# Don Cayo: Vancouver property tax report makes good sense

## There are several problems with property tax in general, and in particular in Vancouver.

**BY DON CAYO, VANCOUVER SUN COLUMNIST** FEBRUARY 20, 2014

Inequities between residential and business property taxes should be remedied.
**Photograph by:** Jason Payne, PNG

A report delivered this week by Vancouver's tax commission contains thorough analysis and thoughtful recommendations that, if acted on, will ease perversities in the city's property tax system.

But the result still may not be fair. That's beyond the power of the commissioners, in part because their hands were tied by a mandate from city council that ruled out some possible options. And it's probably beyond council's power, too, because its hands are tied by the province, which allows it a sorely limited range of tax tools.

There are several problems with property tax in general, and in particular in Vancouver.

The first — which the commission wasn't able to address — is that property taxes are over-used. They are not a bad way to raise money for some civic services, but they are too income-insensitive to cover them all. Tomorrow's column will discuss this in detail, but today's focuses on issues the commission did investigate:

• How to split the total tax bill between businesses and residents.

• How to ensure this split isn't skewed as business and residential tax bases grow at different rates.

• How to tame, if not the volatility of real estate prices, then at least the tax bills that result.

It would be wonderful if fairness were the criteria to determine the business/residential split. But what the commission wrestled with — and so must any analyst — is whose definition of "fair"?

The case can be made — I've made it before — for basing the split on consumption of city services. But this isn't straightforward, in part because it is impossible to measure the indirect boon that businesses get from civic amenities. Restaurants prosper in vibrant neighbourhoods; all companies, in addition to using roads, profit from a well-functioning network; every business needs a community where workers and customers can afford to live, and so on.

So Stanley Hamilton, the UBC professor emeritus who chaired the commission, and his colleagues settled mainly on manageability as their criteria. They concluded that Vancouver's current split of 43 per cent of the tax load to business and 54 per cent to residents works — that business development isn't being stunted by it, and that vacancy and new construction rates are healthy.

Hamilton told me the city mandated his commission to focus on tax share, not tax ratio. The former compares the total amount each group contributes; the latter compares the tax rate paid by businesses versus residents.

Vancouver's tax ratio is higher than most. Businesses, with a slower-growing tax base, pay 4.2 times the residential rate, while B.C.'s average ratio is under three per cent. So Vancouver's rate raises legitimate questions about the fairness of the status quo, which was endorsed by the commission.

But if the current level is manageable, and if future fluctuations are both moderate and predictable, then businesses will at least be in for an easier ride.

And the report is stronger in proposing metrics to ensure the imbalance doesn't get out of hand again. If the proposal is adopted, future tax increases will apply evenly to homes and businesses. Thus, Hamilton said, if the residential tax base continues to grow faster than the business base, more of the new tax load will automatically go to existing and new residents.

The report also proposes to scrap three-year land averaging. This provides relief against sharp increases in assessed value as long as land prices are going up, but it costs taxpayers more if values decline. So the commission recommends five-year averaging that would kick in only if the land value of a property soars more than 10 pert cent above the average.

The commission stepped outside its mandate to add an even better proposal to deal with frequent "hot spots" that occur when areas of the city are rezoned and land values soar. Homeowners have some protection against this, but businesses don't. Their tax bills are based on "highest and best use" — that is, not what the property is being used for, but what it could be used for. Much of the added value is usually for yet-to-be-built upper-storey condos, but this residential potential is taxed at the business rate. So a business in a one-storey building can wind up paying 4.2 times the residential tax rate on land that is valued as if it were the site of millions of dollars worth of condos.

The commission recommends the city take up the cause, gathering support from other municipalities, and pressing the province to evaluate and possibly implement a system of split assessments. This would mean land would still be assessed at highest and best use, but the business tax rate would apply only to undeveloped business potential. Undeveloped residential potential would be taxed at the residential rate.

**Oops:** *I was off base to fret in my last column about low rates (1.5 and seven per cent) for B.C.'s proposed income tax on LNG facilities. The finance ministry notes this will be in addition to regular corporate income tax, not in lieu of it.*

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