Fair collection

Toward equity and accountability in property tax

By Paul Sullivan

Yes, we're still talking about reforming property taxes for fair distribution between residents and businesses in Vancouver.

In 2009, the city had a total of 13,656 Class-6 business properties. By contrast, some 18,000 new residential properties have been added over the last five years, for a total of about 169,000. Since 1984, commercial properties have declined by half in their percentage share of the overall assessment roll. Yet over the same period, their share of the tax load has only declined by 14 per cent.

The problem: commercial taxpayers pay two times the cost for the level of municipal services they consume. With taxes from municipal, provincial and TransLink authorities combined, business properties pay five dollars for every one dollar paid by residents.

Bottom line: a mere eight per cent of Vancouver's properties remain commercial, the rest being residential. These eight per cent pay 50 per cent of the taxes. With the costs of running our governments soaring ever higher, something's going to bust.

What's in debate in government now?

Tax topography

We need an economic analysis of what occurs with the physical changes in our built landscape. We'd learn how much tax revenue a property generates relative to the services it consumes before and after redevelopment. For example, every time we demolish an art gallery or restaurant in Yaletown to make room for another residential high-rise, our tax revenue actually declines. Right: a condo building worth $100,000,000 and taxed at residential rates yields less property tax than the delapidated two-storey retail building it replaced. Now imagine the onus imposed by those taxes on the retailer before the redevelopment and guess which building places higher demands on municipal services.

Since residents don't pay fully for the services they consume, every new condo means an additional subsidy paid by commercial taxpayers and the loss of one more commercial property over which to spread that subsidy.

Class as you value

Choice in where we shop is key to the diversity of our communities. "Class as you value" is a concept that throws a lifeline to retailers located in areas under redevelopment. Consider Cambie Street. The corridor's rezoning means that commercial tenants will now be saddled with additional taxable value for unbuilt residential density. This unbuilt potential is the unoccupied residential airspace for high-rise or medium-density development. This airspace will add to the assessed value for the retailers currently existing at ground level, and it will be taxed to the retailers at commercial rates even though it's approved for residential development with no municipal services consumed before development. Assessed values will skyrocket, and the properties will be assessed as residential redevelopment sites yet taxed 100 per cent at commercial tax rates.

"Class as you value" provides relief by changing the tax rates on such unbuilt density from commercial rates to residential ones. Let's hope Cambie's rezoning will bring this matter to the fore and hasten the province's work on the issue.

Funding transportation

In November 2009, TransLink announced the increase of taxes on paid parking from seven to 21 per cent (an increase of 200 per cent) in an effort to raise $30,000,000 from commercial taxpayers. I say "commercial" because they're the main ones who use paid parking in downtown Vancouver's parkades.

What's more is the suggestion pending in the legislature that the HST of 12 per cent should go on top of, and compound, the parking sales tax, totalling some 35.5 per cent.

The province directed TransLink to use a "balanced" approach to increasing revenue. Bus-ridership fees went up three per cent, gas tax 25 per cent and parking sales tax a whopping 200 per cent. Increasing parking taxes so inequitably on so few properties isn't a sustainable way of funding a budget of over $1 billion. A broad-based levy on all vehicles would be a better answer.

Land averaging

Vancouver is the only jurisdiction where you're taxed not on your assessed value but on your taxable value, defined as the average of three years' land values and the current year's building value. In a market where land values are increasing, tenants can find themselves getting taxed at values greater than their current assessed values. This means that properties experiencing above-average increases in land values will end up subsidizing in taxes those with flat land values. In Vancouver's Central Business District (CBD), values have been flat relative to those in other commercial areas, with the consequence that tenants of office towers have been subsidizing other taxpayers for many years.

This year, a large portion of the CBD was rezoned under the Metropolitan Core Jobs and Economy Land Use Plan. Effectively, this rezoning increased the allowable commercial density yet removed residential from the downtown core as an allowable use. According to opponents, a long time will elapse before we see a new office building built and the

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economics will not work without the possibility of mixed use (which includes residential), because there's a substantial risk that the end value won't produce profit after construction costs. Supporters believe that designating the core as commercial-only is good long-term planning.

This rezoning has quickly become a property-tax issue as many properties in the CBD have seen land value decrease significantly with the removal of residential use from the zoning. Averaging that lower land value with the higher values of two prior years would mean that many folks would get taxed on values well above their actual assessed values.

Luckily, common sense has prevailed, and staff has recommended to City Council the removal of the affected areas from land averaging for 2010. Some properties will consequently see reductions in taxes by over $100,000. Let's be clear: this is not a tax break but rather a reduction in what would otherwise be a massive subsidy of other taxpayers.

Tax distribution

On April 22, Council voted that commercial taxpayers would pay one per cent less of the property-tax levy this year. Since 2006, efforts on this issue have resulted in a series of similar shifts. Overall, a shift of one per cent means that about $6,000,000 moves to residents: a cost of $35 per year to the average resident.

We'll only achieve accountability once we begin charging people for the services they consume. Until we start being honest about who's being subsidized, we'll never solve the budgeting problems persisting in our governments. •

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