

ITEM	11
MANAGER'S REPORT NO.	57
COUNCIL MEETING	87 09 21

RE: IMPLICATIONS OF FEDERAL TAX REFORM ON LOCAL GOVERNMENT
(ENQUIRIES, COUNCIL MEETING 1987 JUNE 29)

MUNICIPAL MANAGER'S RECOMMENDATION:

1. THAT the recommendation of the Director Finance be adopted.

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TO: MUNICIPAL MANAGER
FROM: DIRECTOR FINANCE

1987 September 11
File: C3

RE: IMPLICATIONS OF FEDERAL TAX REFORM ON LOCAL GOVERNMENT
(ENQUIRIES, COUNCIL MEETING 1987 JUNE 29)

RECOMMENDATION

1. THAT this report be received for information purposes.

BACKGROUND

REPORT

Council requested staff to bring forward a report on the Implications of Federal Tax Reform on Local Government. This report refers to the work being carried out by the Federation of Canadian Municipalities (F.C.M.) and the Union of British Columbia Municipalities (U.B.C.M.) to date on the implications of Finance Minister Wilson's White Paper unveiled on 1987 June 18. It also comments on supporting information that our staff is compiling for the F.C.M. to help assess the financial impact on Canadian municipalities of the proposed tax measures.

PARTICIPATION BY F.C.M.

The F.C.M. has retained the services of Clarkson Gordon, Chartered Accountants, to analyse the major implications of the proposed changes proposed tax measures as unveiled by the Minister on June 18. This analysis has been reported by F.C.M. in an earlier communication (Attachment 01). More recently, the F.C.M., with the services of Clarkson Gordon, is attempting to place a dollar value on the new tax measures (Attachment 02). Burnaby is participating in a questionnaire prepared by Clarkson Gordon, as outlined in the letter. When the results are compiled and issued by the F.C.M. we will report to Council on any significant findings. The letter also states that the F.C.M.'s Standing Committee on Municipal Financing will meet on 1987 September 10 to develop strategies on tax reform. Significant developments, when communicated to us, will also be reported to Council.

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PARTICIPATION BY U.B.C.M.

The U.B.C.M. has been in consultation with the F.C.M. about the proposed tax measures on municipalities, but has not taken any formal action up to this time. We understand that the U.B.C.M. has scheduled a speaker from Clarkson Gordon, who have been retained by the F.C.M., to give a presentation at the upcoming U.B.C.M. Convention in B.C. on 1987 September 24. We further understand that the speaker will present some information, give a briefing, after which an open discussion will follow.

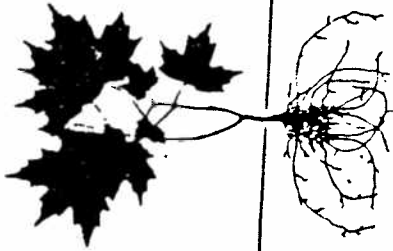
The foregoing is for the information of Council.



Howard Karras
DIRECTOR FINANCE

PWT/cie
Attach.

cc: All Directors



FCM

Federation of
Canadian
Municipalities

Fédération
canadienne des
municipalités

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COMMUNIQUÉ

FEDERAL TAX REFORM WILL FORCE PROPERTY TAX INCREASES

According to an analysis prepared for the FCM by Clarkson Gordon, tax reform proposals unveiled this evening by Finance Minister Michael Wilson will have major implications for municipal ratepayers. Effectively, a large burden of taxation will be transferred to local government and to the property tax. Because of the regressive nature of the property tax, low income Canadians bear the heaviest burden.

Currently, many goods purchased by municipalities for essential services such as culverts, firefighting equipment, water and sewage equipment, materials used in the construction of bridges and pollution control instruments and materials are not taxable. Under the proposed broad-based, multi-stage sales tax, massive new taxes will be imposed. The costs of essential public services therefore increase. The deplorable and unacceptable deterioration of Canada's urban infrastructure - roads, sewers, sidewalks and bridges - will accelerate.

In the context of the federal government's recent refusal to participate in an infrastructure renewal program, the new taxes threaten Canada's environment. The installation or upgrading of essential sewage treatment and pollution control facilities will be compromised.

Certain services offered by municipalities such as garbage collection, could become taxable if a similar service is offered by the private sector. As more and more municipal operations are contracted out to the private sector, these costs will become yet another burden on the average homeowner or renters whose property tax costs will be forced up.

While the full effect of the sales tax reform cannot be precisely measured, it is clear that it will have an adverse effect on municipalities if a broad based system is implemented as proposed. Not only will these new taxes result in increased out of pocket costs for municipalities, but also administrative costs could increase.

In meetings with Federation officials, Finance Minister Wilson committed that a broad tax reform would not be implemented before full consultation. The FCM looks forward to further meetings with Mr. Wilson to protest what is effectively a major shift of the cost of government to municipalities.

The Federation has earmarked substantial resources to ensuring that municipal interests are protected in the tax reform process. It is evident that a major commitment on the part of the FCM will be required to ensure that the public is not burdened by effective double taxation, specifically federal taxation of municipal operations.

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For further information, please contact:

J. Jacques Lemire, Communications
Federation of Canadian Municipalities
24 Clarence Street
Ottawa, Ontario K1N 5P3



ATTACHMENT 02

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August 20, 1987

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His Worship William A. Lewarne
District of Burnaby
4949 Canada Way
BURNABY, British Columbia
V5G 1M2

Dear Mayor Lewarne,

The Federation of Canadian Municipalities is in the process of analysing the implications of federal tax reform on local government.

The FCM has retained the services of Clarkson Gordon Chartered Accountants to determine the cost to municipalities of the imposition of a broad-base, multi-stage sales tax. We understand that Finance Minister Wilson's proposals will result in new taxes on goods and services used by municipalities in providing essential services (eg. fire-fighting equipment, culverts, water and sewer equipment) and also apply to certain services offered by municipalities when a similar service is available from the private sector (eg. garbage collection) as a result of "self-supply" rules. These rules may also apply for in-house operations which could be offered by the private sector. Engineering, legal, planning and other services provided by private consultants could become taxable under the tax reform proposals.

At present, the FCM is attempting to place a dollar value on the new tax measures for municipalities. The District of Burnaby participated in the FCM's Municipal Import Replacement Project (MIRP) and considerable data was generated on municipal purchasing. We hope to utilize this data in analysing the effects of tax reform. Additional information is required from your municipality if the FCM is to arrive at the total impact of the multi-stage sales tax on municipal purchases.

Specifically, I am requesting that John A. Vissers, Purchasing Agent, of your staff who participated in MIRP or another official respond to the attached questions. These questions are designed to assist Clarkson Gordon in determining the application of the proposed new taxes on municipal operations.

The FCM's Standing Committee on Municipal Financing will meet on September 10 to develop strategies on tax reform. We are requesting that responses to the attached questions be returned to the FCM as soon as possible.

Thank you in advance for your assistance. Should you require any further information, please contact Michael Gough, Director of Policy and Research at the FCM.

Sincerely yours,

James W. Knight
Executive Director

August 12, 1987

IMPACT OF TAX REFORM PROPOSALS ON MUNICIPAL OPERATIONS

As was spelled out in the FCM's Communique of June 18, Finance Minister Michael Wilson's tax reform proposals hit the municipal world hard.

A variety of goods used for essential municipal services which are not now taxed, will be subject to the proposed multi-stage sales tax. Examples of such goods include culverts, fire fighting equipment, water and sewer equipment, street maintenance equipment and pollution control instruments. Moreover, a variety of services used by municipalities will also be subject to the new tax.

Second, certain services offered by municipalities could be subject to tax if a similar service is available on a commercial basis. For example, if a municipal recreation department offers a fee for a service summer program for children, that service would be taxed alongside similar commercial offerings.

Third, certain in-house non-commercial municipal activities could trigger "self-supply" provisions and be subject to tax if a similar service is offered by the private sector. For example, if a municipality operates a large engineering department instead of contracting out its engineering needs to the private sector, then a value for the in-house service could be imputed and a tax charged.

This communique is issued to assist municipalities in quantifying the potential implications of tax reform for local budgets.

THE BROAD BASED, MULTI-STAGED SALES TAX

A multi-stage sales tax is a value added tax levied on and collected from all businesses as goods move through various production and distribution chains to the consumer. Under the proposed new system, businesses would pay tax on their sales and claim a credit for any tax paid on their purchases.

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Mr. Wilson's White Paper proposes that municipalities and certain other organizations be given special tax treatment. Specifically, they would be "tax exempt" in respect of all non-commercial activities, subject to a self supply-rule, and taxable in respect of certain "commercial activities".

"Tax exempt" in this sense does not mean that municipal corporations will escape tax on the goods and services they purchase. The effect of such tax exemption is that only external purchases of goods and services are taxed. The value added by the tax exempt organization escapes the tax, again subject to the self-supply provisions discussed below.

Unlike the private sector, municipal corporations would not be in a position to claim any credits for the tax paid on their purchases in respect of tax exempt activities. Almost all municipal purchases of goods and services will be subject to the full tax. Since there will be no opportunity for a refund or credit for this tax, the cost to municipalities of purchasing many goods and services will be higher. Moreover, as stated above, taxes will be charged on a wider range of goods.

SELF SUPPLY

Recognizing that "tax-exempt" organizations will not be required to pay tax on any value added by them, the federal government anticipates that this could give rise to a bias for such "tax-exempt" organizations to "self-supply" certain goods and services at the expense of the private sector. For example, if a municipality uses the services of an independent road contractor, the contractor would be required to charge tax to the municipality on the full value of the contract. Alternatively, if the municipality did its own road construction, it would still be charged tax on its purchases of equipment, but by using its own employees, the municipality would be able to avoid tax on the labour costs or the independent contractor's value-added. Similar situations could arise for other planning activities, contracted out by municipalities.

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To prevent "tax exempt" organizations from avoiding tax by doing more in-house, the federal government has suggested the imposition of tax on goods and services when self-supplied by the exempt organizations. Specifically, municipalities may be required to pay tax on some type of imputed value to take into account the internal value added. The government has indicated that the range of goods and services subject to any self-supply rules would be developed in consultation with business and the "tax-exempt" organizations.

The potential implications for municipal operations are enormous.

COMMERCIAL ACTIVITIES

The above "tax-exempt" rules would only apply to activities of a non-commercial nature. Where a municipality or other "tax-exempt" organization engages in activities of a commercial nature, these would be subject to the normal multi-stage sales tax rules. Tax would apply to such sales and a credit would be available for any tax paid on goods and services purchased by the organizations.

The preliminary proposals state that governments would be taxable on any commercial activity involving the supply of property or service of a type that is generally supplied by a commercial business. To date, no indication has been given as to how broadly the term "commercial activity" will be applied.

NEXT STEPS

The FCM believes Tax Reform will be the key national municipal issue for the foreseeable future. In order to equip itself to protect municipal interests, the FCM has retained the Clarkson Gordon Company to conduct detailed research on the financial implications of tax reform in selected municipalities. A comprehensive report will be issued later in the year.

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For further information, please contact:

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