

OPINION

Averaging property taxes shifts burdens

Proposed system would see residents whose homes rise in value the quickest pay less, while the rest will have to make up the difference

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Businesses occupying the best buildings in prospering commercial areas are in line for big tax breaks at the expense of more modestly housed competitors, and Vancouver's richest residential neighbourhoods can expect a similar subsidy paid unwittingly — and, no doubt, unwillingly — by the rest.

At least, that's what will happen if a city council meeting today rubber-stamps a staff recommendation to continue its land-averaging policy for the current year, says Paul Sullivan, technical co-chair of Vancouver Fair Tax Coalition. He foresees wildly varying increases for side-by-side commercial buildings as well as for Eastside and Westside residential neighbourhoods. The result will be big breaks for some and hardship for the rest.

The residential discrepancy is easiest to understand. It results from land values that are skyrocketing much faster on the Westside. This would normally mean tax bills would soar in the West, and Eastside homeowners would get a break. Averaging, however, drags down the taxable value of Westside properties — particularly the really luxurious ones — which have hugely increased in value.

Softening a big tax increase may sound good — indeed, it's the goal of the averaging policy. The trouble is, Sullivan notes, City Hall compensates by increasing its general tax rate. Thus tax bills for other homeowners — those whose property values haven't increased as much — are driven higher than they would otherwise be.

The effect is substantial. For example, the gated mansion at 3488 Pine Crescent, not far from Shaughnessy Park, is now valued at \$10,783,000 — up 21 per cent from its 2011 assessment — but its taxable value rose just 11 per cent. Do the math and its tax



Averaging would create five-per-cent tax bumps for these Cambie businesses.



This home at 3488 Pine Crescent would benefit from averaging.

prices. And, while the whims of the market may create different groups of winners and losers from year to year in residential neighbourhoods, averaging consistently hurts the same businesses — those that can't afford upscale premises.

Commercial assessments have two components — land and "improvements." Land is valued at the price it could sell for, but a building's value has nothing to do with actual worth. A third value — the amount of income the property could generate if it were fully developed — is also calculated. If the rental value exceeds the market value of the land, then land value is subtracted from total value and the building is deemed to be worth whatever number is left over.

down the taxable value a bit, the savings are minimal.

For example, averaging will save Starbucks, located in a nice corner building at 3492 Cambie, almost a third of the increase in taxable value that would otherwise occur. But next door at the Saté Restaurant and New Town Bakery, averaging saves them nothing in taxable value. And, since the city raises its tax rate to compensate for revenue lost to averaging, both businesses will face tax rates about five per cent higher than they would otherwise be.

The driving factor behind most big increases in land value is the change-of-use enabled by new zoning. Old business districts of mostly one-storey retail, like much of Cambie, now are approved for mixed-use developments with ground-floor retail and upper-storey residential. Assessments are based on "highest and best use," so they consider what the value would be if the property were fully developed. Yet, even though much of the undeveloped potential is residential, the business tax rate is applied to the entire property value.

Sullivan's group is calling for an end to averaging, not because it doesn't help anyone, but because it's a pretend solution that creates new inequities and diverts attention from real solutions. And the real solution for



The home at 2729 Yale St. would not benefit from averaging.



Averaging would save money for the Starbucks at 3492 Cambie St.



bill will be 16 per cent lower than if the same tax rate were applied without averaging. Meanwhile, the Vancouver Special at 2729 Yale Street, near the port between Nanaimo and Renfrew, is now valued at \$1,019,000, up four per cent from 2011. Yet its taxable value is also up four per cent, so it gets no break at all. In fact, since the city will raise the tax rate by about five per cent to compensate for revenue lost due to averaging, the Yale Street property will face disproportionate tax consequences, while the Pine Crescent home enjoys a massive gain in value and a more modest tax increase.

The business story is more complex and even more inequitable. Averaging creates wildly different outcomes for side-by-side properties affected more or less equally from rising land

The deemed value of nice buildings may be fairly high, but old ones are often deemed to be worth next to nothing — in effect, teardowns.

When land values soar, as on Cambie since the completion of the Canada Line, rents don't rise nearly as fast. And the tax formula treats the two kinds of buildings — nice ones with a high deemed value, and shabby ones with little or no deemed value — very differently. It artificially lowers the value of nice buildings to compensate for the higher land value. Thus, when the land value for such properties is averaged over three years, the taxable value is dramatically reduced.

But buildings already judged to be essentially worthless have no value left to balance the soaring value of the land. So, while averaging does bring

business, he says, is a split assessment — taxing the business potential of a less-than-fully developed property at the business rate, but taxing the unbuilt residential potential at the residential rate.

Which sounds much simpler, and much fairer, to me.

As for homes, I'd scrap averaging and let the market sort things out. This would no doubt leave some neighbourhoods vulnerable to big tax increases when their house prices rise faster than most. But at least whoever gets hit hardest will also profit most from rising land values — a principle that, sadly, averaging turns on its head.

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