

**POLICY RECOMMENDATION
TO THE CITY OF VANCOUVER
FOR MUNICIPAL PROPERTY TAX REDISTRIBUTION**

**VANCOUVER
FAIR TAX COALITION**

The Issue:

Vancouver's commercial properties account for a sixth of the total assessed value, consume less than a third of total city services, yet pay more than half the municipal property tax burden.

Vancouver is known as a great place to live.

We also want it to be known as a great place to do business.

TABLE OF CONTENTS

Executive Summary.....	4
About the Vancouver Fair Tax Coalition	6
Our Purpose	7
What People are Saying About Taxes	7
The Situation	8
History	9
How Property Tax is Calculated	10
Residential and Commercial Property Comparisons	11
Municipal Tax Comparisons With Other Cities	12
Assessed Values	17
Consumption	18
2005 Mill Rates.....	19
Impacts of High Municipal Taxes on Commercial Properties.....	20
Livability	20
Population Versus Commercial Development.....	22
Property Growth Trends.....	23
Recommendation	24
Why a 1% Shift Does Not Work.....	25
Impact of a 4% Tax Shift.....	25
Summary	26
Appendix I – Recommendation Analysis	27

EXECUTIVE SUMMARY

Vancouver Fair Tax Coalition members believe Vancouver is a great place to do business and that local businesses make important contributions to the economic and social well being of the city. However, high municipal property taxes for businesses have serious impacts on our city, neighbourhoods and residents. We need to correct this inequity to attract and retain local businesses, and to foster employment and job creation.

This report provides an analysis of the current municipal tax situation in Vancouver, its impacts and the VFTC's policy recommendation to address this issue. Here are some highlights from the report:

Inequity

- Business owners in Vancouver pay municipal property taxes at nearly six times the rate paid by residents. This is roughly double most neighbouring municipalities, double the national average and the highest rate across the country.
- From 1984 to 2005, the gap between the residential and commercial municipal tax rates more than doubled.
- The City of Vancouver's residential municipal tax levy at 2.79 is the lowest of 16 municipalities in the Lower Mainland, in comparison to a 3.5 average.
- The City of Vancouver's business to residential municipal tax ratio at 5.89 is the highest of 16 municipalities, in comparison to a 3.7 average.
- As the number of business properties declines, there are fewer business taxpayers to share an increasing tax burden.
- In the past 10 years, assessed values of residential properties (55 per cent increase) have increased more than commercial properties (34 per cent increase). Yet, commercial properties continue to pay an increasing tax rate, where the tax rate ratio between the classes is now 5.9 – the highest in the country.
- Commercial properties account for a sixth of the total assessed value, consume less than a third of total city services, yet pay more than half the municipal property tax burden.
- There has been no shift in municipal property taxes from the commercial to residential class since 2003.

Livability

- The economic and service livability of our city is declining as property taxes put pressure on the diverse retailers and character businesses that define our neighbourhoods.
- Property tax pressure is changing the uniqueness of our neighbourhoods.

- The increasing number of Vancouver residents is outpacing job growth in the city. Vancouver residents are increasingly working in surrounding municipalities.

Competitiveness

- Vancouver is becoming a less attractive and competitive city to do business for all tenant types. The number of business properties in Vancouver has declined, while residential properties continue to increase.
- Anecdotal information indicates that individual businesses, in some areas more than others, are seriously impacted by high municipal taxes. Impacts include having to lay off staff to pay property taxes, being unable to hire and compensate staff, expand or compete, relocating, or going out of business.
- Property tax is an ever-increasing fixed expense that is paid regardless of the profitability, type or size of business.

Our Recommendation

Fairness is our guide. Our position on the short-term solution is that, at a minimum:

The City of Vancouver holds municipal property taxes for all four commercial classes (2, 4, 5 and 6) to the 2005 level or \$256 million for the 2006 year. This will result in the residential class absorbing any increase in the 2006 budget.

Our position on the long-term solution is that the City of Vancouver formally adopts a permanent policy to bring the municipal property tax rate for Vancouver commercial properties in line with the regional average. As a first step we are recommending a small task group be established.

We are rapidly reaching a point of no return where the consequences of high business property taxes will not be reversible without a backlash from residential property owners. If we wait any longer, drastic action and correction will be needed. Since 1984, municipal tax policy has resulted in a shift in the ratio from 3:1 to 5.9:1. With no change in policy, the ratio will be 7.28 to 1 by 2016 and 8.81 to 1 by 2026.

ABOUT THE VANCOUVER FAIR TAX COALITION

The Vancouver Fair Tax Coalition (VFTC) is a non-partisan group of local business improvement associations, small business owners and managers, industrial and office property owners and developers, and business associations, which represent approximately 43,000 local businesses.

We are concerned about the high municipal property taxes paid by business properties in Vancouver, and the inequitable allocation of the tax burden between residential and commercial real estate. As a result we are seeking the City of Vancouver's commitment to permanently bring taxes in line with regional and national averages.

The VFTC is a growing coalition, which now represents 27 organizations:

Building Owners and Managers Association BC	Marpole Business Association
Business Improvement Area BC	National Association of Industrial and Office Properties
Cambie Business Association	Point Grey Village Business Association
Chinatown Business Improvement Association (BIA)	Real Estate Board of Greater Vancouver
Collingwood Business Association	Retail BC
Commercial Drive Business Society	Robson Street Business Association
Davie Village BIA	South Granville BIA
Downtown Vancouver Association	Strathcona BIA
Downtown Vancouver BIA	The Vancouver Board of Trade
Gastown Business Improvement Society	Vancouver Hotel Association
Hastings North BIA	Victoria Drive BIA
Kerrisdale Business Association	UpTown Vancouver Mount Pleasant BIA
Kitsilano 4 th Avenue Business Association	Yaletown BIA
Kitsilano Chamber of Commerce	

Our concerns about property tax are shared by many affiliate organizations, including residents' associations. We all believe that Vancouver is a great place to live and do business.

Our Research Team

We know it is important to thoroughly understand the intricacies of this complex issue. We have an outstanding group of experienced and professional members, who specialize in tax, assessments and real estate. We are prepared to work with the city to address this issue.

OUR PURPOSE

- Encourage economic and service livability in our city
- Ensure diverse employment opportunities for our residents
- Protect the sustainability of our neighbourhoods
- Preserve the diversity and unique character of our city
- Ensure business thrives and grows in our city

WHAT PEOPLE ARE SAYING ABOUT TAXES

Everyone agrees: Municipal property taxes for business are too high.

“Businesses throughout our city are at risk due to the fact that they pay six times the tax rate of homeowners.”
Mayor Sam Sullivan in the Vancouver Sun, December 6, 2005

“I’m paying almost \$50,000 in property taxes this year. That’s double in four years. My sales have not doubled in four years.”
Deanna Geisheimer, owner of Art Works Gallery in Downtown Vancouver

“In 2005 my property taxes went up almost 30 per cent. That means I have to sell 55 pounds of hamburger EVERY DAY just to pay my property taxes.”
Geoff Jackson, owner of Jackson’s Meats on South Granville

“I recently renewed my lease before my landlord announced the 2006 property assessment. It turns out that there will be a dramatic increase in my property taxes. In fact, my taxes, combined with building management operating expenses, will be almost more than my rent. If I had known, I might have reconsidered renewing my lease. I now cannot afford to hire the help I was planning.”
Dan Moffat, owner of Artzco in Yaletown

“I have received mail from other municipalities trying to entice me to move my business. It is tempting. They offer large plots of land, great exposure, and lower property taxes. There is only so much property tax my small business in Vancouver can afford.”
Angela Giannoulis, cigar distributor located in Strathcona

“The Ridge Theatre has become a victim to rising property taxes across the city.”
Vancouver Courier, November 23, 2005

“The Art Works Gallery has been forced to cut back on hiring, store improvements and advertising to meet what Geisheimer claims is an ‘excessive and unfair level of taxation’.”
Business in Vancouver, November 22-28, 2005

“Albert Deslauriers, the owner of Save-On Meats at 43 West Hastings, has seen his property taxes jump from \$12,000 to \$23,000 in one year.”
Vancouver Courier, November 9, 2005

THE SITUATION

- Business owners in Vancouver pay municipal property taxes at nearly six times the rate paid by residents. This is roughly double most neighbouring municipalities, double the national average and the highest rate across the country.
- Businesses are essential to the socio-economic health of Vancouver, and are responsible for creating the majority of jobs in this city. High property taxes on business/commercial properties are having serious long-term impacts on our city.
- Local businesses create the unique character of many of Vancouver's neighbourhoods. Imagine our city without Commercial Drive, Chinatown or West 4th Avenue. Municipal property tax rates are making it difficult for many of these businesses to operate successfully.
- Vancouver business properties account for a sixth of the total assessed value, consume less than a third of total city services, yet pay more than half the municipal property tax burden.
- Vancouver has the lowest residential municipal tax rate and one of the highest commercial municipal tax rates in the Lower Mainland.
- For property taxes to be considered fair and equitable there must be a correlation between the amount of tax paid and the cost of services received by the taxpayer.

We believe the issue of unfair property tax rates for businesses can be solved. We think the public and city council will agree a change is needed. Let's make Vancouver an even better place to do business.

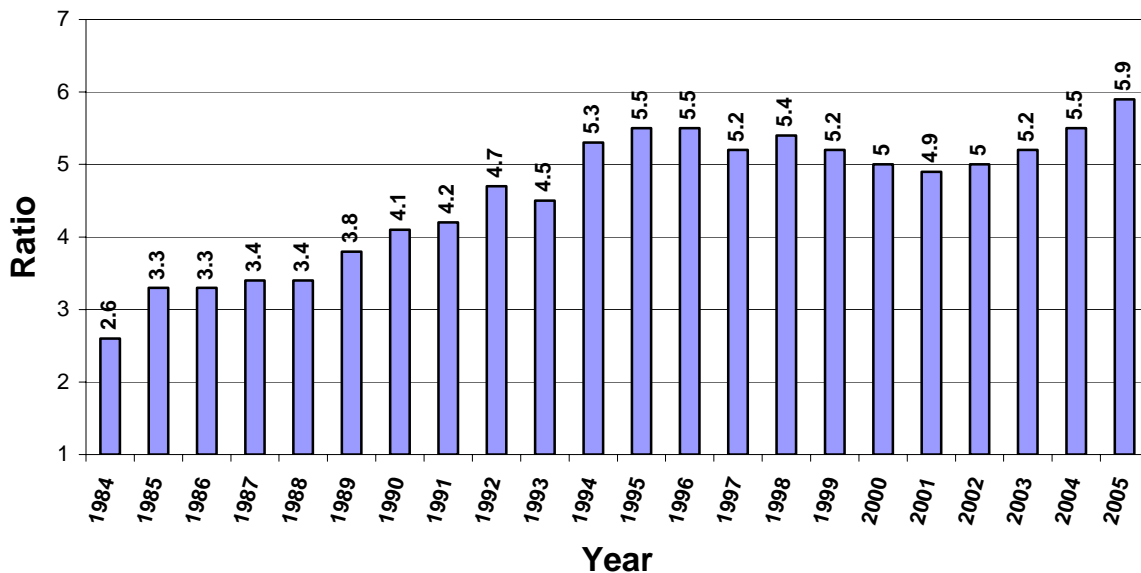
HISTORY

Since 1983, the City of Vancouver has had the power to determine the share of municipal property tax borne by businesses and residents in the city. Initially this power was used to ensure that residential properties did not pay an escalating share of the municipal property tax in comparison with business properties. However, over time businesses paid an increasing share of the tax even though the increase in the values and number of residential properties has outpaced the values and number of commercial properties.

In response to appeals from the business community, city council committed to shifting one per cent of the tax burden annually from business to residential. This was done in non-election years, and in particular in 1994, 1995, 1997 and 2000. A one-half per cent shift was made in 2003.

Despite these changes, commercial properties continue to bear a disproportionate share of the municipal property tax burden. In 1983, the ratio of the general business property tax rate to the residential property tax rate was 2.6:1. Now it is 5.9:1. From 1984 to 2005, the gap between the residential and commercial tax rates more than doubled.

History of Business Tax Ratio



Source: City of Vancouver

HOW PROPERTY TAX IS CALCULATED

Like all municipalities in British Columbia, Vancouver has had a market-based assessment and taxation system since the mid-1970s. There are several steps in calculating property taxes:

- The BC Assessment Authority (BCAA), an arm's length Crown corporation, classifies and values every property in Vancouver.
- Each year through the Operating Budget process, Vancouver's city council determines the property tax funding necessary to balance the city's operating budget.
- Based on council policy related to the distribution of the tax levy, a tax rate for each class of property is calculated to generate the required revenue for that year.
- Council has an established policy of collecting a fixed share of the total levy from each of seven property classes.
- These tax rates are applied to each property's assessed value, which establishes the property taxes payable by that property in a given year.

The tax rate for each class is calculated by:

$$\frac{\text{Amount of tax to be collected from the class (determined by council)}}{\text{Total taxable property value of the class (determined by the BCAA)}}$$

Municipal tax for each property is calculated by:

$$\frac{\text{Assessed Value x Mill Rate}}{1,000}$$

For example: Based on the 2005 mill rate of 16.44, municipal taxes for a Vancouver commercial property assessed at \$756,000 are \$12,429.

Property taxes in BC consist of municipal tax, regional district tax, hospital tax, school tax and other tax.

Source: City of Vancouver

RESIDENTIAL AND COMMERCIAL PROPERTY COMPARISONS

In 2005, residential taxpayers (Class 1) paid 43.5 per cent of municipal property taxes, while business taxpayers (Class 6) paid 52.7 per cent. Yet residential properties account for 82.2 per cent of total assessed values (3 year averaged), while commercial properties account for only 16.9 per cent.

A comparison of business and residential properties of equal assessed values clearly shows this inequity on both the east and west sides of the city.

Vancouver East Side Properties



5128 Victoria

	2003	2005
Assessment	\$421,000	\$414,000
Municipal Taxes	\$6,890	\$6,807
Total Taxes	\$12,093	\$12,172



2089 East 36th

	2003	2005
Assessment	\$423,000	\$538,000
Municipal Taxes	\$1,342	\$1,501
Total Taxes	\$2,798	\$3,222

Vancouver West Side Properties



3212/3228 Dunbar

	2003	2005
Assessment	\$618,400	\$756,300
Municipal Taxes	\$10,121	\$12,434
Total Taxes	\$17,763	\$22,236



3276 West 24th

	2003	2005
Assessment	\$617,700	\$786,400
Municipal Taxes	\$1,959	\$2,194
Total Taxes	\$4,086	\$4,710

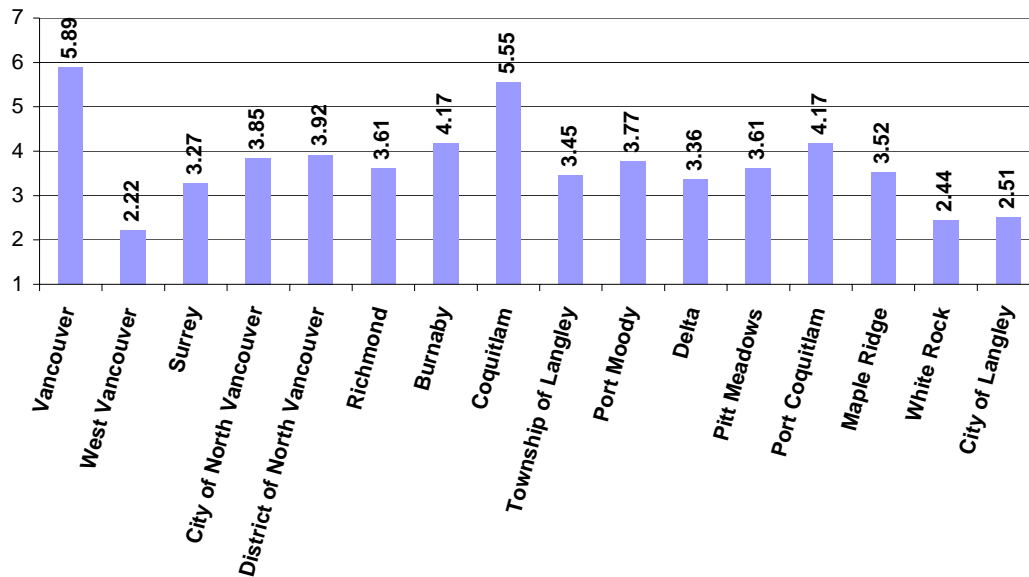
MUNICIPAL TAX COMPARISONS WITH OTHER CITIES

Vancouver competes with nearby municipalities and major Canadian cities for businesses and employment opportunities. A comparison of Vancouver's municipal property taxes with other cities shows Vancouver's disadvantage.

2005 GVRD Business to Residential Tax Ratio

The municipal property tax rate for Vancouver commercial properties is almost six times higher than for residential properties. This is the highest of all municipalities in the Lower Mainland.

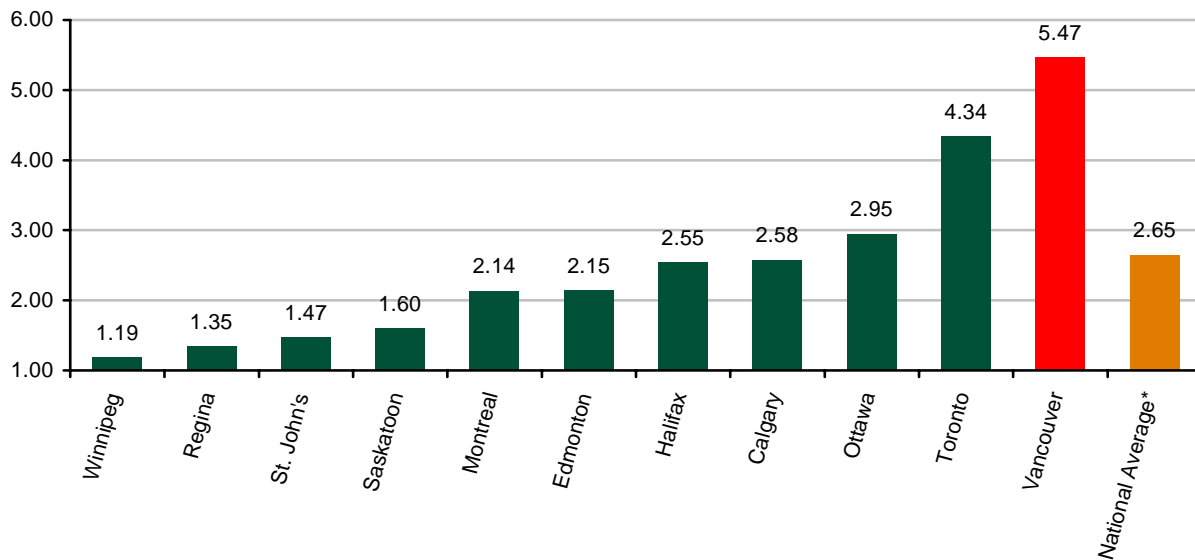
The chart shows that the average municipal property tax rate in other Lower Mainland municipalities is only about three times higher for commercial than residential properties.



Source: Government of BC, Ministry of Community Services

Property Tax Ratio in Major Canadian Cities

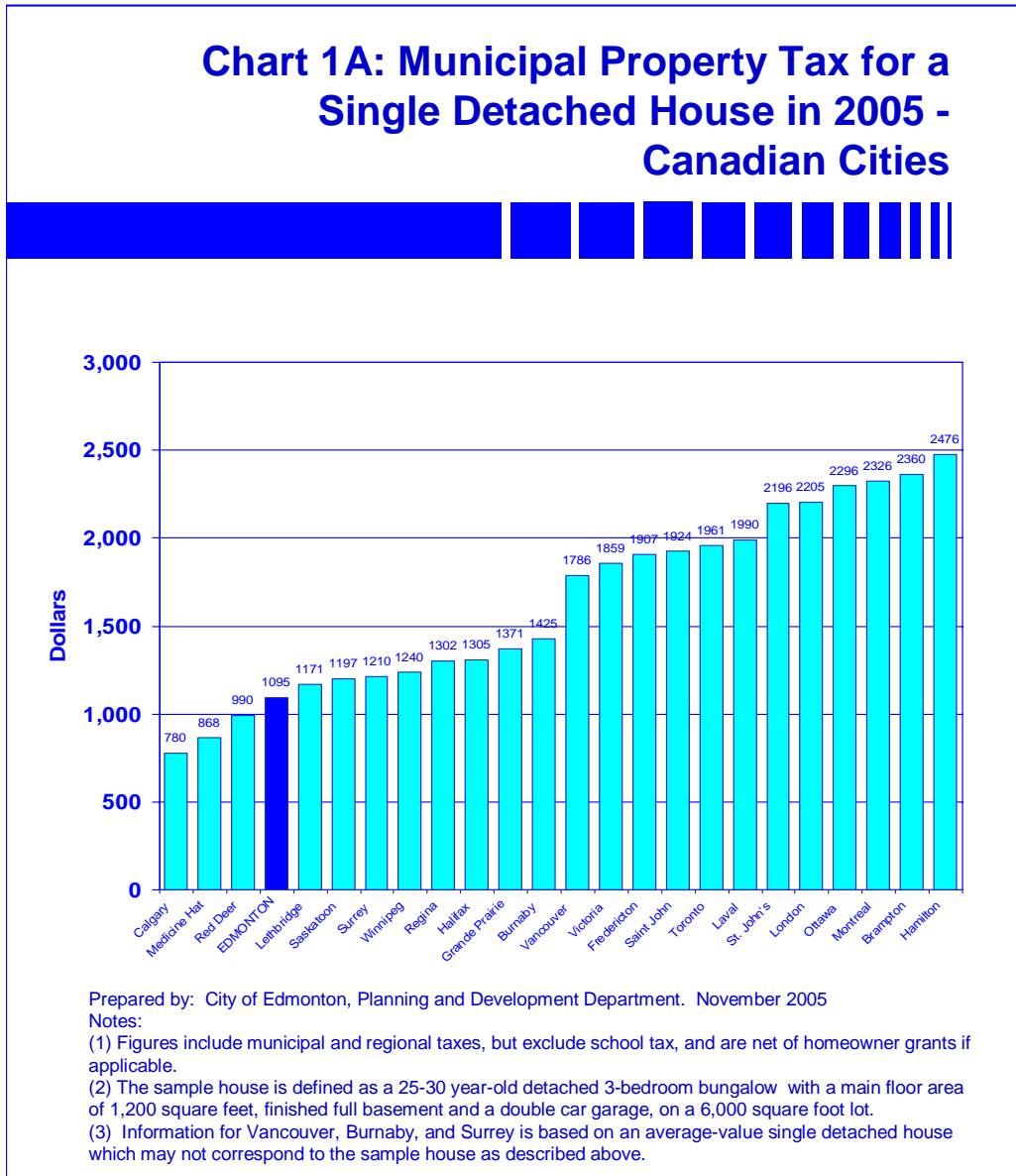
In addition, the City of Vancouver's municipal property tax ratio is nearly double the national average. As the chart shows, Vancouver's municipal property tax ratio for commercial properties is the highest among major cities across Canada.



Source: 20 city study by tax consultancy Derbyshire Viceroy Group concentrated on what it calls the tax ratio: that is the weight of commercial taxes per \$1,000 of assessment compared with the residential rate per \$1,000. This study was reported in The Gazette in Montreal late 2004. The National Average does not include Vancouver.

Residential Property Taxes Across Canada

The City of Edmonton undertakes an annual survey of residential property taxes across Canada. In comparison to major cities such as Toronto and Montreal, it is interesting to note that Vancouver has lower municipal property taxes for a single detached house.



Source: 2005 Residential Property Taxes and Utility Charges Survey, City of Edmonton

This City of Edmonton chart shows Vancouver homeowners (ranked 18) have lower property taxes than major Canadian cities such as Montreal (20), Toronto (21), and Ottawa (22).

Table 1 Comparative Property Tax Levy on a Sample House in 2005 [1] (Selected Canadian Cities) (dollars)							
City	Property Tax Levy				Homeowner Grants or Credits	Net Property Tax Levy (After Grants)	Rank
	Municipal	School	Other [4]	Total			
EDMONTON [6]	1,095	730	0	1,825	0	1,825	7
Calgary	780	798	0	1,578	0	1,578	2
Red Deer	936	631	54	1,621	0	1,621	3
Medicine Hat	853	673	15	1,541	0	1,541	1
Lethbridge	1,153	607	18	1,778	0	1,778	6
Grande Prairie	1,363	631	8	2,002	0	2,002	11
Burnaby [3]	1,176	944	249	2,369	470 [2]	1,899	8
Surrey	988	919	222	2,129	470 [2]	1,659	4
Vancouver [3]	1,417	1,257	369	3,043	470 [2]	2,573	18
Victoria	1,512	895	347	2,754	470 [2]	2,284	14
Regina	1,178	1,200	124	2,502	96 [5]	2,406	15
Saskatoon	1,073	1,494	124	2,691	120 [5]	2,571	17
Winnipeg	1,240	1,259	0	2,499	400 [5]	2,099	12
Montreal	2,303	492	23	2,818	0	2,818	20
Laval	1,990	480	0	2,470	0	2,470	16
Toronto [6]	1,961	950	0	2,911	0	2,911	21
Ottawa	2,296	672	0	2,968	0	2,968	22
Brampton	1,106	740	1,254	3,100	0	3,100	24
Hamilton	2,476	549	0	3,025	0	3,025	23
London	2,082	480	123	2,685	0	2,685	19
Halifax [6]	1,195	420	110	1,725	0	1,725	5
Saint John	1,924	0	0	1,924	0	1,924	10
Fredericton	1,907	0	0	1,907	0	1,907	9
St. John's	2,196	0	0	2,196	0	2,196	13
Average	1,508	701	127	2,336	104	2,232	--

Prepared by: The City of Edmonton, Planning and Development Department, Planning and Policy Services Branch, Nov 2005

Notes:

- The sample house is defined as a 25 to 30 year-old detached 3-bedroom bungalow with a main floor area of 1,200 square feet, finished full basement and a double car garage, on a 6,000 square foot lot.
- Grant is \$470 for school levy for homeowners with age 64 years or under and \$745 for senior citizens or handicapped.
- Based on the averaged value of single-family houses, which may not correspond to the sample house described above.
- Other includes regional and other tax levies.
- Grant is for school levy. For Regina and Saskatoon the grant is 8% of school tax starting in 2005.
- Based on the median value of single detached houses; which may not correspond to the sample house described above.

Residential Property Taxes in the Lower Mainland

Vancouver has the lowest residential municipal tax rate of 16 municipalities in the Lower Mainland.

For example, a house with an assessed value of \$500,000 in Vancouver, Surrey, Richmond, or Burnaby would pay the following municipal property taxes in 2005.

Vancouver	Surrey	Richmond	Burnaby
\$1394.50	\$1450	\$1530	\$1555

ASSESSED VALUES (UNAVERAGED)

In the past 10 years, assessed values of residential properties (55 per cent) have increased more than commercial properties (34 per cent). Yet, commercial properties continue to pay an increasing tax rate, where the tax rate ratio between the classes is now 5.9 – the highest in the country.

Residential Value Change from 1995-2005: \$27,934,000,000
 % Increase: 55 per cent

Business Value Change from 1995-2005: \$3,915,000,000
 % Increase: 34 per cent

Year	Residential \$ (000,000)	Business \$ (000,000)
1995	50,348	11,483
1996	53,006	12,094
1997	53,723	12,739
1998	54,036	13,268
1999	51,144	13,246
2000	50,698	13,195
2001	51,814	13,457
2002	53,301	13,647
2003	58,336	13,768
2004	65,157	14,291
2005	78,282	15,398

Vancouver has the highest residential values, with large annual increases, allowing for the dilution of the tax burden. Commercial values are also highest in Vancouver compared to the surrounding jurisdictions, however, Vancouver has one of the highest tax rates.

Source: City of Vancouver

CONSUMPTION

In 1995, the City of Vancouver commissioned KPMG to analyze how much commercial and residential properties pay for the consumption of city services. The study found that:

- Residents paid \$0.57 for every \$1 of services consumed
- Businesses paid \$2.07 for every \$1 of services consumed

In 2005, city staff confirmed to city council that these results still apply to today's use of city services.

In fact, businesses consume less than a third of total city services, yet pay more than half the municipal property tax burden. Businesses do not have the right to vote and have no say on how services are provided. The City of Vancouver chart below demonstrates that in 2004:

- Although 81 per cent of the total assessment value of Vancouver's properties was residential, they paid only 43 per cent of the total tax levy.
- Commercial properties account for only 19 per cent of the total assessment value, yet pay 57 per cent of the total tax levy. In 2005, Class 6 would have consumed less than \$146 million in city services, yet paid \$238 million of the \$453 million tax levy.
- Vancouver has the highest distribution of the tax levy falling on the non-residential classes among BC municipalities.

**TABLE 3. TAX DISTRIBUTION AMONG RESIDENTIAL & NON-RESIDENTIAL CLASSES
FOR SELECTED MUNICIPALITIES, 2004**

MUNICIPALITY	% OF TOTAL ASSESSED VALUE		% OF TOTAL LEVY	
	RESIDENTIAL	NON-RESIDENTIAL	RESIDENTIAL	NON-RESIDENTIAL
BC Municipalities				
Vancouver	81%	19%	43%	57%
Victoria	72%	28%	47%	53%
Burnaby	79%	21%	47%	53%
Richmond	78%	23%	51%	49%
Coquitlam	88%	13%	57%	43%
Abbotsford	84%	16%	66%	34%
Kelowna	83%	17%	69%	32%
Surrey	88%	12%	70%	30%
North Vancouver District	93%	7%	72%	28%
Municipalities Outside BC				
Toronto	n/a	n/a	36%	64%
Montreal	n/a	n/a	50%	50%
Calgary	n/a	n/a	50%	50%
Edmonton	n/a	n/a	50%	50%

Note: The non-residential levy in municipalities outside BC includes any business occupancy tax charged in those jurisdictions. Vancouver phased out the business occupancy tax in 1983/84 by transferring the tax requirement to the assessment based property tax levy.

2005 MILL RATES

The City of Vancouver's residential municipal tax levy at 2.79 is the lowest of 16 municipalities in the Lower Mainland, in comparison to a 3.5 average.

The City of Vancouver's business to residential municipal tax ratio at 5.89 is the highest of 16 municipalities, in comparison to a 3.7 average.

The total tax levy consists of municipal tax, regional district tax, hospital tax, school tax and other tax.

Municipal tax covers city services such as garbage pick-up and recycling, utilities, policing, fire protection and local improvements.

Since 1984, municipal tax policy has resulted in a shift in the ratio from 3:1 to 5.9:1. With no change in policy, the ratio will be 7.28 to 1 by 2016 and 8.81 to 1 by 2026.

2005 Mill Rates

Jurisdiction	Total Municipal Budget Tax Levy			Total Tax Levy		
	Residential	Business/Other	Ratio	Residential	Business/Other	Ratio
Vancouver	2.78956	16.44104	5.89378	5.69409	28.69577	5.03957
West Vancouver	2.86020	6.36020	2.22369	5.40880	18.59510	3.43793
Surrey	2.90395	9.49551	3.26986	6.26069	21.71716	3.46881
City of North Vancouver	2.90504	11.17116	3.84544	5.83290	23.40610	4.01277
District of North Vancouver	2.92208	11.46353	3.92307	5.83822	23.78868	4.07465
Richmond	3.06250	11.05461	3.60967	6.36933	23.27598	3.65438
Burnaby	3.11220	12.96660	4.16638	6.26780	25.20170	4.02082
Coquitlam	3.40580	18.90150	5.54980	6.69810	31.13730	4.64868
Township of Langley	3.50580	12.07922	3.44550	7.03360	24.31425	3.45687
Port Moody	3.61260	13.61360	3.76837	6.90460	25.84860	3.74368
Delta	3.82880	12.85900	3.35849	7.58870	26.69110	3.51722
Pitt Meadows	3.86190	13.92890	3.60675	7.40960	26.16470	3.53119
Port Coquitlam	4.02430	16.79170	4.17258	7.31080	29.01320	3.96854
Maple Ridge	4.04380	14.23770	3.52087	7.59120	26.47270	3.48729
White Rock	4.56382	11.15732	2.44473	7.92598	23.39225	2.95134
City of Langley	<u>4.59000</u>	<u>11.52000</u>	<u>2.50980</u>	<u>8.11779</u>	<u>23.75500</u>	<u>2.92629</u>
Average	3.49952	12.75260	3.70680	6.76576	25.09185	3.74625

Source: Government of British Columbia, Ministry of Community Services

IMPACTS OF HIGH MUNICIPAL TAXES ON COMMERCIAL PROPERTIES

There are many impacts of high municipal taxes on commercial properties.

- The livability of our city is declining as property taxes put pressure on the diverse retailers and character businesses that define our neighbourhoods.
- The increasing number of Vancouver residents is outpacing job growth in the city. Vancouver residents will be increasingly working in surrounding municipalities.
- Vancouver is becoming a less attractive and competitive city to do business for all tenant types. The number of business properties in Vancouver has declined, while residential properties continue to increase.
- Anecdotal information indicates that individual businesses are seriously impacted by high municipal taxes. Impacts include having to lay off staff to pay property taxes, and being unable to hire and compensate staff, expand or compete.

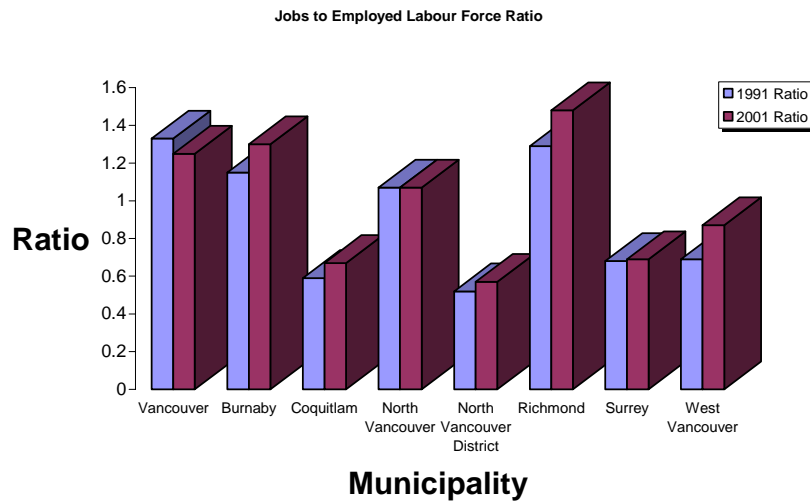
Livability

The key strategy of livability is to live, work and play close to one's home. The jobs available as a ratio to the workforce available in a city provides important insights into employment and livability.

The City of Vancouver is the only jurisdiction in the Lower Mainland where the ratio of jobs to employable persons is declining. This means that employable residents are increasing at a rate greater than job creation. People are leaving the city for their employment. According to the City of Vancouver, 30 per cent of Vancouver's labour force work outside the city. It can be argued that more jobs in the suburbs improves livability because this is where people have tended to live in recent years. However, if resident growth in Vancouver outpaces job growth, then improving livability for the suburbs is at a cost to Vancouver residents and merchants. This is certainly the trend.

Unlike other major cities, Vancouver has been successful in keeping residents in the downtown core. However, Vancouver businesses have been challenged to keep pace with this growth in population because of crippling property tax increases.

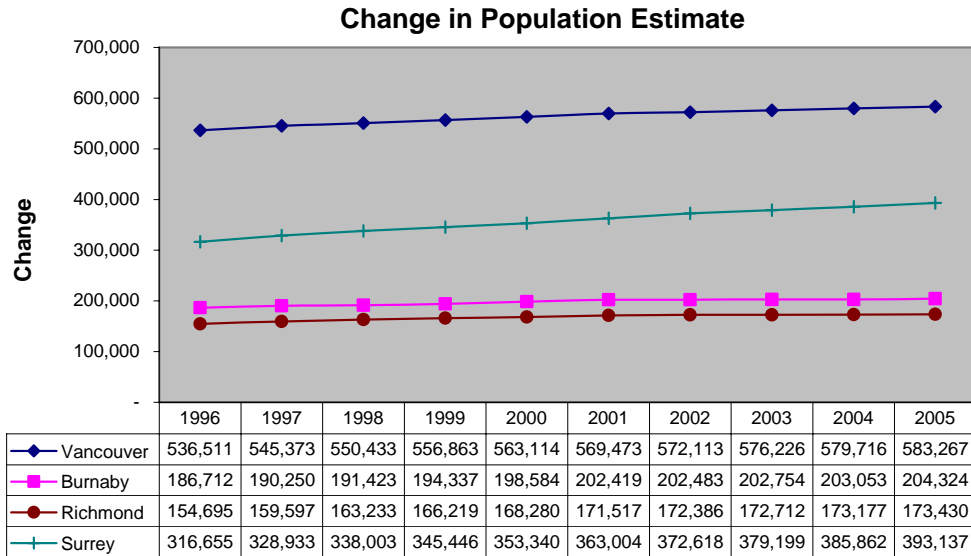
Evidence would suggest that commercial growth and employment will continue to move out of the city. It is a well-known fact that it is easier to retain an existing business than to attract a new one.



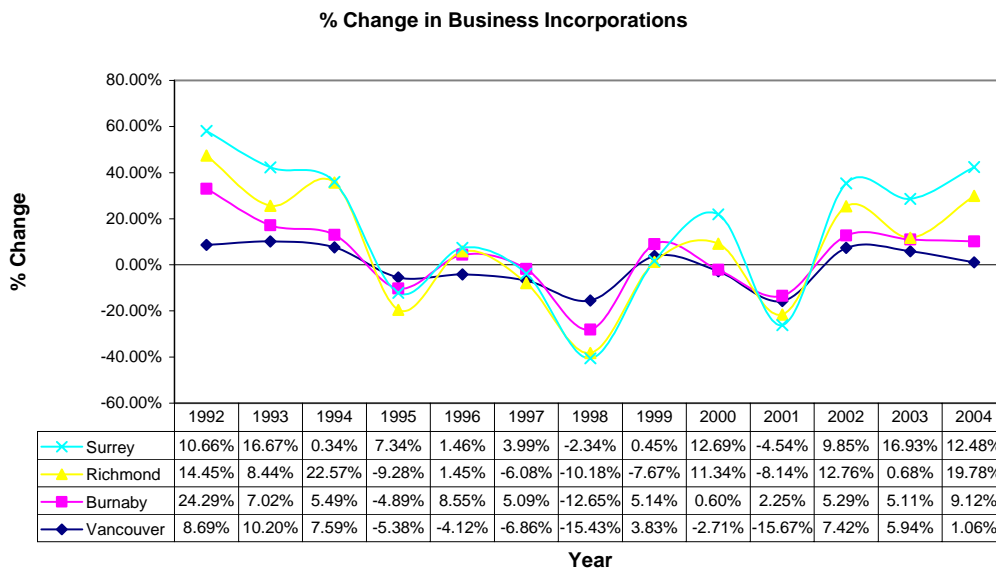
Source: Greater Vancouver Regional District

Population versus Commercial Development

The City of Vancouver’s population continues to increase, while the number of business incorporations continues to decline.



While surrounding municipalities are experiencing significant business incorporations, the City of Vancouver is experiencing the lowest business growth, with a declining rate of business incorporations.



Source: Greater Vancouver Regional District

Property Growth Trends

The number of residential and commercial properties has an impact on our city.

- Residential property growth is constant and strong while the number of business properties declines.
- As the number of residential properties increases, the City of Vancouver faces an increasing burden of providing municipal services.
- The growth rate of Vancouver business properties is declining, and in 2005 it is at a negative growth level. For the first time, there are fewer business properties than the year prior even in a robust economy.
- As the number of business properties declines or when buildings are converted from commercial to residential, the City of Vancouver loses tax revenue.

Given this trend, business owners are not able to “dilute” their tax burdens. The livability of the city is diminishing as residential property growth outstrips commercial property growth. Class 6 business properties are rapidly being converted to residential as Vancouver becomes a bedroom community to the suburbs.

Because of its current policy of a fixed share, the City of Vancouver may have lost an opportunity to keep residential taxes tied to increases in property values and the number of properties.

Vacancy rates may not be a good indicator of business vitality in Vancouver. Many commercial properties, particularly in retail, frequently change hands. Turnover of commercial tenants is perhaps a better indicator of business vitality.

Year	# of Residential Properties (1)		# of Business Properties (6)			
1995	124,400			9,449		
1996	128,673			10,116		
1997	131,190			10,727		
1998	134,828	Change 2000-2005		11,082	Change 2000-2005	
1999	138,581	%	Total #	11,647	%	Total #
2000	142,043	2.5%	3,462	12,082	3.73%	435
2001	144,116	1.46%	2,073	13,074	8.21%	992
2002	145,938	1.26%	1,822	13,498	3.24%	424
2003	147,584	1.13%	1,646	13,581	0.61%	83
2004	150,678	2.09%	3,094	13,642	0.45%	61
2005	152,981	1.5%	2,303	13,490	-1.1%	-152

Source: City of Vancouver

RECOMMENDATION

We recognize that a long-term solution will take considerable time and effort. However in the short term, immediate action is imperative to prevent further exacerbation of the problem.

Short-Term Position

Our position on the short-term solution is that, at a minimum:

The City of Vancouver holds municipal property taxes for all four commercial classes (2, 4, 5 and 6) to the 2005 level or \$256 million for the 2006 year. This will result in the residential class absorbing any increase in the 2006 budget.

We believe this is an important step that sends a clear signal to our 43,000 business owners that city council is addressing this issue.

What would be the impact? Assuming a four per cent increase in the 2006 budget and a freeze on municipal property taxes for commercial properties, residential taxpayers would be paying on average an additional \$67 in municipal property taxes next year above the estimated \$52 increase coming from the four per cent increase. This is \$0.19 per day on average to maintain the livability and competitiveness of our city.

Our recommendation is equivalent to a four per cent shift, which will allow city council to make up for lost ground over the last three years.

See Appendix I for our detailed analysis of this recommendation.

Long-Term Position

Our position on the long-term solution is that:

The City of Vancouver formally adopts a permanent policy to bring the municipal property tax rate for Vancouver commercial properties in line with the regional average.

As a first step we are recommending a small task group be established to focus specifically on recommending a solution. This task group should have a tight deadline and be initially comprised of VFTC representatives, Ken Bayne and city staff.

WHY A 1% SHIFT DOES NOT WORK

After careful review the coalition has concluded that the one per cent shift from the commercial to residential class will not work for the following reasons:

- Business properties will pay more taxes in 2006 than they did in 2005.
- A one per cent shift will take just under 30 years to achieve a 3:1 ratio, which means it will come into effect with the next generation of business people.
- This is too long a term, given the tax policy crisis in Vancouver, and will result in further loss of business to the suburbs, and further inhibit the growth potential of Class 6 in Vancouver.

IMPACT OF A 4% TAX SHIFT FOR VANCOUVER BUSINESS OWNERS WHO ARE ALSO RESIDENTS

Many business owners, who are also Vancouver residents, will save considerably on their overall property taxes, if taxes are shifted to the residential sector. For example:

A store owner rents 1,000 square feet of space at \$25 per square foot. His assessment is \$500,000 for his business property. He lives in a home assessed at \$500,000.

In 2005, his property taxes for each property would be:

House: $\$500,000 \times 5.694/1,000 = \$2,847$
 Business: $\$500,000 \times 28.69/1,000 = \$14,347$

If the residential taxpayer has an eight per cent increase in taxes rather than four per cent, and the business owner has no increase, the tax differences would be as follows.

	4% / 4%	8% / 0%	Difference
House:	\$114	\$228	+114
Business:	\$574	\$0	<u>-574</u>
			-459

Conclusion: With a shift to residential, the Vancouver resident business owner saves \$459.

SUMMARY

Everyone agrees that Vancouver's high municipal taxes for commercial properties are a problem. The solution requires leadership by city council.

The facts speak for themselves. Vancouver is losing out to surrounding municipalities because it is not a competitive place to do business. Toronto decided it was in a tax crisis with a ratio of 3.8 versus our 5.9. On October 26, 2005, Toronto's city council endorsed a staff plan to correct the imbalance in property class tax allocations between non-residential and residential classes from a tax ratio of 3.8 to 2.5.

There will be an impact in real dollars of an immediate freeze on commercial property taxes for 2006. However, the value of sustaining our neighbourhoods and employment outweighs the small tax increases to the residential class.

The net effect of reducing the ratio will mean a small tax increase to each homeowner, and significant savings to each local business owner. Many business owners, who are also Vancouver residents, will save considerably on overall taxes.

Vancouver homeowners currently have very low property taxes. But this is based on a false premise: that business taxpayers will continue to subsidize residential taxpayers by paying the highest ratio of municipal taxes in Canada.

We are rapidly reaching a point of no return where the consequences of business property taxes will not be reversible. If we wait any longer, drastic action and correction will be needed. Remember, it is a lot easier to keep an existing business than attract a new one.

We believe the residents of Vancouver are fair-minded. They care about businesses and neighbourhoods. A large number of residents work for businesses impacted by high property taxes.

City council can count on the Vancouver Fair Tax Coalition and its members to support its efforts in addressing this tax issue.

APPENDIX I – RECOMMENDATION ANALYSIS

City of Vancouver – 2006 Property Tax Forecasts by Property Class

2006

PROPERTY CLASS		Estimated Total Assessment	% of Total	Number of Occurrences	Average Property Value
RESIDENTIAL	01	77,201,711,204	82.5%	152,891	504,900
UTILITIES	02	187,493,273	0.2%	198	946,900
UNMANAGED FOREST	03	-	0.0%	-	-
MAJOR INDUSTRY	04	207,908,800	0.2%	30	6,930,200
LIGHT INDUSTRY	05	327,310,539	0.3%	446	733,800
BUSINESS/OTHER	06	15,560,554,760	16.6%	13,490	1,153,400
MANAGED FOREST	07	-	0.0%	-	-
RECR'N/NON-PROFIT	08	112,737,000	0.1%	864	130,400
FARM	09	95,300	0.0%	11	8,600
TOTAL		\$93,597,810,876		167,930	\$557,300

Total Tax Levy (City Budget)	% of Total Tax Levy	Tax Rate	Tax Rate Ratio	Average Taxes Payable	\$ Change in Taxes over Previous Year	% Change in Taxes over Previous Year
\$215,604,354	45.7%	2.79274	1.00	1,410	119	9.2%
6,270,728	1.3%	33.44508	11.98	31,669	-	0.0%
-	0.0%	-	-	-	-	0.0%
5,883,800	1.2%	28.29991	10.13	196,124	-	0.0%
4,746,912	1.0%	14.50278	5.19	10,642	-0	0.0%
238,953,595	50.7%	15.35637	5.50	17,712	-1	0.0%
-	0.0%	-	-	-	-	0.0%
284,370	0.1%	2.52242	0.90	329	-	0.0%
240	0.0%	2.52242	0.90	22	-	0.0%
\$471,744,000	100.0%					

2005

PROPERTY CLASS		Estimated Total Assessment	% of Total	Number of Occurrences	Average Property Value
RESIDENTIAL	01	70,827,257,985	82.2%	152,891	463,200
UTILITIES	02	187,493,273	0.2%	198	946,900
UNMANAGED FOREST	03	-	0.0%	-	-
MAJOR INDUSTRY	04	207,908,800	0.2%	30	6,930,200
LIGHT INDUSTRY	05	305,897,700	0.4%	446	685,800
BUSINESS/OTHER	06	14,542,574,542	16.9%	13,490	1,078,000
MANAGED FOREST	07	-	0.0%	-	-
RECR'N/NON-PROFIT	08	112,737,000	0.1%	864	130,400
FARM	09	95,300	0.0%	11	8,600
TOTAL		86,183,964,600		167,930	513,200

Total Tax Levy (City Budget)	% of Total Tax Levy	Tax Rate	Tax Rate Ratio	Average Taxes Payable
\$197,460,354	43.5%	2.78791	1.00	1,291
6,270,728	1.4%	33.44508	12.00	31,669
-	0.0%	-	-	-
5,883,800	1.3%	28.29991	10.15	196,124
4,746,912	1.0%	15.51797	5.57	10,642
238,953,595	52.7%	16.43131	5.89	17,713
-	0.0%	-	-	-
284,370	0.1%	2.52242	0.90	329
240	0.0%	2.52242	0.90	22
\$453,600,000	100.0%			

1. Total Residential property values are expected to increase by 9.0% in 2006 based on 2005 Averaged Assessment Roll.
2. Total Business and Light Industrial property values are expected to increase by 7.0% in 2006 based on 2005 Averaged Assessment Roll.
3. All other property class values are expected to increase by 0.0% in 2006
4. 100% of increase in City budget paid by Residential Property Class
5. Assumes a 4.0% in the total City of Vancouver 2006 budget. This represents an increase of \$18,144,000
6. Number of occurrences refers to the number of assessment rolls containing the particular class. It may not accurately reflect the true number of properties.
7. No change forecast in 2006 to number of occurrences
8. Non-residential classes (2, 4, 5, 6) account for 56.4% of the tax levy. This accounts for \$67 of assumed 2006 tax increases for residents (\$119 x 56.4%).

Created by the Vancouver Fair Tax Coalition