

Assessment Limits for Ontario: Could We Live with the Consequences?

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Executive Summary

Since Proposition 13 was first introduced in California over 30 years ago, most US states have implemented some form of limit on property tax rates, tax revenues, or property tax increases arising from reassessments (assessment limits). What if Ontario had implemented a limit on assessment increases thirty years ago along the lines of Proposition 13? Who would be the winners today? Who would be the losers?

This report evaluates the impact of assessment limits on property taxpayers and identifies some of the potential unintended consequences of imposing these limits (even for properties that are supposed to be protected by the limits). The evaluation is based, to some extent, on the experience and analysis of assessment limits in the US but, more significantly, on the results of a simulation of the impact on Ontario property taxpayers if assessment capping had been introduced in this province in 1980.

The analysis of assessment limits in Ontario estimates the impact of a 5 percent cap, a 10 percent cap, and a cap based on the rate of inflation (all of which are imposed until the time of sale) on assessed values for residential properties across the province. The results, which are consistent with the evidence in the US literature, suggest that the change in assessed value arising from capping favours some property owners over others. In particular:

- property owners with high property values and high incomes are favoured at the expense of owners with lower property values and lower incomes;
- seniors are favoured at the expense of young homeowners;
- owners of waterfront and recreational properties are favoured at the expense of owners of single-family homes and condominiums;
- properties that sold a long time ago are favoured at the expense of properties that sold more recently.

Examples of the impact of assessment limits on selected properties in selected cities also shows that these limits can result, in some cases, in higher taxes on properties that have enjoyed a decrease in assessment.

Current value assessment may have its problems, particularly in the face of market volatility, but as the evidence in this report shows, efforts to cure some of these problems may only make matters worse. Assessment limits help those who are being made wealthier by the market at the expense of those whose property values have not changed. Capping may also have unintended consequences by helping those who need it least and increasing taxes for those it is designed to help.

Although a strong case can be made to mitigate tax increases on those who cannot afford them, this mitigation is best done through property tax credits, tax deferrals, and phase-ins rather than assessment capping. Property tax credits and deferrals, in particular, are targeted to those taxpayers that can least afford the property tax increases. It is better to assist the taxpayers most in need than to tamper with assessment base.

Introduction

Since Proposition 13 was first introduced in California over 30 years ago, most US states have implemented some form of limit on property tax rates, tax revenues, or property tax increases arising from reassessments (assessment limits). Although the most common limitations are tax rate and tax revenue limitations that explicitly restrict local government expenditures and revenues, assessment limits are currently being used in 20 states (Brooks and Phillips 2009), (Haveman and Sexton 2008), and (Anderson 2006). What if Ontario had implemented a limit on assessments thirty years ago along the lines of Proposition 13? Who would be the winners today? Who would be the losers?

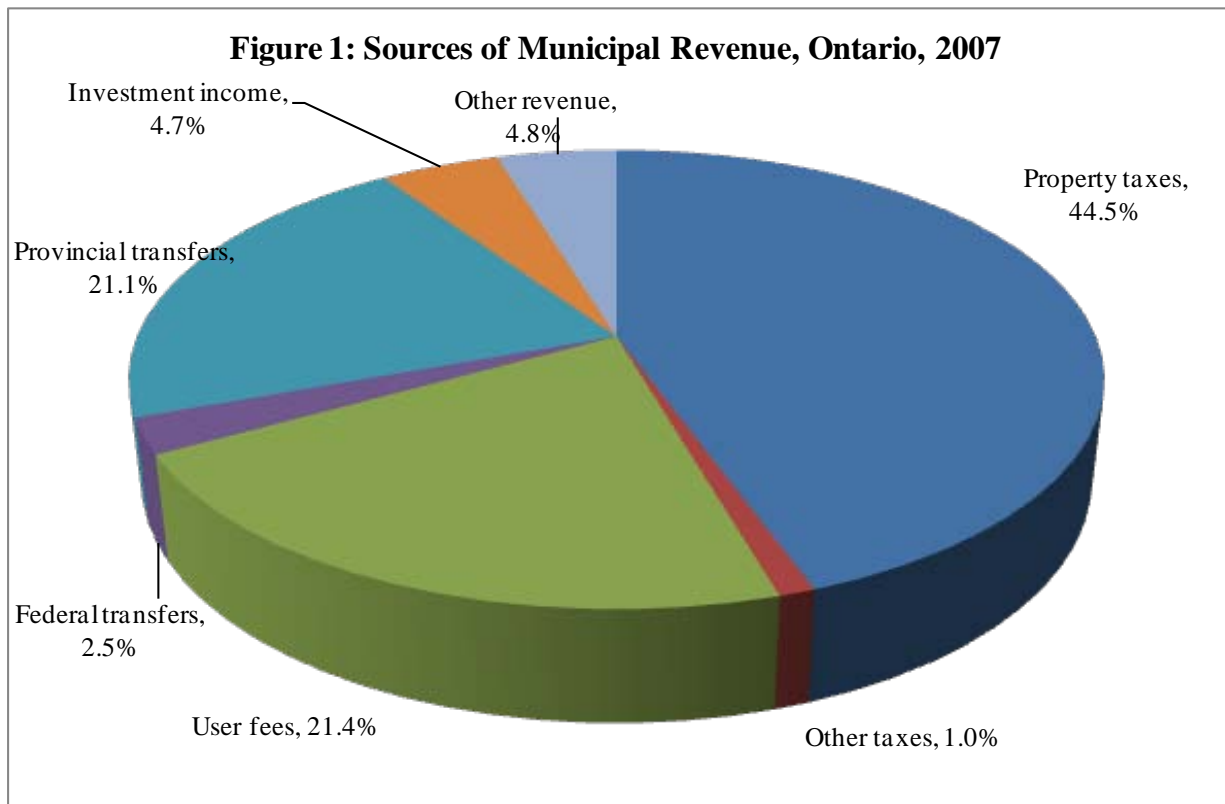
This report evaluates the impact of assessment limits on property taxpayers and identifies some of the potential unintended consequences of imposing these limits (even for properties that are supposed to be protected by the limits). The evaluation is based, to some extent, on the experience and analysis of assessment limits in the US but, more significantly, on the results of a simulation of the impact on Ontario property taxpayers if assessment capping had been introduced in this province in 1980.

The first section of this report reviews the importance of the property tax in municipal finance in Ontario and explains why assessment limits are so popular. It suggests that the magnitude of the tax and its growth over the last two decades may help to explain public pressure to limit assessment-related tax increases. Other explanations include the visibility of the tax and the volatility of market value assessment. To evaluate the impact of assessment limits, the second section sets out the criteria for evaluating taxes more generally. Because all of these criteria cannot be met with one policy, choices have to be made. In the case of assessment limits, for example, stability and predictability have been chosen over equity as the most important criteria.

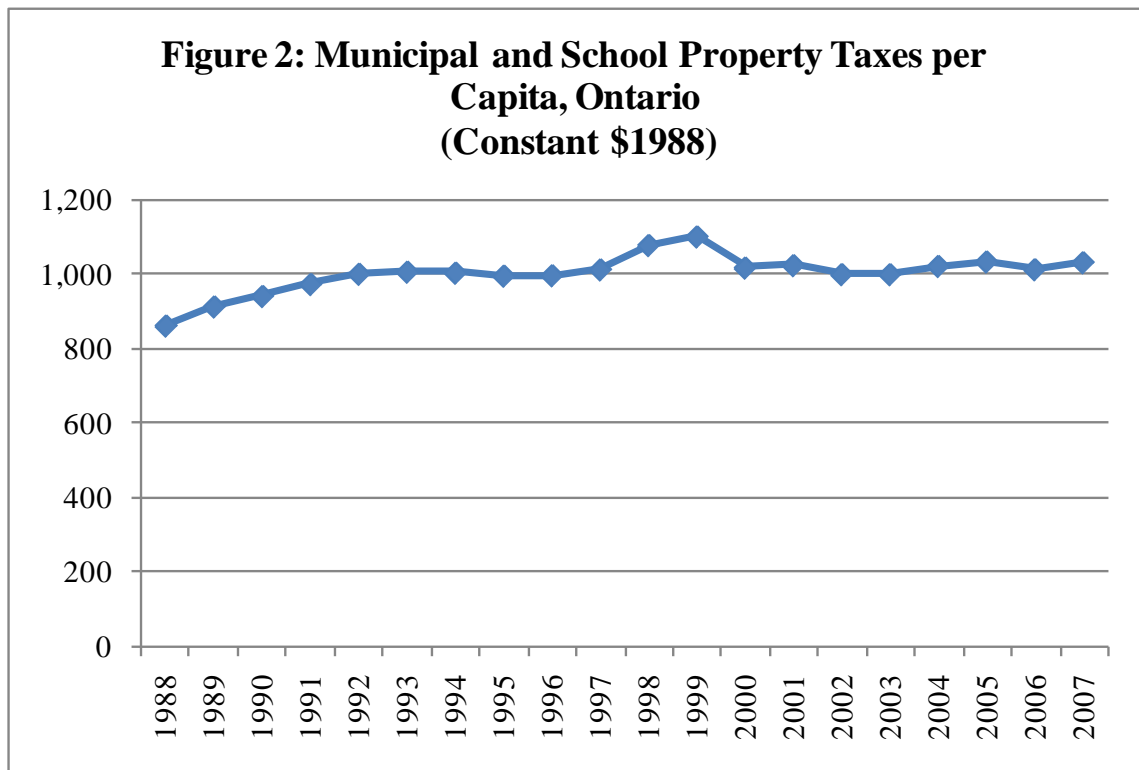
The third section describes the characteristics and use of assessment limits in US jurisdictions. It also reviews the literature on the impact of assessment limits on different taxpayers. The fourth section analyzes the impact of assessment limits on Ontario taxpayers if the province had imposed assessment limits 30 years ago. Specifically, it analyzes the impact of a 5 percent cap, a 10 percent cap, and a cap based on the rate of inflation, all of which are imposed until the time of sale. Given the negative impact and unintended consequences associated with assessment limits, the fifth section suggests other options to address hardships on specific taxpayers created by volatility. Finally, the concluding section draws together the main findings of the report.

1. The Role of the Property Tax in Municipal Finance in Ontario and the Pressure to Limit Increases

The property tax is an important source of revenue for municipalities in Ontario. In 2007, municipalities in Ontario collected almost \$14 billion in property taxes which accounted for almost 45 percent of total municipal revenues (see Figure 1). An additional \$6.5 billion was collected by the province for education. The next largest sources of revenue for municipalities were user fees and provincial transfers. Over the last 20 years, property taxes (including municipal and school property taxes) have increased on a per capita basis in constant (1988) dollars from \$864 to \$1,035 (see Figure 2). The size and growth of the property tax over the last 20 years and its role in municipal finance as the only major tax that municipalities can levy is part of the reason for the pressure to limit property tax increases arising from reassessments.



Source: Statistics Canada, CANSIM Table 385-0024



Source: Statistics Canada, CANSIM Tables 385-0024 and 385-0009.

Public pressure to limit property tax increases arising from reassessments also derives, in part, from the visibility of the tax and, in part, from the volatility of assessments. Unlike the income tax, the property tax is not withheld at source. Unlike the sales tax, it is not paid in small amounts with each daily purchase. Instead, the property tax generally has to be paid directly by taxpayers in periodic lump sum payments. This means that taxpayers tend often to be more aware of the property taxes they pay than they are of other taxes.¹ Moreover, to a considerable extent, the property tax finances services which are also very visible, such as roads, garbage collection, and neighbourhood parks. Visibility is clearly desirable from a decision-making perspective because it makes taxpayers aware of the costs of local public services. This awareness increases taxpayer scrutiny and enhances accountability, which is obviously a good thing from both an economic and political perspective. It does not, however, make the property tax very popular. On the contrary, it often appears to be harder to raise (or reform) property taxes than other taxes (see (Bird and Slack 2003)) and can result in public pressure to limit property tax increases.

Assessment limits are also attractive when there is volatility in market value assessment. When values rise quickly and not uniformly, some property taxpayers face dramatic tax increases in a short period of time (Haveman and Sexton 2008). Even if the total tax revenues of the municipality do not change, there is the risk of potentially large annual swings in the distribution of the property tax burden in times when property values are increasing. Shifts in taxes on certain properties (those increasing more rapidly than the average for the municipality) are a particular problem when the market impact is not uniform across a jurisdiction (Dornfest 2005).² Because taxpayers see rising assessed values as the reason for rising taxes, capping assessments appears to be an obvious solution. Taxpayers regard assessment limits as insurance against large property tax increases (Anderson 2006).

¹ In some cases, however, mortgage institutions include property tax payments with monthly mortgage payments. This procedure reduces the visibility of the property tax for taxpayers who pay their taxes along with their mortgage payments.

² Anderson and McGuire show this mathematically. The tax rate = total taxes/total assessed value. An individual's own taxes = tax rate*own value. By substituting the first equation into the second, we see that own taxes = total taxes*(own value/total value). Thus, own taxes depend on the total taxes collected in the municipality as well as the value of the individual's property relative to the total value (Anderson and McGuire 2007).

Market volatility may not matter much when property taxes are low and not increasing but they do matter as the size of the tax grows. Moreover, the volatility of market value assessment, combined with the visibility of the property tax, has resulted in property tax limitations in the US and similar proposals to limit property tax increases in Canada. A popular form of capping is to limit the amount that assessment can increase in any one year to a fixed amount (say 5 percent) or to the rate of inflation.

2. Characteristics of a Good Local Tax

The public finance literature sets out a number of principles to evaluate different revenue sources (see, for example, (Bird 2001) and (Kitchen and Slack 2003)):

- *Economic (allocative) efficiency* is achieved when the tax (or user fee) charged for the service equals the cost of providing that service. If the price or tax per unit is lower than the production and delivery cost, users will consume too much of the service and resources will be wasted or misallocated. If the price or tax per unit is higher than the cost of production, too little will be consumed and society will be worse off in the sense that too little of the service is consumed.
- *Equity or fairness* within the benefits model is achieved when those who consume public services pay for them, just as someone who benefits from purchasing milk or a movie ticket pays for it. Fairness based on ability to pay suggests that taxpayers owning similar valued properties should pay similar property taxes (horizontal equity) and taxpayers in higher valued properties should pay more property taxes (vertical equity).
- *Accountability* means that taxes (charges) and expenditures should be designed in ways that are clear to taxpayers so that policymakers can be made accountable to the taxpayers for the services they deliver and the costs they incur. The closer the link between the beneficiaries of a government service and payment for that service, the greater is the degree of accountability.

- *Transparency* is an extension of accountability. Transparency is increased when citizens/taxpayers have access to information and decision-making forums so that they are familiar with the way in which local tax rates, charges, and user fees are set.
- *Autonomy* is best achieved when local governments are responsible for raising the revenue that they spend including responsibility for setting local tax rates.
- *Stability and predictability* of revenues allows municipalities to budget and plan for future expenditures.
- *Ease of administration* means that the time and resources devoted to administering the revenue tools is minimized.

Of course, it will not always be possible to meet all of these characteristics at the same time. As will be shown below, for example, assessment limits provide predictability and stability for property taxpayers but they do so at the expense of fairness (equity).

3. Assessment Limits in the US

Assessment limits are currently being applied in 20 states in the US. This section describes the different programs in the US before looking at Proposition 13 in California in more detail. It concludes with a review of the literature on the impact of assessment limits and the potential unintended consequences.

Assessment Limit Programs in the US

Table 1 summarizes the options for imposing assessment limits, based on the US experience. Assessment limit programs differ across the US according to the amount of the assessment limit, which properties are eligible for the limit, whether market value applies at time of sale, and the coverage across the state. The growth in assessment can be restricted to a fixed

percentage increase, such as 5 percent per year, or to inflation. Under the Save Our Homes amendment to Florida Constitution, for example, the taxable value of residential properties is limited to the lower of 3 percent or inflation (Hawkins 2008). Michigan, on the other hand, limits assessment increases to the lower of 5 percent or inflation. The lowest cap is in California at 2 percent or inflation, whichever is less. In the case of an assessment freeze, the permitted annual increase in assessment is zero. Georgia allows counties the option of freezing assessed values. Delayed or infrequent assessments have the same effect as a freeze between revaluations.

Table 1: Options for Assessment Limits

Characteristics	Options
Setting the assessment limit	Restrict annual growth in assessed value to a fixed % or measure of inflation (e.g. CPI); fixed % could be zero (assessment freeze)
Eligibility	Assessment limits could apply to individual properties or to aggregate assessment by property type; could apply to all property classes or just some classes
Acquisition value (time of sale reassessment)	Can reset the assessed value to market value when ownership changes
Coverage	Could be at local option or province-wide; may require voter approval in US

Source: Based on (Haveman and Sexton 2008).

Assessment limits can be applied to some or all property classes. In some states, different limits have been set for different property classes but all 20 states in the US that apply assessment limits apply it at least to residential (homestead) property (Haveman and Sexton 2008). In most US states, the assessment increase is limited only until the time of sale at which time the market value is used for tax purposes. The exceptions are Arizona, Minnesota, and Oregon. Finally, the limits can be imposed state-wide or at local option and may require voter approval. In Georgia, Illinois, and South Carolina, for example, the state governments provide counties with the option of limiting increases in taxable values.

Proposition 13 in California: Time of Sale Reassessment

In 1978, California’s Proposition 13 substituted time-of-sale reassessment for market value. Under this system, California bases its tax on the acquisition value of property (or the 1975-76 assessment for those properties that have not changed hands since that time) plus the

lesser of 2 percent per year or inflation until the property is sold. There is no reassessment at market value, however, if the property is transferred to the children of the owner. More recently, the state introduced a new provision whereby seniors (over the age of 55) can transfer their assessed value to a replacement dwelling of equal or lesser value in the same county without a change of ownership reassessment.

Although the Californian system attempts to provide certainty and stability for those taxpayers that stay in their homes, there are some serious problems with it. As one author notes, "... certainty, however, is purchased at a heavy price in tax equity" (Youngman, 1996, 306). The most serious problem with time-of-sale reassessment is the unequal treatment of similar properties. Two houses of equal market value are assessed very differently and pay different levels of taxes because one has not sold for a long period of time and the other has sold frequently.

Moreover, the inequity can go on for generations. As noted above, Proposition 13 exempts from reassessment a property owner's home when the property is transferred to a child of the owner. This exemption can be used repeatedly allowing the benefits of Proposition 13 to be passed on to successive generations. This means that one young family buys a new home and is assessed and taxed at full market value. Another young family inherits its home and pays taxes on their parents' acquisition value even though both homes have the same market value. As noted earlier, many owners are also permitted to transfer their base-year values from one property to another if it is in the same county and, in some cases, to other counties.

Under Proposition 13, young, first-time homebuyers face higher taxes. Time of sale reassessment obviously benefits those properties that sell infrequently. This means that starter homes are reassessed more frequently than more expensive homes. Time of sale reassessment benefits those who invested in real estate in the 1970s as opposed to those who purchased properties more recently. It favours the older, more affluent generation over young first-time home buyers and it decreases household mobility. Similarly, since Proposition 13 also applies to commercial property, the system favours existing commercial enterprises and puts new businesses at a considerable disadvantage.

A surprising finding of the impact of Proposition 13 is that it does not always reduce volatility. Proposition 13 was introduced at a time when property values were rising rapidly. It did not foresee a period of time when property values would be falling, as they did in California in the 1990s. Purchasers who acquired properties before the drop in prices saw their sale value plummet below the price they paid for the property. Proposition 13 did not address how reductions were to be treated under time-of-sale reassessment. For this reason, California subsequently introduced Proposition 8 which allowed reductions to be reflected in full in the tax assessment, even though increases could not raise assessed values more than 2 percent per year. Nevertheless, for those properties that declined in value and then increased back to the acquisition value (or beyond), assessed values rose. They could not exceed the purchase price plus the annual 2 percent inflation adjustment but, for some properties, taxes increased significantly from year to year.

Impact of Assessment Limits and Unintended Consequences: A Review of the Literature on the US Experience

The IAAO (International Association of Assessing Officers) Standard on Property Tax Policy argues that assessment limits distort the distribution of the property tax, destroy tax equity, increase public confusion, and result in administrative complexity (IAAO 2004). They do this by breaking the link between taxes and market values. Instead of being based on market value, property taxes are based on an unchanging measure. Breaking this link makes property taxes less uniform and more arbitrary.

Inequities

As noted above for Proposition 13 in California, assessment limits are inequitable because properties with similar market values may not be paying the same taxes. Moreover, the benefits of assessment limits increase with the length of time the property is owned. In other words, assessment limits shift the property tax burden from those who have owned property for a long time to recent buyers (Winters 2008). In California, for example, it was found that by 1991 taxes on newly purchased property in Los Angeles County were more than five times the taxes on property of equal market value owned since 1975 (O'Sullivan, Sexton and Sheffrin 1995).

Georgia has permitted counties to freeze assessments on residential properties since 1983 with reassessment at change of ownership. A study by Sjoquist and Pandey of the freeze in assessment in Muscogee County, Georgia shows that a house purchased in 1997 had, on average, an assessed value for 1997 local tax purposes that was 67 percent higher than the equivalent house purchased in 1983 or 1984 (Sjoquist and Pandey 2001).³ The average reduction in assessed value from the freeze was much larger for higher-valued properties than lower-valued properties but the percentage of market value declined as the value increased. Moreover, the difference between the frozen assessment and market value was substantially larger for households with longer tenure and is associated with households that have higher incomes, who are older, and who are white.

An analysis of the distributional implications of Proposition 13 in California concluded that the dollar amounts of the tax reductions increased with income but the reductions relative to income were largest for both the low income and high income households (Chernick and Reschovsky 1982). As the authors note, ironically the smallest declines in property taxes went to the middle income property owners who were the strongest champions of Proposition 13.

Unintended Consequences – Taxes May Increase

Assessment limits result in what Mark Haveman (the executive director of the Minnesota Taxpayers Association) refers to as “phantom tax relief” – the appearance of property tax relief where none actually exists. The reason for this characterization of assessment limits is that the increase in the tax rate that is required to raise revenues when the size of the tax base has been reduced (limiting assessment) can offset relatively small reductions in tax value. The result is that, for some properties, a reduction in market value assessment could result in higher property taxes.

³ Since the assessment freeze in Muscogee County only applies to the property tax base for local property taxes, the county is required to maintain two values – the fair market value for state taxes and the acquisition value for local taxes. By comparing the two values for each property, the authors were able to determine how the freeze affected the tax base and assessment equity.

To show the unintended consequences, Dye and McMillen considered three groups of properties when estimating tax burden shifts (Dye and McMillen 2007). The first group is uncapped or very slowly appreciating properties. They clearly pay more after an assessment cap because, although they have the same assessed value with or without the cap, the higher tax rate means higher taxes. The second group are properties with high appreciation rates. These properties clearly gain from the cap because the amount by which their assessment is lowered more than compensates for the higher tax rate. The third group are properties that have assessment rates close to but higher than the capped amount in a municipality with a high proportion of properties with even higher appreciation rates. Their taxes increase.

Empirical evidence of the unintended consequences of assessment caps is provided by a study of the potential impact of assessment limitations in Kootenai County, Idaho (Dornfest 2005). This simulation showed that 60 percent of the residential properties tested would pay more tax with capping and 40 percent would pay less tax. Although 86 to 88 percent of residential properties in the database would have lower taxable values as a result of capping, 53 to 54 percent of all capped properties pay higher taxes than they would without the cap. Finally, because higher value properties are subject to greater increases in taxable value, assessment caps would have significantly shifted the property tax burden from higher valued properties to lower-valued properties. Dye and McMillen showed that the tax increase will be greater, the greater the increase in value for other favoured properties and the greater the percentage of favoured properties with a higher appreciation rate (Dye and McMillen 2007).

Minnesota restricts the growth in assessments of farmland, homesteads, timberland, and seasonal recreational property (the system is known as limited market value). A report by the Minnesota Department of Revenue in 2006 compared actual property taxes to what the property taxes would have been if the limited market value program did not exist. Among other findings, it found that 16 percent of properties that experienced tax increases actually had their assessments reduced (Haveman and Sexton 2008). They paid higher taxes because the small decrease in assessment was outweighed by the tax rate increase. For these taxpayers, property taxes would have been lower without the limited market value program. Similar results were found in Cook County, Illinois where there has been a 7 percent limit on annual increases in assessed value for residential properties (Dye and McMillen 2007).

Another consequence of assessment limitation is that taxpayers whose property values have increased the most tend to put the most pressure on municipal councils to raise expenditures knowing that their assessments are capped and they will pay proportionately less to fund additional expenditures than individuals whose property values have decreased or remained constant. Established residents who benefit from time of sale reassessment demand more services than they would be willing to pay for if they faced a tax price that reflected their proportionate share of the cost (Haveman and Sexton 2008). In Florida, for example, rising property values combined with assessment limits meant that the marginal cost to homeowners for expanding local spending was low (Hawkins 2008). Property tax collections increased by over 70 percent from 2000 to 2006.

Complexity and Confusion

Assessment limits complicate the administration of the property tax and create confusion among taxpayers because the taxes paid are no longer calculated simply as a tax rate multiplied by the tax base. Moreover, there is no incentive to review one's assessment. If one of the reasons for the volatility has to do with assessment errors, these errors will never be corrected.

Mobility Discouraged

Assessment limitations until time of sale reduce the incentive to move and distort economic decision making. For example, homeowners may not move if their job location changes because their property taxes would rise even if they move to a house of equal value. A study of the assessment freeze in Muscogee County, Georgia, however, did not find statistically significant evidence of taxpayers being discouraged from moving (Sjoquist and Pandey 2001).

Difficult to Remove Limits

Finally, it is very difficult to remove a freeze: “once a freeze is imposed, the process of thawing may be too painful to bear” (Youngman 1999b, 1395). The current situation with the capping and clawbacks of commercial and industrial properties in Ontario provides an example of this point. It is difficult to go back to a straight market value assessment, even if it is a fairer system, after assessment-related tax increases have been capped for a period of time.

4. Impact of Assessment Limits on Ontario Taxpayers: A Simulation

Up until this point, the evaluation of assessment limits has been based on the experience in US jurisdictions. Can the same conclusions be drawn in the Ontario context? In other words, would assessment capping in this province favour older owners over new homebuyers? Would it favour high income homeowners over low income homeowners? Is it possible that some taxpayers could see their assessment fall and their taxes increase?

This section analyzes the potential impact on Ontario property taxpayers by simulating a program of assessment capping starting in 1980. Using data provided by the Municipal Property Assessment Corporation (MPAC),⁴ estimates are made of the impact on residential property assessments in Ontario in 2008 if a time of sale reassessment capping scheme had been implemented in 1980. Three different capping scenarios are considered: a 5 percent cap, a 10 percent cap, and a cap based on the consumer price index (CPI). It is assumed that the cap would apply until the property is sold at which time the assessed value of the property would equal the market value.⁵

To estimate the impact, it is necessary to estimate the market value for each residential property in each year going back to 1980 because market value assessment province-wide was not implemented until 1998 in Ontario. There are approximately 4 million residential properties in Ontario. The sample used here, however, excludes non-residential properties in the residential

⁴ The author would like to acknowledge the cooperation of the Municipal Property Assessment Corporation in providing the data for this report, and in particular, the contributions of Anthony Percaccio.

⁵ Data sources can be found in the Appendix.

property class such as vacant land, commercial properties with residential units, multi-plex properties having more than 5 units, and residential properties owned by a government or corporation. This selection reduced the residential property count to approximately 3.4 million properties.

The starting point is the 2005 current value assessment (CVA) used for 2008 property taxes. This starting point was chosen for two reasons: (1) property tax rates for 2009 were not yet available for all municipalities in Ontario so it is not possible to compare a capping scheme to 2009 taxes, and (2) the current value assessment being used for taxation in 2009 is being phased in over four years so the destination CVA (the full CVA) is not being fully used for taxation purposes in 2009.

Market value is estimated for each property using the sale prices (where a sale occurred) or market factors which are based on sale prices in the neighbourhood in which the property is located. Where there is a sale in a given year, the sale price is used as the estimate of market value if it is a valid sale.⁶ Market factors (based on sales data) for market areas are used where available to estimate the market value of each residential property. There are over 180 market areas across the province.⁷ If there were insufficient sales by market area, market data for regional areas is used. Market value is based on the average market value for previous year (rather than centring on January 1 as per the legislation). Renovations prior to a transaction have been adjusted by -7 percent for major renovations (e.g. kitchens, bathrooms) and -13 percent for full renovations. In other words, an additional 7 percent (or 13 percent) was removed for the years prior to the renovation.⁸

⁶ A sale is deemed to be valid if it is arm's length and if the absolute value of the ratio of sale price to the estimated market value is less than 50 percent.

⁷ Without actually conducting a market value assessment for each of the last 30 years, this simulation of a market value reassessment provides a reasonable approximation of market values for each year.

⁸ The 7% and 13% adjustments represent the average impact of major and minor renovations respectively on the market value of the residential properties in this simulation.

In the year following the transaction, market value is equal to the sale price (also known as the acquisition value).⁹ Over time, the adjusted acquisition value is the sales price increased by the amount of the cap (5%, 10%, or CPI). The minimum of the market value or the adjusted acquisition value is the value that is used for taxation purposes in this analysis. This provision (similar to what is done in California) ensures that a decline in market value results in a lower taxable value.

The impact of the three capping scenarios is shown in Tables 2 to 4 and Figures 3 to 10. Table 2 shows the impact of 5 percent capping in terms of the average change in assessed value and the percentage change in assessed value by property value, income, age, and property type. Figures 3 to 6 illustrate the average change in assessed values; Figures 7 to 10 show the percentage change in assessed value.

Tables 2 to 4 also show the number and distribution of properties in each category. For example, 65 percent of the residential properties in Ontario in this sample are in the \$100,000 to \$300,000 property value categories; 68 percent of property owners have household incomes in the \$50,000 to \$100,000 range; 44 percent are in the 45-64 age range; and 66 percent of residential properties are single-family detached, not on water. The distribution is important because it shows what proportion of taxpayers are winners or losers.

Under a 5 percent capping scheme, the average decline in assessed value over the 20-year period is \$42,450 or 16.8 percent. As Table 2 and the figures show, however, some properties decline by more than the average and some by less than the average. In terms of the change in assessed value, the largest decreases are for the highest valued properties (e.g. almost \$255,000 on houses valued at \$750,000 or more), for the highest income groups (a decrease of almost \$186,000 for incomes of \$250,000 or more), and for seniors (a decrease of \$63,450 for people 65 and over). In terms of property types, the largest decreases in assessed value are for single-family homes on water (a decrease of \$90,747) and seasonal/recreational properties near water (a decrease of \$115,699).

⁹ For example, the sale may occur in December 2008 so the value will be updated the following year in January 2009.

Since a larger decrease for higher valued properties does not necessarily mean greater relief (because it may only represent a small percentage of the assessed value), Table 2 and Figures 7 to 10 illustrate the impact on the percentage change in assessed value. In terms of the percentage change, capping favours high and low-valued properties at the expense of medium-valued properties (which account for the majority of properties). This finding is similar to what was found by (Chernick and Reschovsky 1982) for California. Capping favours high income owners and low income owners at the expense of middle income owners (the majority of owners). Capping favours elderly homeowners at the expense of young homeowners. Capping favours properties that are increasing in value rapidly (e.g. waterfront, seasonal) at expense of other properties (such as single detached houses). Condominium properties do not do well under capping.

Tables 3 and 4 illustrate the impact of 10 percent capping and capping at CPI, respectively. Although the distribution of the impact is similar to 5 percent capping, the overall decrease in property values is considerably less under 10 percent capping (only \$18,909 or 2.2 percent of assessed value) and considerably more under a CPI capping scheme (\$70,257 or 27.9 percent of assessed value).

Although it initially appears surprising that properties valued at less than \$100,000 benefit from capping, this group of properties probably includes mainly mobile homes, seasonal (2nd tier) properties, and seasonal properties not on water. These property categories have seen larger assessment increases due to the high demand for seasonal properties. Rather than being primary residences owned by people with low incomes, however, these are largely second residences. Cross tabulations among the various factors (e.g. property type, property value, income, etc.) would presumably shed further light on some of these issues but were not undertaken as part of this study.¹⁰

¹⁰ Another issue that would benefit from further research relates to income. Since income is generally attached to the location of the primary residence rather than the seasonal residence, the results for high valued cottages are likely being counted against the relatively low incomes of permanent residents (who live in more modestly valued homes).

Table 2: Impact of 5% Capping by Selected Characteristics

	Property count (#)	Distribution (%)	2005 CVA (for 2008 taxation) (\$millions)	5% Capped 2005 MV (\$millions)	Change in Assessed Value (\$millions)	Average Change in Assessed Value (\$)	% Change in Assessed Value
Provincial	3,431,758		864,548	718,871	-145,677	-42,450	-16.8%
Property value ranges							
1) \$0 - \$100,000	290,628	8.5%	21,643	16,961	-4,682	-16,107	-21.6%
2) \$100,000 - \$200,000	1,195,580	34.8%	182,344	150,992	-31,352	-26,223	-17.2%
3) \$200,000 - \$300,000	1,021,836	29.8%	252,119	215,075	-37,044	-36,252	-14.7%
4) \$300,000 - \$500,000	747,397	21.8%	277,174	232,041	-45,133	-60,386	-16.3%
5) \$500,000 - \$750,000	126,360	3.7%	74,442	59,746	-14,696	-116,307	-19.7%
6) \$750,000 +	49,957	1.5%	56,827	44,108	-12,719	-254,594	-22.4%
	3,431,758	100.0%	864,548	718,924	-145,624	-42,434	-16.8%
Income groupings							
1) \$0 - \$30,000	8,985	0.3%	1,256	1,042	-214	-23,816	-17.0%
2) \$30,000 - \$50,000	334,239	9.7%	49,764	39,604	-10,160	-30,396	-20.4%
3) \$50,000 - \$100,000	2,322,754	67.7%	520,649	431,329	-89,320	-38,454	-17.2%
4) \$100,000 - \$250,000	673,254	19.6%	256,773	217,853	-38,920	-57,810	-15.2%
5) \$250,000 +	23,618	0.7%	20,592	16,210	-4,382	-185,536	-21.3%
6) NA	68,908	2.0%	15,514	12,886	-2,628	-38,135	-16.9%
	3,431,758	100.0%	864,548	718,924	-145,624	-42,434	-16.8%
Owners age groupings							
1) 0 - 29 yrs	58,417	1.7%	10,694	9,610	-1,084	-18,546	-10.1%
2) 30 - 44 yrs	711,885	20.7%	174,252	156,850	-17,402	-24,446	-10.0%
3) 45 - 64	1,515,790	44.2%	399,514	338,985	-60,529	-39,932	-15.2%
4) 65 +	881,305	25.7%	217,456	161,537	-55,919	-63,450	-25.7%
5) NA	264,361	7.7%	62,632	51,942	-10,690	-40,438	-17.1%
	3,431,758	100.0%	864,548	718,924	-145,624	-42,434	-16.8%
Property type							
301 - Single-family detached (not on water)	2,279,452	66.4%	599,937	502,465	-97,472	-42,761	-16.2%
302 - More than one res'l structure; at least one occupied permanently	5,735	0.2%	1,326	1,017	-309	-53,860	-23.3%
303 - Residence with a commercial unit	8,112	0.2%	1,721	1,331	-390	-48,159	-22.7%
304 - Residence with a commercial/industrial use building	2,717	0.1%	632	485	-147	-54,029	-23.3%

	Property count (#)	Distribution (%)	2005 CVA (for 2008 taxation) (\$millions)	5% Capped 2005 MV (\$millions)	Change in Assessed Value (\$millions)	Average Change in Assessed Value (\$)	% Change in Assessed Value
Property type							
305 - Link home	48,442	1.4%	12,338	11,213	-1,125	-23,216	-9.1%
309 - Freehold Townhouse/Rowhouse	108,276	3.2%	26,133	23,174	-2,959	-27,325	-11.3%
311 - Semi-detached residential	239,074	7.0%	58,343	47,887	-10,456	-43,736	-17.9%
313 - Single family detached on water	68,202	2.0%	20,746	14,557	-6,189	-90,747	-29.8%
322 - Semi-detached with both units under one ownership	9,019	0.3%	1,471	1,181	-290	-32,089	-19.7%
332 - Duplex	50,023	1.5%	12,271	9,321	-2,950	-58,981	-24.0%
333 - Residential property with three self-contained units	15,641	0.5%	4,737	3,628	-1,109	-70,923	-23.4%
334 - Residential property with four self-contained units	7,223	0.2%	2,167	1,691	-476	-65,847	-22.0%
370 - Residential Condominium	438,204	12.8%	89,926	83,000	-6,926	-15,805	-7.7%
381 - Mobile home	4,183	0.1%	276	190	-86	-20,458	-31.2%
391 - Seasonal/recreational dwelling - first tier on water	115,964	3.4%	28,614	15,197	-13,417	-115,699	-46.9%
392 - Seasonal/recreational dwelling - second tier on water	8,197	0.2%	1,027	669	-358	-43,587	-34.9%
395 - Seasonal/recreational dwelling - not located on water	23,294	0.7%	2,885	1,919	-966	-41,493	-33.5%
	3,431,758	100.0%	864,548	718,924	-145,624	-42,434	-16.8%

*Totals may not add due to rounding

Table 3: Impact of 10% Capping by Selected Characteristics

	Property count (#)	Distribution (%)	2005 CVA (for 2008 taxation) (\$millions)	10% Capped 2005 MV (\$millions)	Change in Assessed Value (\$millions)	Average Change in Assessed Value (\$)	Percentage Change in Assessed Value
Provincial	3,431,758		864,548	845,639	-18,909	-5,510	-2.2%
Property value ranges							
1) \$0 - \$100,000	290,628	8.5%	21,643	20,615	-1,028	-3,536	-4.7%
2) \$100,000 - \$200,000	1,195,580	34.8%	182,344	177,536	-4,808	-4,021	-2.6%
3) \$200,000 - \$300,000	1,021,836	29.8%	252,119	247,439	-4,680	-4,580	-1.9%
4) \$300,000 - \$500,000	747,397	21.8%	277,174	272,281	-4,893	-6,547	-1.8%
5) \$500,000 - \$750,000	126,360	3.7%	74,442	72,854	-1,588	-12,573	-2.1%
6) \$750,000 +	49,957	1.5%	56,827	54,916	-1,911	-38,262	-3.4%
	3,431,758	100.0%	864,548	845,639	-18,908	-5,510	-2.2%
Income groupings							
1) \$0 - \$30,000	8,985	0.3%	1,256	1,241	-15	-1,711	-1.2%
2) \$30,000 - \$50,000	334,239	9.7%	49,764	47,771	-1,993	-5,962	-4.0%
3) \$50,000 - \$100,000	2,322,754	67.7%	520,649	507,572	-13,077	-5,630	-2.5%
4) \$100,000 - \$250,000	673,254	19.6%	256,773	253,964	-2,809	-4,172	-1.1%
5) \$250,000 +	23,618	0.7%	20,592	20,183	-409	-17,309	-2.0%
6) NA	68,908	2.0%	15,514	14,907	-607	-8,801	-3.9%
	3,431,758	100.0%	864,548	845,639	-18,910	-5,510	-2.2%
Owners age groupings							
1) 0 - 29 yrs	58,417	1.7%	10,694	10,537	-157	-2,681	-1.5%
2) 30 - 44 yrs	711,885	20.7%	174,252	171,447	-2,805	-3,940	-1.6%
3) 45 - 64	1,515,790	44.2%	399,514	391,784	-7,730	-5,099	-1.9%
4) 65 +	881,305	25.7%	217,456	211,376	-6,080	-6,899	-2.8%
5) NA	264,361	7.7%	62,632	60,495	-2,137	-8,087	-3.4%
	3,431,758	100.0%	864,548	845,639	-18,909	-5,510	-2.2%

	Property count (#)	Distribution (%)	2005 CVA (for 2008 taxation) (\$millions)	10% Capped 2005 MV (\$millions)	Change in Assessed Value (\$millions)	Average Change in Assessed Value (\$)	Percentage Change in Assessed Value
Property type							
301 - Single-family detached (not on water)	2,279,452	66.4%	599,937	593,242	-6,695	-2,937	-1.1%
302 - More than 1 res'l structure; at least 1 occupied permanently	5,735	0.2%	1,326	1,287	-39	-6,726	-2.9%
303 - Residence with a commercial unit	8,112	0.2%	1,721	1,689	-32	-3,983	-1.9%
304 - Residence with a commercial/industrial use building	2,717	0.1%	632	620	-12	-4,340	-1.9%
305 - Link home	48,442	1.4%	12,338	12,288	-50	-1,032	-0.4%
309 - Freehold Townhouse/Row house	108,276	3.2%	26,133	25,826	-307	-2,835	-1.2%
311 - Semi-detached residential	239,074	7.0%	58,343	57,750	-593	-2,481	-1.0%
313 - Single family detached on water	68,202	2.0%	20,746	18,213	-2,533	-37,128	-12.2%
322 - Semi-detached with both units under one ownership	9,019	0.3%	1,471	1,447	-24	-2,620	-1.6%
332 - Duplex	50,023	1.5%	12,271	12,108	-163	-3,269	-1.3%
333 - Residential property with three self-contained units	15,641	0.5%	4,737	4,668	-69	-4,391	-1.5%
334 - Residential property with four self-contained units	7,223	0.2%	2,167	2,137	-30	-4,163	-1.4%
370 - Residential Condominium	438,204	12.8%	89,926	88,984	-942	-2,151	-1.0%
381 - Mobile home	4,183	0.1%	276	248	-28	-6,534	-10.1%
391 - Seasonal/recreational dwelling - first tier on water	115,964	3.4%	28,614	21,474	-7,140	-61,573	-25.0%
392 - Seasonal/recreational dwelling - second tier on water	8,197	0.2%	1,027	966	-61	-7,435	-5.9%
395 - Seasonal/recreational dwelling - not located on water	23,294	0.7%	2,885	2,693	-192	-8,275	-6.7%
	3,431,758	100.0%	864,548	845,639	-18,910	-5,510	-2.2%

*Totals may not add due to rounding

Table 4: Impact of CPI Capping by Selected Characteristics

	Property count (#)	Distribution (%)	2005 CVA (for 2008 taxation) (\$millions)	CPI Capped 2005 MV (\$millions)	Change in Assessed Value (\$millions)	Average Change in Assessed Value (\$)	Percentage Change in Assessed Value
Provincial	3,431,758		864,548	623,443	-241,105	-70,257	-27.9%
Property value ranges							
1) \$0 - \$100,000	290,628	8.5%	21,643	14,889	-6,754	-23,236	-31.2%
2) \$100,000 - \$200,000	1,195,580	34.8%	182,344	130,727	-51,617	-43,173	-28.3%
3) \$200,000 - \$300,000	1,021,836	29.8%	252,119	187,715	-64,404	-63,028	-25.5%
4) \$300,000 - \$500,000	747,397	21.8%	277,174	200,695	-76,479	-102,326	-27.6%
5) \$500,000 - \$750,000	126,360	3.7%	74,442	51,325	-23,117	-182,951	-31.1%
6) \$750,000 +	49,957	1.5%	56,827	38,093	-18,734	-375,013	-33.0%
	3,431,758	100.0%	864,548	623,443	-241,105	-70,257	-27.9%
Income groupings							
1) \$0 - \$30,000	8,985	0.3%	1,256	894	-362	-40,239	-28.8%
2) \$30,000 - \$50,000	334,239	9.7%	49,764	34,184	-15,580	-46,614	-31.3%
3) \$50,000 - \$100,000	2,322,754	67.7%	520,649	374,101	-146,548	-63,092	-28.1%
4) \$100,000 - \$250,000	673,254	19.6%	256,773	188,973	-67,800	-100,705	-26.4%
5) \$250,000 +	23,618	0.7%	20,592	13,882	-6,710	-284,108	-32.6%
6) NA	68,908	2.0%	15,514	11,409	-4,105	-59,573	-26.5%
	3,431,758	100.0%	864,548	623,443	-241,105	-70,257	-27.9%
Owners age groupings							
1) 0 - 29 yrs	58,417	1.7%	10,694	8,863	-1,831	-31,341	-17.1%
2) 30 - 44 yrs	711,885	20.7%	174,252	144,887	-29,365	-41,250	-16.9%
3) 45 - 64	1,515,790	44.2%	399,514	294,062	-105,452	-69,569	-26.4%
4) 65 +	881,305	25.7%	217,456	129,547	-87,909	-99,747	-40.4%
5) NA	264,361	7.7%	62,632	46,083	-16,549	-62,600	-26.4%
	3,431,758	100.0%	864,548	623,443	-241,105	-70,257	-27.9%

	Property count (#)	Distribution (%)	2005 CVA (for 2008 taxation) (\$millions)	CPI Capped 2005 MV (\$millions)	Change in Assessed Value (\$millions)	Average Change in Assessed Value (\$)	Percentage Change in Assessed Value
Property type							
301 - Single-family detached (not on water)	2,279,452	66.4%	599,937	431,345	-168,592	-73,962	-28.1%
302 - More than one res'l structure; at least one occupied permanently	5,735	0.2%	1,326	842	-484	-84,281	-36.5%
303 - Residence with a commercial unit	8,112	0.2%	1,721	1,096	-625	-77,108	-36.3%
304 - Residence with a commercial/industrial use building	2,717	0.1%	632	395	-237	-87,104	-37.5%
305 - Link home	48,442	1.4%	12,338	9,886	-2,452	-50,603	-19.9%
309 - Freehold Townhouse/Rowhouse	108,276	3.2%	26,133	21,324	-4,809	-44,405	-18.4%
311 - Semi-detached residential	239,074	7.0%	58,343	41,725	-16,618	-69,509	-28.5%
313 - Single family detached on water	68,202	2.0%	20,746	12,586	-8,160	-119,641	-39.3%
322 - Semi-detached with both units under one ownership	9,019	0.3%	1,471	995	-476	-52,681	-32.4%
332 - Duplex	50,023	1.5%	12,271	7,847	-4,424	-88,441	-36.1%
333 - Residential property with three self-contained units	15,641	0.5%	4,737	3,074	-1,663	-106,351	-35.1%
334 - Residential property with four self-contained units	7,223	0.2%	2,167	1,431	-736	-101,899	-34.0%
370 - Residential Condominium	438,204	12.8%	89,926	75,399	-14,527	-33,151	-16.2%
381 - Mobile home	4,183	0.1%	276	166	-110	-26,152	-39.9%
391 - Seasonal/recreational dwelling - first tier on water	115,964	3.4%	28,614	13,137	-15,477	-133,468	-54.1%
392 - Seasonal/recreational dwelling - second tier on water	8,197	0.2%	1,027	565	-462	-56,331	-45.0%
395 - Seasonal/recreational dwelling - not located on water	23,294	0.7%	2,885	1,629	-1,256	-53,940	-43.5%
	3,431,758	100.0%	864,548	623,443	-241,105	-70,257	-27.9%

*Totals may not add due to rounding

Figure 3: Impact of 5% Capping by Property Value

(Average Change in Assessed Value)

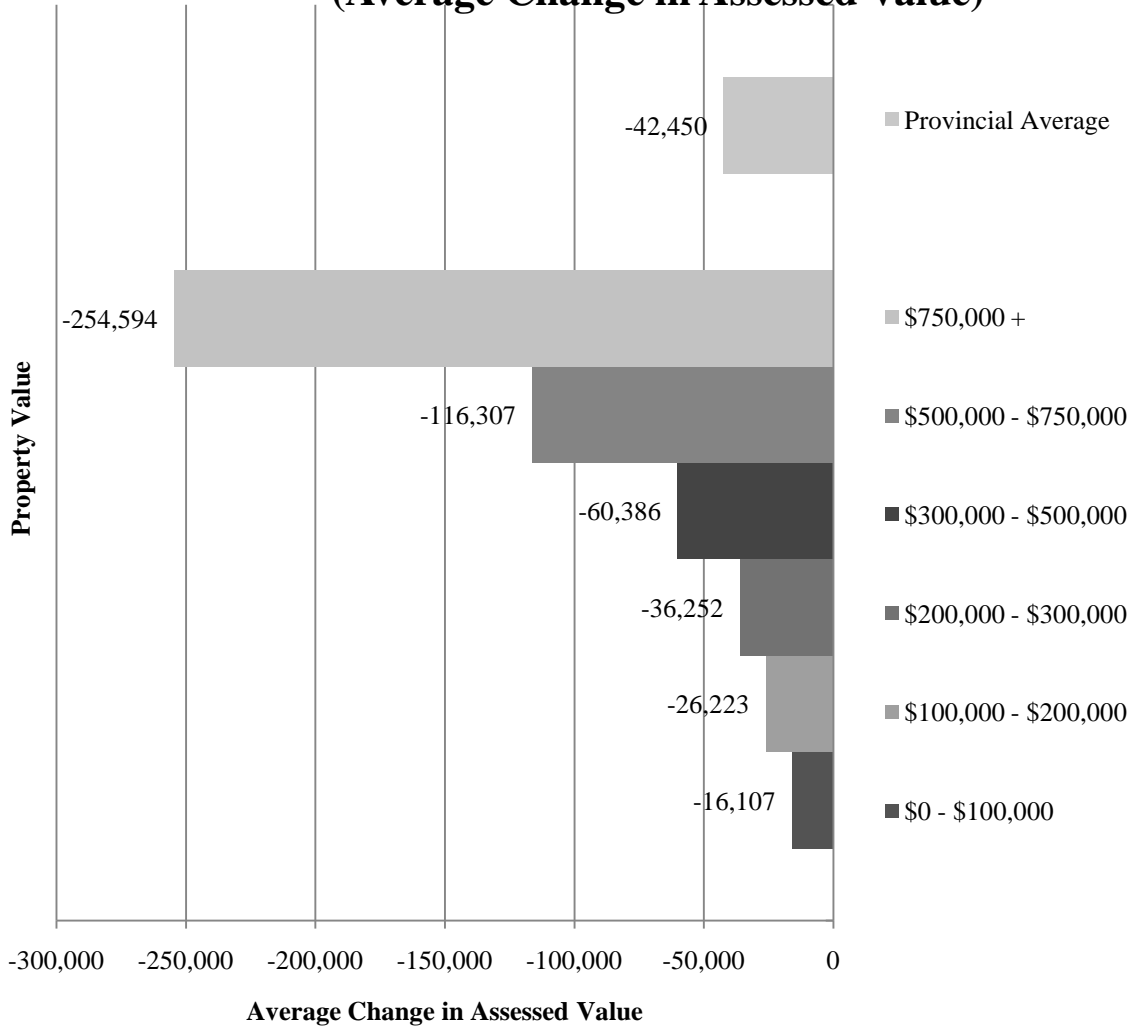
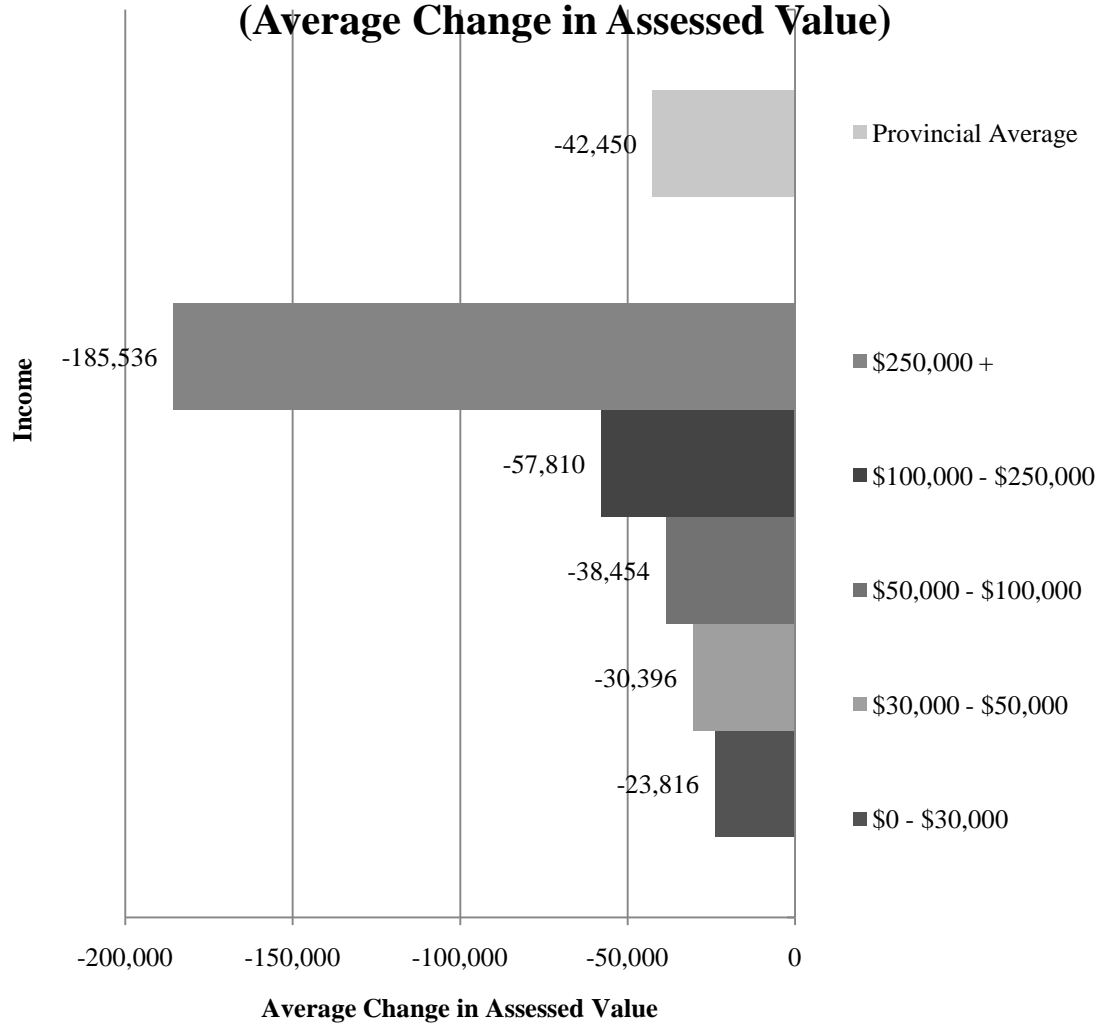


Figure 4: Impact of 5% Capping by Income Group

(Average Change in Assessed Value)



**Figure 5: Impact of 5% Capping by Age
(Average Change in Assessed Value)**

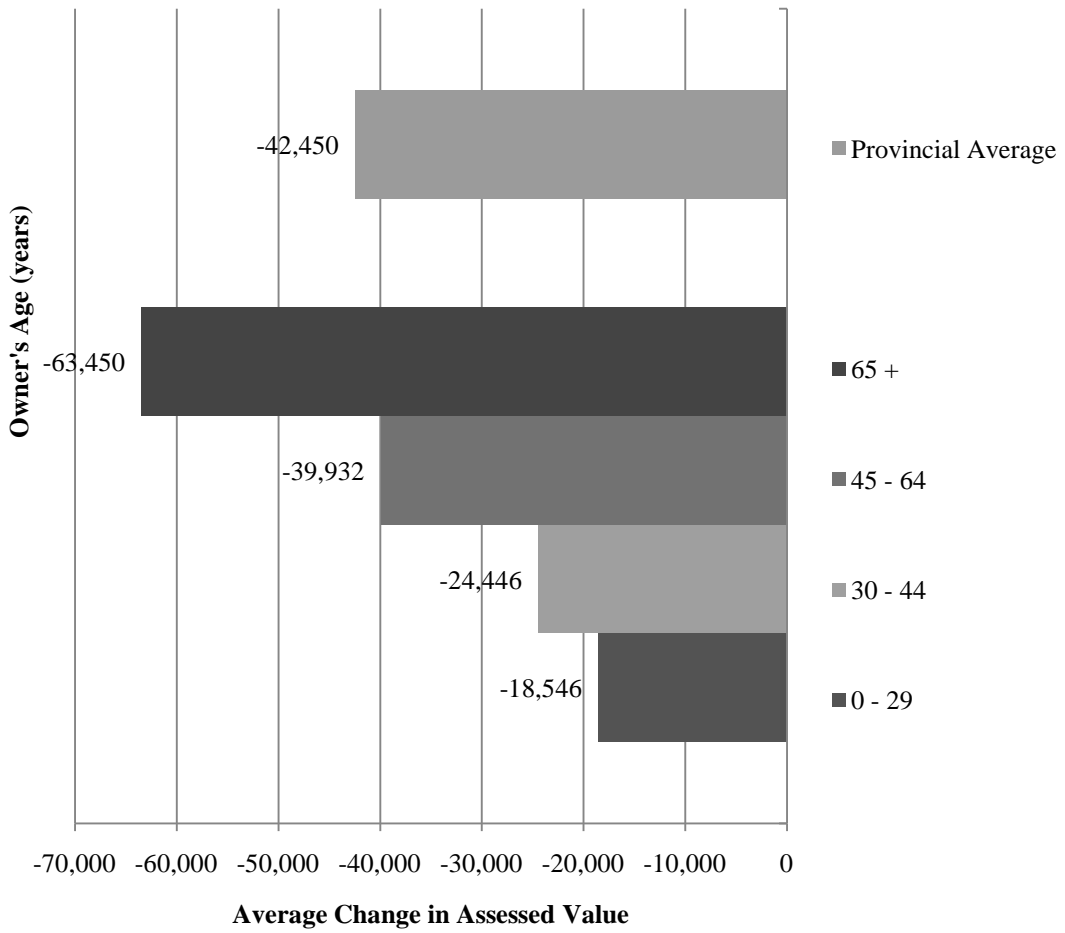
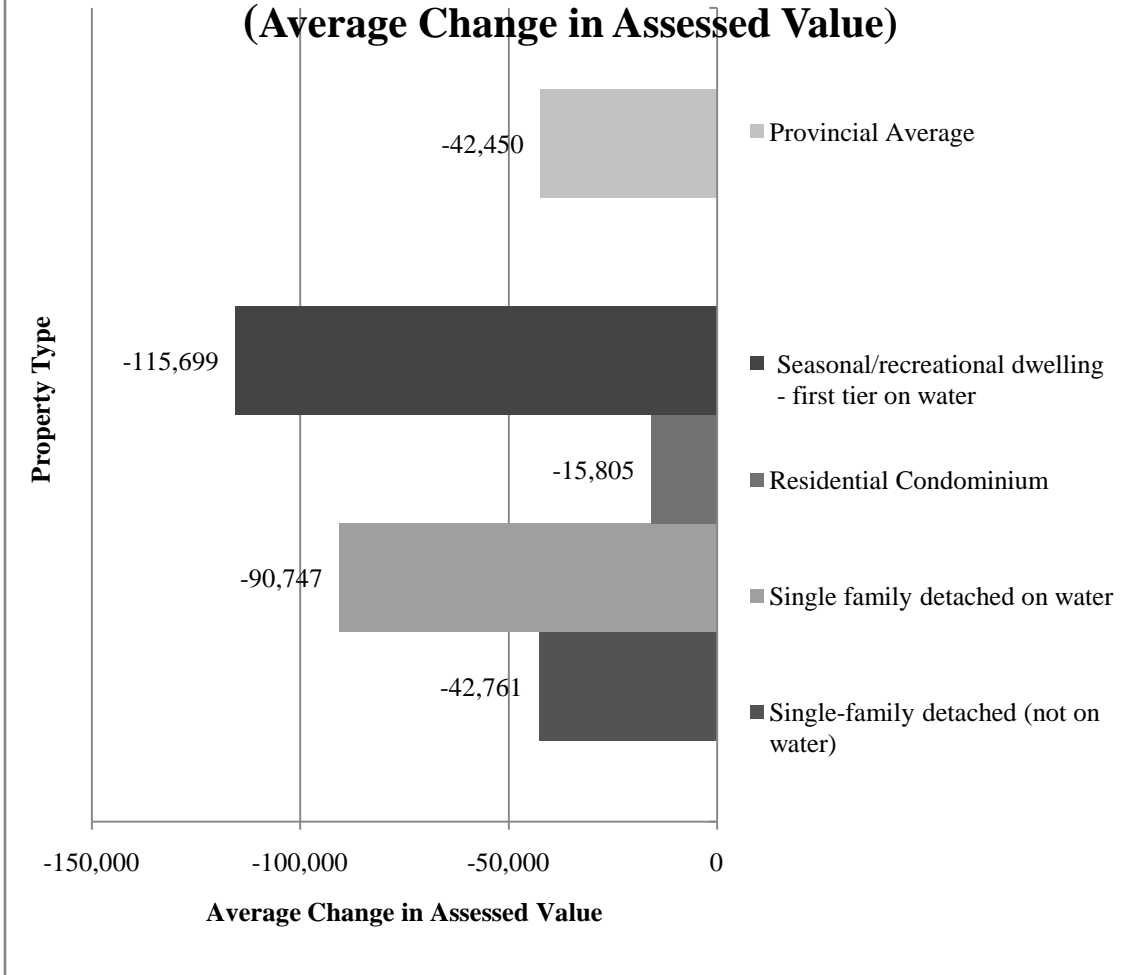
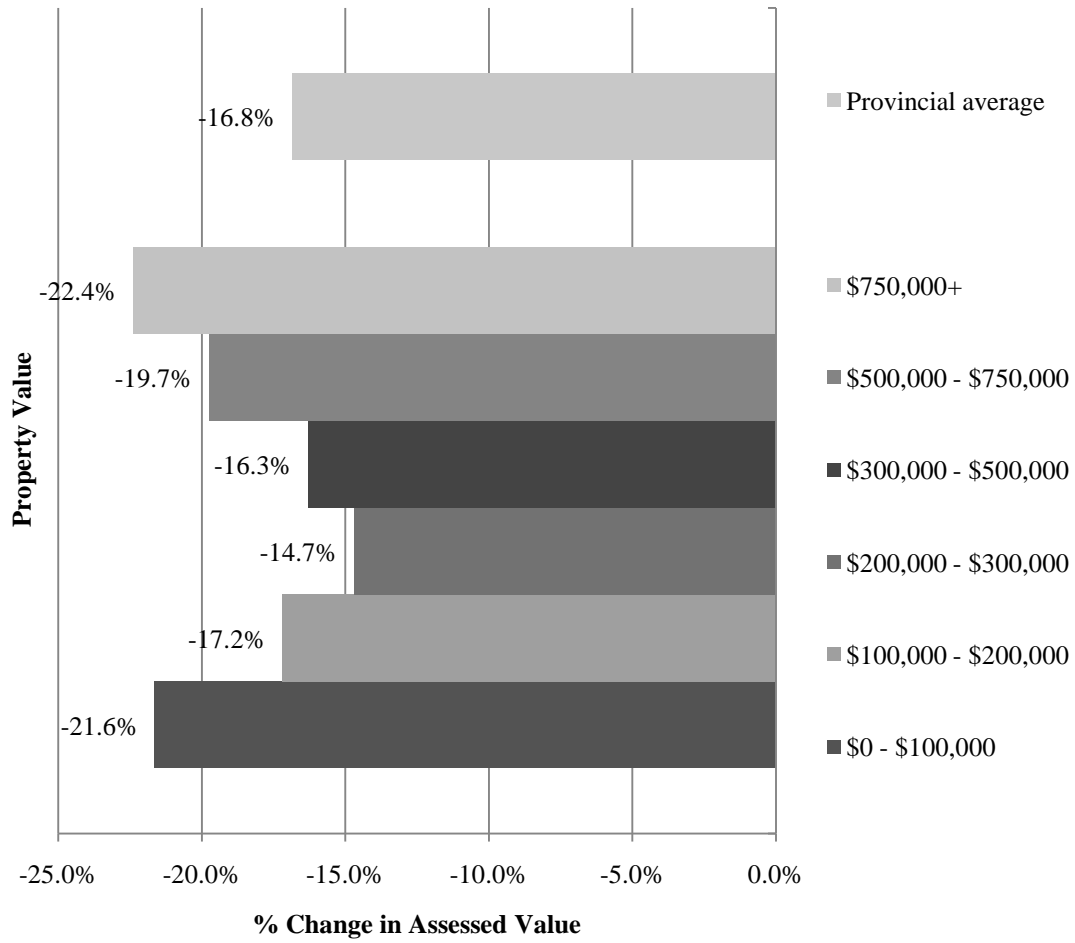


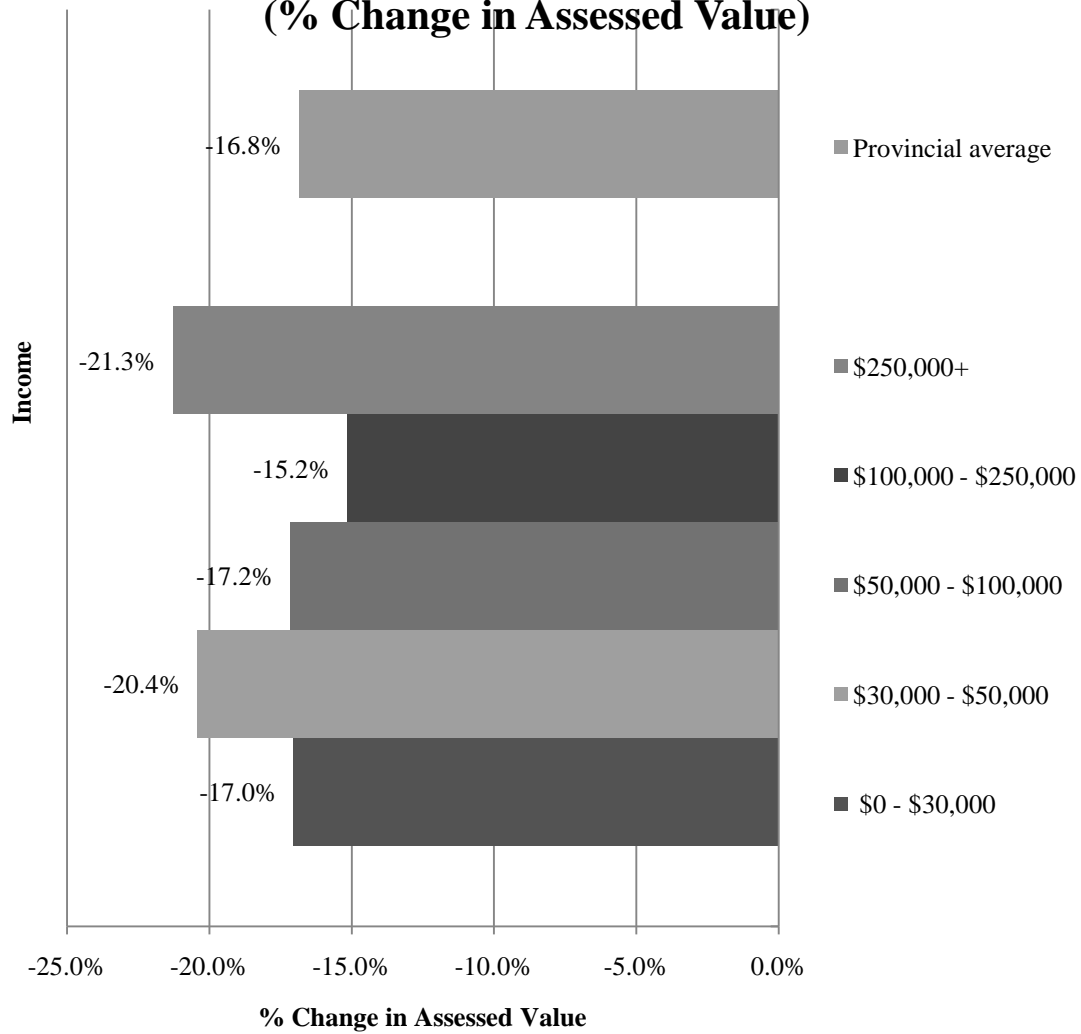
Figure 6: Impact of 5% Capping by Selected Property Type (Average Change in Assessed Value)



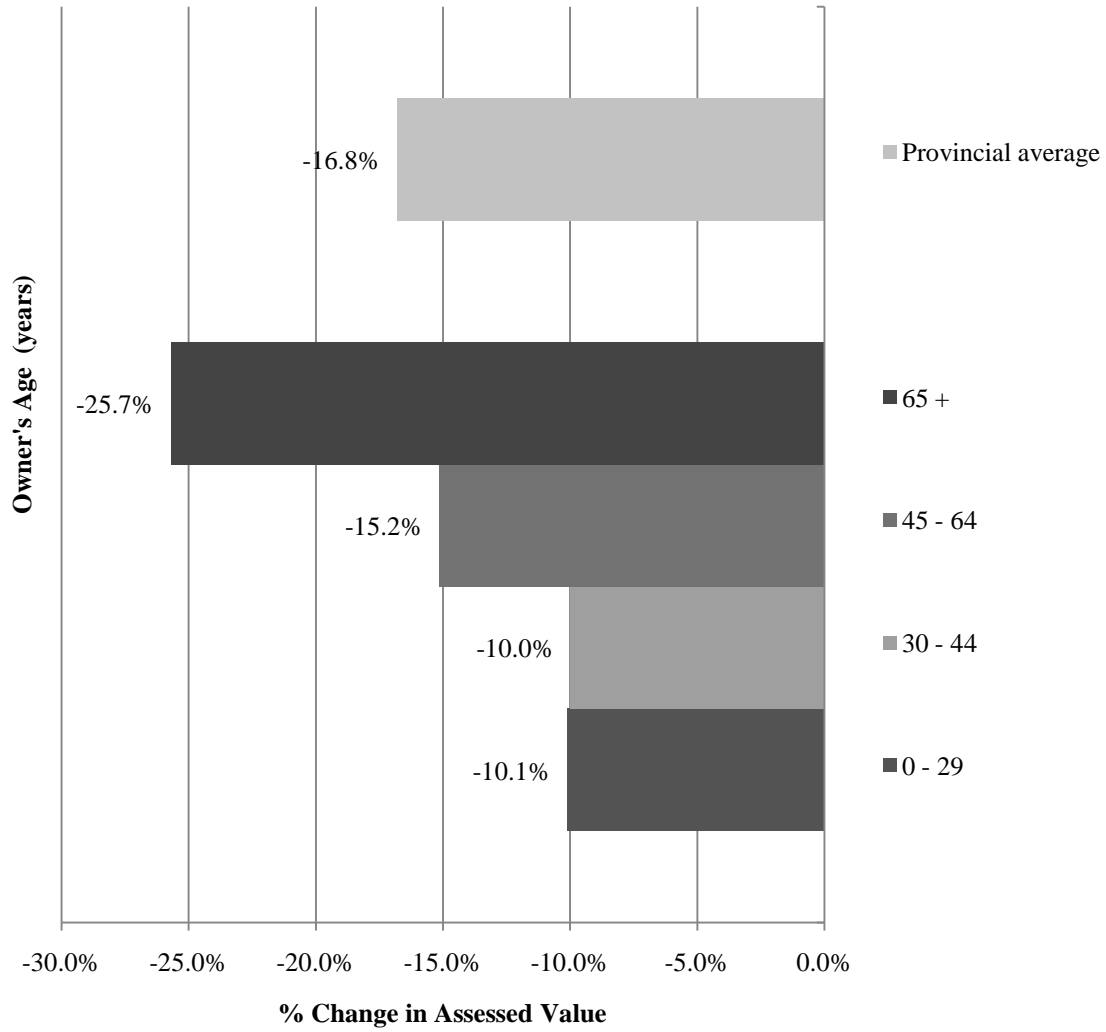
**Figure 7: Impact of Capping by 5% By
Property Value
(% Change in Assessed Value)**



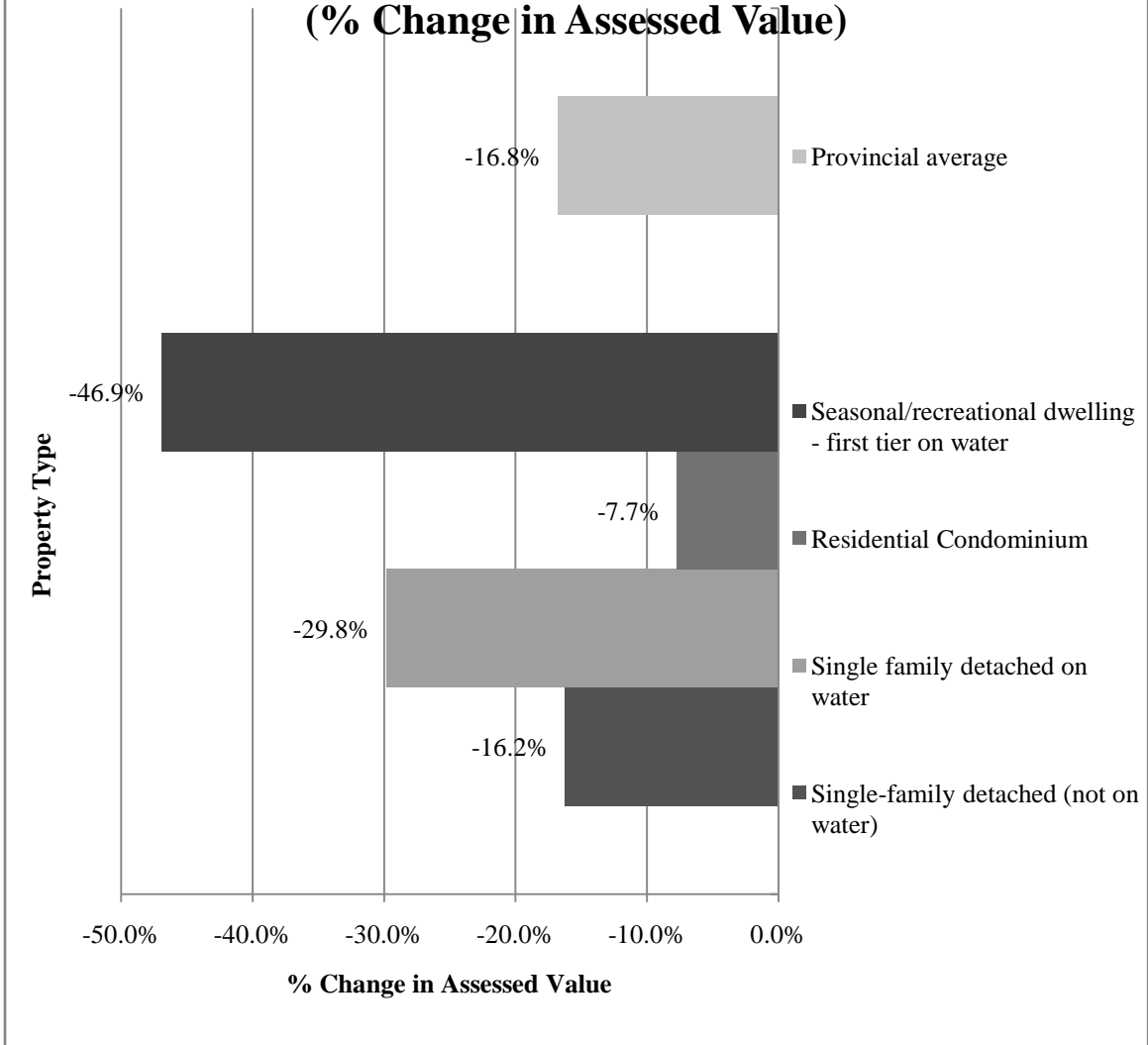
**Figure 8: Impact of 5% Capping by
Income Group
(% Change in Assessed Value)**



**Figure 9: Impact of 5% Capping by Age
(% Change in Assessed Value)**



**Figure 10: Impact of 5% Capping by Selected Property Type
(% Change in Assessed Value)**



To understand the potential unintended consequences for taxes, it is necessary to look at how capping affects property taxes on individual properties.¹¹ Tables 5 to 7 analyze the impact of capping on five actual properties of equal value that sold in five different years (1985, 1990, 1995, 2000, and 2005) in three different municipalities – City of Toronto (Table 5), City of Brampton (Table 6), and the City of Ottawa (Table 7). Tables 8 to 10 analyze the impact of capping on properties with different values that all sold in the same year (1995) in the same three municipalities. These are actual properties in each municipality and, although it may be difficult to generalize from just a few properties, these tables do indicate that the impact of capping can be an increase in property taxes even where assessments fall. The tables also show that recently sold properties do not do nearly as well under capping as properties which sold a long time ago and that higher-valued properties generally (but not always) derive the greatest advantage from capping.

To estimate the impact on property taxes from capping, the tax rate for 2008 is applied to the capped value (adjusted acquisition value) to determine the property taxes under each capping scenario and the actual property taxes in 2008 are calculated based on 2005 values.¹² The impact of capping is calculated as the difference between the actual property taxes in 2008 (without any capping) and the property taxes in 2008 with capping.

In this analysis, assessment changes are revenue neutral for the city as a whole. In other words, overall taxes for each city do not change because of a change in assessment. The total of all gains is equal to the total of all losses in each city. Because the reassessment is assumed to be revenue neutral, the tax rate has to increase to compensate for the decrease in assessment.¹³ The tax rates in all of these tables are the revenue neutral tax rates for the city as a whole (not just the few properties in each of the tables). As can be seen from the Tables, the tax rate increases most under CPI capping because it results in the largest decrease in assessment overall. The tax rate increase is relatively small for the 10 percent capping scheme because the overall assessment

¹¹ Since, for any municipality, the total of the increases in property taxes would equal the total of the decreases in property values, it does not make sense to look at the impact by municipality.

¹² The tax rate applied is the sum of the general municipal rate (upper tier and lower tier where applicable) plus the education rate. Special area rates have been excluded from the analysis.

¹³ In reality, rates for the various classes cannot be set independently of one another. For simplicity, however, the impacts of other classes have not been considered here.

**Table 5: Impact of Capping under Three Scenarios, Five Comparable Properties Sold in Different Years
City of Toronto**

Property	Year Sold	2005 CVA (for 2008 taxation)	2008 property taxes	5% Cap			10% Cap			Capping at CPI		
				Capped 2005 CVA	2008 property taxes	Change in property taxes	Capped 2005 CVA	2008 property taxes	Change in property taxes	Capped 2005 CVA	2008 property taxes	Change in property taxes
A	1985	\$400,000	\$3,499.69	\$321,000	\$3,484.03	-\$15.67	\$400,000	\$3,528.20	\$28.51	\$209,000	\$2,665.35	-\$834.35
B	1989	\$400,000	\$3,499.69	\$325,000	\$3,527.44	\$27.75	\$400,000	\$3,528.20	\$28.51	\$252,000	\$3,074.04	-\$424.65
C	1995	\$400,000	\$3,499.69	\$337,000	\$3,657.68	\$157.99	\$400,000	\$3,528.20	\$28.51	\$260,000	\$3,315.74	-\$183.95
D	2000	\$400,000	\$3,499.69	\$350,000	\$3,798.78	\$299.09	\$400,000	\$3,528.20	\$28.51	\$313,000	\$3,991.64	\$491.95
E	2005	\$400,000	\$3,499.69	\$400,000	\$4,341.46	\$841.77	\$400,000	\$3,528.20	\$28.51	\$400,000	\$5,101.14	\$1,601.45
Tax rate			0.874923%		1.085366%			0.8820509%			1.2752848%	

**Table 6: Impact of Capping under Three Scenarios, Five Comparable Properties Sold in Different Years
City of Brampton**

Property	Year Sold	2005 CVA (for 2008 taxation)	2008 property taxes	5% Cap			10% Cap			Capping at CPI		
				Capped 2005 CVA	2008 property taxes	Change in property taxes	Capped 2005 CVA	2008 property taxes	Change in property taxes	Capped 2005 CVA	2008 property taxes	Change in property taxes
A	1985	\$258,000	\$3,209.66	\$235,000	\$3,170.56	-\$39.09	\$258,000	\$3,235.00	\$25.34	\$172,000	\$2,590.29	-\$619.36
B	1990	\$258,000	\$3,209.66	\$235,000	\$3,170.56	-\$39.09	\$258,000	\$3,235.00	\$25.34	\$192,000	\$2,891.49	-\$318.17
C	1995	\$258,000	\$3,209.66	\$235,000	\$3,170.56	-\$39.09	\$258,000	\$3,235.00	\$25.34	\$193,000	\$2,906.55	-\$303.11
D	2000	\$258,000	\$3,209.66	\$240,000	\$3,238.02	\$28.37	\$258,000	\$3,235.00	\$25.34	\$221,000	\$3,328.33	\$118.57
E	2005	\$258,000	\$3,209.66	\$258,000	\$3,480.88	\$271.12	\$258,000	\$3,235.00	\$25.34	\$258,000	\$3,885.44	\$675.78
Tax rate			1.2440530%		1.3491765%			1.2538748%			1.5059846%	

**Table 7: Impact of Capping under Three Scenarios, Five Comparable Properties Sold in Different Years
City of Ottawa**

Property	Year Sold	2005 CVA (for 2008 taxation)	2008 property taxes	5% Cap			10% Cap			Capping at CPI		
				Capped 2005 CVA	2008 property taxes	Change in property taxes	Capped 2005 CVA	2008 property taxes	Change in property taxes	Capped 2005 CVA	2008 property taxes	Change in property taxes
A	1985	\$300,000	\$2,924.50	\$232,000	\$2,727.48	-\$197.02	\$300,000	\$2,977.43	\$52.93	\$194,000	\$2,598.70	-\$325.79
B	1990	\$300,000	\$2,924.50	\$242,000	\$2,845.04	-\$79.45	\$300,000	\$2,977.43	\$52.93	\$205,000	\$2,746.05	-\$178.44
C	1995	\$300,000	\$2,924.50	\$255,000	\$2,997.88	\$73.38	\$300,000	\$2,977.43	\$52.93	\$216,000	\$2,893.40	-\$31.10
D	2000	\$300,000	\$2,924.50	\$280,000	\$3,291.78	\$367.29	\$300,000	\$2,977.43	\$52.93	\$251,000	\$3,362.24	\$437.44
E	2005	\$300,000	\$2,924.50	\$300,000	\$3,526.91	\$602.42	\$300,000	\$2,977.43	\$52.93	\$300,000	\$4,108.61	\$1,094.12
Tax rate			0.9748320%		1.1756373%			0.9924757%			1.3395373%	

**Table 8: Impact of Capping under Three Scenarios, Five Properties with Different Values Sold in the Same Year
City of Toronto**

Property	Year Sold	2005 CVA (for 2008 taxation)	2008 property taxes	5% Cap			10% Cap			Capping at CPI		
				Capped 2005 CVA	2008 property taxes	Change in property taxes	Capped 2005 CVA	2008 property taxes	Change in property taxes	Capped 2005 CVA	2008 property taxes	Change in property taxes
A	1995	\$249,000	\$2,178.56	\$198,000	\$2,149.02	-\$29.53	\$249,000	\$2,196.31	\$17.75	\$160,000	\$2,040.46	-\$138.10
B	1995	\$356,000	\$3,114.72	\$227,000	\$2,463.78	-\$650.94	\$347,000	\$3,060.72	-\$54.01	\$177,000	\$2,257.25	-\$857.47
C	1995	\$425,000	\$3,718.42	\$256,000	\$2,778.54	-\$939.88	\$391,000	\$3,448.82	-\$269.60	\$200,000	\$2,550.57	-\$1,167.85
D	1995	\$513,000	\$4,488.35	\$274,000	\$2,973.90	-\$1,514.45	\$418,000	\$3,686.97	-\$801.38	\$213,000	\$2,716.36	-\$1,772.00
E	1995	\$634,000	\$5,547.01	\$312,000	\$3,386.34	-\$2,160.67	\$476,000	\$4,198.56	-\$1,348.45	\$244,000	\$3,111.69	-\$2,435.31
Tax rate			0.8749226%		1.0853662%			0.8820509%			1.2752848%	

**Table 9: Impact of Capping under Three Scenarios, Four Properties with Different Values Sold in the Same Year
City of Brampton**

Property	Year Sold	2005 CVA (for 2008 taxation)	2008 property taxes	5% Cap			10% Cap			Capping at CPI		
				Capped 2005 CVA	2008 property taxes	Change in property taxes	Capped 2005 CVA	2008 property taxes	Change in property taxes	Capped 2005 CVA	2008 property taxes	Change in property taxes
A	1995	\$203,000	\$2,525.43	\$185,000	\$2,495.98	-\$29.45	\$203,000	\$2,545.37	\$19.94	\$147,000	\$2,213.80	-\$311.63
B	1995	\$341,000	\$4,242.22	\$271,000	\$3,656.27	-\$585.95	\$341,000	\$4,275.71	\$33.49	\$212,000	\$3,192.69	-\$1,049.53
C	1995	\$421,000	\$5,237.46	\$359,000	\$4,843.54	-\$393.92	\$421,000	\$5,278.81	\$41.35	\$302,000	\$4,548.07	-\$689.39
D	1995	\$588,000	\$7,315.03	\$540,000	\$7,285.55	-\$29.48	\$588,000	\$7,372.78	\$57.75	\$456,000	\$6,867.29	-\$447.74
Tax rate			1.2440530%		1.3491765%			1.2538748%			1.5059846%	

**Table 10: Impact of Capping under Three Scenarios, Five Properties with Different Values Sold in the Same Year
City of Ottawa**

Property	Year Sold	2005 CVA (for 2008 taxation)	2008 property taxes	5% Cap			10% Cap			Capping at CPI		
				Capped 2005 CVA	2008 property taxes	Change in property taxes	Capped 2005 CVA	2008 property taxes	Change in property taxes	Capped 2005 CVA	2008 property taxes	Change in property taxes
A	1995	\$251,000	\$2,446.83	\$127,000	\$1,493.06	-\$953.77	\$195,000	\$1,935.33	-\$511.50	\$97,000	\$1,299.35	-\$1,147.48
B	1995	\$357,000	\$3,480.15	\$161,000	\$1,892.78	-\$1,587.37	\$247,000	\$2,451.42	-\$1,028.74	\$126,000	\$1,687.82	-\$1,792.33
C	1995	\$405,000	\$3,948.07	\$227,000	\$2,668.70	-\$1,279.37	\$347,000	\$3,443.89	-\$504.18	\$177,000	\$2,370.98	-\$1,577.09
D	1995	\$513,000	\$5,000.89	\$312,000	\$3,667.99	-\$1,332.90	\$476,000	\$4,724.18	-\$276.70	\$244,000	\$3,268.47	-\$1,732.42
E	1995	\$692,000	\$6,745.84	\$466,000	\$5,478.47	-\$1,267.37	\$692,000	\$6,867.93	\$122.09	\$362,000	\$4,849.12	-\$1,896.71
Tax rate			0.9748320%		1.1756373%			0.9924757%			1.3395373%	

base does not fall significantly under this scenario. The tax rate increase for 5 percent capping falls in between the other two scenarios.

Turning to Tables 5 to 7, it can be seen in all three cities that properties that sold most recently derive the greatest benefit from capping. The exception is 10 percent capping which is not binding in the sense that the property values on the five properties in each city did not increase any more than 10 percent over the period.¹⁴ These tables also show that a higher capping limit results in a smaller change in assessment and property taxes. Finally, an unintended consequence of the capping schemes is that property taxes can actually increase for some properties whose assessments went down. For example, Property B, C, and D in Toronto (Table 5) under the 5 percent cap experience a decrease in assessment and an increase in property taxes. Similar results can be found for selected properties in Brampton (Table 6), and Ottawa (Table 7). These property tax increases are the unintended consequences of assessment capping that are consistent with the findings for US jurisdictions.

Tables 8 to 10 analyze the impact in each of the three cities for properties that all sold in the same year (1995) but that have different assessed values. In all of these examples, property taxes on most properties decline under each scenario as a result of the reassessment because these properties sold many years ago. The extent to which they fall depends on the individual property. In Toronto, under each capping scheme, the amount that the property tax falls increases as property values rise. In Brampton (Table 9), the largest benefits are not experienced by the highest valued property; in Ottawa (Table 10), the largest benefit goes to the highest valued property under CPI capping but not under the other two scenarios. What these tables show is that the tax impact depends on the changes in the assessment of each individual property. It is not true in any of the cities, however, that the lower valued properties benefit most from capping.

¹⁴ Taxes increase somewhat because some properties in the municipality increased more than 10 percent and capping meant that the tax rate had to increase by a small amount.

To understand which properties benefit most from capping, Table 11 compares the change in property taxes to the percentage change in assessed value for the selected properties in the three municipalities. It shows that the largest benefits of capping accrue to those properties with assessment decreases that are much greater than the average decrease. Looking at Toronto

Table 11: Change in Property Taxes Relative to Change in Assessed Value under a 5% Cap

Toronto					
Property	Year Sold	2005 CVA (for 2008 taxation)	Capped 2005 CVA (5% cap)	% change in assessed value	Change in property taxes
A	1995	\$249,000	\$198,000	-20.5	-\$29.53
B	1995	\$356,000	\$227,000	-36.2	-\$650.94
C	1995	\$425,000	\$256,000	-39.8	-\$939.88
D	1995	\$513,000	\$274,000	-46.6	-\$1,514.45
E	1995	\$634,000	\$312,000	-50.8	-\$2,160.67
Avg. % change				-19.3	
Brampton					
A	1995	\$203,000	\$185,000	-8.9	-\$29.45
B	1995	\$341,000	\$271,000	-20.5	-\$585.95
C	1995	\$421,000	\$359,000	-14.7	-\$393.92
D	1995	\$588,000	\$540,000	-8.2	-\$29.48
Avg. % change				-7.8	
Ottawa					
A	1995	\$251,000	\$127,000	-49.4	-\$953.77
B	1995	\$357,000	\$161,000	-54.9	-\$1,587.37
C	1995	\$405,000	\$227,000	-44.0	-\$1,279.37
D	1995	\$513,000	\$312,000	-39.2	-\$1,332.90
E	1995	\$692,000	\$466,000	-32.7	-\$1,267.37
Avg. % change				-17.0	

under the 5% cap, the average decline in assessed value from capping is 19.3 percent. Since the assessed value of each of the five properties in Toronto decreases by more than 19.3 percent, all properties experience a tax decrease. In Brampton, the smallest decrease in taxes accrues to the two properties (A and D) whose decline in assessed value is very close to the average decline for the municipality.

To summarize, the findings for the Ontario simulations are consistent with the estimated impact found in the US literature: the change in assessed value arising from capping generally favours high property values and high incomes at the expense of lower property values and lower incomes, seniors at the expense of young homeowners, and waterfront and recreational properties at the expense of single-family homes and condominiums. Properties that sold a long time ago are favoured at the expense of properties that sold more recently. And, finally, capping can result, in some cases, in higher taxes on properties that have enjoyed a decrease in assessment.

5. Alternatives to Assessment Limits

There are ways to mitigate volatility without sacrificing uniformity in the property tax system. Existing tools in Ontario, for example, cushion the impact of property tax increases and provide property tax relief to taxpayers who need it through property tax credits (for low-income taxpayers), tax deferrals (for the elderly), phase-ins, and refunds (for those experiencing hardship):

- ***The Ontario Property Tax Credit:*** The provincial property tax credit system targets assistance to those most in need by relating property taxes paid to the income of the taxpayer. The tax credit is based on the amount of property taxes paid (or a portion of the rent paid for renters) and the income of the taxpayer. The credit is subtracted from the personal income taxes payable and is refundable. The higher the taxpayer's property taxes and the lower his/her income, the greater is the tax credit. The property tax credit is paid for by the provincial government and it is a permanent feature of the income tax system.

- ***Tax deferrals:*** Property tax deferral programs in Ontario are geared to low-income seniors and low-income persons with disabilities (Section 319 of the Municipal Act). The provincial government requires municipalities to have a tax deferral program but the design of the program is left to the municipality. Property tax deferrals are a permanent feature of the property tax system and are paid for by levying a higher tax rate.

Under the tax deferral program, the owner of the property is permitted to defer or cancel all or part of a tax increase for 1998 and subsequent years. Interest may be charged on taxes for taxation years before 2001 that are deferred at a rate not exceeding the market rate but no such interest may be charged for 2001 and subsequent years. The outstanding amount becomes a lien on the property, payable to the municipality when ownership is transferred. It is not a tax rebate but only a deferral.

- ***Optional Phase-ins:*** Municipalities can, at local option, provide a phase-in program for those taxpayers facing tax increases or decreases arising from a reassessment (section 318 of the Municipal Act). Municipalities can phase in assessment-related tax changes for up to eight years. Municipalities can provide different phase-ins for different property classes. Phase-ins of tax increases can be funded by a higher tax rate or by clawing back decreases. This provision, at local option, is a permanent feature of the property tax system.
- ***Cancellation, reduction or refund of taxes that are unduly burdensome:*** Under section 365 of the Municipal Act, a council of a local municipality can provide for the cancellation, reduction, or refund of taxes levied for local municipal and school purposes for any person who makes an application for that relief and whose taxes are considered by the municipality to be unduly burdensome. The revenues foregone are funded by a higher tax rate. This provision is also a permanent feature of the property tax system (at local option).

In addition to property tax relief programs, accuracy in assessment is critical to a market value tax base. To the extent that some of the volatility comes from inaccurate assessments, these should be corrected. Moreover, assessment increases should not be used as an excuse to increase property taxes. In other words, property tax rates need to be reduced when property values rise in order to keep tax bills stable. As (Youngman 1999a) notes, Proposition 13 was introduced in California after “a period of extraordinary price increases that were not balanced by rate reductions.” If a municipality chooses to raise its tax rates to meet increased budgetary requirements, then the tax rate increase should be made explicit. Full disclosure, or “truth in taxation” as it is referred to in the US, requires local governments to advertize in the newspaper information regarding the proposed tax rate and rollback rate, to hold public hearings to discuss tax rates, and to vote on any tax rate that exceeds the rollback rate (Winters 2008). The rollback rate is the tax rate that results in the same tax revenues as in the previous year prior to the reassessment but excluding new construction and improvements from the increased assessed value. As (Winters 2008) notes, since municipalities can vote to increase the tax rate beyond the rollback rate, this provision is not very restrictive in terms of the property tax that municipalities can levy.

More payment options for taxpayers would cushion the impact of property tax increases. Other options include more frequent payments, the use of bank cards and credit cards, and even withholding from salary payments at source. Taxpayer education is also important so that they understand the relationship between assessment increases on individual properties, the average assessment increase in the municipality, and the taxes they pay. Much of the concern from reassessments stems from a lack of understanding of how individual assessment changes translate into tax changes. Taxpayers need to understand that an increase in their property value alone will not necessarily increase their taxes. It is the relationship between their assessment increase and the average increase in the municipality that will determine if their taxes will go up or down, and by how much.

6. Concluding Comments

Current value assessment may have its problems, particularly in the face of market volatility, but as the evidence in this report shows, efforts to cure some of these problems may only make matters worse. Assessment limits provide help to those property owners who have been made wealthier by the market at the expense of those whose property values have not changed. Capping may also have unintended consequences by helping those who need it least and by increasing taxes for those it is designed to help.

In terms of the public finance principles set out in this report, assessment capping tries to achieve stability and predictability but it does so, more or less, at the expense of equity. Ignoring equity, however, can result in an even less desirable tax in the long run and even greater taxpayer resistance as taxpayers come to understand the true impact of capping.

Although a strong case can be made to mitigate tax increases on those who cannot afford them, this mitigation is best done through property tax credits, tax deferrals, and phase-ins than through assessment capping. Property tax credits and deferrals, in particular, are targeted to those taxpayers that can least afford the property tax increases. It is better to assist the taxpayers most in need than to tamper with assessment base.

Finally, it was also noted in this report that property taxes provide a significant source of revenue for municipalities in Ontario and they have been growing over the last two decades. The greater the amount of revenue collected from a tax and the faster they are increasing, the more scrutiny there will be by taxpayers and the greater the resistance to market value assessment. Perhaps the property tax is being used to finance too many services and it is time to consider reducing municipal reliance on this source of revenue. A reform of this magnitude will, of course, need further study.

Appendix: Data Sources

Tax rates: Ministry of Municipal Affairs and Housing, Financial Information Returns

CPI for Ontario: Statistics Canada, CANSIM data

Average income: Statistics Canada, Census 2006

Property type, primary residence, property values, owner's age range, home with children:

Municipal Property Assessment Corporation (MPAC)

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