
Tackling Volatility and Business Over-Taxation: What is BC Doing?

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Two Problems

- Volatility
 - Unanticipated year-over-year increases in property taxes

- Over-taxation of business
 - Impact on investment and competitiveness

Volatility

- Market value can be volatile, not stable and predictable
- Some properties may experience an unanticipated increase significantly greater than the average increase for the class
- Visibility and volatility have led to assessment limits in many US states and pressure to impose limits in Canada

Addressing Volatility in BC

- Three-year land averaging in Vancouver
- Overall Property Tax Relief
 - Home Owner Grant
 - Property tax deferral in BC
 - Families with children (new)
 - Financial hardship (temporary)
 - Seniors and persons with disabilities
- Frozen assessment province-wide in 2009

Vancouver Property Tax Policy Review Commission: Recommendation

- Adopt a restricted phase-in mechanism that would replace the three-year land averaging for residential and business properties.
 - Apply only to properties that would experience a tax increase of 10% or more above the class average
 - Staff did not support phase-in mechanism – too complex
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What are the Problems with Assessment Limits?

- Breaks link between taxes and market values:
 - ❑ Taxes less uniform and more arbitrary
 - ❑ Properties with similar values pay different taxes
 - ❑ Erodes the tax base
 - ❑ No incentive to review assessment (since it is not used for taxes; never correct assessment errors)
 - ❑ Those with capped assessments have incentive to demand more expenditures

What are the Problems with Assessment Limits?

- Assessment caps take pity on those who are being made wealthier by the market at the expense of those whose property values are stagnant
 - Stability and predictability at the expense of equity
 - But, ignoring sound economics principles can result in an even less equitable tax in the long run and even greater taxpayer resistance
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Over-Taxation of Business

- Judgment call about what is a fair tax share for business properties
- Major considerations:
 - Benefits received
 - Impact on business investment
 - Accountability

Over-Taxation of Business: Benefits Received

- MMK study in Vancouver (2007) – non-residential sector pays \$2.42 in taxes for each \$1 of benefits received; residential sector pays \$0.56
- Tax share would roughly be 70% residential; 30% non-residential based on MMK analysis
- Consumption studies do not estimate significant indirect benefits to businesses

Over-Taxation of Business: Benefits Received

- Argument used in recent litigation (*Catalyst Paper Corporation v. North Cowichan (District)*)
- BC courts (Supreme Court and Court of Appeal) confirmed the reasonableness and validity of property tax bylaws for industrial property

Over -Taxation of Business: Impact on Investment

- Property taxes should be heavier on those components of the tax base that are least responsive to a tax increase
- Since businesses tend to be more mobile than homeowners (more responsive to tax changes), efficiency suggests that business property should be taxed more lightly than residential property
- Difficult to isolate tax impact on business investment

Over-Taxation of Business: Accountability

- Municipalities can export non-residential property tax to residents of other jurisdictions e.g. in the price of products they sell
- No accountability at local level when non-residents pay for services enjoyed by residents

Vancouver Property Tax Policy Review

Commission: Recommendations

- The tax share paid by non-residential property should be reduced from 55% (in 2006) to 48%
- The City should reduce the tax share borne by business by one percentage per year until the 48% is reached
- Once 48% is achieved, keep the share unchanged for five years unless the differential between Vancouver and neighbouring municipalities widens considerably and/or the balance of business investment shifts substantially

Over-Taxation of Business

- Vancouver – reducing tax share on business properties (1% shift in 2008 and 2009)
- Recent BC initiatives on specific property types:
 - capping municipal port property tax rates (led to Municipal Port Property Tax Fairness Commission)
 - established Industry Tax Advisory Committee (Province, Union of British Columbia Municipalities, and industry) to review major industrial property assessment and taxation

Taxes vs. Assessment by Property Class – City of Vancouver, 2009

Vancouver	% of total taxes	% of total assessment
Residential	50	83
Utilities	1	0
Supportive housing	0	0
Major industry	1	0
Light industry	1	0
Business/other	47	16
Managed forest	0	0
Recreation	0	0
Farm	0	0
Total	100	100

Taxes vs. Assessment by Property Class – North Cowichan District, 2009

North Cowichan District	% of total taxes	% of total assessment
Residential	46	89
Utilities	1	0
Supportive housing	0	0
Major industry	38	4
Light industry	5	1
Business/other	10	5
Managed forest	0	0
Recreation	0	0
Farm	1	0
Total	100	100

Concluding Comments

- Politics overrides economic principles:
 - Pressure to maintain the tax burden at or near its current level (e.g. capping)
 - Pressure to favour one group of taxpayers over another (e.g. residential over business)