

Little-noticed tax change will hit some hard

BY DON CAYO, VANCOUVER SUN FEBRUARY 22, 2013

Few British Columbians seem to have noticed, but Tuesday's budget held a nasty, not-so-little surprise for most manufacturing, transportation and storage companies.

A significant property tax break created to help them survive the turmoil that continues after the global financial crisis of 2008 is - without prior warning - to be rescinded over the next two fiscal years.

The measure being revoked involves a 60-per-cent rebate of the provincial School Tax portion of property tax bills for Class 5 businesses. This will net Victoria \$32 million in 2013-14 and \$55 million in 2014-15 and thereafter.

Its impact on individual businesses will vary sharply, depending where they're located. As a rule of thumb, property tax bills are usually comparable to the total cost of maintaining business properties - insurance, utilities, cleaning and the like.

But the municipal portion of business property tax bills varies wildly. So, depending on the tax rate in any given municipality, the school tax portion of a company's property tax bill ranges from less than a fifth in a high-tax jurisdiction like New Westminster to about 40 per cent in tax-frugal Surrey. Thus the loss of the 60-per-cent rebate means a hit on future tax bills of anywhere from 10 to 25 per cent. (It'll be about 20 per cent in Vancouver where, fairly typically, school tax makes up about a third of the total property tax bill.)

This kind of bolt from the blue - tens of thousands of dollars in unexpected expenses for many companies - is a big deal in a world where the predictability of costs is essential to sound management.

The decision to offer the rebate in 2009 seemed to recognize how seriously businesses can be hurt by the large and income-insensitive burden of property tax, especially when times are tough. The decision to revoke it now underlines how quickly such considerations can be abandoned when the government needs more cash.

In my view, the rebate - no matter how well-intentioned - was never more than a Band-Aid to cover up a festering sore. Fact is, the whole property tax system is badly flawed, especially when it comes to business implications.

The nub of the problem is that these taxes are too high - not just because governments spend too much, but also because municipalities, which are denied a full range of tax tools, must rely on them for too big a share of their revenue.

Worse, as the rebate issue illustrates, the impact of a too-large property tax burden can be - and often is - distributed unevenly.

When the rebate was announced, only some businesses - those in manufacturing, transportation or storage - got relief. Now they're the only ones getting kicked.

Paul Sullivan, a partner in the tax consulting firm of Burgess Cawley Sullivan and a technical co-chairman of the Vancouver Fair Tax Coalition, thinks the problem could and should have been avoided by simply eliminating the distinction between the relatively small number of Class 5 businesses and the larger category of Class 6, a catch-all for every business that isn't specifically designated to be included in some other category.

I don't disagree, though I see this as only a partial solution in that it addresses only one inequity of the many that afflict the tax system.

Far better, in my view, would be for the province to leave the over-crowded field of property tax to the municipalities alone - in other words to scrap the misnamed school tax, which has nothing to do with schools and is merely a general revenue source.

Better yet would be for Victoria to start paying attention to sound advice it has paid good money to obtain.

An analysis last fall by B.C.'s Expert Panel on Business Taxation recommended the province establish benchmarks for the highly inconsistent levels of business property tax in various municipalities and establish procedures to ensure tax rate changes stay within the benchmarked range.

To be sure, the report didn't explicitly admonish the province to lead by example and avoid its own arbitrary lurches, especially those that hit different groups of taxpayers unequally, but this might not have made a difference.

Because, as experience shows, when a government decides it needs money, good sense and fairness can easily get lost in the shuffle.

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