

Background

March 16, 2015

Education Property Tax – Possible Budget Considerations

Core Issue: A decline in oil-related revenues has led to an approximately \$700 million shortfall for the provincial government. It is possible that the provincial government will reduce its share of education funding in response to the shortfall. This report looks at actions the province can take to make up for a reduction in provincial funding. This is only meant to explain what could happen, but until the budget is delivered we are considering options.

Introduction

In 2009, the provincial government released a review of education property tax, the *Reiter Report (2009)*. Based on this report the province announced several structural changes to the system. Most significantly, the Government of Saskatchewan assumed more control over Saskatchewan's education property tax system and their authority now includes setting a province-wide education property tax mill rate. Based on this rate, amounts are remitted to school boards after they are collected by the municipality.

In response to the *Reiter Report*, the government also announced plans to cap the contribution of the education property tax by having preK-12 education funded 65% by the province and 35% from education property taxes; previously about 60% of education funding had come from education property taxes and 40% from the province.

With Budget Day nearing, Premier Wall has indicated that the decline in oil-related revenues created an approximately \$700 million shortfall for the provincial government. The Premier and Cabinet have warned that the budget will be tight. It is possible that through the budget process, the provincial government will reduce its share of education funding. On March 11, 2015 the Premier told delegates at the Saskatchewan Association of Rural Municipalities (SARM) Convention that an increase in education property tax was “on the table.”¹ Furthermore, the Premier stated that when his government was elected in 2007, education costs were funded primarily through education property taxes, with a 60-40 split between the education property tax and the general revenue fund. He suggested that facing a tough budget, the provincial government is “looking at the option of moving it back to the 40-60 goal we had.”²

¹ Tank, P. (2015, March 11). Education tax hike “has been on the table”: Wall. *The Star Phoenix*. Retrieved from <http://leaderpost.com>.

² Ibid.

Options

There is essentially one way that the provincial government can reduce their share in education funding and that is to simply contribute less funding from the general revenue fund. The issue then becomes how to keep education funding adequate. To maintain an adequate level of education funding while reducing their share, the provincial government can increase the education property tax mill rate. The education property tax is collected by municipalities on behalf of Saskatchewan school boards. School boards can no longer set their own mill rates; the mill rate is set by the province.

Currently, the province funds approximately 65% of education while the education property tax funds the remaining 35%. If the province does return to a 40-60 split in which the education property tax accounts for the majority of funding, the education property tax owed on a property would increase by approximately 25%. That means that a commercial property assessed at \$500,000 would see an increase of approximately \$1,035. Such a property would owe about \$5,175 in education property tax instead of the previous \$4,140. (See below for calculation.)

Current Scenario	25% Increase in Education Property Tax
Commercial Property	Commercial Property
$\$500,000 \times 100\% = \$500,000$	$\$500,000 \times 8.28^*/1000 = \$4,140$
Assessed X % of Value = Taxable Value Assessment	Taxable X Education = Education Property Assessment Mill Rate Tax Owing
$\$500,000 \times 8.28^*/1000 = \$4,140$	25% of \$4,140 = \$1,035
Taxable X Education = Education Property Assessment Mill Rate Tax Owing	$\$4,140 + \$1,035 = \$5,175 = \text{New Education Property Tax Owing}$
* 2014 mill rate for the commercial/industrial education portion of property tax	

Another possibility identified is to require properties on leased land in provincial parks to pay education property taxes. These properties do not currently pay education property taxes. If these properties were required to pay education property taxes, the pool of funding would increase though it is unclear by how much. On its own, the option would likely not enable government to significantly reduce its share of education of funding.

Conclusion

If the province does decide to reduce their share of education funding, they will likely do so by increasing the education property tax mill rate; Premier Wall suggested this in his recent comments at the SARM Convention.

Increasing the education property tax does not align with *A Tax Framework for Saskatchewan's Continuing Prosperity* (Tax Plan). In 2010, the Tax Plan recommended that the provincial government should transfer additional education funding away from property taxes, and instead have it come out of other provincial government sources. The report also noted that Saskatchewan relies on education property taxes more than any other province.³ Increasing the education property tax would only exacerbate this.

Works Cited

Tank, P. (2015, March 11). Education tax hike “has been on the table”: Wall. *The Star Phoenix*. Retrieved from <http://leaderpost.com>.

Canada West Foundation. (2010). *A Tax Framework for Saskatchewan's Continuing Prosperity*. Calgary, AB: Casey Vander Ploeg and Jack Vicq.

³ Canada West Foundation. (2010). *A Tax Framework for Saskatchewan's Continuing Prosperity*. p. 26. Calgary, AB: Casey Vander Ploeg and Jack Vicq.