Property Tax Relief for Seniors – A Policy-Based Approach

The Province of New Brunswick has committed to property tax relief for seniors. It has invited feedback and suggestions in the development of an approach. The City of Fredericton appreciates having the opportunity to comment and input. It is particularly important for the Province to consider the perspective of municipalities in any program which has implications on assessment and property taxation, given the shared property tax field in New Brunswick.

The City of Fredericton strongly recommends a thoughtful, policy-based approach in the development of such a program. Clear policy objectives, criteria, program measures and evaluation are critical to ensure that a new program produces the intended results within an anticipated financial commitment and with minimal unintended consequences or externalities.

1. Define the Program Objectives

There are at least three overall objectives that may be relevant in considering a program of property tax relief for seniors:

A) To provide overall financial relief to the seniors’ sector

B) To ease the burden of increasing property taxes on senior citizen homeowners; and

C) To establish an inducement for seniors to be able to remain in their own homes

While these three objectives are closely related and certainly not mutually exclusive, it is essential to define which of these (or others) is the main objective. The program design should then match the particular objective established. In addition, evaluation and adjustment of the program, if necessary, should be based on the extent to which the objective(s) is met.

A) To Provide Overall Financial Relief to the Seniors’ Sector

If the principle objective is overall relief of the financial burden for the seniors’ sector using the property tax as a vehicle, then such approaches as assessment increase management (capping, freezing), limiting of increases in the property tax bill, rebates and other overall methods could be considered. This would be applied to the overall sector and not necessarily use a means test for eligibility. It would be necessary to consider a parallel relief program for renting seniors and seniors living in other types of accommodations.

If this is to be the principle objective, it is recommended, however, that the property tax/assessment system NOT be used as the vehicle for financial relief. It is a poor measure of the overall financial status of individual seniors or the sector as a whole. For example, while the property tax may be a significant individual expense for seniors living on fixed incomes, unlike young people starting out,
seniors are much less likely to have mortgages on their property and the overall cost of homeownership may be more moderate. Providing property tax relief under this objective usually has the effect of shifting the tax burden from seniors to the other taxpayers, including first time homeowners whose home ownership costs may be many times that of seniors.

It is difficult to measure the effect of a program with such a broad objective. When do you know that the program has been successful? How do you judge whether the objectives have been met? How do you know when and if to adjust, enrich or discontinue the program?

Programs established under such broad, murky objectives tend to remain on the books for a long while, with no practical way to consider if they are doing the job. They are at the same time indefensible and indestructible.

B) To Ease the Burden of Increasing Property Taxes on Senior Citizen Homeowners

Property taxes, certainly across Canada, have been increasing steadily and sometimes precipitously over the last number of years — the combined result of strong real estate markets and expenditure pressures on municipalities (and in the New Brunswick case, the Province as well). It is probable (although not necessarily empirically documented) that property taxes as a percentage of the overall cost of living for seniors is increasing. This becomes particularly sensitive given the volatility of the assessment system which provides the basis for the levy of property taxes in all jurisdictions in Canada and, indeed across North America and elsewhere. The raggedness of the property tax is often characterized by a number of years of nominal increases followed by a spike year (usually the result of reassessment) where the tax bill can increase significantly in excess of inflation. This inevitably draws strong negative public reaction and calls for reform.

So, a valid objective of property tax reform for seniors could be a general easing or regulation of property tax bills. If this is the case, the establishment of some notional level of a benchmark high threshold could be considered. Already, this has been addressed to a certain extent through the recent introduction of the overall assessment cap. Now, assessments will not increase more than 3% in any given year unless there are extenuating circumstances.

Does government feel that additional general relief is desirable for seniors? Should there be a lower threshold than for the rest of the property tax payers? It would appear that an additional or enhanced program of generalized property tax relief for senior homeowners could be hard to defend in the context of overall property tax burden management.

C) To Induce Seniors to Remain in Their Own Homes

It is well documented that the longer seniors are able to remain in their own homes, the better off they, and society in general, will be. The establishment of programs and other inducements to make
it easy or desirable for seniors to remain in their own homes is a legitimate public policy approach. So reducing the cost of homeownership through managed property taxes is one way of working towards this end. However, it needs to be emphasized that the property tax is only one aspect of the cost of homeownership. While it is a highly visible and sometimes erratic cost, on average it may amount to only 15% (or less) of the cost of maintaining a standard house in New Brunswick, not counting financing or mortgage costs.

Having said this, easing or managing property taxes is often used to promote seniors remaining in their homes. This objective lends itself to measurement of impact and therefore success.

2. Define the Intended Target and Eligibility Criteria

Deciding which policy objective to strive for will help define the intended target group for a program of tax relief. If the objective is overall financial relief to the senior sector, then the program should likely be open and available to all seniors. Not only does it suggest that homeowner seniors should receive the relief but would suggest, as noted above, that all seniors (whether homeowners or renters) should benefit and without the use of a means test.

If the objective is an eased tax burden on homeowner seniors, then it is incumbent to establish what is considered to be an acceptable burden and address those whose burdens are in excess of that benchmark. Is the current 3% cap acceptable or should there be a lower threshold for seniors?

If the objective is encouraging seniors to remain in their own homes then the program should target primarily those seniors whose cost of home ownership, as reflected in property taxes, threatens their ability to comfortably maintain their home. To determine eligibility, both sides of the affordability equation – income and cost, need to be measured.

3. Establish Funding Arrangements

Establishing the funding arrangements in support of a property tax relief program is not simply a question of who should pay. It is also important to consider the full and true impact of the program design. For example, a program that provides relief through capping of assessment increases, simply shifts the tax burden from one group of taxpayers to another given that municipalities need a certain amount of dollars to provide services. If one sector is financially favoured, the cost is simply shifted to another. In the case of seniors’ tax relief, if assessment increase thresholds are reduced for seniors by a greater amount than the rest of the property tax base, the burden is simply shifted to the others who may very well be in a weaker position to absorb additional tax increases.

A better funding arrangement is to establish a direct budget-funded program. This allows a prescribed amount of public funds to be allocated to the program in a visible and measurable way.
This is a much more responsible public policy approach than programs whose true costs and impacts are hidden within the complexity and intricacies of larger programs.

4. Establish Evaluative Criteria and Measures

Well-defined and developed financial assistance programs have clear indicators of success established at the outset and a strong commitment is made to measure progress against these indicators at set intervals. Without such indicators and a commitment to measure progress, there is no way of knowing if the objectives are being met and there is poor accountability for the use of public funds. The adage, “If it can’t be measured, it can’t be managed” is relevant here. Open and transparent governance calls for programs with objectives, progress and success that can be identified, measured and reported.

The City of Fredericton’s Recommendation:

The City of Fredericton recommends that a sound, policy-based approach be followed in the design, roll out and management of a program of property tax relief for seniors based on the following features:

Policy Objective: To encourage seniors to remain in their own homes.

Target Group: Seniors whose financial means are such that the property tax burden could influence their ability to remain in their own home.

To measure this there should be an income means test against the current property tax bill. For example, a program could establish that no senior homeowner should have to contribute more than 5% of their household income to property taxes. A criterion such as this considers both the income of the senior and the extent of the burden of property taxes.

Funding Arrangements: The funding for this program should come from a direct and specific budgetary allocation of the Province of New Brunswick. This is clearly a provincial initiative and should be funded through an “A” base allocation, whose effectiveness can be measured against both the program objectives and in relation to all other government programs through the normal budget process. To do otherwise can lead to poorly defined and measured programs whose effectiveness is unclear and vague.

Program Evaluation and Reporting: Consistent with the funding arrangements above, pre-established evaluative mechanisms and a commitment to report on progress and success should be in place. For example, one measure could be an anticipated specified increase in the ratio of homeownership for seniors. Alternatively, a reduction of maintenance of a certain rate of
abandonment of home ownership could be established. It is understood that with changing demographics there are many factors that determine how and why seniors remain in their home but difficulty in measurement does not absolve policy-makers from proving the value of the expenditure of public funds.