

# PROPERTY TAXES

Your Biggest Real Estate Expense BY PAUL SULLIVAN



**T**he property tax bill on your property is by far the highest expense. Often the property tax is equal to all of the other operating costs combined. The amount of your property tax bill is impacted by political forces, as well as market forces.

## Political Influences

Each year, city council in any given city makes two major decisions with regard to how large your property tax bill will be. The first decision is the size of the municipal budget. Keep in mind that under the Provincial Legislation municipalities are required to run a balanced budget. There are a number of revenue sources for municipalities such as permit fees, licensing fees, parking charges, ticketing, water charges, etc., however, with any one of these items declining in a given year, the shortfall automatically is recovered through property taxation. With this in mind, approximately 60 — 65 per cent of a municipal budget is

funded through property taxation. Clearly, the variability in the other revenue sources will have an impact on a council's agenda as the increase in the property taxes must be kept at a reasonable level. So clearly, the first major political influence on the property tax bill is the size of the municipal budget.

The second political influence is the amount paid by the residential property classes versus the commercial property classes. In B.C., this is known as the "Fixed Levy" approach to tax distribution. In 2012, the City of Vancouver shifted 0.3 per cent of the tax budget from the business classes to the residential classes. The "Fixed Levy" distribution is now at a level where residential property types are paying 53.3 per cent of the tax budget and commercial properties are paying 46.7 per cent of the property tax budget. Sadly, only 7 per cent of the properties in the City of Vancouver are commercial properties, and consume less than 24 per cent of services provided. Effectively, this means that commercial

properties are paying at least \$2 per every dollar of services consumed. To further aggravate this problem, the relative number of residential properties to commercial properties is growing every year. With this growth comes higher costs being borne by relatively fewer and fewer commercial properties. Clearly, this is not a sustainable way to fund a municipality.

**Market Forces**

In B.C., we have a system of ad valorem taxation, which means the assessed value of your property determines the amount of taxes to be paid. Properties are assessed based upon their value at July 1<sup>st</sup> every year. Either tenants or owners can appeal their assessments and argue for the lesser of market value, or comparable assessments (equity). B.C. has an efficient and effective appeals system and appeals with merit can generally be solved by March 15<sup>th</sup> in the taxation year.

The change in your assessed value does not automatically translate into a change in property tax. Assuming for the minute that the municipal budget did not change, if all commercial properties increase in value by some 20 per cent, then mill rates (tax rates) would be reduced by 20 per cent

so as to not over recover based upon the growth in assessed values. But, if the average property changed 20 per cent and your individual property increase in value by 30 per cent, you will automatically receive a tax increase of some 10 per cent, being the amount of value change in excess of the average for the class.

The only caveat to the above is the impact of land averaging and changing land values on your taxable value. This is for the City of Vancouver and a very long conversation, given how complicated the averaging policy is.

**Conclusion**

Given the magnitude of this cost, property taxes need to be reviewed on an annual basis to ensure that your assessed value is both fair and equitable. Business owners do not vote, hence, it is important to make your views known to both Mayor and council in your municipality that you have concern about the level of business

property taxation and the sustainability of the tax distribution model in your communities. ❖

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