



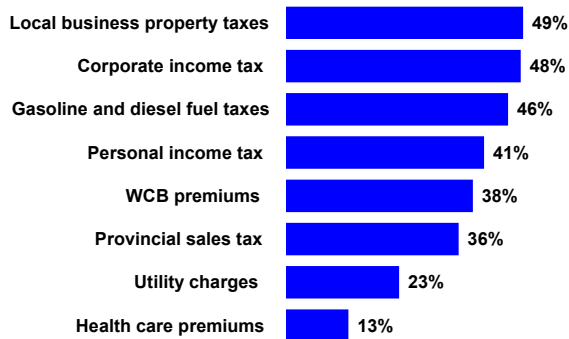
# Uneconomic Development

## The Growing Property Tax Gap in British Columbia

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High levels of property tax have become the cause of much discontent for business owners in British Columbia, who rank local business property taxes as the most harmful tax/charge they face (see figure 1). Because property taxes are profit insensitive, business property owners are required to pay them at the same rates regardless of how successful their business has been over the past year.

**Figure 1: Most Harmful Taxes and Charges**



Source: *Focus on British Columbia* survey, CFIB, Dec. 2006.

The term ‘property tax’ generally refers to a tax assessed on real estate by the local government. The tax is usually based on the assessed value of property (including both land and improvements).<sup>1</sup> Taxpayers generally expect this tax to be used by municipalities to pay for services in the common good, including repairing roads, maintaining schools, and garbage collection.

Property tax is the main source of revenue for British Columbia municipalities. Across the province, municipalities impose vastly different municipal property tax rates on different classes of property.

One serious cause of the discontent for small business owners is the inequity between residential and business tax rates – it is not unusual for businesses to pay almost four times the residential rate. Unlike income taxes, sales taxes, and payroll taxes, property taxes do not rise and fall with fluctuations in income, consumption, and business trends.

This report explains how the property tax system works in BC, examines the inequities between residential and business rates in municipalities across the province, explains why higher relative rates for business are unjustified, and recommends some solutions to the problem.

### How do property taxes work in British Columbia?

Until 1983, the provincial government took a leading role regulating the ratios between the rates paid by residential properties and other property classes.<sup>2</sup> Since 1984, the province has granted BC municipalities more property tax discretion than any other province in Canada.<sup>3</sup> As senior levels of government devolve responsibilities to the municipalities, municipalities become increasingly reliant on property taxes to finance these demands.<sup>4</sup>

Local governments are responsible for setting the municipal property tax rate, but this is only one component of the total property tax paid by property owners. Property taxes in BC consist of the following components:

**Municipal tax** – this is the most significant component of the property tax rate and is set by

<sup>1</sup> Dictionary.com, accessed September 25, 2006.

<sup>2</sup> MMK, January 5, 2007.

<sup>3</sup> Bish, 2004.

<sup>4</sup> Kitchen and Slack, 2003.

municipalities based on revenue needs. Revenue from municipal tax is used to fund services such as local infrastructure, garbage removal, fire, and police protection.

**Regional district tax** – all municipalities in BC belong to regional districts, which provide certain shared services such as electoral area planning and solid waste management planning. Other voluntary services provided by some regional districts include recreation programs and emergency planning. The regional district portion of the property tax is set by the province.

**Hospital tax** – the hospital tax rates are set by the provincial government to generate revenue for the health authorities, often shared among a number of municipalities. In the case of the Greater Vancouver Regional District, hospitals are funded directly by the government and not through the property tax system.

**School tax** – the school tax rate is set by the province. For residential properties, the province sets individual school tax rates by municipality based on the circumstances of the school district. In the case of business properties, one uniform tax rate is set across the province for all business class properties.

**Regional Transportation Levies** – some regional districts include a component to fund public transportation and infrastructure. The Capital Regional District surrounding Victoria charges a BC Transit levy, and the Greater Vancouver Regional District (GVRD) imposes a TransLink levy.

**Other tax** – the ‘other’ component of the property tax is set by the province and generates revenue to fund BC Assessment and the Municipal Financing Authority (MFA). The MFA runs much like a credit union, and provides capital financing, investment, leasing, and financial services to municipalities in BC. The MFA offers financing at low rates by pooling the borrowing needs of municipalities, and maintaining a high credit rating. Except for the city of Vancouver, which arranges its own capital financing, all municipalities belong to the MFA.

Property taxes in British Columbia are levied on the total market value of both residential and non-residential properties as determined by BC Assessment. BC Assessment is the provincial assessment body responsible for determining the market value of properties using standard appraisal

methods. While BC’s assessment system is centralized, in some jurisdictions including Alberta, local governments administer assessments. The advantage of BC’s centralized system is greater consistency in assessments and assessment appeals, as well as an arm’s length relationship between the assessment authority and local governments.

Since all property classes are based on 100 per cent of market value in BC, the effect of different tax rates between the property classes is visible. Some other practices obscure the true tax burden by allowing tax rates to be applied to differing percentages of business or residential assessed value.

Although 100 per cent market value is used for tax assessment purposes in BC, there are a number of property classes, each with their own rate of taxation. In BC the property classes include: residential, utility, forestry, major industry, light industry, business, tree farm, recreation, and farm. The comparison of business and residential categories is the focus of this report because the majority of small businesses fall within the ‘business’ category.

All property owners in the province are required to pay school taxes, regardless of whether they directly use the school system. Property taxes have historically funded approximately 30 per cent of public education in the province, with the remainder of funding coming from provincial government revenues. Most recently residential properties funded around 14 per cent of public education, while non-residential properties contribute 20 per cent through property tax. The province sets the rate of school property tax for residential and non-residential property classes.

The school tax rate for residential properties varies by municipalities while the rate for non-residential properties varies by classification, but is constant province-wide within each non-residential property class.

Though residential rates vary by municipality, when averaged, businesses in BC pay about two dollars in school tax for every one dollar paid by residential properties.

## Box 1: Property Transfer Tax: An Additional Burden on Property Owners

Property transfer tax is a registration tax paid each time a property changes hands. The property transfer tax is different from property tax. The property transfer tax is a one-time tax paid at the time of purchase of a property to the government of British Columbia. The property taxes detailed in this report are paid to the municipal government annually in exchange for local services.

The property transfer tax owing on a property is based on the fair market value of the property that is transferred. For most transactions, the purchase price is considered the market value. The tax is calculated as 1 percent of the fair market value on the first \$200,000 of the price, plus 2 percent on the portion of the price that exceeds \$200,000.

For example: if a property is purchased for \$275,000, the property transfer tax payable is 1 percent of the first \$200,000 (\$2,000), plus 2 percent of the remaining \$75,000 (\$1,500), for a total tax payable of \$3,500.

As both commercial and residential property values increase in British Columbia, this seldom-discussed tax becomes more of a burden on small business owners, and more of a windfall to the provincial government. Unlike property tax rates which are often reduced as property values increase, the property transfer tax rate is fixed.

### Do businesses in BC pay higher property taxes than residential properties?

In most municipalities, the business property tax rate is significantly higher than the residential property tax rate. This disparity is often described as a “gap” and measured as a ratio:

$$\text{Property Tax Gap} = \frac{\text{Business Property Tax Rate}}{\text{Residential Property Tax Rate}}$$

For example, in 2006 a business in Vancouver would pay property taxes at the rate: \$2,826 per \$100,000 of assessed value, while a resident would pay \$606 per \$100,000 of assessed value.

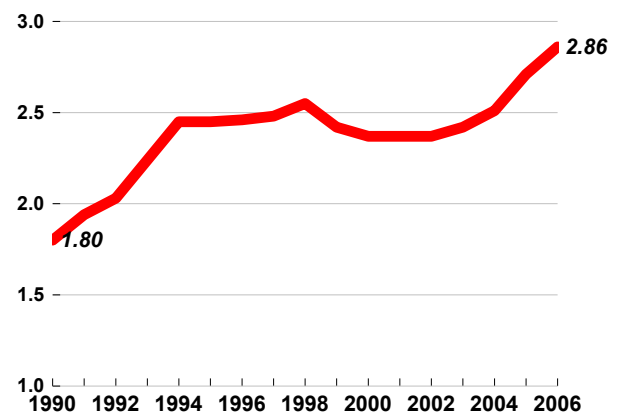
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$$2,826 / 606 = 4.66$$

This means that a business in Vancouver pays property taxes at 4.66 times the rate of a resident.<sup>5</sup> Another way of stating this is to say that in Vancouver, the property tax gap is 4.66.

In most municipalities in BC, there is a significant gap between what businesses and residents pay. This gap has grown dramatically over the last 16 years from 1.8 in 1990 to 2.86 in 2006 (see figure 2). The gap in property tax rates for the past three years shows a steep increase after 11 years of relative stability.

**Figure 2: Growing Inequity: Business vs. Residential Rates in BC 1990 – 2006**



Source: BC Government published property tax rates 1990 – 2006.

The gap between the business and residential property tax rates is evident in all components of the tax, not just the municipal tax component. Next to the municipal tax, the school tax is the second major component of the property tax rate. Since municipalities are only responsible for setting the municipal tax component of the property tax, it is important to note that the province as well as local government shares responsibility for the inequity in tax rates.

### Why measure the gap, and not the actual rates?

By measuring the property tax gap, and not the rates themselves, this report measures the extent to which the tax burden has been shifted to the business community. It can be difficult to compare the actual

<sup>5</sup> For the purposes of these calculations, property tax values are rounded to two decimal places.

tax rates of different municipalities because different municipalities offer different services and provide different values for money. The tax gap is a fairer measure of the inequity between the rates charged to businesses versus residents. Tax rates for all the municipalities in British Columbia can be found in Appendix D of this report.

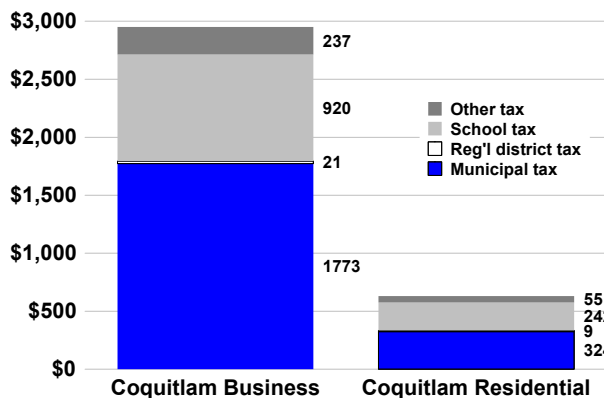
**The business vs. residential property tax gap varies across the province.**

The following comparison of tax rates and differentials across the province are based on 2006 tax rates published by the BC government, and an assessed market value of \$100,000.

*Cities*

Business in the Cities of Coquitlam and Vancouver face the highest gaps between residential and business property tax rates out of all cities in BC. Businesses in Coquitlam pay property taxes at 4.69 times the rate of residents, slightly edging out Vancouver where the gap is 4.66. Figure 3 shows that in Coquitlam, a business property pays \$2,951.93 for each \$100,000 in assessed value, while a similarly assessed residential property pays only \$629.54.

**Figure 3: Coquitlam: Business vs. Residential Property Tax for each \$100,000 in value**



Source: BC Government published property tax rates 2006.

As outlined in Table 1, the greatest disparity is the municipal tax component of the total property tax at 5.47 times more for business properties than residential properties. Inequity is also present in the

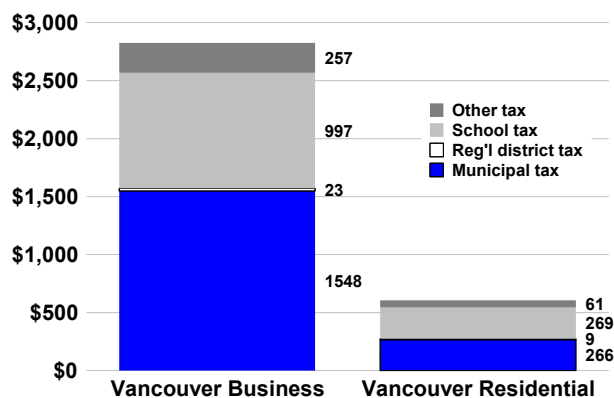
other components of total property tax set by the province, most significantly, the school tax.

**Table1: Breakdown of property tax on \$100,000 business vs. residential property in Coquitlam**

	Business	Residential	Ratio
Municipal	\$1,773	\$324	5.47:1
School	\$920	\$242	3.80:1
Other	\$237	\$55	4.31:1
Reg'l District	\$21	\$9	2.33:1
<b>TOTAL</b>	<b>\$2,952</b>	<b>\$630</b>	<b>4.69:1</b>

Figure 4 shows that in Vancouver, a business property pays \$2,825.72 for each \$100,000 in assessed value, while a similarly assessed residential property pays only \$605.53.

**Figure 4: Vancouver: Business vs. Residential Property Tax for each \$100,000 in value**



Source: BC Government published property tax rates 2006.

Once again, the greatest disparity is the municipal tax component of the total property tax at 5.82 times more for business properties than residential properties (see Table 2).

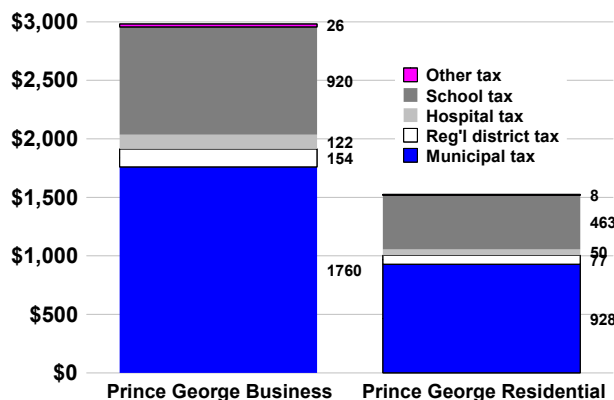
**Table 2: Breakdown of property tax on \$100,000 business vs. residential property in Vancouver**

	Business	Residential	Ratio
Municipal	\$1,548	\$266	5.82:1
School	\$997	\$269	3.71:1
Other	\$257	\$61	4.21:1
Reg'l District	\$23	\$9	2.56:1
<b>TOTAL</b>	<b>\$2,826</b>	<b>\$606</b>	<b>4.66:1</b>

It is worth noting that in both Coquitlam and Vancouver, the rates shown do not include the parking area tax (discussed in Box 2). The parking area tax is assessed separately and less transparently based on the area of parking provided and not the value of land. It is therefore difficult to detail in this table, but a CFIB survey estimated that the parking tax would add on average \$1,200 to the property tax bill of each affected business in the GVRD.<sup>6</sup> When the parking area tax is factored into the calculation, the property tax gap for a \$400,000 property in the City of Vancouver increases to 5.17 from 4.66.

Businesses in Prince George face the most equitable tax gap in the province in terms of business versus residential property tax rates in BC cities. Business property taxes, as seen in figure 5, are 1.95 times more than residential rates. Businesses pay \$2,983 per \$100,000 in property value, whereas residential properties pay \$1,526 on the same value.

**Figure 5: Prince George: Business vs. Residential Property Tax for each \$100,000 in value**



Source: BC Government published property tax rates 2006.

<sup>6</sup> CFIB, 2006.

**Box 2: How does the parking area tax affect the gap?**

The parking area tax, otherwise known as the “parking tax” or “parking site tax,” is a new property tax levied on non-residential properties in the GVRD. It was approved by the provincial government and implemented by the Greater Vancouver Regional District (TransLink) effective January 2006 to help fund local transit services and transportation infrastructure. It applies to all areas of the property used for parking, or adjacent to parking areas, including:

- Driveways
- Storage areas
- Truck turnarounds
- Bicycle racks
- Dumpsters
- Walkways
- Landscaping.

However, these areas are already included in the property tax bill business owners pay. Because the parking area tax is based on area, and not value, it is not included in published property tax rates, nor in the final appendices of this report. Nevertheless, it increases the tax bill of affected businesses and exacerbates the property tax gap in municipalities within the GVRD as discussed in the details of property taxes within the City of Vancouver.

At the time of writing, this tax is in effect only in the GVRD, but other municipalities are considering adopting similar taxes.

Table 3 ranks British Columbia’s fifteen most populous cities according to the level of equity between business and residential property tax rates. While all demonstrate inequity in the total property tax rates, Prince George has the most equitable tax ratio and Coquitlam the least. To illustrate the issue further, the table compares the taxes payable on \$200,000 of residential property to the tax bill of an equivalent business property. Cities where the gap has increased (worsened) from 2003 to 2006 are indicated in red. Note that the gap worsened for each of British Columbia’s fifteen most populous cities.

**Table 3: BC's 15 Largest Cities: Residential and Business Property Taxes Payable per \$100,000 of Value Ranked From Most Equitable to Least Equitable**

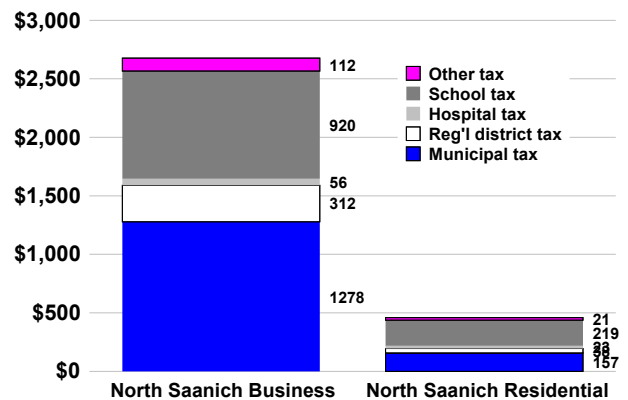
Ranking	City	Resident pays:	Business pays:	Ratio
1	Prince George	\$1,526	\$2,983	1.95
2	Chilliwack	\$901	\$2,439	2.71
3	Kamloops	\$1,141	\$3,101	2.72
4	Kelowna	\$770	\$2,227	2.89
5	Abbotsford	\$822	\$2,553	3.11
6	Nanaimo	\$982	\$3,111	3.17
7	Surrey	\$581	\$2,085	3.59
8	Richmond	\$614	\$2,262	3.68
9	Victoria	\$708	\$2,682	3.79
10	Port Coquitlam	\$688	\$2,659	3.86
11	New Westminster	\$758	\$2,933	3.88
12	North Vancouver	\$544	\$2,223	4.09
13	Burnaby	\$585	\$2,405	4.11
14	Vancouver	\$606	\$2,826	4.67
15	Coquitlam	\$630	\$2,952	4.69

*Districts, Towns, and Villages*

Out of the remaining Districts, Towns, and Villages, the municipality with the greatest inequity between business and residential property tax rates is the district of North Saanich.

Figure 6 shows that businesses in the district of North Saanich pay \$5.84 for every \$1.00 in property tax paid by residents. On \$100,000 of assessed value, business in North Saanich pay \$2,678 in property taxes, while on the same value a residential property pays only \$459. Again, this disparity is not only apparent in the municipal tax, where the ratio is an outrageous 8.15 to 1, but also in the other components of the total property tax.

**Figure 6: North Saanich: Business vs. Residential Property Tax for each \$100,000 in value**

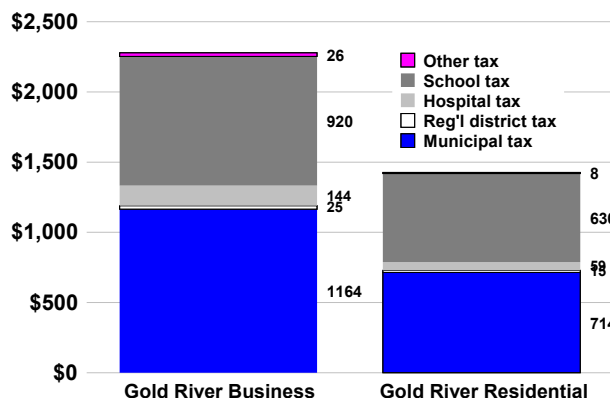


Source: BC Government published property tax rates 2006.

The village of Gold River, on Vancouver Island, exhibits the least amount of disparity between business and residential property tax rates in the province (see figure 7). In this municipality businesses pay \$1.60 for every \$1.00 in property tax

paid by residential properties. However, even in Gold River this disparity exists.

**Figure 7: Gold River: Business vs. Residential Property Tax for each \$100,000 in value**



Source: BC Government published property tax rates 2006.

A comprehensive list of municipalities and where they rank in terms of inequity between business and residential property tax rates can be found in Appendix A.

### Are municipalities taking steps to reduce inequities in the municipal component of the property tax?

CFIB raised its concerns regarding the growing the property tax gap between businesses and residents with all the municipalities in British Columbia in 2003. Mayors and provincial MLAs were encouraged to take steps to reduce the inequities within their jurisdictions. Has the situation improved?

An examination of the inequities in the municipal component of property tax between 2003 and 2006 suggests that of 154 municipalities examined, 73 per cent (113) have increased the gap, 16 per cent (25) have maintained the inequity in their area, and only 10 per cent (16) have reduced the inequity (see Appendix B). Table 5 shows that the cities with the greatest increase in the inequity of their municipal tax rate between 2003 and 2006 are Revelstoke and Victoria, while the cities of Fort St. John and Kimberley had the greatest decrease in the gap between residential and business municipal tax rates.

**Table 5: Greatest Increases and Decreases in Municipal Tax Rate Inequity From 2003 and 2006<sup>7</sup>**

Greatest Increase in Inequity:	Increase:
Revelstoke	1.34
Victoria	1.04
Greatest Reduction in Inequity:	Reduction:
Fort St. John	-0.73
Kimberley	-0.27

In terms of the remaining Districts, Towns, and Villages, the municipality of Tumbler Ridge had the greatest increase in the inequity of the municipal tax rate between 2003 and 2006, whereas the municipality of Belcarra showed the greatest decrease (see Appendix C). Again, municipalities are responsible for setting the municipal tax portion of the total property tax rate.

### What makes a fair and equitable tax, and why is this important?

For property taxes to be considered fair and equitable there should be a relationship between the amount of tax paid by a business, and the cost of the services received by the business. When this correlation exists, the tax is appropriate based on the benefits received, and accountable as the consumers of the services pay their true cost.

When tax rates between business and residential properties are not equitable a cross-subsidization results. This means that if businesses are paying for more than their share of services consumed, they are subsidizing residential property owners. Cross-subsidization is a concern for a number of reasons, including its tendency to undermine accountability. Access to cross-subsidization gives municipal governments the ability to allocate greater spending and services to voting residents at the expense of non-voting businesses. Governments have little incentive to be accountable to businesses; increasing business property tax rates to increase services to voting residents carries little political consequence for local governments.

<sup>7</sup> The number given represents the difference in the business to residential ratio of the municipal portion of the property tax between 2003 and 2006 rates. For example, the business to residential ratio for municipal tax in Revelstoke increased from 2.94 in 2003 to 4.28 in 2006 representing an increase in the ratio of 1.34.

The lack of accountability also translates into a lack of financial transparency, leading to an inability for businesses to determine the true cost of the services they consume. This results in inefficient location choices, and sometimes even reduced productivity.

### **Box 3: British Columbia Provides Property Tax Relief to Residents Through the Home Owner Grant**

The Home Owner Grant is a provincial program designed to reduce the burden of residential property taxes on homeowners. It is intended to provide the greatest benefit to people with lower valued homes, seniors, and other residents with greater need for tax relief. The grant provides eligible homeowners with a maximum reduction of \$570, plus a possible additional \$275 for qualifying seniors, veterans, or the permanently disabled.

While the program is valuable for homeowners, it exacerbates the property tax gap at the provincial level. For example, the owner of a \$780,000 home in Vancouver could be eligible for a \$570 reduction in his property tax bill of \$4,727. The result would be a bill of \$4,157. A similarly valued business property would owe \$22,043. When the additional grant is factored in, the tax gap between the two properties increases from 4.67 to 5.3.

The provincial government encourages home ownership through this program because it is valued by citizens and voters, and can provide some social benefits. The same can be said of small businesses. They provide employment, broaden the tax base, make communities more desirable, and give to charity. We encourage the provincial government to extend the Home Owner Grant to small business owners as well in an effort to reduce to the property tax gap.

Source: Ministry of Small Business and Revenue (2006) *Home Owner Grant Program*.

### **Is there justification for businesses to pay a higher rate of property tax?**

Many people do believe there is justification for business properties to pay a higher rate of property tax. The most common justifications for BC's property tax gap are debunked below.

### **Misconception #1: Municipalities do not have the power to raise taxes any more on residential properties.**

In fact, they have the ability to collect as much money as they need. They are only limited by political considerations.

### **Misconception #2: Business properties consume more public services than residential properties, and should therefore be taxed at a higher rate.**

It is often argued that business properties consume more services than residential properties, and should be taxed accordingly. However, in most municipalities business properties receive less service than residences do. Moreover, businesses are often subject to a variety of fees and user charges that residences do not pay.

A recent study conducted by MMK for the City of Vancouver<sup>8</sup> concluded that for every \$1.00 of services consumed, non-residential properties paid \$2.42. Conversely, residential properties paid only \$0.56 for every \$1.00 of service received from the City. Furthermore, residential properties consume 76 per cent of services while contributing only 43 per cent of taxes. The remainder of the services consumed by residents are subsidized by the inflated property taxes paid by the business community.

### **Misconception #3: The extra property taxes are borne by businesses, not people.**

Any attempt to separate the business from the business owner is absurd. The excess property taxes directly reduce the income of the business owner, and result in lower wages being paid to the staff of the business, and fewer employees being hired. Even when charged to businesses, the cost of taxes is borne by people.

### **Misconception #4: Because business property owners are able to deduct property taxes paid against income, it is fair to tax them at a higher rate.**

Businesses that are just starting out, struggling, or just breaking even don't receive a deductibility 'benefit.' In fact, every year thousands of small businesses post losses. As noted earlier, property taxes are profit insensitive.

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<sup>8</sup> MMK, 2007.

Even if we assume that the ability to deduct property tax expenses gives business properties an advantage, the ability to deduct property tax still does not account for the inequity between residential and business property tax rates.

Consider the example of a business property located in Vancouver. On an assessed market value of \$100,000, this property would pay \$2,826 in property taxes for 2006. Assuming this business had net income of less than \$400,000 for the year (which many small businesses do), the effective income tax rate on this amount would be 17.62 per cent<sup>9</sup>. The tax deduction on the \$2,826 property taxes payable would therefore amount to \$498. Subtracting this amount from the property taxes billed, we are left with \$2,328 owing. On the other hand, a residential property in Vancouver without access to this deduction would pay \$606 for every \$100,000 in assessed market value. Even with the tax deduction taken into account, the business property is paying 384 per cent, or 3.84 times more than the residential property on the same value. The inequity is consistent through all BC municipalities when this argument is tested.

**Misconception #5: Business property owners are more capable of paying property taxes than residential property owners.**

Most small businesses run on a very tight profit margin to begin with. High taxes equal a reduction in retained earnings for businesses. Small businesses use retained earnings to expand their operations, buy new equipment, create new jobs, pay higher wages, and contribute to their communities through charitable donations and gifts in kind. When businesses absorb high rates of taxation, it is at the expense of other productive endeavours. In this sense, inequitably high property taxes hurt not just business, but the entire community and the health of the economy.

**Misconception #6: Business property owners should pay higher taxes because they profit more from the way they use their property than residents do.**

As has been mentioned earlier, property taxes are profit insensitive. This means that, unlike business

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<sup>9</sup> Tax rate based on BC small business rate of 4.5 per cent added to the federal small business rate of 12 per cent and the 1.12 per cent federal surtax.

income tax which increases or decreases to reflect the business's achievements over the year, property tax is a constant burden, irrespective of the business's bottom line. If a business has a successful year, it might profit more from its property than a resident, but it would be foolish to think that all businesses do well every year. Because of the risks and costs involved in launching a business, a business owner could easily earn less income than the employed resident next door, or even post losses. Because of the profit-insensitive nature of property taxes, the business property is compelled to pay property taxes at a higher rate regardless.

**Misconception #7: Businesses are able to pass the burden of high property taxes on to their customers, thereby not bearing the brunt of the tax bill.**

It is sometimes argued that businesses are able to pass the burden of high property taxes on to their customers, thereby not bearing the brunt of the tax bill. It is extremely unlikely that a small business could pass on all, or even most, of the burden of additional taxes to their customers, as most small businesses operate in fairly competitive environments.

**Why do businesses pay higher property taxes than residential properties?**

Given that there is no justification for higher property tax rates for business properties, what has led to the inequity that currently exists in the British Columbia property tax system? The simple answer is that residents have a municipal vote, whereas businesses do not. It is true that some business owners may live in the municipality where their business is located, but this is often not the case. Furthermore, even when owners do vote in the same municipality as their business, businesses are by far the minority when compared with the number of residents. From a political perspective, local governments are pressured to increase and improve services to residents without passing on the full cost. Municipalities often turn to business property tax rates to absorb increases despite the fact that they are not the primary consumers of these services. Although businesses may have the opportunity to voice their concerns to local governments, their concerns do not carry the same clout as those of residential voters.

Furthermore, because of the misconceptions discussed above, it is often believed that equalizing business class property tax rates with residential rates would be publicly unpopular. Some argue the extreme – but inaccurate – view that homeowners would be stuck with huge tax increases if the tax burden were shifted to a more equitable balance between businesses and residents.

In reality, a more balanced property tax system would have a far smaller effect on residential tax rates than feared. The first reason is that there are significantly more residential than business properties in each municipality in the province. Also, reduced property taxes would tend to increase business property values – thereby generating some offsetting increases in the business assessments and taxes. A less punitive approach to business taxation will free up more income for business investment, leading to more economic activity and job creation.

More importantly, however, a rebalanced property tax system would improve accountability within local government. Residents would scrutinize new programs and project proposals more carefully if they were expected to pay their share of costs. It would become more difficult for local governments to buy votes with new services for residents by sending the bill to the business community. The result would be a government that is more cost-effective, more accountable, and more responsive to the real needs of the community as a whole.

## Conclusion

Businesses pay a higher rate of property taxes than residents do in each municipality in British Columbia. Furthermore, this differential between the two property classes cannot be justified on any practical grounds. There is no relationship between the rate of taxes paid by business properties, and the services received; while businesses pay more in tax, they consume fewer services. Current municipal practices would have residential voters determining the quantity and quality of services provided at the local level, and have the bills paid by the business owners. Businesses that pay a disproportionate amount for services received are also less likely to make location decisions based on the true cost of providing services to them. Market distortion, inefficient use of resources, and high tax burden resulting from tax inequities are all factors that threaten the health of the local economy.

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Although the municipal portion of property taxes is the most inequitable between residential and business properties, similar inequity exists in the other components of the property tax. It is not only local governments, but also the provincial government, which is responsible for building these inequities into the tax rates.

While it is true that Canadian municipalities rely very heavily on property taxes as a revenue source, and many mayors are expressing a desire to expand their taxing options, new forms of taxation or revenue sources should not be considered without first addressing the gross inequities that exist in the current property tax system. Experience with the property tax system in the province suggests a systematic and unjustified discrimination against business class properties, further demonstrated and exacerbated by the parking area tax recently imposed upon business properties in the GVRD by the provincial government through TransLink. This evidence does not bode well for the ability of municipalities to fairly manage additional forms of taxation.

## Recommendations

Just as both the provincial and local governments are responsible for the current inequity in the property tax system in BC, both have a role to play in fixing the problem. This is particularly important given that municipalities are asking the provincial government for additional powers of taxation and new revenue sources. The following suggestions would help to rectify the inequities in the current property tax system:

### *Local Governments:*

- ***Municipalities should, on their own, begin to reduce the tax gap through savings generated from cost restraint, increased outsourcing, and ensuring public sector wages follow, not lead, private sector norms.*** CFIB believes that creating a fair taxation regime can be a major element of an economic development strategy at the municipal level. CFIB is committed to tracking the progress of municipalities in reducing the gap between residential and business property tax rates.

*Provincial Government:*

- ***Repeal the parking area tax recently imposed upon business properties in the GVRD by granting taxing power to TransLink.*** The parking area tax exacerbates the already significant property tax gap between business and residential properties in the GVRD. Further, it is inequitable, punitive, and enforced by an unelected board lacking accountability.
- ***No new forms of local taxation should be considered at this time, or until the inequities in both the provincially and municipally set components of the property tax are corrected.***
- ***Expand the Home Owner Grant to apply to business properties as well as residents.*** The current selective application of the Home Owner Grant is another example of the inequities built into the BC property tax system by both the municipal and provincial levels of government.
- ***Introduce legislation that places a “hard cap” on how much of a property tax increase businesses can face in one year.*** Ontario’s Bill 140 imposed limits on the extent to which municipalities could disproportionately tax business owners. The legislation dictated a range of fairness for the differential between business and residential property classes. Municipalities who were outside the range of fairness were required to either maintain or reduce inequities, not worsen them. Similar legislation in British Columbia would ensure that municipalities address their own property tax gaps.
- ***Ensure that as new responsibilities are devolved to the local level, they are accompanied by an adequate revenue stream provided by a senior level of government from existing revenue.*** Although CFIB believes there is much room for improvement in the transparency and accountability of municipal finance, we recognize that local governments face challenges as they are tasked with greater areas of responsibility with limited means of funding. Senior levels of government have enjoyed generous surpluses in recent years.

We encourage the provincial government to consider reallocating existing revenues to fund new local responsibilities rather than introducing new forms of local taxation or relying on higher property taxes to meet local revenue needs.

- ***Re-examine the school tax and other provincially set components of the property tax and restore equity between the residential and business rates.*** Great inequity exists between the rate of school tax and other provincially set components of property tax paid by business and residential properties. The provincial government should re-examine the distribution of the tax burden – in particular, the school tax component of the property tax. CFIB suggests a multi-year plan to create a 1:1 ratio for business and residential components of the property tax, which are set by the province.
- ***Consider introducing a mandatory small business threshold of property assessment which is taxed at the lower residential rate.*** Under this system, both business properties and residential properties are taxed at the lower residential property rate below a determined market value. Business properties would be charged at the higher business property tax rate on the value of the property that exceeded the threshold. This policy would encourage small home-based businesses to open storefronts without suffering a punitive increase in property taxes.
- ***Consider reintroducing the municipal business vote to allow business owners to have a voice in municipal affairs.*** In British Columbia, business owners could vote in municipal elections until 1993 when this right was rescinded. Now only residents have the right to vote in local elections. This means that many business owners don’t have a vote in the municipality where their business is located. This current lack of representation gives municipal governments little incentive to address the concerns of local business owners.

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