

THE ONTARIO PROPERTY ASSESSMENT AND TAX SYSTEM

What's wrong, and what can be done?

1. The market slowdown and the four year assessment

The recent assessment has created serious concern among Ontario home and business owners. It covered a three year period of generally strong real estate markets. The average increase for all residential properties in the province was 20%. Coincidentally, right after the valuation date of January 1, 2008, a slowdown in the volume of sales began, followed in the summer and fall of 2008 with a significant weakening in selling prices in most parts of the province. This has led to a growing concern that most properties are over-assessed. That concern is heightened by the realization that, under changes introduced in 2007 by the Liberal government, the next assessment will not be carried out until the end of 2011 rather than the end of 2008, as previously scheduled

Does a higher assessment mean higher property taxes? The finance Minister has said on many occasions and as recently as November 25 in the House, “that an increase in assessment does not mean an increase in property taxes.” This is beside the point. **If the assessment increase on your home is up more than the average for your municipality, it will mean a tax increase.**

Let's take an example. Say the average increase for your municipality is 20%, the same as the average for the province. But let's also say the increase for **your home** is 35%. This will mean an assessment-related tax increase. The increase will be 135/120 or 12.5%. That increase will, under the new four-year cycle, be phased in over the four years, 2009 to 2012, meaning an average annual tax increase due to assessment of 3.1% **to you.**

In addition, you will also have to pay your share of the municipality's spending increase. If that averages to 4% a year, it means your total annual increase will be 7.1%.

The example used here of a 35% assessment increase is not extreme. Some 1,000,000 properties in Ontario, or almost one quarter of all properties, have increases greater than 30% in the 2008 assessment.

Further complications

The 20% average municipal increase was selected on purpose because it equals the provincial increase. One third of your tax bill pays for education. If your municipal average is 30% and your own assessment is also up 30%, you won't pick up a bigger share of municipal costs, but you will pick up a larger share of the education bill. Also, if you are in an area where there are both lower and upper tier municipalities then your assessment may be average for your lower tier municipality but above average for the upper tier district or county. This will also mean an assessment-related tax increase.

The average assessment increase for your municipality is shown on your assessment notice. If your municipality is part of an upper tier municipality your notice will not show the upper tier average and it then becomes difficult to estimate the tax impact of your assessment increase.

2. What happens when real estate prices drop?

We know that in 1990, when the last major crack in the real estate market occurred, properties that had risen most in value in the late '80's were the ones that dropped most in value in the early '90's. This means that home and cottage owners who get hit with the greatest "assessment-related tax increases" are the same ones whose property values could drop the most as the real estate market softens. This means that they'll be paying higher taxes for four years when in fact their properties are declining in value, at a faster rate than many of their neighbours'.

They will also have to wait until 2012 to find out whether that decline still exists and until 2013 to see whether that results in a drop in their taxes. The corollary to that is that if the market in fact remains soft, in particular in cottage country, there could be a massive shift of tax in 2013 back onto properties off water. Since value declines are reflected immediately, this could lead to a major upheaval in municipalities with a significant waterfront component.

3. What is the Government of Ontario doing about this?

At this point (December 22), nothing. Even Premier McGuinty has admitted that the 2008 property value assessments are now inaccurate, due to market changes since the evaluations were completed. But the Premier and Ontario Finance Minister Dwight Duncan have simply responded by calling on municipal Governments to keep their taxes down in 2009. This, of course, does nothing to address the fluctuations on property values, which are used to determine homeowners' **share** of the taxes. And municipalities can't do a thing about that.

4. What can municipalities do?

If the average increase in assessment for a municipality is 25%, municipalities should, and most in fact do reduce the tax rate correspondingly in order to raise the same dollars. They then increase the rate to cover expected inflationary and other cost increases. They cannot, as the Premier has suggested, deal with the sharp decline in property values that has occurred since the end of 2007. The only way to fairly handle that is by shelving the 2008 assessment and again considering ways of dealing the volatility that is now more than ever evident in the real estate market.

5. What can you, the homeowner, do?

Write or call your MPP and tell him or her that you think the 2008 assessments should be scrapped. And that the whole system needs to be re-examined.