisions. The proponents of this change have argued that this province should fund education entirely from general revenues and from Manitoba Hydro reserves because education is a core service.

What the proponents fail to identify is the cost to taxpayers from such a change. The school taxes in Manitoba for 2013 totalled \$647.5 million which combined with the provincial Educational Support Levy primarily on commercial property of \$150.9 million means that the additional general revenues that would be required for education would be almost \$800 million. To put this in perspective the Province would have to increase personal and/or corporate income tax rates to generate \$800 million in general revenues; increase Provincial Sales Tax by over 1 per cent or some combination thereof. The end result would be a shifting of the tax burden away from real estate.

The Impact on Students

By having the ability to levy taxes, school divisions in Manitoba are able to not only make up the difference between the cost of core programs and services for students and the amount of funding provided by the Province, divisions also have the ability to raise the revenues required to meet the specific needs in their community schools.

Shedding Some Light

In the dialogue about education finance, it is very important that the factual information be shared about how property taxation is utilized to support education across Canada, about the province to province level of property taxation and about the other revenues that would be required to fund education. Misinformed or uninformed decisions could lead to very detrimental outcomes for students and school communities. ■



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