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RESPONSIBILITY AND LOCAL REVENUE

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Department of Local Government
Government of the Northwest Territories,
Yellowknife, N.W.T.
January, 1979

RESPONSIBILITY AND LOCAL REVENUE

I. Introduction

In looking at alternatives and preparing recommendations relating to responsibility and local revenue, it was necessary first to establish those principles which the Government of the Northwest Territories believes to be basic to sound financial responsibility at the community level. The recommended principles are:

1. A portion of the cost of providing local services should be raised locally.
2. Responsibility for raising a contribution toward the cost of these services should rest with the local council.
3. The local council should have a choice of raising revenue to provide services beyond the basic level of service which the Government of the Northwest Territories provides.
4. There should be an incentive for the council and the community to raise local revenues for local purposes.

A further major consideration underlying the development of these recommendations has been the need for greater responsibility for raising revenue at the community level, as well as at the Territorial level, as a basis for continued constitutional development in the North.

II. Basic Conclusion

1. From an extensive review of alternatives it is concluded that property taxation is the most practical basic revenue source for senior municipalities and, with the addition of a property users' tax, the most practical way of introducing Hamlets and Settlements to the principles and practices of raising local revenue.

Property tax: tax on buildings and land in the Northwest Territories.

Property Users' Tax: tax on those occupying or using property.

2. Selective implementation of property taxation under the Taxation Ordinance (below Village status) has resulted in:
 - (a) the unfairness of property owners in some communities being taxed while those in others are not, and
 - (b) a significant loss of revenue to the Government of the Northwest Territories (estimated at \$1.6 million per year at the present rate of 25 mills).

Mill: the standard term used in setting the level of taxation. 1 mill produces \$1 for each \$1,000 of estimated value for tax purposes.

3. Property taxes under the Taxation Ordinance provide neither an incentive for communities to produce tax money nor a basis for developing local responsibility and control, as it is unrelated to community needs and expenditures. (At the present time, all property taxes from communities below Village level go directly to the Government of the Northwest Territories).
4. The property tax base in most N.W.T. communities particularly in smaller communities taxed under the Taxation Ordinance, is relatively limited and capable of supporting only a small portion of the cost of providing local services.
5. Due to very limited home ownership, there are relatively few direct property tax payers in most communities, and thus limited participation in the responsibility for producing local revenue.

III. Summary of Recommendations

1. (a) That a property users' Tax payable by those occupying or using property, whether they are owners or renters, be introduced under the Taxation Ordinance (below Village level) in addition to property taxes.
- (b) That the rate for property taxes be set at 15 mills.
- (c) That the rate for property users' tax be set at 20 mills.
2. That the property users' tax be introduced in the following two stages in order that the system can be fully developed and councils and community residents can become familiar with local taxation before assuming direct responsibility.

Stage I

Collection of property users' taxes plus the existing property taxes by the Government of the Northwest Territories with local councils being given 15 percent of the revenue from general property and property users' taxes, to a maximum of \$25 per capita, for the purposes of:

- (i) providing a higher level of service than that funded by the Government of the Northwest Territories, and/or
- (ii) any other community purpose which does not require any financial commitment by the Government of the Northwest Territories unless approved by the Government of the Northwest Territories.

Stage II

Collection of property users' and property taxes by the local council. At this stage the local council retains all general property taxes and property users' taxes on the following basis:

- (a) 25% to a maximum of \$30 per capita for the discretionary purposes outlined under Stage I, and
- (b) 75% to be applied against its operating budget.

In addition, a council assuming collection responsibilities (Stage II) will be permitted to raise additional taxes (half in the form of property users' tax and half in the form of property tax) for the discretionary purposes outlined under Stage I. This local option is subject to the following maximum limits:

Hamlets:	10 mills or \$40 per capita, whichever is the lesser.
Incorporated Settlements:	5 mills or \$20 per capita, whichever is the lesser.

3. That existing tax based communities (village status and above) be given the option of introducing a property users' tax subject to prior approval of the Minister of Local Government.
4. That the taxation program under the Taxation Ordinance be accelerated to cover all N.W.T. communities over a three year period to provide the base for implementation of the proposal.

5. That a school tax be retained and implemented throughout the Northwest Territories and that the Departments of Education and Local Government be directed to develop a proposal for changing the school tax system in order that communities which assume responsibility for education
 - (a) retain all or part of the revenue from the school tax consistent with the degree of responsibility assumed, and
 - (b) be given the opportunity to raise additional funds for educational purposes not provided by the Government of the Northwest Territories.

Effect of Recommendations

(a) Effect on Tax Payers

The recommended 20 mill property users' tax amounts to approximately \$11 per month on a new three bedroom house presently provided by the N.W.T. Housing Corporation. When the maximum optional local tax is included, the tax for this kind of house will be \$14.00 per month in a hamlet and \$12.50 per month in a settlement where the local council chooses to tax at the maximum rate.

(b) Effect on Community Revenues

Based on the example of Tuktoyaktuk, introduction of the property users' tax will provide additional discretionary revenues to the Hamlet Council of approximately \$5,600 per year. When the Hamlet Council assumes collection responsibility, the amount of discretionary money to the council will increase to approximately \$25,000 per year of the total of \$63,000 raised in Tuktoyaktuk (assuming the maximum optional local tax is applied). A more detailed breakdown of present and proposed taxes in Tuktoyaktuk is provided in the appendix.

(c) Effect on Government of the Northwest Territories Costs and Revenues

Full implementation of the proposal will provide \$3.5 million new net revenues, of which up to \$1.2 million per year will go to communities and approximately \$2.3 million per year will go to the Government of the Northwest Territories.

APPENDIX A

EXISTING AND RECOMMENDED TAXES: THE EXAMPLE OF TUKTOYAKTUK
(based on 1977 figures)

Existing Property Taxes

- direct to Government of the N.W.T. \$29,100

STAGE I. (GNWT Responsibility for collection)

- direct to Government of the N.W.T. 5,800
- applied against Hamlet Contribution 31,500
- to Hamlet Council for discretionary purposes 5,700
\$43,000

STAGE II (Hamlet Council Responsibility for Collection)

- direct to Government of the N.W.T. 5,800
- Applied against Hamlet Contributions 32,100
- To Hamlet for discretionary purposes
 - from basic taxes (25%) 10,700
 - from maximum optional local tax 14,400
\$63,000

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	\$63,000