

BC Businesses Over-Taxed Due to Antiquated Assessment System

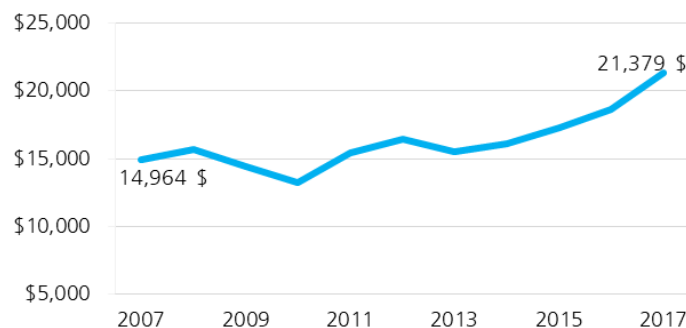
Introduction

The Canadian Federation of Independent Business (CFIB) has reported on municipal property tax unfairness in BC since 2003. Generally, the focus has been on the mill rates set by the province, municipalities and regional districts. However, recent trends in assessments have shown the process BC Assessment currently takes to put a value on commercial properties is deeply flawed and contributes to this problem.

CFIB continues to focus on the property tax burden for business owners as it has been growing rapidly over the past decade. For instance, take Vancouver. In 2007, the median municipal¹ property tax bill for a commercial property was \$14,964. In 2017, that figure stood at \$21,379 – a 43 per cent increase, or nearly three times faster than the rate of inflation² (see Figure 1). The antiquated assessment process for commercial properties has helped drive this growth in business property taxes.

Figure 1:

Median Municipal Commercial Property Tax Bill, Vancouver



Source: CFIB analysis, BC Assessment Median Property Values for Class 6, BC Ministry of Municipal Affairs sc707 2007-2017

How are commercial properties assessed?

Currently, a property is assessed based on its highest and best use. What this means is that if a large mixed-used multi-story building (e.g. businesses on the first floor with residential

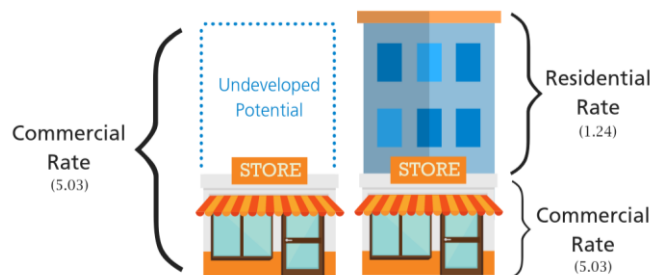
¹ There are several forms of property taxes in BC. This figure is only the general municipal portion, about 45 per cent of the total in Vancouver.

² Consumer prices increased 15.5 per cent from 2007 to 2017 in Vancouver. BC Stats, <https://www2.gov.bc.ca/gov/content/data/statistics/economy/consumer-price-index>

units above) is built next to a single-story business property, BC Assessment will assess that single-storied building on the potential of the lot, not the actual building that exists.

While this might make sense to tax assessors, a problem arises in how the undeveloped residential potential is classified. Despite it being largely residential, the property is classified as purely commercial. Under this system, municipalities have no ability to differentiate between the undeveloped residential value and the commercial value. The property is therefore taxed at the much higher commercial property tax rate (see Figure 2). In Vancouver in 2018, commercial properties pay 5.03 per \$1,000 of assessment versus residential properties paying 1.24 per \$1,000. While CFIB believes the differential between these rates should be narrowed, the current assessment process makes the situation even worse for commercial property owners and tenants.

Figure 2:
Current BC Assessment Classification, Vancouver example

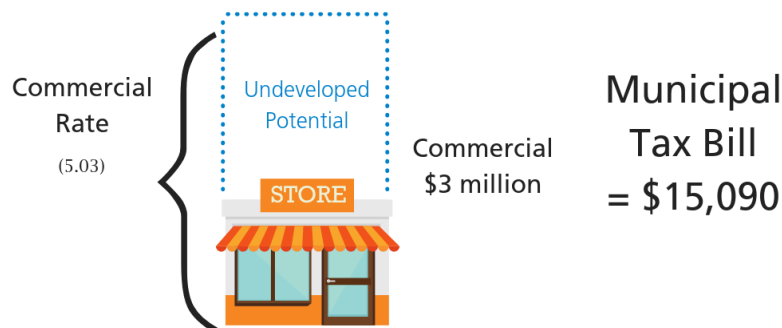


Source: BC Ministry of Municipal Affairs sc707 2018.

What does this mean in practice?

To illustrate what this means in financial terms, consider a single-story property worth \$3,000,000. Let’s assume 75 per cent of its assessment is based off the potential residential development, while the commercial value makes up the remaining 25 per cent. Currently, BC Assessment does not distinguish between these, and the building is entirely deemed commercial for the purposes of taxation.

Figure 3:
2018 Vancouver Property Tax Bill, Current BC Assessment Classification Method



Source: CFIB analysis, BC Ministry of Municipal Affairs sc707 2018. Tax bill is based on a \$3 million commercial property.

That means it is taxed at Vancouver’s commercial tax rate of 5.03 per \$1,000 assessed value. The property’s municipal property tax bill in Vancouver would be \$15,090 in 2018 (see Figure 3).

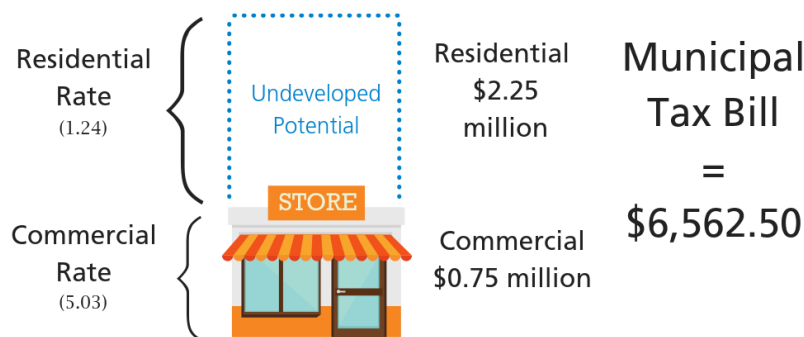
How can this be fixed?

CFIB strongly believes municipalities should be able to charge the tax rate of the respective class (i.e. the residential rate on the undeveloped residential portion and the commercial rate on the actual commercial property value). This makes sense, as it reflects what the underlying property’s value is actually based on.

This is known as “Split Assessment Classification” and allows municipalities and the province to tax a property based on what its actual value is predicated on. Using the same property described above, we can see what its tax bill would be under this proposal (see Figure 4).

Figure 4:

2018 Vancouver Property Tax Bill, Split Classification Assessment Method



Source: CFIB analysis, BC Ministry of Municipal Affairs sc707 2018. Tax bill is based on a \$3 million commercial property.

As the municipality is able to apply the correct tax rate on the residential portion, the tax bill would fall to \$6,562.50 – savings of over \$8,500 compared to the other method of classification. This is largely due to the significant differential between residential and commercial rates in Vancouver.

A simple change in the BC Assessment classification system would create a much fairer property tax system for entrepreneurs in British Columbia.

Why split classification assessment?

Currently, as shown in Figure 3, a building that is zoned as commercial is taxed at the much higher commercial property tax rate, even if part of the assessment is based on potential residential development. How is this fair?

Instead, the commercial value of the property should be taxed at the commercial rate, while the undeveloped residential value at the (much lower) residential rate. This would lower the

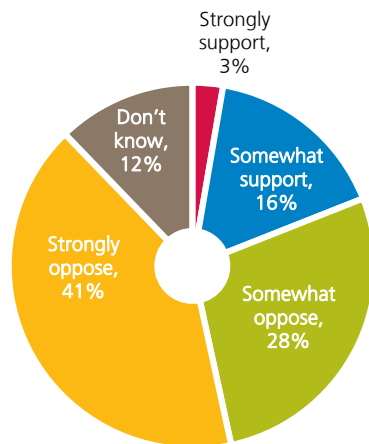
property tax for commercial buildings, particularly in dense areas.

Sixty-nine per cent of small businesses surveyed in April, 2018 opposed the current assessment framework. There was also significant appetite for reforming the assessment process to allow for split classification – 78 per cent support moving to that system (see Figure 8).

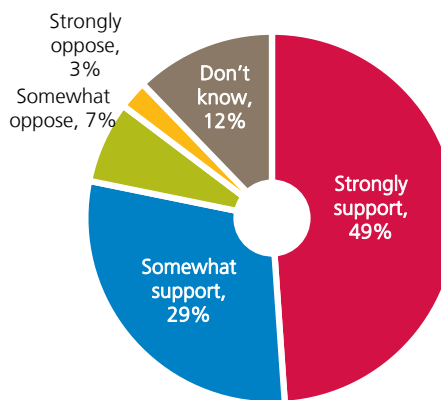
Figure 8:

To what extent do you support or oppose:

Current assessment framework



Split classification assessment



Source: CFIB, "BC Municipal Election and New Provincial Payroll Tax Survey", n=783. Apr 2018

Conclusion

Small independent businesses are an important part of our economy and our communities. Unfortunately, many business owners struggle to keep their doors open due to rapidly rising costs. Compounded upon other cost increases imposed on them from other levels of government (i.e. new Employer Health Tax, minimum wage increases, CPP increases, etc.), the skyrocketing property tax burden is becoming the final straw for many entrepreneurs.

If we want to ensure a healthy local business community, it is imperative action is taken now to help mitigate the disproportionate amount of taxes imposed on them. Split classification assessment is one of the important and common sense ways that municipalities and the province can address the situation³.

The BC government would need to take action to allow this change to property tax assessments by local governments. CFIB is calling on municipalities, the province, and BC Assessment to agree that this change is necessary and overdue. It is time to get with the times and do what is fair by adopting Split Assessment Classification.

³ See pg 10-12 of report "Property Tax Fairness for BC Small Business" for a full list of CFIB recommendations. Sept, 2018. <https://tinyurl.com/y7obwecn>