

Another city tax shift warranted, but it's not a long-term solution

By Don Cayo, Vancouver Sun April 15, 2011

City recommending that council endorse, for the fourth year running, a small shift of Vancouver's property tax burden from business to residents.

Assuming council follows through promptly - and it must nail down this year's budget by the end of the month - let me be the first to respond with a hearty one-and-a-half cheers.

My cheers acknowledge that the shift is a move in the right direction. The business property tax rate, which peaked four years ago in Vancouver at six times the residential rate, was grossly out of line with both the vast majority of other Canadian communities and with any analysis of the relative value of city services that businesses consume.

But I'll still be a bit stingy with my accolades because, although this series of tax shifts goes some distance to deal with the symptoms of a serious problem, they dance all around the root cause.

The proposed shift is one per cent of the annual levy, which will leave about 47.5 per cent of the \$581.5 million in 2011 property taxes to be paid by businesses in the city, and 52.5 per cent to be paid by residents. It will lower the ratio of the business rate to residential from just under five per cent last year to just under 4.5.

"Based on the 2011 Revised Roll, this levy can be generated with a tax increase of 1.88 per cent compared to the earlier estimate of 2.2 per cent," says the staff report to city council.

Council enacted similar one-per-cent shifts last year and the year before, and in 2008 it added that year's 3.98-per-cent property tax increase to the residential bills, not the business ones -effectively a two-per-cent shift.

These moves may sound like they're giving businesses an advantage, but they're merely steps to address a longstanding wrong.

Since 1983, Vancouver has used a fixed formula to split its tax levy between business and residents, originally 60 per cent for business and 40 per cent for residents.

That may have been fair at the time. The problem was then -and no doubt will be again in future -that under such an ossified formula what's fair at one point in time is certain to be unfair at some point down the road.

What happened in Vancouver is that the residential tax base grew much faster than the business base. So the portion of tax paid by individual residents shrank and the portion paid by individual businesses grew. Some tinkering brought the split down to 55-45, but still the imbalance reached a point where residents were, in total, paying scarcely more than half the cost of services they were consuming, while an essentially stagnant number of businesses were left to take up the slack.

The series of tax shifts now underway was recommended by Stanley Hamilton of the Sauder School of Business at the University of B.C., who reported to the city on the issue in 2008.

As I noted at the time, the report was "neither bold nor innovative, nor likely to be of use for any longer than it takes to implement the changes it recommends."

Tax consultant Paul Sullivan of Burgess Cawley Sullivan, who is also a director of the Building Owners and Managers Association and a longtime advocate for more even-handed property tax policies, notes that since Hamilton filed his report, Vancouver's growth has continued as unevenly as before.

In this short period, Sullivan said, the number of residences in the city has increased nearly 10 per cent to 172,000, meaning there are about 15,000 more taxpayers to share the residential portion of the total tax burden.

Yet during the same period the number of businesses has grown by only 600 to 13,800, allowing for much less sharing of the business share of the burden.

So what's really needed isn't more tinkering with the split. It's a new way to look at how the tax load is divvied up -preferably one that takes into account the costs that each group of taxpayers imposes on city services.

For the time being, council should adopt this as another step to deal with the short-term problem. But it should also step up to the plate and decide on a way to ensure the tax system is always fair and never again gets so skewed.

dcayo@vancouver.sun.com To comment, visit Don Cayo's blog at www.vancouver.sun.com/cayo

© Copyright (c) The Vancouver Sun