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Tax shifts try, but fail, to ease the burden on businesses 1

Insidious hidden mechanisms undermine efforts of the current and past Vancouver city councils to more fairly balance the property tax load between businesses and residents, and business investment is fleeing to the suburbs.

This is the message Paul Sullivan, a partner in the property tax-consulting firm of Burgess Cawley Sullivan and co-chair of Vancouver Fair Tax Coalition's technical committee, will take to council today as it mulls how the tax burden ought to be shared.

Sullivan has a lot of numbers to back him up.

A key one is that since 2006, when University of B. C. professor Stanley Hamilton filed a report that became a blueprint for both the current and previous council on how to deal with property tax, the City of Vancouver has seen just one-eighth the value of new office construction as its surrounding suburbs.

This flight of capital is the bottom line, proof that what Sullivan has to say needs to be heard. And it's what I assume Hamilton was thinking about when he qualified how long it would be until his recommendations need revisiting. Back in the early 1980s, the property tax load was split, with 40 per cent to be paid by residents and 60 per cent by what was then a relatively larger and more vibrant business tax base. It doesn't take a study to know the value of residential properties grew much faster than business properties in the two-and-a-half decades that followed, but the formula was adjusted only slightly, making it 45-55 when Hamilton was asked to look at it in detail.

He recommended shifting one additional percentage point a year from the business tax burden to the residents for seven years until a split of 52-48 was attained.

Councils, both the NPA and Vision, have done that each year since. And, because there has been so much more residential construction than business building, it has taken less than the anticipated seven years to reach the 52-48 level. Indeed, if council agrees to this year's shift, as recommended by both the Hamilton report and a recent review by staff, the ratio will be slightly better: 52.5-47.5.

But, as Hamilton anticipated and as Sullivan now argues, that doesn't mean the job is done.

Hamilton said; " Following the implementation of the 48 per cent goal, the City should keep the tax share unchanged for a period of five years unless the differential between business taxes in Vancouver and business taxes in neighbouring municipalities widens considerably and/ or the balance of business investment shifts substantially away from Vancouver to neighbouring jurisdictions."

Well, the comparison with competing municipalities hasn't worsened, though even after this year's shift it will still be about one-and-a-half times the average ratio in the province. But, as the figures on investment in office space that I've cited make clear, investment is, indeed, " shifting substantially away from Vancouver to neighbouring jurisdictions."

So why is it that council's efforts to make the tax split more fair aren't bearing fruit in the form of attracting more investment? Because these efforts are undermined by two things.

One is the continuing imbalance in residential and business construction. The problem is that the tax rates applied to new homes, which the city has in abundance, don't cover the full cost of providing services to them. Residential property taxes pay only about 60 per cent of this cost. The rest is subsidized by businesses, which pay more than their share of costs. So every new home increases the subsidy businesses must pay.

What worsens this is that there are few new businesses. So each year residents' property tax obligation is divvied up among ever more taxpayers, while the business portion must be covered by pretty much the same old crowd. The second factor is even more insidious. It's the steady erosion of the business tax base as commercial premises are converted to homes. This is usually a small shift in any given year, but it adds up.

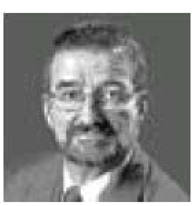
Sullivan notes that when a property shifts from business use to residential, the tax obligation also shifts from business to residential. But this doesn't help businesses as much as you might think.

This is because the residential tax rate on the property is little more than a fifth of the business rate. So the loss of business premises creates a big revenue shortfall for the city, and the obligation to make it up is then split between the two tax classes. Thus the subsidy from businesses to homeowners ratchets up yet again.

The problem is so acute the number of businesses in the city declined in some recent years, and the relative value of all business properties has shrunk to less than half of what it used to be.

If this continues, Sullivan says, the imbalance is almost certain to return to or exceed the six-to-one tax rate ratio that was causing such alarm when Hamilton was called in to fix it. And if businesses continue to spurn the city, this story could get really bizarre.

" In theory, the last business could be left holding the bag," Sullivan says. " Under the system as it is now, the last guy standing would have to pay 48 per cent of the tax load for the whole city."



Of course, it won't ever reach such an extreme. But the facts — a business community that used to represent 16.6 per cent of the value of all the land in Vancouver, but now represents just 6.3 per cent — show we're uncomfortably far down that road already.

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