Winnipeg Real Estate Board Submission to the City of Winnipeg Re: Ways & Means of Phasing out the Business Tax – September 2001

Preamble

Established in 1903, the Winnipeg Real Estate Board is the longest running real estate board in the country. It is a professional and industry association representing close to 1300 real estate brokers, salespeople, appraisers and financial members active in the local real estate market. In 2000, there were in excess of 10,000 Multiple Listing Service® (MLS®) sales totaling over $880 million in dollar volume transacted through the Winnipeg Real Estate Board. Members, especially from our Commercial Division, were also involved in a considerable number of exclusive listing sales and leases, which are in addition to the MLS® sales activity.

In 1998, the Board approved a civic position paper, which it has updated recently to be current this year. Front and center in this paper is the Board's firm commitment and resolve to urge the City of Winnipeg to place less reliance on property taxes as its main source of revenue. Moreover, the Board is recommending the City shift to alternate sources such as user fees or even consider selling off assets not deemed to be critical to today's operations and mandate. While the position paper does not directly call for the removal of the business tax, under the stated topic of Leadership, it does make reference to the business tax in response to the question, "Does the City actually encourage growth of business – are we really open for business?"

These recommendations are based on and refer to the report prepared by the City of Winnipeg on the ways and means of phasing out the business tax. The six options outlined in this report are as follows:

1. Phase-out the business tax by offsetting the revenue loss with increased real property taxes from all classes of property.
2. Eliminate the business tax by harmonizing the lost revenue with increased real property taxes from the non-residential classes of property.
3. Phase-out the business tax by offsetting revenue loss through savings from reduced tax-supported debt and finance charges starting in 2003.
4. Phase-out the business tax over time by offsetting revenue loss through new revenue sources.
5. Phase-out the business tax over a pre-determined time period of offsetting revenue loss through service reductions.
6. Retain the status quo.

Recommendations

1. First**,** do not stray one iota from the City's commitment to the three-year 6% property tax cut and the Mayor's pledge to reduce property taxes by at least

10% since he came into office. This clearly rules out choosing Option 1 in your background paper since it will result in a higher property tax burden placed at the doorstep of residential property owners who are already paying the highest effective property tax rate (property taxes relative to market values) in the country[1].

2. In meeting your commitment to reduce property taxes, proceed to phase out the business tax by means of offsetting revenue loss through savings from reduced tax-supported debt and finance charges starting in 2003. One way of phasing out business taxes as is being recommended by the Winnipeg Chamber of Commerce is by offering exemptions based on threshold amounts. This could be a very effective strategy from the point of view you are beginning to eliminate the negative optic that every Winnipeg business must pay a business tax whereas in other jurisdictions as close to home as Brandon, they do not have one at all. Reducing the rate is another way of phasing the business tax out but it will not pay off with the same dividends as the exemption method since all businesses will still be required to pay it.

   Another way of phasing out the business tax is to offset revenue losses through service reductions. While you have stated another option; that being, harmonizing the lost revenue with increased real property taxes from the non-residential classes of property, this one is a difficult one to even contemplate since it will require Provincial Government legislative change.

3. The status quo option should not be considered for the simple reason that in a highly competitive business environment where cities are aggressively pursuing new business development opportunities and doing everything to maintain and grow existing businesses, the business tax stands out as a negative impediment to economic development and therefore there should be a plan in place even if over an extended period of time to eliminate it.

[1] Effective residential tax rates in Canada, based on a survey of Canadian House Prices, Spring 2000 from the real estate company Royal Lepage, show that Winnipeg property taxpayers pay from 2.52% for a standard 2-story house to 2.21% for a condominium. Effective tax rates are lowest in Vancouver, Victoria, and Calgary where they are 1% or less for all housing types.