

# Improperly tax

Fighting for equity on Vancouver's assessment rolls



By Paul Sullivan

**A**ny business in the City of Vancouver knows the inequity of property taxation here.

Commercial properties make up some 7.5 per cent of the total number of properties within the city, but they bear 50 per cent of the municipal property-tax budget, now some \$570 million per year. Business taxpayers in Metro Vancouver already subsidize residential taxpayers excessively, paying \$2 for each \$1 of services they consume from municipalities, while municipal budgets outpace inflation and population growth. Demand for new residences in Vancouver has resulted in the addition of 2,000 to 4,000 ones to the assessment roll annually, while fewer than 100 business properties are typically added each year. Residential growth increases the demands on municipal services that businesses already subsidize heavily.

Overall, a small number of commercial properties are heavily over-taxed, while residents enjoy some of the country's lowest tax rates.

To understand why, have a look at history. Back in the 1980s, municipalities around the province adopted the fixed-levy system, whereby the total property-tax budget separates into two broad categories: residential and non-residential. In Vancouver today, 50 per cent of the taxes are paid by



residential and 50 per cent (down from 56 per cent in 2006) by non-residential properties. As the residential base (that is, the number of properties) grows, the denominator to which the 50 per cent of the tax burden is spread increases; therefore, residential tax rates decrease.

We've had years of net losses in commercial properties, and as few as 50 to 100 new commercial properties get added in any given year. The tax load on the remaining commercial properties relative to residential thus continues to climb, with the fixed-levy system no longer reflecting the city's makeup or the demand on municipal services.

So what's the latest?

## One per cent shift

Since 2006, Vancouver city council has, by policy, shifted the fixed levy by one per cent per year from commercial to residential taxpayers. The current tax bill for all taxpayers is some \$556.8 million. Thus each shift of one per cent means a removal of just under \$6 million per year from

the commercial sector.

As lobbyists for commercial taxpayers, we've successfully effected six per cent in shifts, saving some \$36,000,000 per year for

Vancouver's commercial taxpayers. That said, such taxpayers still pay 50 per cent of property taxes while only consuming 24 per cent of city hall's services.

## Property tax topography

Having identified the problems with fixed levies, we've put forward tax topography as a solution for sustainability in municipal assessments. Tax topography means accounting for the demands placed on municipal services, as compared to tax revenue, both before and after redevelopment. Surprisingly, an address on Cambie Street generates more tax revenue before redevelopment, as a one-storey retail building absorbing very few municipal services, than it does after redevelopment, once it has become a medium-density residential project.

Property-tax topography identifies the shifts in demands and revenues. It establishes mechanics for redressing the imbalance between the classes as land-use policies cause physical growth.

## Land averaging

The City of Vancouver is the only municipality employing land averaging, a bylaw that council votes on and passes each year.

Land averaging means that tax rates apply not to your actual assessed value but to your taxable value. Taxable value under land averaging is equivalent to the current year's building value combined with the average of three years' worth of land assessments. When land values rise, your taxable value is less than your assessed. When land values decline, you can be taxed at a value exceeding your assessed value.

This policy artificially distorts the distribution of taxes among taxpayers, depending upon the direction taken by the

values of the land components of overall assessments.

Land values in the downtown core have been relatively flat for almost 10 years. Land values in other commercial nodes in Vancouver, such as West 4th Avenue, West Broadway and Kingsway, have been rising. Properties with flat values thus subsidize those with rapidly rising ones. Commercial properties in downtown Vancouver have been subsidizing their counterparts in other neighbourhoods for well over a decade.

The 2010 assessment roll saw the land

values of downtown office towers drop significantly because of decreases in market values generally, but also because of the major impact of the 2009 Metro Job Core Land Use Rezoning Policy implemented by the city. This rezoning policy removed residential use from the underlying zoning bylaw, thereby eroding the land values under office towers. Council agreed that the properties affected by this rezoning would be removed from land averaging for 2010. This saved these properties some \$4,500,000 in taxes that would have resulted from being taxed at values exceeding their assessments.

Yet many properties falling outside the rezoned area experienced dramatic drops in land values. These saw tax increases of 30 to 40 per cent in a single year. As a property tax agency, Burgess, Cawley, Sullivan & Associates filed appeals to city council, arguing for the removal from land averaging of those properties egregiously hurt by it. Council rejected these appeals, and many business tenants were stuck with tax increases.

As a tax agent and lobbyist for commercial taxpayers, I've been advocating over several years for the abolition of land averaging. I believe that the market should dictate tax on the basis of a building's value and that averaging and similar policies create distortions and subsidies both unpredictable and unfair.

As of January 2011, property owners downtown have co-ordinated an appeal of assessments. The appeal is founded on the real risk that land values under office buildings could diminish in coming years. Billions of assessed dollars in office buildings are under appeal. Unless land averaging is terminated, the next couple of years will see instability in municipal finance. ■

*Paul Sullivan is a partner at Burgess, Cawley, Sullivan & Associates, a real-estate appraisal and property-tax appeal firm that represents all types of property owners in dealing with BC Assessment. The largest private appraisal firm in Western Canada, BCS has recently celebrated its 30th year in business. Sullivan is chair of the Property Tax Committee of the Building Owners and Managers Association of British Columbia, chair of the Taxation Committee for the Urban Development Institute and co-chair of the Technical Committee of the Vancouver Fair Tax Coalition. Reach him at 604-331-7300, psullivan@bcappraisers.com.*

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