MAFRI Corner

Municipal Tax Sharing? Is it for you? (by Ruth Mealy, MAFRI)

Would you like to take positive steps to diversify your local economy and grow your business and industrial tax base? Are you successful at doing this now? Tax sharing, where a group of municipalities agree to share in the cost of infrastructure development as well as share in any resulting growth in tax revenues, just might be a tool to help make this happen.

Many local economic development agencies and municipal councils question their success in truly making a difference in improving their local economies. This might be because many small communities and rural municipalities (RMs) do not have budget to support a standalone economic development agency and so just leave their economic future to chance. Those small municipalities that do support an economic development budget often try to "go it alone" with part time employees and/or volunteers. These small, local organizations tend to be able to tackle important "community" development issues and projects, but most are not able to successfully tackle hard "economic" development issues and projects. All over Canada, rural communities are realizing that to be effective, they need to pool their resources and work with their neighbours and increasingly, this means entering into a tax sharing agreement.

How does tax sharing help? The most important reason is likely that it helps to reduce competition between neighbouring towns and rural municipalities. Communities work together to build and attract new business, no matter in which community the business locates. For example, when a business expansion occurs in one community, the increased tax revenues are shared between all partners in the tax sharing agreement, based on a sharing formula developed by the partners. This eliminates the need to compete for business growth for only your own municipality, which has unfortunately been the demise of many well meaning regional groups in the past.

Tax sharing encourages municipalities to work together towards common economic development and land use planning objectives in a coordinated way while still allowing municipalities to retain their local autonomy. Tax sharing is not amalgamation but allows groups of communities to act regionally while still maintaining their own identity. Groups of communities who enter into a tax sharing agreement are most effective when they co-fund a development organization to work proactively on behalf of all partners.

Tax sharing is not for everyone, however, and caution must be used before considering it. Communities must be willing to work together, must trust each other and must be willing to share in infrastructure costs in each other's communities, not just share in the revenues. The time gap between paying for infrastructure and receiving increased revenues may be considered too risky for some communities. For many councillors it is also hard to explain to the constituents of a municipality who question why they are helping to pay for infrastructure expansion in a neighbouring municipality.

There are three basic questions that must be addressed in any tax sharing agreement:

- What type of property taxes will be shared? This may include specific property either for industrial, business or agricultural uses or properties within a defined geographic area.
- What portion of tax revenue will be shared? Does it apply to all tax revenue or just some?
- How will the tax be redistributed among participating municipalities? Who will administer and monitor the agreement?

All of these questions must be spelled out in an agreement, as well as administrative details, length and terms of the agreement, handling disputes and appeals and other cost sharing items.

How do you start a tax sharing agreement? First identify potential partners (neighbouring municipalities) who are open and interested in the idea. Second, agree on a common vision for the future and how this will be reflected in a tax sharing agreement. Third, develop a plan with your partners to develop the goals of the agreement, procedures and policies to manage the agreement and operational guidelines and organizational structure needed to move your plan forward.

Remember tax sharing is not for everyone, approach it carefully, but be sure to consider it to move your community closer to economic development success!