

# Strong Fiscal Futures

## A Blueprint for Strengthening BC Local Governments' Finance System

### FAIRER REVENUE TOOLS

The property tax is a key component of the local government revenue system. While it has many positive attributes, it also has two key weaknesses – its poor responsiveness to economic growth, and its tendency to load a disproportionate tax share on to lower income groups.

While not an initial priority, work needs to begin now on improvements to counteract these two inherent weaknesses in the property tax. Providing local governments with a share of revenue achieved through economic growth will help, but additional improvements will provide even greater benefits. The **Fairness** key direction is about making those improvements.

Improvements can be accomplished through property tax reform and/or tax sharing arrangements, and *Strong Fiscal Futures* sets out a number of principles that could guide decisions on both.

**Principles** include those related to counteracting system weaknesses (i.e., poor economic responsiveness and regressive distribution), as well as other tax policy objectives (e.g., a better fit between who benefits and who pays; stability and predictability; practical administration; and fiscal relations in keeping with local government's role as an autonomous order of government).

#### Potential property tax reform

Since property tax is already closely identified with local government, a larger share of a fairer, more responsive property tax could be a key component of an improved revenue system.

Ways in which local governments can receive a larger share of this tax focus on reducing the Province's share of the tax over time, through things like dropping its growth rate from CPI to CPI less 1%.

Ways in which the property tax could be made fairer, more responsive, or both, include things like: providing local governments with 100% of the property tax attributable to new development; exploring low income property tax credits; and base broadening to include public institutions and crown corporations (e.g., hydro lines in rural areas).

#### Tax sharing

Tax sharing is where a portion of an existing tax is dedicated for local government use – through either topping up the tax or occupying tax space vacated by the Province.

Taxes that are particularly well suited to the principles include: personal income, sales, property transfer, and insurance premium taxes. Consequently, development of options concentrating on some combination of these taxes shows the most promise.

#### Next Steps and Revenue Distribution

We're ready to work with the Province to develop approaches to improving tax fairness, and once those decisions are made, to work through distribution mechanisms for that revenue. Since distribution mechanisms will require considerable additional dialogue with local governments, *Strong Fiscal Futures* does not propose distribution mechanisms, but rather provides some principles on which these decisions might be based.