Property Taxes and Competitiveness in British Columbia

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1. Introduction

For many decades, the property tax has been the primary source of revenue for municipalities in Canada and many other countries around the world. Its longevity and durability have not been without study and examination, however, nor has the tax been without criticism. One issue that has been increasingly examined in the last twenty years compared to previously is the extent to which the property tax on commercial and industrial properties (often referred to as the non-residential sector) affects competitiveness. The primary purpose of this report is to consider the impact of municipal property taxes on business on the overall competitiveness of British Columbia's tax system.[1]

Unfortunately, there is no single index or measure that can determine the extent to which the property tax affects competitiveness. The impact depends on a variety of factors including the amount of the tax, the location of the business, the timing of the business cycle, and the type of business to name a few. Without one index or measure to fall back on, this report relies on a mix of statistical comparisons, results of previous empirical studies, a description of property tax practices in other provinces and jurisdictions, and a review of the literature.

Since the property tax is in large part a local tax, there can be considerable variation across local governments. For this reason, much of the information in this report is not only provided on a province-wide basis but also for ten cities: Vancouver, Surrey, Abbotsford, Kelowna, Kamloops, Cranbrook, Prince George, Fort St. John, Victoria, and Nanaimo. These cities were chosen to include major cities and regional centres and to capture the range of tax rates. Vancouver and Surrey are the largest municipalities in Metro Vancouver; Abbotsford is the major population centre in the Fraser Valley; Kelowna is the major population centre in the Okanagan; Kamloops is a major regional centre; Cranbrook is the major centre in the southeast; Prince George is the major centre in the north and a major industrial centre; Fort St. John is an industrial and regional centre in the northeast; and Victoria and Nanaimo are the regional centres on Vancouver Island.

[1] The terms of reference for this municipal tax review can be found in Appendix C.

The report is presented in a number of parts. Following this introduction, Part 2 provides a summary of municipal spending responsibilities and reliance on revenues in six Canadian provinces. Part 3 reviews the history of property taxation in British Columbia and discusses its current application. Part 4 summarizes the institutional framework for property taxation for both municipal and education purposes across the provinces and territories in Canada. Part 5 discusses municipal property tax approaches to achieve economic development objectives. Part 6 compares property tax loads for municipal and education purposes across six provinces and Part 7 makes the same comparisons for a number of cities in British Columbia and the rest of Canada. Part 8 discusses the impact of property taxation on business properties delving into issues such as the relationship between property taxes and benefits received from local services, the use of non-residential property taxes to pay for education, and the impact on economic activity and competitiveness. Part 9 draws some final observations, as they pertain to competitiveness, from the information set out in the report. Appendices A and B provide some additional material on property tax measures in selected municipalities in BC.

2. Background on Municipal Expenditures and Revenues across Canada

Municipal governments in Canada deliver a range of services. At one extreme, there is a group of services that includes water, sewers, solid waste collection and disposal. These services exhibit mainly 'private goods' characteristics; that is, individual beneficiaries or users can be identified and hence charged for their use. At the other extreme is a group that includes local streets and roads, street lighting, neighbourhood parks, and so on. These exhibit mainly 'public goods' characteristics; that is, individual beneficiaries cannot be identified, yet the benefits accrue to the entire community. In between is a range of services that includes a mix of public and private good characteristics. These services include public recreation, public transit, fire and police protection, for example.

Table 1 illustrates the relative importance of municipal spending by function for a representative range of provinces (the choice is partially determined by the availability of statistical data). The table shows that British Columbia's per capita spending on municipal responsibilities is well

Table 1: Municipal Spending by Function – Selected Provinces[1]

Spending by Function[2]	British Columbia		Ontario		Alberta		Quebec		Nova Scotia		Manitoba	
	Per Capita	% of total	Per Capita	% of total	Per Capita	% of total	Per Capita	% of total	Per Capita	% of total	Per Capita	% of total
	$	%	$	%	$	%	$	%	$	%	$	%
General Government	196	12.3	133	4.6	336	12.9	226	11.6	230	16.8	189	12.0
Protection, (fire and police, etc)	386	24.3	477	16.7	454	17.4	345	17.8	354	25.8	353	22.4
Health, Social Services and Housing	13	0.8	864	30.3	121	4.6	24	1.2	34	2.5	6	0.4
Planning and Development	48	3.0	61	2.1	113	4.3	102	5.3	---	---	52	3.3
Roads, streets, parking, public transit	159	10.0	652	22.8	729	27.9	503	26.0	322	23.5	548	34.7
Parks, recreation & culture	253	15.9	268	9.4	342	13.1	253	13.1	141	10.3	140	8.9
Water & Sewer	198	12.4	283	9.9	263	10.1	200	10.3	---	---	208	13.2
Solid waste management & recycling	61	3.9	96	3.3	114	4.4	104	5.4	---	---	---	---
Other services	43	2.7	22	0.8	136	5.2	30	1.6	---	---	38	2.4
Environmental Health	---	---	---	---	---	---	10	0.5	227	16.5	44	2.8
Environmental Development	---	---	---	---	---	---	---	---	69	5.1	---	---
Amortization[3]	235	14.8	0	0.0	0	0.0	139	7.2	---	---	---	---
TOTAL	1,591	100.0	2,854	100.0	2,610	100.0	1,937	100.0	1,371	100.0	1,578	100.0

[1] Data for British Columbia, Ontario and Alberta municipalities are for 2010. Data for Nova Scotia, Manitoba, and Quebec municipalities are for 2009.
[2] The provincial data are not always organized according to these functions, so the authors of this report reorganized the provincial data into these functions.
[3] Amortization expenditures were reported as a separate category of expenditures in two provinces, but are included in the functional spending categories in the other provinces.
--- data were not listed for these expenditure categories.
Source: Compiled from provincial summaries of municipal statistics in each province.

below that in Ontario, Alberta, and Quebec; almost the same as Manitoba and above that of Nova Scotia, a much smaller province. Municipal spending in Ontario is much higher than in BC in large part because Ontario municipalities play a much larger role in funding social services, social housing, and land ambulance - $864 per capita in Ontario versus $13 in BC.

Separating municipal services into those that are primarily private or primarily public or a mix of both is important for funding purposes. Property taxes (including payments in lieu or PILs) are the major source of local revenue and are important for funding services with public goods characteristics and for partial funding of services that exhibit a mix of public and private goods characteristics. User fees constitute the second major source of locally generated revenues. User fees are important for funding services that display private good characteristics and partial funding of those services that display a mix of public and private good traits. Table 2 illustrates revenues per capita and the relative importance of the major revenue sources for funding municipal services in the selected provinces. Municipal property taxes (including PILS) are the most important source of locally-generated revenue in every province. Property taxes are levied on a range of properties including residential, farm, multi-residential, commercial, industrial, pipelines, utilities, and forest properties. Table 2 indicates that per capita total revenue in BC is considerably below that in Ontario, Alberta, and Quebec, marginally lower than in Manitoba, but higher than in Nova Scotia. In terms of property tax revenues, per capita property taxes (from all classes of property) in BC are considerably lower than in Quebec, Ontario and Alberta, marginally below the level in Nova Scotia, and marginally higher than in Manitoba. In BC, however, the property tax accounts for a significantly larger percentage of municipal revenues than in either Ontario or Alberta, but a lower percentage than in Quebec.

User fees, the other major source of locally generated revenue, are the same in per capita terms in BC and Ontario, but lower than Alberta and higher than Manitoba, Quebec, and Nova Scotia. User fees, however, account for a much higher percentage of municipal revenues in BC than in the other four provinces. The remaining own-source revenues (revenues that exclude transfers), while important at the margin, account for a relatively small proportion of municipal revenue.

Table 2: Municipal Revenue by Source – Selected Provinces[1]

Revenue Source	British Columbia		Ontario		Alberta		Quebec[2]		Nova Scotia		Manitoba	
	Per Capita	% of total	Per Capita	% of total	Per Capita	% of total	Per Capita	% of total	Per Capita	% of total	Per Capita	% of total
	$	%	$	%	$	%	$	%	$	%	$	%
Property taxation & PILs	893	46.0	1,271	38.2	1,325	39.4	1,565	64.1	919	65.8	853	40.2
User fees	604	31.1	605	18.2	709	21.1	323	13.2	186	13.3	572	27.0
Federal transfers	45	2.3	169	5.1	78	2.3	---	---	---	---	109	5.2
Provincial transfers	123	6.3	693	20.8	613	18.2	382	15.7	166	12.0	296	14.0
Transfers from other local govts.	26	1.3	59	1.8	17	0.5	---	---	---	---	---	---
Developer contributions	180	9.3	---	---	37	1.1	34	1.4	---	---	---	---
Investment Income	48	2.5	---	---	101	3.0	2	0.1	---	---	62	2.9
Other	23	1.2	531	15.9	585	17.4	134	5.5	114	8.1	228	10.8
Total	1,942	100.0	3,328	100.0	3,364	100.0	2,440	100.0	1,396	100.0	2,121	100.0

[1] Data for British Columbia, Ontario and Alberta municipalities are for 2010. Data for Nova Scotia, Manitoba, and Quebec municipalities are for 2009.
[2] All federal transfers must pass through the provincial government.
--- data were not listed in these categories.
Source: Compiled from provincial summaries of municipal statistics in each province.

3. The Property Tax in British Columbia

Before describing the current property tax system in BC, this section reviews some of the recent history of property taxation that has affected business properties in particular.

Recent history of property taxes in BC[2]

Prior to 1983, BC used a system of assessment ratios to determine property taxes payable to provincial and municipal taxing authorities. Under that system, the actual value of a property (determined by BC Assessment) was discounted by a percentage rate or "assessment ratio" to arrive at a taxable "assessed value." The assessment ratios, which were set by the Province and applied province-wide for school and hospital purposes, were different for each property class. Municipalities had limited flexibility to implement alternative assessment ratios. Once the taxable portion of assessment had been determined, taxing jurisdictions applied a single rate of tax (called a "mill rate")[3] to the discounted values in all property classes. This mechanism meant that both the provincial and municipal governments had limited flexibility to change the distribution of taxes payable among property class taxpayers.

In 1983, the Province introduced a variable tax rate system which enabled municipalities to levy general-purpose taxes on the actual value of land and improvements and to set a different tax rate for each class of property. This variable rate system was extended to school, hospital, and other taxes. Assessed values were set at 100 percent of actual value for all property classes and assessment ratios were abandoned. The new flexibility at the local level put the policy decision of determining the distribution of the municipal tax burden among the property classes in the hands of municipalities. According to Berniaz (2009), the business community opposed the move to a variable rate system because they were afraid that businesses would face significantly higher tax rates. At the time, the business community recommended a maximum ratio of 2:1. Municipalities opposed tax limits and none were imposed.

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[2] This historical account is based on Municipal Port Property Taxation Fairness Commission, 2010 and Berniaz, 2009.

[3] One mill was equal to one dollar for each $1,000 of taxable value.

Over the period from 1983 to 1988, the Province made further changes to respond to industry concerns on specific issues. In 1984, a $10,000 exemption was created for all industrial and commercial properties and the exemption for the Machinery and Equipment class was increased to $50,000. This latter exemption had the effect of removing all of the taxable value for thousands of properties in the Machinery and Equipment class from the rolls. In 1986, the Machinery and Equipment property class was removed from the 1987 assessment roll.

The following changes to specific classes and uses were also made over the years:

- *Industrial Class:* In 1988, the Industrial property class was divided into two: Class 4 (Major Industry) and Class 5 (Light Industry). Class 4 improvements were assessed according to a prescribed cost approach (minus straight-line depreciation) as subsequently formulated in the Major Industrial Properties (MIPS) manual.

- *Utilities:* Property tax rates on utilities (Class 2) were capped in 1996.[4] Municipal tax rates for Class 2 could not exceed the greater of $40 per $1000 assessed value and 2.5 times the Class 6 property rate set by the municipality. These changes were phased in from 1997 to 2000 for specific municipalities.

  The assessment of railways was also adjusted in 1996 and phased in between 1997 and 2000. In 2000, the taxable values for school tax purposes were set at 91 percent of assessed values. For municipal, regional district, and the rural tax purposes, taxable values were set at 55 percent of assessed values inside municipalities and 40 percent outside municipalities. Railway bridges were removed from the definition of "improvements" for assessment; this change was also phased in between 1997 and 2000 and non-right-of-way lands were no longer valued and classified as Class 2 but as Class 6 (e.g. rail yards).

[4] The impetus for the tax limit on Class 2 began in the 1980s with changes to railway assessment. The assessment changed from values that were similar to adjacent land to a standardized per kilometre assessment. Some rural land with low assessed values experienced increases; some urban land with high assessed values experienced decreases. Urban municipalities tended to increase tax rates to maintain revenues and rural municipalities tended to keep tax rates the same and receive larger revenues.

- *Port Properties:* The tax treatment of port properties changed in 2004, following the BC Ports Competitiveness Initiative the year before. For eligible port properties, the tax rate was capped at $27.50 for Class 4 (Major Industry) per thousand dollars for existing facilities from 2004 to 2008 (subsequently extended to 2018). A capped rate of $22.50 per thousand dollars applied to new investments, for 10 years (subsequently extended to 2019). The Province agreed to compensate port property host jurisdictions for forgone municipal tax revenues. As part of the BC Ports Competitiveness Initiative, berth corridors were exempted from property taxes.[5]

  In response to additional concerns that land assessment values for port properties subject to restricted (port) uses were escalating unfairly because they were being compared to neighbouring unrestricted property values, the province established a land assessment value mechanism in 2007 whereby property assessment values are set out in the *Port Land Valuation Regulation* for each Class 4 (Major Industry) property with either a 2007 or 2009 base period. The regulation provides for an annual adjustment in the base value equal to the July-over-July percentage change in the BC consumer price index.

- *Other Changes:* In 2007, municipalities were enabled to provide tax exemptions to encourage different forms of revitalization in their communities. Municipalities could offer reductions in property taxes for individual properties or properties of a specific type or properties within a specific geographic area. In 2009, the government announced a 50 percent rebate on school property taxes for light and heavy industrial properties (Class 4 and Class 5) for 2009 and 2010. Effective in 2011, the property tax credit is 60 percent of the school tax payable.

The Current Property Tax System in British Columbia

[5] Berth corridors are improvements constructed to allow ships to dock (or berth) beside a port terminal so that goods can be transported from ships to land-based transportation or storage facilities.

The property tax is levied by a number of different taxing authorities, as set out in Table 3: municipalities, schools, regional districts, hospital districts, transit authorities (Translink and Victoria Transit), as well as BC Assessment (BCA) and the Municipal Finance Authority (MFA).

Table 3: Municipal Property Tax Revenues, BC, 2011

	Value ($millions)	Percent of total taxes
School	2,104	34
General Municipal	3,380	55
Regional District	215	3
Hospital*	99	2
GVTA, Victoria Transit	316	5
BCA, MFA, and other	88	1
Total Variable Rate Taxes	6,202	100

*Note: The Greater Vancouver Regional District municipalities do not pay hospital district taxes.
Source: Ministry of Community, Sport and Cultural Development

The *Assessment Authority of British Columbia Act*, passed in July 1974, established the British Columbia Assessment Authority (BCA) as the sole authority in BC responsible assessing property in the province for taxation purposes. The *Assessment Act*, also passed in July 1974, clearly established that the assessed property value appearing on the assessment rolls would be the actual value of the property determined on a uniform basis across the province in accordance with the *Assessment Act.*

Assessment Methods

Three principal methods are used by BCA to value property: market (or sales) method, income method, and cost method. The market approach determines property values based on the sale price of comparable properties. For properties where there are similar or comparable properties and recorded sales, property assessments are generally based on observed market transactions with adjustments to reflect differences (location, size, condition, etc.) between the subject property and the observed sales. The market method is generally used for residential properties (Class 1).

Where there is a scarcity of observed sales, BCA assessors may use the income method or replacement cost (with depreciation) to establish assessed values. The income method determines property values based on the earning power of an income producing property. This method is applied to business properties (Class 6) and some light industry properties (Class 5). The cost approach determines property value based on a standardized estimate of construction costs. This method is used for properties that do not trade in the market and applies to properties in Class 2 and Class 4. The standardized costs for improvements in the major industrial class are based on the Major Industrial Properties System (MIPS) manual.[6]

Although market and income approaches are more responsive to changes in market conditions than the cost approach, the latter is necessary for Classes 2 and 4 because these classes contain specialized properties. They do not generally have a well established earning history needed for the income approach and they have little sales evidence needed for the market approach (Premier's Task Force on Community Opportunities, 2006).

Classification of Properties

The classification of properties for taxation purposes is determined by BC Assessment and is governed by provincial legislation and regulations. The main determinant of property class is the actual current use of the property. Municipalities have the authority to tax different classes of property at different tax rates but the Lieutenant Governor can set limits on the tax rates imposed on a specific class of property. As noted earlier, for example, the Province capped property tax rates on Class 2 properties in 1996 and it capped tax rates on port terminals in 2004.

Table 4 shows the percentage of municipal tax collected from each of the nine property classes in 2011. The two major classes in terms of municipal tax revenues are Class 1 (residential) and Class 6 (business/other). Together, they accounted for 90 percent of all property taxes in BC in 2011.

[6] A similar manual is used for improvements in the utilities class (Class 2).

Non-residential properties are contained in five different property classes – utilities (Class 2), major industry (Class 4), light industry (Class 5), business and other properties (Class 6), and recreational and non-profit organizations (Class 8). Table 5 shows the distribution of non-residential properties along with their total taxable values by class of non-residential property for ten cities in British Columbia: Vancouver, Surrey, Abbotsford, Kelowna, Kamloops, Cranbrook, Prince George, Fort St. John, Victoria, and Nanaimo.

Table 4: Share of Municipal Tax by Property Class, BC, 2011

Property Class	Share of Municipal Tax
Class 1 – Residential	59.69%
Class 2 – Utilities	1.49%
Class 3 – Supportive housing	0.0%
Class 4 – Major industry	4.56%
Class 5 – Light industry	3.45%
Class 6 – Business/other	30.37%
Class 7 – Managed forest land	0.01%
Class 8 – Recreational/non-profit organization	0.22%
Class 9 – Farm land	0.21%

Source: Local Government in British Columbia, Statistics and Facts, December 31, 2011

Table 5 shows that the majority of properties and taxable value of non-residential properties can be found in Class 6 but there is considerable variation among the cities in terms of its relative importance:

- The average for the ten cities indicates that over 80 percent of all non-residential properties fall in the business/other category (class 6) and over 90 percent of taxable properties are associated with these properties.
- Considerable variation can be found in the relative importance of the number of businesses in Class 6 – Surrey, Abbotsford, Nanaimo, Prince George, and Kamloops are the lowest with between 66 percent and 76 percent of all non-residential properties

Table 5: Number of Non-Residential Properties and Taxable Value by Non-Residential Category in Ten BC Cities

	Victoria				Nanaimo			
Non-residential category (class no.)	Number of Properties	% of Properties	Taxable Value ($000)	% of Tax Value	Number of Properties	% of Properties	Taxable Value	% of Tax Value
		%	$	%		%	$	%
Utilities (2)	37	1.2	63,320	1.6	105	4.7	58,388	3.0
Major Industry (4)	1	0.0	10,341	0.3	24	1.1	102,098	5.3
Light Industry (5)	52	1.7	53,230	1.3	63	2.8	714,336	3.7
Business/other (6)	2,728	87.2	3,895,016	96.3	1,656	74.0	1,692,136	87.0
Rec/Non Profit (8)	312	10.0	23,779	0.6	389	17.4	20,271	1.0
Total	3,130	100.0	4,045,686	100.0	2,237	100.0	1,944,229	100.0

	Vancouver				Surrey			
Non-residential category (class no.)	Number of Properties	% of Properties	Taxable Value ($000)	% of Tax Value	Number of Properties	% of Properties	Taxable Value ($000)	% of Tax Value
		%	$	%		%	$	%
Utilities (2)	189	1.3	318,388	1.0	367	3.6	247,739	2.4
Major Industry (4)	16	0.1	196,363	0.6	44	0.4	105,046	1.0
Light Industry (5)	454	3.0	694,336	2.1	807	7.9	1,506,463	14.3
Business/other (6)	13,516	89.8	31,115,469	95.4	6,750	66.4	8,548,225	81.2
Rec/Non Profit (8)	870	5.8	288,422	0.9	2,203	21.7	123,869	1.2
Total	15,045	100.0	32,612,978	100.0	10,171	100.0	10,531,343	100.0

	Abbotsford				Kelowna			
Non-residential category (class no.)	Number of Properties	% of Properties	Taxable Value ($000)	% of Tax Value	Number of Properties	% of Properties	Taxable Value ($000)	% of Tax Value
		%	$	%		%	$	%
Utilities (2)	166	5.7	156,109	5.0	113	5.2	88,140	3.5
Major Industry (4)	0	0.0	0	0.0	0	0.0	0	0.0
Light Industry (5)	243	8.4	375,683	12.0	83	3.8	180,428	7.2
Business/other (6)	2,064	71.0	2,573,114	82.5	1,825	84.5	2,176,991	86.9
Rec/Non Profit (8)	433	14.9	13,327	0.4	139	6.4	58,715	2.3
Total	2,906	100.0	3,118,234	100.0	2,160	100.0	2,504,273	100.0

Non-residential category (class no.)	Cranbrook				Kamloops			
	Number of Properties	% of Properties	Taxable Value ($000)	% of Tax Value	Number of Properties	% of Properties	Taxable Value ($000)	% of Tax Value
		%	$	%		%	$	%
Utilities (2)	26	2.7	17,306	3.8	197	8.5	109,461	5.7
Major Industry (4)	0	0.0	0	0.0	21	0.9	93,351	4.9
Light Industry (5)	22	2.3	13,364	3.0	51	2.2	46,897	2.4
Business/other (6)	854	88.5	413,773	91.4	1,782	76.6	1,658,615	86.2
Rec/Non Profit (8)	63	6.5	8,507	1.9	276	11.9	15,057	0.8
Total	965	100.0	452,951	100.0	2,327	100.0	1,923,421	100.0

Non-residential category (class no.)	Prince George				Fort St. John			
	Number of Properties	% of Properties	Taxable Value ($000)	% of Tax Value	Number of Properties	% of Properties	Taxable Value ($000)	% of Tax Value
		%	$	%		%	$	%
Utilities (2)	146	6.0	74,040	4.3	34	2.7	12,099	1.6
Major Industry (4)	40	1.6	245,935	14.2	3	0.2	40,904	5.5
Light Industry (5)	94	3.9	83,918	1.8	14	1.1	8,704	1.2
Business/other (6)	1,837	75.8	1,327,699	76.5	1,175	93.3	675,229	91.5
Rec/Non Profit (8)	308	12.7	4,948	0.3	34	2.7	1,389	0.2
Total	2,425	100.0	1,736,535	100.0	1,260	100.0	738,325	100.0

Non-residential category (class no.)	Average for The Ten B.C. Cities			
	Number of Properties	% of Properties	Taxable Value ($000)	% of Tax Value
		%	$	%
Utilities (2)	1,380	3.2	1,144,986	1.9
Major Industry (4)	149	0.3	794,039	1.3
Light Industry (5)	1,883	4.4	3,034,361	5.1
Business/other (6)	34,187	80.2	54,076,267	90.7
Rec/Non Profit (8)	5,027	11.8	558,321	0.9
Total	42,626	100.0	59,607,973	100.0

Source: Calculated from BC Business Tax Study Data falling in this class whereas Kelowna, Victoria, Cranbrook, Vancouver, and Fort St. John are the highest with between 85 percent and 93 percent of non-residential properties in Class 6.

- There is also considerable variation in the percentage of taxable values that fall in Class 6. Over 80 percent of all taxable values in every city except for Prince George are in Class 6. Victoria and Vancouver are the highest at 96 percent; Cranbrook and Fort St John follow with between 91 percent and 92 percent; and Prince George is the lowest at almost 77 percent.

Unlike Class 1 for which the primary actual uses are fairly homogeneous, the definition of other classes includes a variety of property uses. The business/other category (Class 6), for example, includes store and commercial services, office/commercial space, big box and shopping centres, hotels, storage and warehouses, and strata non-residential among others.[7] Table 6 provides a breakdown of Class 6 by category of use for ten BC cities. Table 6 is suggestive since many properties have more than one use; for example, many office buildings have retail space on the main floor and many retail properties have office or residential space. Table 6 indicates the following:

- Commercial properties account for around 90 percent of taxable properties in most cities with stores, office properties and shopping centres dominating Class 6 property use. The percentage of properties falling in this category is much smaller than the relative importance of taxable values.
- Strata non-residential property use accounts for less than 10 percent of taxable values in most cities but this category accounts for a much higher percentage of properties.

[7] Class 4 includes the following sub-sectors: pulp and paper mills, sawmills, docks and wharves, smelting and refining, mining and milling (metallic), grain elevators, mining (coal), oil refining plants, chemical and chemical products industries, gas scrubbing plants, primary metal industries, cement plants, plywood mills, mining and milling (non-metallic), shipyards, shingle mills, and planer mills.

Table 6: Composition of Business/Other (Class 6) by Major Type of Use in Ten B.C. Cities

Major Use	Victoria		Nanaimo		Vancouver		Surrey	
	% of taxable value	% of properties	% of taxable value	% of properties	% of taxable value	% of properties	% of taxable value	% of properties
Stores and commercial services	10.5	6.7	4.4	8.1	16.5	15.9	10.8	8.8
Stores and office	13.9	3.0	2.7	3.6	8.3	4.3	2.4	1.1
Office building (primary use)	19.4	5.2	10.6	11.6	34.4	4.7	8.9	2.8
Big box & shopping centre	14.4	0.4	38.0	1.9	2.8	0.1	21.9	0.8
Hotel	8.1	0.7	2.6	0.6	5.0	0.5	1.1	0.2
Storage and Warehousing	6.9	4.7	16.1	13.6	6.4	6.5	16.4	6.8
Total Commercial	91.4	36.1	91.1	70.0	88.2	43.8	78.6	29.7
Strata non-residential	6.9	26.4	3.1	10.7	8.6	48.8	13.8	54.0
Other	1.7	37.5	5.8	19.3	3.2	7.4	7.6	16.3

Major Use	Abbotsford		Kelowna		Cranbrook		Kamloops	
	% of taxable value	% of properties	% of taxable value	% of properties	% of taxable value	% of properties	% of taxable value	% of properties
Stores and commercial services	10.7	13.6	12.3	10.1	14.7	24.6	11.1	21.9
Stores and office	3.8	2.1	3.2	2.1	4.9	4.1	2.3	3.1
Office building (primary use)	8.1	4.4	4.5	2.7	8.5	7.7	8.4	7.0
Big box & shopping centre	25.8	1.3	27.1	0.8	22.1	0.7	27.6	1.2
Hotel	2.2	0.3	2.6	0.3	6.0	0.8	6.5	1.5
Storage and Warehousing	15.8	9.0	16.2	8.4	12.5	12.2	11.4	8.2
Total Commercial	84.4	46.0	84.6	51.9	93.3	74.9	89.1	65.0
Strata non-residential	8.6	30.7	8.3	28.8	1.1	3.9	5.4	17.1
Other	7.0	23.3	7.1	19.3	5.6	21.2	5.5	17.9

Major Use	Prince George		Fort St. John		Average of Ten BC Cities		
	% of taxable value	% of properties	% of taxable value	% of properties	% of taxable value	% of properties	
Stores and commercial services	10.7	24.6	20.6	51.0	14.0	14.9	
Stores and office	2.0	2.7	1.5	1.4	6.7	3.0	
Office building (primary use)	9.8	8.8	7.2	6.3	24.2	5.1	
Big box & shopping centre	24.4	1.1	4.7	0.3	11.3	0.6	
Hotel	5.6	0.7	9.0	0.9	4.5	0.5	
Storage and Warehousing	21.4	19.1	20.0	11.6	9.9	7.9	
Total Commercial	93.9	78.3	97.7	92.0	87.0	47.2	
Strata non-residential	0.8	5.3	0.8	2.6	8.9	36.9	
Other	5.2	16.4	1.5	5.4	4.1	15.9	

Source: Calculated from BC Business Tax Study Data

Trends in Assessment and Tax Shares, Tax Ratios, and Taxes per Capita

To understand whether the property tax burden on business properties is too high, three measures are analyzed-- tax shares, tax ratios, and taxes per capita. Figure 1 shows the trend, over the past 25 years, in the distribution of the tax burden compared to the composition of the assessment base for all local governments in BC. Only Class 1 and Class 6 are shown because together they represent over 90 percent of the assessment base. Class 1 assessment as a share of total assessment increased from 74 percent in 1985 to 85 percent in 2011. At the same time, the Class 6 share fell from 19 percent to 13 percent of total assessment.

Over the entire period, for the province as a whole, the Class 1 share of assessment is significantly higher than its share of taxes; the Class 6 share of assessment is less than its share of taxes. Although business properties pay a higher share of taxes than their share of the assessment base, their relative tax burden has been declining. Business properties paid over 31 percent of total taxes in 1985. This share rose to 33 percent over the period from 2002 to 2008 and has declined to just over 30 percent in 2011. For residential properties, the share of taxes was 54 percent in 1985 and has risen to almost 60 percent in 2011.

Table 7 shows the distribution of tax burden and composition of assessment for ten cities in BC in 2011 for Classes 1,2,4,5, and 6. In all cases, Class 1 properties have a much higher share of assessment than taxes. For all other property classes, the share of taxes exceeds the share of assessment. For Class 6, the share of taxes is approximately twice the share of assessment in most of the ten cities.

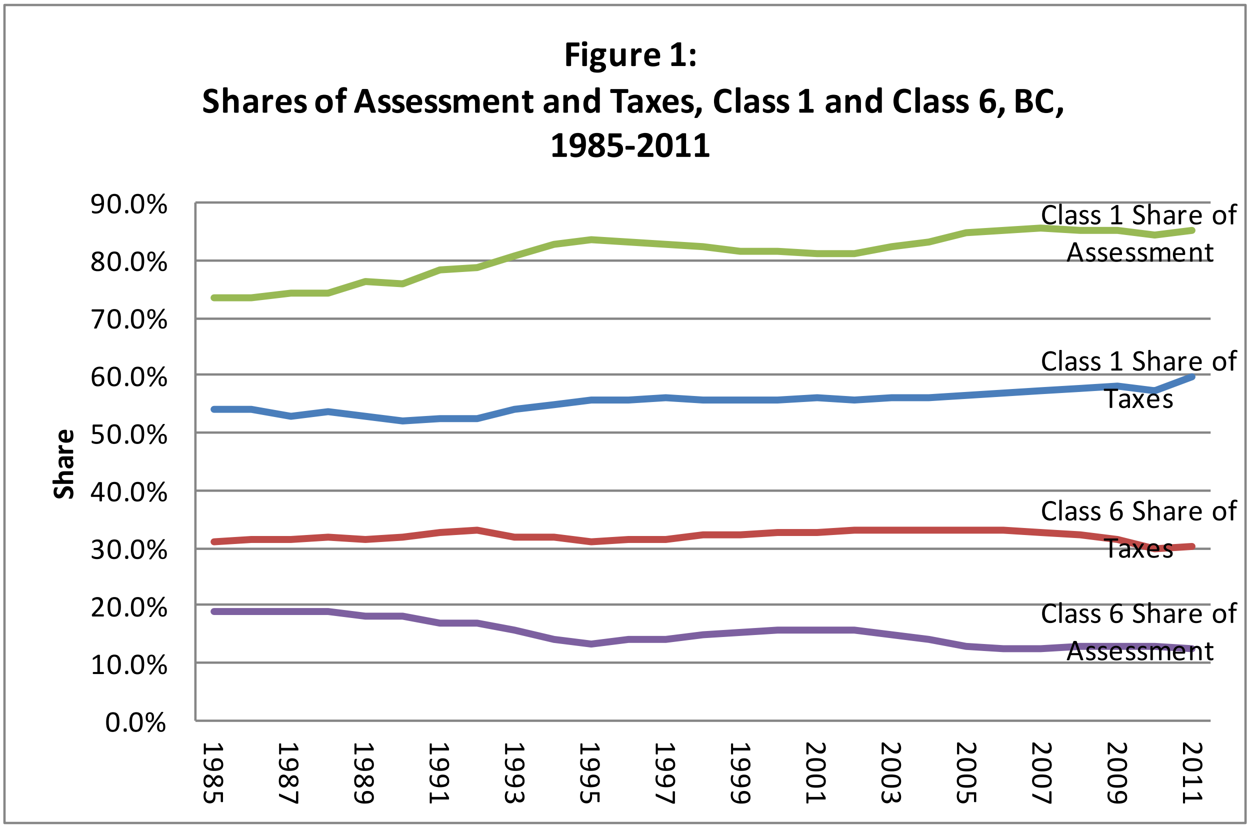


Table 8 looks at municipal tax shares for the residential and each of the non-residential property classes for the ten cities in 1988 and 2011. Overall for the province, the share of taxes in Class 1 increased; Classes 2, 4, and 6 decreased; and Class 5 increased. The change in tax shares between 1988 and 2011 follows no pattern among the cities, however. In five cities, the tax share for Class 1 increased; in four cities, it decreased; and in one city (Kamloops), it stayed the same. Similarly, for Class 6 properties, the tax share increased in four cities and decreased in six cities. The tax share for Class 2 fell in all ten cities but there was some variation in Classes 4 and 5.

Table 7: Distribution of the Tax Burden by Property Class, Selected Municipalities, 2011

Municipality	Class 1		Class 2		Class 4		Class 5		Class 6		All other classes	
	Share of total assessed value	Share of total taxes	Share of total assessed value	Share of total taxes	Share of total assessed value	Share of total taxes	Share of total assessed value	Share of total taxes	Share of total assessed value	Share of total taxes	Share of total assessed value	Share of total taxes
	%	%	%	%	%	%	%	%	%	%	%	%
Vancouver	83	53	0	1	0	1	0	1	16	44	1	0
Prince George	77	54	0	1	3	15	1	3	18	27	1	0
Surrey	87	68	0	1	0	1	2	4	11	26	0	0
Kelowna	85	70	0	0	0	0	1	2	14	27	0	1
Nanaimo	85	67	0	1	1	3	1	1	13	28	0	0
Abbotsford	83	63	0	3	0	0	2	4	13	28	2	2
Cranbrook	82	60	0	1	0	0	0	1	17	37	1	1
Fort St. John	70	43	0	0	2	6	0	1	28	49	0	1
Victoria	78	49	0	1	0	0	0	1	22	49	0	0
Kamloops	85	59	1	3	1	8	0	1	13	28	0	1
Provincial Average	85	60	0	2	1	5	1	4	13	30	0	0

Source: Information provided by the Ministry of Community, Sport and Cultural Development

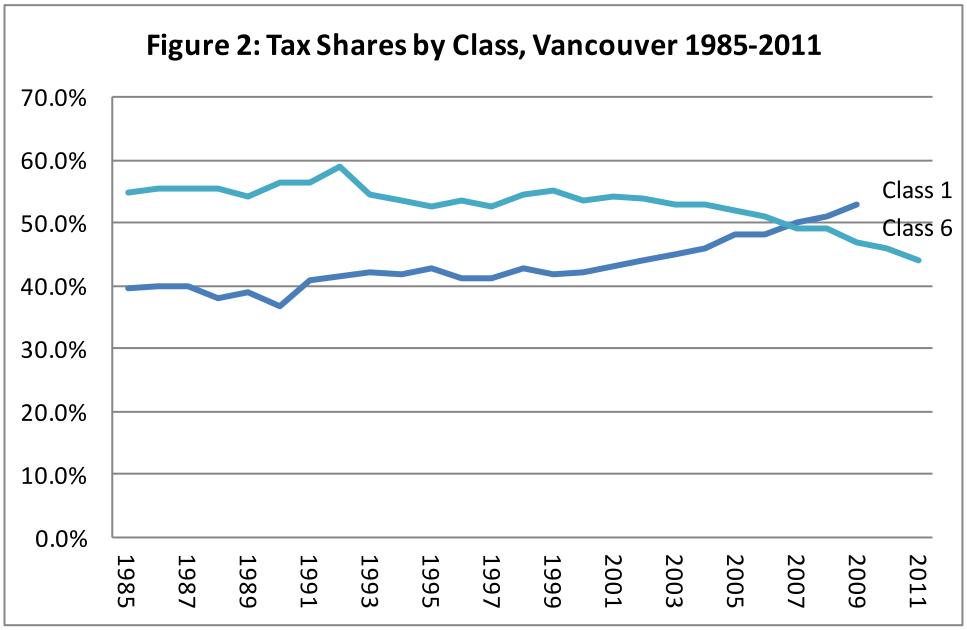
Table 8: Municipal Tax Shares, Residential and Business Classes, Selected Municipalities, 1988 and 2011
(%)

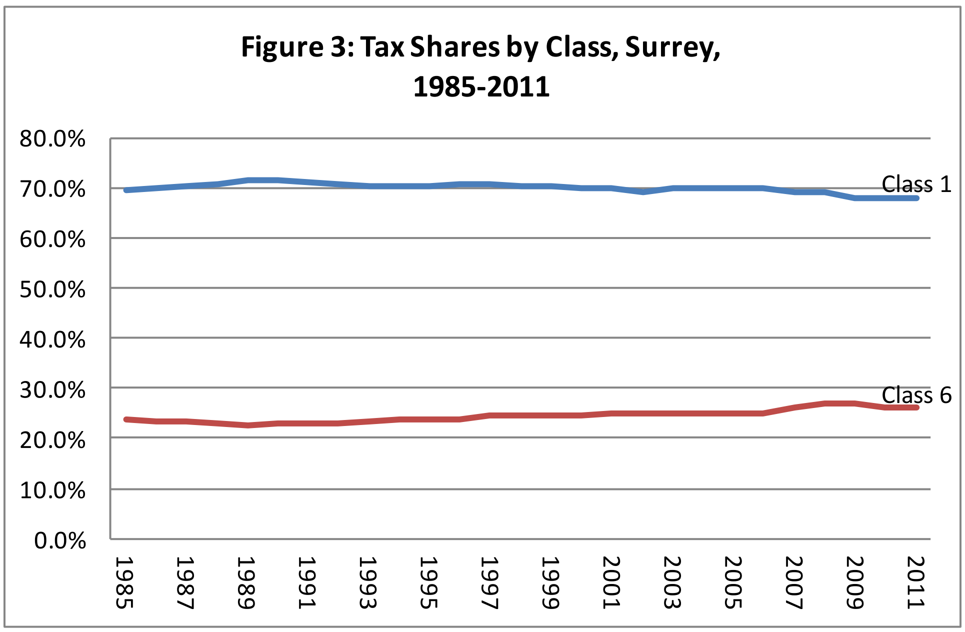
Municipality	1988					2011				
	Class 1	Class 2	Class 4	Class 5	Class 6	Class 1	Class 2	Class 4	Class 5	Class 6
Vancouver	39.8	1.3	1.7	1.7	55.4	53.0	1.0	1.0	1.0	44.0
Prince George	56.8	4.5	17.1	0.8	20.7	54.0	1.0	15.0	3.0	27.0
Surrey	70.7	1.3	0.7	3.5	23.0	68.0	1.0	1.0	4.0	26.0
Kelowna	65.3	1.2	0.5	4.3	27.4	70.0	0.0	0.0	2.0	27.0
Nanaimo	57.1	1.6	10.9	0.7	29.3	67.0	1.0	3.0	1.0	28.0
Abbotsford	66.7	5.2	0.1	1.5	22.4	63.0	3.0	0.0	4.0	28.0
Cranbrook	46.8	4.7	1.6	0.8	45.7	60.0	1.0	0.0	1.0	37.0
Fort St. John	43.8	1.7	0.0	2.1	52.1	43.0	0.0	6.0	1.0	49.0
Victoria	47.2	1.4	0.7	0.6	49.2	49.0	1.0	0.0	1.0	49.0
Kamloops	59.0	6.2	7.5	1.4	25.5	59.0	3.0	8.0	1.0	28.0
Provincial Average	53.8	2.3	9.2	2.2	31.7	59.7	1.5	4.6	3.5	30.4

Note: The information in this table starts in 1988 because the industrial property class was divided into two classes in that year: Class 4 (Major Industry) and Class 5 (Light Industry).
Source: Information provided by the Ministry of Community, Sport and Cultural Development

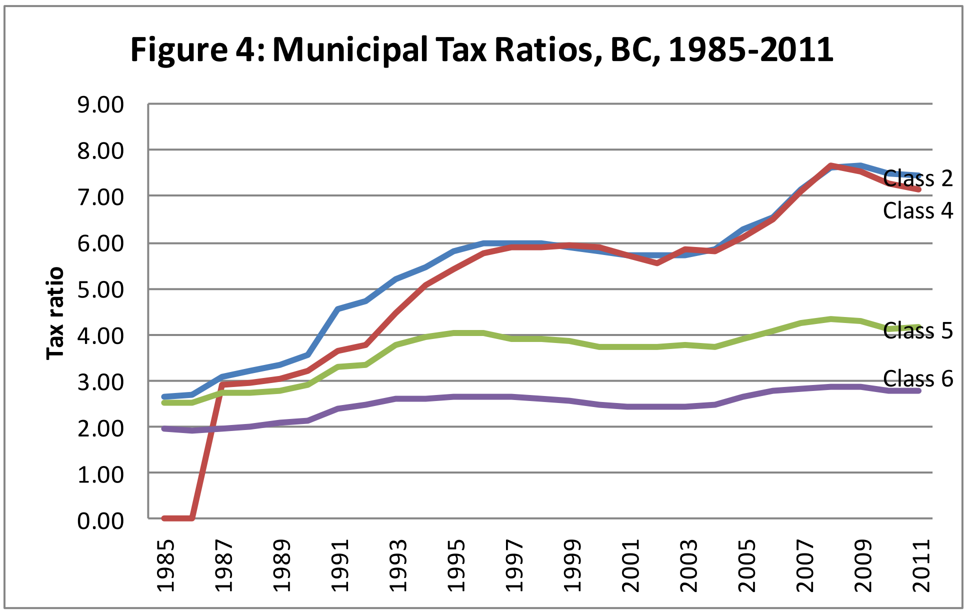
Figures 2 and 3 show how tax shares for Class 1 and Class 6 have changed over the period from 1985 to 2011 for Vancouver and Surrey. Similar figures for the other eight cities can be found in Appendix A. In Vancouver, the share of taxes in Class 6 exceeded the share for Class 1 up until 2007 and then fell below. For Surrey, the tax shares for Class 1 and Class 6 have remained fairly constant over the period with a slight rise in Class 6 in recent years and a slight decline in Class 1. As can be noted in Appendix A, tax shares were also fairly constant for Class 1 and Class 6 over the period from 1985 to 2011 in Kelowna and Kamloops.

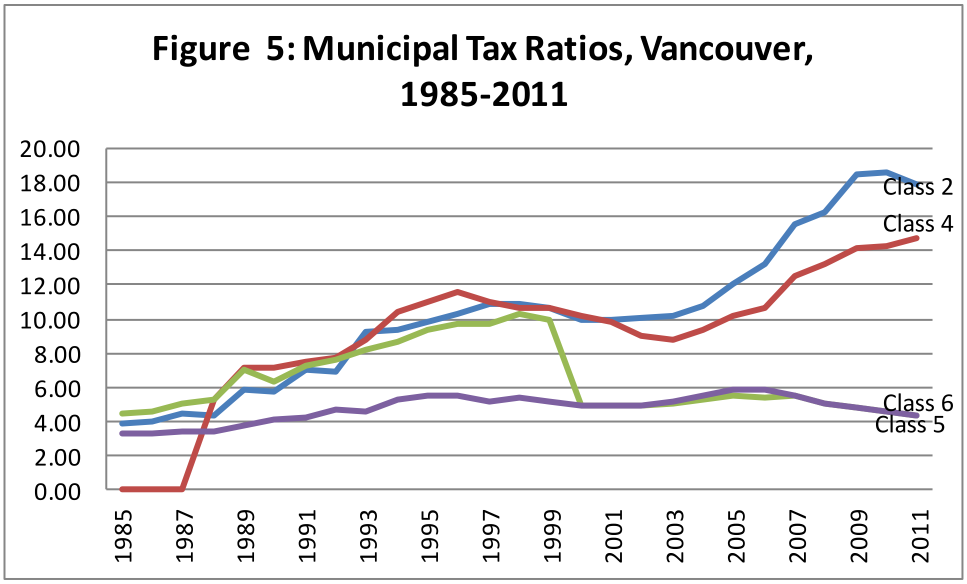
Tax rates and tax ratios provide another way to look at the tax burden. Even though the share of business taxes has declined, the rate at which business is taxed (dollars of tax per thousand dollars of assessed value) increased relative to the rate at which residential property is taxed. The increase results because non-residential land values have not risen as quickly as residential land values. Figure 4 shows tax rate ratios by property class from 1985 to 2011. The ratio is expressed as a multiple of the residential tax rate which is set at a value of 1.0. For the province as a whole, the ratio on Class 6 properties went from 1.95 in 1985 to 2.76 in 2011. In other words, business properties were taxed at a rate that was 1.95 times the residential rate in 1985 and 2.76 times the residential rate in 2011. Jumps were even larger for other property classes such as Classes 2, 4, and 5.





Figures 5 and 6 illustrate the trend in municipal tax ratios for Vancouver and Surrey from 1985 to 2011. Similar figures for the other eight cities can be found in Appendix B. In both cities, Class 2 tax ratios have been steadily rising. Class 4 ratios have been rising in Vancouver but have started to decline in Surrey. In both cities, the tax ratios for Class 5 and Class 6 are similar to each other and, in both cities, they appear to have been declining in recent years.





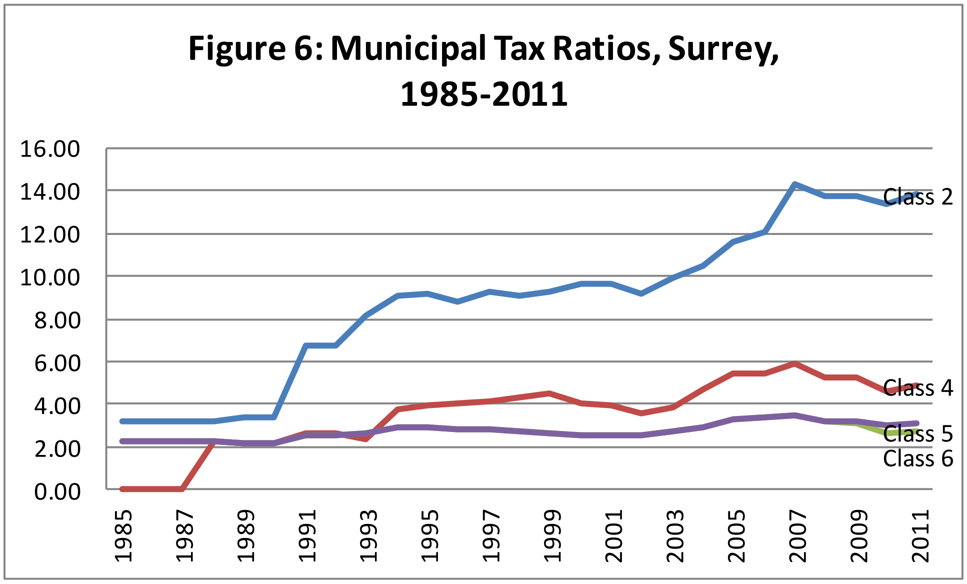


Table 9 shows municipal tax ratios for ten cities in 1985 and 2011. The Class 2 ratio has more than doubled over the 25-year period. With the exception of Vancouver, the Class 5 ratio has also increased over the period. With the exception of Fort St. John, the Class 6 tax ratio has increased over the period.

Table 9: Municipal Tax Ratios, Business Classes, Selected Municipalities, 1988 and 2011

Municipality	1988				2011			
	Class 2	Class 4	Class 5	Class 6	Class 2	Class 4	Class 5	Class 6
Vancouver	4.40	5.24	5.24	3.40	17.89	14.79	4.32	4.32
Prince George	2.00	1.33	1.16	1.16	5.34	6.28	3.59	2.13
Surrey	3.22	2.27	2.27	2.27	13.84	4.92	2.78	3.12
Kelowna	2.21	1.74	1.74	1.74	5.67	3.32	2.37	2.37
Nanaimo	3.05	2.40	2.44	2.10	7.99	4.44	3.00	2.76
Abbotsford	2.56	2.11	2.11	1.88	8.38	0.00	2.56	2.75
Cranbrook	4.07	2.98	2.99	3.10	7.50	0.00	3.00	3.00
Fort St. John	3.63	0.00	3.10	3.02	7.86	5.19	5.07	2.81
Victoria	4.90	2.16	2.16	2.16	8.77	3.59	3.59	3.59
Kamloops	2.00	1.59	1.59	1.43	7.76	15.40	5.01	3.11
Provincial Average	3.20	2.97	2.54	1.99	7.44	7.14	4.15	2.76

Note: The information in this table starts in 1988 because the industrial property class was divided into two classes in that year: Class 4 (Major Industry) and Class 5 (Light Industry).
Source: Information provided by the Ministry of Community, Sport and Cultural Development

An increase in tax ratios does not necessarily mean an increase in tax burden. Depending on how assessed values change over time, the relative tax burden may not change even if tax ratios increase. Municipalities in BC see the change in property tax rates as a consequence of an explicit property tax policy to keep the share of property taxes raised from each property class constant (except for differences in net investment and shifts among the classes). When a policy of fixed property tax shares is applied consistently, property tax rates are adjusted to keep the average rate of increase in property taxes paid uniform from class to class (on the basis of the class average). Under these circumstances, an increasing property tax ratio for a property class results from much lower growth in assessed values in that class compared to residential values. As noted earlier, for at least some of the ten cities, class shares have remained fairly constant over the last 25 years.

Because the assessment methodology is different for Class 4 than for other classes and, in particular, the assessment base does not increase with market factors, the growth of the tax base for Class 4 has been more modest than for other classes. As a result, Class 4 assessment has increased slowly relative to other property classes. In response, many municipalities have increased their tax rates to compensate for the slow rise in assessment.

Some studies have indicated that the declining assessment base for Class 4, for example, has resulted in municipalities relying on tax increases to maintain their revenue from major industry (see, for example, Adams, 2004 and Premier's Task Force on Community Opportunities, 2006). Adams (2004) argues that major industry inside municipalities declined largely due to depreciation, plant closures, and assessment appeals. Municipalities offset this decline with an increase in property tax rates on major industry and, in some communities, tax rate increases have more than offset the assessment declines. The province-wide share of municipal revenue from the major industry class nevertheless fell.

The third measure of tax burden – property taxes per capita – is illustrated in Table 10 which shows property taxes per capita for each of the business classes for ten cities in 1988 and 2011. It also shows the annual average increase in municipal property taxes per capita over the period (not taking inflation into account). In nominal terms, property taxes per capita have increased in all classes for the province as a whole but the annual average increase is greatest for Class 1 properties followed by Class 5 and Class 6 properties. In terms of the ten cities, with the exception of Class 2 properties in four municipalities and Class 4 properties in five municipalities, municipal property taxes per capita increased in all ten cities in all classes. For five municipalities, the largest increase in per capita municipal property taxes was in Class 1. For most of the other municipalities, the largest increase was in Class 6.

The conclusion from the information provided on tax shares, tax ratios, and taxes per capita for municipal property taxes is that, on average across the province, tax shares for most business properties (with the exception of Class 5) have fallen, tax ratios are higher for all classes than 25 years ago but have begun to decline in recent years, and property taxes per capita have increased more for residential properties than business properties. Another important conclusion, however, is that there is significant variation among the ten cities. It is thus difficult to provide general conclusions about the property tax on businesses for the province as a whole based on these

Table 10: Municipal Property Taxes per Capita, Business Classes, Selected Municipalities, 1988 and 2011 ($)

Municipality	1988					2011					Annual average % increase in municipal property taxes per capita				
	Class 1	Class 2	Class 4	Class 5	Class 6	Class 1	Class 2	Class 4	Class 5	Class 6	Class 1	Class 2	Class 4	Class 5	Class 6
Vancouver	189	6	8	8	263	507	11	17	9	418	4.4	2.3	3.2	0.5	2.0
Prince George	191	15	58	3	70	552	12	154	29	274	4.7	-1.0	4.4	11.1	6.1
Surrey	136	3	1	7	44	329	4	3	18	127	3.9	1.4	3.7	4.4	4.7
Kelowna	187	3	1	12	79	1,104	4	3	18	227	8.0	0.7	3.6	1.6	4.7
Nanaimo	238	7	45	3	122	644	7	26	12	273	4.4	0.0	-2.4	6.0	3.6
Abbotsford	157	12	0	3	53	506	24	0	33	225	5.2	2.9	--	10.3	6.5
Cranbrook	152	15	5	3	149	629	14	0	11	381	6.4	-0.5	--	6.4	4.2
Fort St. John	156	6	0	7	186	428	4	57	12	485	4.5	-1.4	--	2.0	4.3
Victoria	220	6	3	3	229	618	8	1	7	620	4.6	1.1	-6.6	4.0	4.4
Kamloops	217	23	28	5	94	565	27	77	13	269	4.2	0.6	4.6	4.1	4.7
Provincial Average	157	7	27	6	92	441	11	34	25	224	4.6	2.1	1.0	6.2	3.9

Note: The information in this table starts in 1988 because the industrial property class was divided into two classes in that year: Class 4 (Major Industry) and Class 5 (Light Industry).
Source: Information provided by the Ministry of Community, Sport and Cultural Development

findings. It appears that some municipalities have reduced the tax burden on business properties while others have increased it.

4. Comparison of the Institutional Framework for Property Taxes across Canada

How do property taxes in BC compare with other parts of Canada? Table 11 records the different property assessment categories and municipal tax rate structure in each province and territory. Some of the more salient features of this inter-provincial comparison include the following.

- All provinces and territories have established at least two assessment categories – residential and non-residential. Many, however, have a number of assessment categories with Alberta, Saskatchewan, Ontario, and British Columbia leading the way.
- In most provinces, there is a provincial property tax. In a few provinces, there is only a municipal property tax.
- In some provinces, municipalities are free to set their own property tax rates without provincial involvement while in other provinces, the province is involved in the local tax structure through direct controls or limitations on what can be done. For example, in New Brunswick, each municipality sets its own local property tax rate but it is a provincial requirement that the non-residential municipal tax rate must be equal to 1.5 times the residential municipal tax rate. In Ontario, municipalities are permitted to set different tax rates (related to the residential rate) for different property categories although provincially set ranges of fairness limit a municipality's flexibility in setting differential rates. In Manitoba, except for Winnipeg where differential tax rates may be used, municipalities are not allowed to apply differential tax rates to different property types.
- Where variable or differential property tax rates are used, the residential rate (except for farm land and resource properties) is always lower than the rate on multi-residential and commercial/industrial properties.

Table 11: Assessment Categories and Municipal Tax Rate Structure		
Province	**Assessment Categories**	**Municipal Tax Rates**
Newfoundland and Labrador	Three categories: - Residential, - commercial, - part residential and part commercial.	Tax rates are set locally. The province places no restrictions on tax rates. Uniform rates apply everywhere except for St. John's where there may be 2 rates – one for residential and one for commercial.
Prince Edward Island	Two categories: - Commercial (excludes farm property and buildings, nurseries and market gardens, and timberland). and - non-commercial (residential, institutional, etc.).	Two property taxes are used: The province levies a provincial property tax at a fixed rate - \$1.50 per \$100 of assessed value on both commercial and non-commercial property. Provincial tax rates are lower for residents than for non-residents – the difference is \$0.50 per \$100 of assessed residential value. Each municipality sets two municipal property taxes - one for commercial assessment and another for non-commercial assessment. In some municipalities, the commercial rate is higher than the non-commercial rate and in others it is the same. There are no provincial restrictions on these rates.
Nova Scotia	Three categories: - Residential, - Commercial (everything that is not residential or resource), - resource which includes farm properties, forest properties if less than 50,000 acres, community buildings used for commercial fishing boats, and the land of municipal water utilities.	No provincial property tax for municipal services. Two municipal tax rates are set locally – one for residential and one for commercial with the commercial rate exceeding the residential rate in every municipality The residential rate applies to resource property. The municipal property tax in Halifax is further separated into three basic rates - urban, suburban and rural. As well, Halifax has a number of different area rates to reflect differentials in services provided.
New Brunswick	Two categories: - Residential - non-residential which is commercial and industrial.	There are two property taxes. A provincial tax of \$1.50 and \$2.25 per \$100 of assessed value is levied on residential and non-residential property, respectively. Each municipality sets its own local property tax rate but the non-residential

		municipal tax rate must be equal to 1.5 times the residential municipal tax rate – this is a provincial requirement. Owner-occupied residential properties within cities, towns and villages receive a full credit on the provincial tax rate. Owner-occupied residential properties outside of these municipalities receive a credit of $0.85 per $100 of assessed value.
Quebec	Properties are not differentiated except for farms, natural gas, electricity, and telecommunications systems.	The general property tax rate is set by local councils without provincial restrictions. They have the opportunity to levy up to 6 tax rates depending on the property category: residential, multi-residential (six or more units), commercial, industrial, vacant land, and residual.
Ontario	There are seven main property classes: - residential/farm, - multi-residential, - commercial, - industrial, - pipe lines, - farmlands, - managed forests. In addition, the province permits municipalities to adopt additional classes including new multi-residential, office buildings, shopping centers, parking lots, large industrial properties, sports facilities and resort condominiums.	Municipalities are permitted to set different tax rates (related to the residential rate) for the different property categories although provincially set ranges of fairness limit a municipality's flexibility in setting differential rates. Where there are two-tier governments (a region or county and lower tiers), the upper tier is required to set the relative tax burden between the property classes. By legislation, farm buildings and agricultural land must be taxed at 25 percent of the residential rate as must managed forests. Farm house and one acre of land are taxed at the residential rate. Municipalities may also choose to apply differential rates to any of the following optional classes; new multi-residential, shopping centres, office towers, parking lots and vacant land, and large industrial.
Manitoba	There are ten property classes: - residential 1 (1-4 units) - residential 2 (5 or more units) - residential 3 (owner occupied condominium and co-operative housing) - farm	Mill (tax) rates are set by municipal councils. With the exception on Winnipeg where differential tax rates may be used, municipalities are not allowed to apply differential tax rates to different property types.

	- institutional - pipeline - railway - designated recreational property - other	
Saskatchewan	Assessment categories include: - residential, - commercial/industrial, - agricultural, - pipelines, - resource production equipment, - heavy industrial, - railway roadway. Cities may also set additional subclasses for residential and commercial/industrial.	Tax rates are determined locally and municipalities may apply different tax rates to different property categories and subcategories. Municipalities are also permitted to impose a minimum tax or a base tax (base plus mill rate levy) to all property classes.
Alberta	There are a number of assessment categories: - residential, - non-residential (commercial and industrial), - farm land, - machinery and equipment. Municipal councils may also divide the residential class into subclasses on any basis it chooses and it may divide the non-residential class into vacant and improved sub-classes.	Municipal councils have the power to levy differential tax rates on different property categories. Municipalities may also impose a business tax, business revitalization zone tax, special tax, well-drilling equipment tax, or local improvement taxes.
British Columbia	There are nine classes of assessable property: - residential - utilities - supportive housing	Municipal property tax (mill) rates are set by local councils and variable tax rates are allowed for the different classes of property.

	- major industry - light industry - business/ other - managed forest land. - recreational/non-profit property - farm land.	
Northwest Territories and Nunavut	In municipal taxation areas, land is assessed at market value and improvements (buildings, machinery and equipment) at replacement cost. Land, improvements, mobile units, pipelines, railway works, and transmission lines are assessed separately.	General property tax rates, set by the Territorial governments, are levied at uniform mill rates in non-taxed based municipalities. Within taxed based municipalities (incorporated), mill rates are set locally and may vary by class of property.
Yukon	Buildings, machinery and equipment are assessed at depreciated replacement cost. Public utilities, railroads, and pipelines are assessed as prescribed by regulation.	Municipal property tax rates are set by local councils. The tax rates may vary by class of property and across regions.

Table 12 summarizes the role of property taxes in funding elementary and secondary schooling. In general, the following can be noted:

- Most provinces fund a portion of local schooling costs from the property tax. Newfoundland and Labrador is an exception.
- New Brunswick levies provincial property taxes which go into general revenues and are not dedicated to education.
- With the exception of Manitoba where local school boards still set the local education tax rate, property taxes for education are controlled by the province.
- The provincial property tax on each class of property is generally uniform across the province. Differential rates may apply to different classes of property, however.

Table 13 records the frequency of assessment. Assessment practice over the past two decades has moved towards more frequent and up-to-date reassessments in most provinces and territories. There is variation across provinces in the taxation of machinery and equipment. Machinery and equipment affixed to property is included in the assessment base in Newfoundland, Quebec, Manitoba, Alberta, Northwest Territories and Nunavut, and the Yukon. In Prince Edward Island, New Brunswick, and Saskatchewan, only when machinery, equipment and other fixtures provide services to the buildings are they liable to property taxation. British Columbia and Nova Scotia exclude all machinery and equipment from the property tax base. In Alberta, machinery and equipment are excluded from the uniform province-wide property tax on education but may be taxed by municipalities. Edmonton and Calgary, however, exempt machinery and equipment from municipal property taxes. Ontario exempts machinery used for manufacturing, farming, ore smelting and so on.

Table 12: School Property Tax Structure	
Newfoundland & Labrador	Property taxes are not used to finance elementary and secondary school expenditures.
Prince Edward Island	The province funds 100 percent of education costs from general revenues, which include the revenues generated by a province-wide property tax. This revenue is not earmarked specifically for education, however. The *School Act* allows regional administrative units to levy and collect a local tax for supplementary education programs (upon approval by the Ministry and a plebiscite), but this power has not yet been used.
Nova Scotia	Public schools are financed from the general revenues of the province and municipalities. The provincial share of school financing comes from the province's general revenues. The municipal portion comes from a uniform property tax rate set by the province plus the Halifax Regional Municipality has discretion to levy an additional property tax.
New Brunswick	All public education costs are funded from general provincial revenues. Included in these revenues is a provincial property tax on all properties. The property tax is not earmarked specifically for schools, however. Legislative provision for using local property taxes to raise revenue for supplementary programs is permitted but seldom used.
Quebec	The province funds about eighty-five percent of all public school costs from general revenues and school boards fund the remaining 15 percent from a local property tax levy. There is no provincial property tax. Local school boards must levy a property tax but it cannot exceed \$0.35 per \$100 of standardized assessment unless referendum approval is obtained from the taxpayers within the school district. No such referendum has ever been held. Local property taxes are used to finance the maintenance of school facilities. The province sets the property tax revenue to be collected by each board (or grouping of school boards on the island of Montreal) as follows: it sets the dollar amount per school board (set annually by Ministry of Education) plus per student dollar amount times the number of students.
Ontario	Education is 100% provincially funded. Part of this funding comes from a property tax. The province sets the property tax rate (residential) or amount to be raised (commercial and industrial) for education. The tax rate on residential/farm and multi-residential properties is uniform across the province. The province sets the amount that is to be raised by the tax on commercial and industrial properties. All education tax revenues are collected by the municipality and remitted to school boards. In 2007, the province agreed to lower the property tax rate for education on business properties by 14 percent over the following seven years. In 2008, further reductions in the business education tax were announced for the sparsely populated northern part of the province (this mainly affects forest based industrial properties).
Manitoba	Provincial funding comes from the general revenues of the province and from locally generated school board revenues (almost entirely from property taxes on both non-residential and residential property). Local school boards have the power to set local property tax rates and this power is used extensively.
Saskatchewan	The province sets a uniform property tax rate for each of three major property classes.
Alberta	The province is responsible for funding education. About half of its funding requirement is supported from general provincial revenues and the remainder from a uniform province-wide mill rate on residential property and a higher uniform rate on commercial/industrial property. Municipalities collect the tax and remit it to the province. School boards may also seek

	elector approval to levy an additional property tax to a maximum of 3 percent of their budget. Since the province assumed responsibility for education property taxes in 1994, the province has reduced its reliance on property taxes for financing education. For 2012, the education property tax rate was frozen at the 2011 rate.
British Columbia	Schools are funded entirely by provincial grants generated from provincial government revenue that includes provincially imposed non-residential and residential property taxes. Everyone within a school district pays the same residential tax rate, but the province varies the rate between districts in order to moderate the effects of differences in assessed values across the provinces. If school boards wish to spend more than their provincial grant, the board must seek local taxpayer approval through a referendum for additional expenditures to be financed through local property taxes. This has never been used, however.
Northwest Territories	Education funding comes from a territorial school levy (property tax) and from local property taxes.
Nunavut	Same as NWT
Yukon	Education is funded by the territorial government and it does not levy a property tax for education.

Table 13: Frequency of Assessment	
Newfoundland & Labrador	Three year cycle with the lag in assessed values being twenty-two months.
Prince Edward Island	In 2009, the provincial government froze all residential assessment at 2007 values until time of sale. Beginning in 2010, the property assessment freeze was replaced by annual increases based on the change in the CPI to a maximum annual increase of 5 percent. Commercial and industrial property is assessed annually.
Nova Scotia	Annually with each year's assessed value based on the property's value two years prior.
New Brunswick	Annually as of Jan. 1 each year.
Quebec	Three year cycle with the assessed value being finalized by April 30 (for appeals) of the first year of the cycle.
Ontario	Four year cycle.
Manitoba	Four year cycle
Saskatchewan	Four year cycle
Alberta	Annual
British Columbia	Annual
Yukon	Five year cycle
Northwest Territories and Nunavut	Must be assessed at least once every nine years.

Inter-provincially, there is considerable variation in the extent to which business occupancy taxes (a local tax which is frequently, but not always, based on the assessed value of commercial and industrial property with statutory liability for payment almost always falling on the occupant) are used and in the way in which they are imposed. Over the past two decades, the trend has been to move away from business occupancy taxation to higher property tax rates on commercial and industrial properties. The business occupancy tax, as a separate tax, does not exist in Prince Edward Island, New Brunswick, Ontario, the Northwest Territories, Nunavut, the Yukon, and will be eliminated in Nova Scotia by 2013. The business tax is optional in Alberta, Saskatchewan, and Manitoba. It tends not to be used in British Columbia; instead, municipalities impose higher tax rates on non-residential property. Provinces without a business occupancy tax generally impose higher real property tax rates or licence fees on non-residential property in lieu of a business tax. For example, Prince Edward Island levies a tax on business properties (commercial and industrial) that is twice the rate on non-commercial property (residential). In New Brunswick, the tax on non-residential property is 1.5 times the residential rate. In Ontario, effective property tax rates are higher on non-residential property.

5. Municipal Property Tax Approaches to Achieve Economic Development Objectives

A few provinces have passed legislation that permits municipalities to reduce property taxes on business properties as a way to stimulate economic development. In BC, as noted earlier, the Community Charter and the Vancouver Charter provide municipalities with the authority to exempt property from municipal property taxes. In order to provide the exemption, the municipal council is required to establish a revitalization program with reasons and objectives of the program. Exemptions may apply to the value of the land or improvements, or both. Councils are free to specify the amounts and extent of tax exemptions available.

In Alberta, the Community Revitalization levy (CRL) came into effect through an amendment to the Municipal Government Act in 2005. The CRL is similar to the tax increment financing (TIF) programs used in the US.[8] A TIF is an economic development tool used to encourage the redevelopment of areas in need of revitalization and brownfield remediation. Cities designate a TIF area for capital improvements and then earmark any future growth in property taxes to pay for investments in infrastructure and other economic development initiatives.

Under the CRL program in Alberta, municipalities can dedicate future property tax revenues in a specific area to pay for a new public facility or new infrastructure in that area. These projects are designed to encourage new development and revitalize a specific part of the city and encourage private sector investment. It works as follows: cities invest in public infrastructure in a particular area and the improvement spurs new development. The property tax revenue from the development plus any revenue from the increment in property values is dedicated to paying the cost of the infrastructure (including financing costs) over the next 20 years. After 20 years, the revenues go back into the city's general tax levy. The provincial government also contributes the education portion of the new tax revenue. There is no grant portion to the CRL; it merely diverts the revenues from the increment in property values arising from the investment to pay for the investment.

In Saskatchewan, Regina follows a competitive property tax exemption policy targeted at attracting new business to the region. The policy is designed to encourage plans that bring in new investment, belong to one of the key sectors in Regina's economic development, locate businesses in designated locations, be a global or national leader in new technology, have a significant R&D focus, and/or use sustainable technologies/practices in construction or operations. The policy involves full and partial property tax exemptions for up to several years and are considered on a project-by-project basis.

In Ontario, under section 28 of the Planning Act, municipalities can designate an area or the entire municipality as a community improvement project area. They can then implement a community-improvement plan (CIP) with grants and/or loans which can, if the municipality

[8] TIFs were first introduced in California in 1952 and, since that time, they have spread to almost all US states. TIFs are a much newer instrument in Canada and not nearly as widespread as in the US. TIF legislation was passed in Manitoba in 2008 but TIFs are not yet being used in that province. TIF legislation was passed by the provincial government in Ontario in 2006 but the regulations have yet to be promulgated.

chooses, be calculated on a tax increment basis. In other words, the municipality can offer developers a grant or loan that is based on the higher property tax that is generated from development (the tax increment). Such incentives are known as tax increment equivalent grants (TIEGs) and are used in a number of communities across Ontario. TIEGs are different than TIFs because they include a subsidy component. TIEGs only apply to the municipal property tax and not the education property tax.

Montreal introduced a program to enable property owners who invest in their industrial facilities to be reimbursed for their property tax increase. The rationale for this incentive is to strengthen the business environment in the face of competition from other major urban centres in North America. The program, which was announced in October 2007, is designed to encourage the owners of industrial buildings in the metropolitan area to accelerate investment in buildings, improve the competitiveness of Montreal, maintain a diversified economic structure in Montreal, and increase the value of the stock of industrial buildings.

The program offers owners of non-residential buildings the possibility of a grant to reimburse them for any increase in their property taxes as a result of improving their property (through construction, conversion, or increasing the size of the building) for five years. Eligible property owners have three years to do the upgrades. The grant covers 100 percent of the property tax increase in the first three years, 80 percent of the tax increase in the fourth year, and 60 percent of the tax increase in the fifth year. Eligible activities include: manufacturing in general, film and video production, data processing systems, software, call centres, head offices, and research and development in the physical sciences, engineering, and life sciences. Properties in some locations (e.g. industrial zones that are on the verge of transformation, properties near transit stations, etc.) can receive an additional bonus. In those cases, the grant will cover 100 percent of the property tax increase for five years.

6. Inter-provincial Comparison of Property Taxes

Table 14 records property taxes plus payments in lieu of taxes per capita by class of property for municipal and education purposes in six representative provinces. Across these provinces, property taxes per capita[9] were highest in Ontario at $1,785 per capita, followed by Alberta at $1,738, Quebec at $1,566, British Columbia at $1,342, Manitoba at $1,156, and Nova Scotia at $1,140.

The municipal portion of the property tax plus payments in lieu per capita in BC ($830) was lower than in Quebec ($1,566), Ontario ($1,251), Alberta ($1,325), and Nova Scotia ($919) but it was higher than in Manitoba ($787). Education property taxes per capita were highest in Ontario ($534), followed by roughly comparable levels in British Columbia ($512) and Alberta ($502), but considerably higher than in Manitoba ($369) and Nova Scotia ($221). The per capita education property tax in Quebec is less than $1.

A comparison of property taxes by property type reveals some variation across provinces. For municipal purposes, residential properties contribute the majority of property taxes in every province except for Alberta where the property taxes on non-residential and linear properties contribute the majority. Property taxes for education show a similar pattern where property taxes are used to fund elementary and secondary schooling – the majority of taxes are levied on the residential sector in every province except for Ontario where the commercial and industrial sectors pay more.

When municipal and education taxes per capita are combined, the residential sector contributes over 50 percent in every province except for Alberta where all other properties account for more than 50 percent of the total.

[9] Property taxes include property taxes levied plus payments in lieu of taxes.

Table 14: Inter-provincial Comparison of Property Taxes plus Payments In Lieu of Taxes[1]

Panel A: British Columbia						
	Municipal Only		Education Only		Municipal plus Education	
Source of Property Taxes & PILs	Per Capita	% of total	Per Capita	% of total	Per Capita	% of total
	$	%	$	%	$	%
Residential	473	57.0	297	58.1	770	57.4
Utilities	12	1.5	24	4.7	36	2.7
Major Industry	38	4.6	7	1.4	45	3.4
Light Industry	27	3.2	17	3.2	43	3.2
Business	247	29.8	165	32.2	412	30.7
Other	4	0.4	2	0.4	5	0.4
Total property taxes	801	96.5	512	100.0	1,312	97.8
Payments in Lieu of Taxes (PILs)	29	3.5	---	---	29	2.2
Total Property Tax and PILs	830	100.0	512	100.0	1,342	100.0

Panel B: Ontario						
	Municipal Only		Education Only		Municipal plus Education	
Source of Property Taxes & PILs[2]	Per Capita	% of total	Per Capita	% of total	Per Capita	% of total
	$	%	$	%	$	%
Residential & Farm	883	70.6	225	42.0	1,108	62.0
Commercial	279	22.3	239	44.7	519	29.1
Industrial	61	4.9	52	9.8	113	6.3
Pipelines	6	0.5	6	1.1	12	0.7
Other	22	1.7	13	2.4	34	1.9
TOTAL	1,251	100.0	534	100.0	1,785	100.0

Panel C: Alberta						
	Municipal Only		Education Only		Municipal plus Education	
Source of Property Taxes & PILs[2]	Per Capita	% of total	Per Capita	% of total	Per Capita	% of total
	$	%	$	%	$	%
Residential & Farm Properties	511	38.6	319	63.5	830	45.4
Non-residential Properties	495	37.3	183	36.5	678	37.1
Linear Property	229	17.3	0	0.0	229	12.6
Railway	1	0.1	0	0.0	1	0.1
Other	88	6.6	0	0.0	88	4.8
Total	1,325	100.0	502	100.0	1,738	100.0

Panel D: Quebec						
	Municipal Only		Education Only		Municipal plus Education	
Source of Property Taxes & PILs	Per Capita	% of total	Per Capita	% of total	Per Capita	% of total
	$	%	$	%	$	%
General Property Taxes	1,094	69.9	0	0	1,094	69.9
Business Taxes	371	23.7	0	0	371	23.7
Total Property Taxes	1,465	93.6	0	0	1,465	93.6
Payments in Lieu (PILS)	101	6.4	0	0	101	6.4
Property Taxes plus PILs	1,566	100.0	<1	0	1,566	100.0

Panel E: Nova Scotia						
	Municipal Only		Education Only		Municipal plus Education	
Source of Property Taxes & PILs	Per Capita	% of total	Per Capita	% of total	Per Capita	% of total
	$	%	$	%	$	%
Assessable Properties	n.a.	n.a.	n.a.	n.a.	947	83.6
Special Assessments	n.a.	n.a.	n.a.	n.a.	13	1.2
Business Property	n.a.	n.a.	n.a.	n.a.	71	6.2
Other Property Related Taxes	n.a.	n.a.	n.a.	n.a.	52	4.6
Total Property Taxes	862	94.5	221	100.0	1,083	95.5
Payments in Lieu (PILS)	51	5.5	n.a.	n.a.	51	4.5
Property Taxes plus PILs	919	100.0	221	100.0	1,140	100.0

Panel F: Manitoba						
	Municipal Only		Education Only		Municipal plus Education	
Source of Property Taxes & PILs	Per Capita	% of total	Per Capita	% of total	Per Capita	% of total
	$	%	$	%	$	%
General Municipal Property Taxes	525	66.8	369	100.0	894	77.3
Business Taxes	54	6.8	n.a.	n.a.	54	4.7
Other Property Tax Levies	169	21.5	n.a.	n.a.	169	14.6
Total Property Taxes	749	95.2	369	100.0	1,118	96.7
Payments in Lieu (PILS)	38	4.8	n.a.	n.a.	38	3.3
Property Taxes plus PILs	787	100.0	369	100.0	1,156	100.0

[1] Sources of property taxes and PILs reflect the way in which the data are presented for each province.

[2] Payments in lieu are included in the property tax categories. n.a. – breakdown was not available.

Source: Compiled from provincial summaries of municipal statistics in each province

7. Inter-city Comparison of Property Taxes

Table 14 was an aggregation of all municipalities in each of the provinces. For this reason, it had the potential to hide variations in property taxes by source across municipalities of different size and importance. Tables 15 (only for BC) and Table 16 (for the rest of Canada) record property taxes and PILS for the major cities.

For BC cities (Table 15), the range of **municipal taxes** and PILS was quite large extending from highs of $1,263 per capita in Victoria and $1,024 in Prince George to lows of $483 in Surrey and $788 in Abbotsford. Such a wide variation from city to city is similar to the variation noted in earlier parts of this report.

For competitive purposes, the municipal tax on the business class of property is likely to be of greatest interest. In BC, the per capita average for the ten cities was $321; however, there was considerable variation across cities. For example, the tax ranged from a high of $605 per capita in Victoria to a low of $123 per capita in Surrey. Five of cities recorded per capita business taxes in the $200 range.

As with municipal taxes, **education property taxes** showed variation across BC cities with levels extending from highs of $639 per capita in Vancouver and $617 per capita in Victoria to lows of $267 in Prince George and $392 and $394 in Abbotsford and Surrey, respectively. The business class contribution to education taxes also shows wide variation across the cities. Per capita levels ranged from highs of $313 and $288 in Victoria and Vancouver respectively to lows of $110 in Prince George, $113 in Surrey, and $117 in Abbotsford and Kamloops.

The sum of all **municipal and education property taxes** varied considerably, ranging from highs of $1,879 and $1,592 per capita in Vancouver and Victoria, respectively to lows of $877 and $1,180 per capita in Surrey and Abbotsford.

Table 15: Per Capita Property Taxes Plus Payments In Lieu of Taxes in Ten BC Cities

Source of Property Taxes & PILs	Vancouver			Prince George		
	Municipal	Education	Municipal & Education	Municipal	Education	Municipal & Education
	$	$	$	$	$	$
Residential (class 1)	460	332	792	533	228	761
Utilities (class 2)	11	13	24	15	23	38
Major Industry (class 4)	9	1	10	155	11	166
Light Industry (class 5)	8	3	11	27	3	30
Business/other (class 6)	413	288	701	254	110	363
Other (classes 7 & 8)	1	2	2	1	0	1
Total property taxes	902	639	1,540	984	376	1,360
Payments in Lieu of Taxes (PILs)	51	---	51	39	---	39
Total Property Tax and PILs	953	639	1,592	1,024	376	1,399

Source of Property Taxes & PILs	Surrey			Kelowna		
	Municipal	Education	Municipal & Education	Municipal	Education	Municipal & Education
	$	$	$	$	$	$
Residential (class 1)	320	251	571	565	323	889
Utilities (class 2)	4	19	22	4	16	20
Major Industry (class 4)	3	1	3	3	1	4
Light Industry (class 5)	18	9	27	16	6	22
Business/other (class 6)	123	113	236	221	182	403
Other (classes 7 & 8)	1	1	2	2	3	5
Total property taxes	468	394	862	811	531	1,343
Payments in Lieu of Taxes (PILs)	16	---	16	4	---	4
Total Property Tax and PILs	483	394	877	815	531	1,346

Source of Property Taxes & PILs	Nanaimo			Abbotsford		
	Municipal	Education	Municipal & Education	Municipal	Education	Municipal & Education
	$	$	$	$	$	$
Residential (class 1)	617	276	893	488	236	724
Utilities (class 2)	7	17	23	20	27	47
Major Industry (class 4)	32	4	36	0	0	0
Light Industry (class 5)	11	2	14	31	9	40
Business/other (class 6)	268	131	399	216	117	333
Other (classes 7 & 8)	2	1	3	19	4	23
Total property taxes	937	431	1,368	774	392	1,166
Payments in Lieu of Taxes (PILs)	14	---	14	14	---	14
Total Property Tax and PILs	951	431	1,382	788	392	1,180

Source of Property Taxes & PILs	Cranbrook			Fort St. John		
	Municipal	Education	Municipal & Education	Municipal	Education	Municipal & Education
	$	$	$	$	$	$
Residential (class 1)	589	252	841	405	221	625
Utilities (class 2)	14	20	34	4	12	16
Major Industry (class 4)	0	0	0	58	8	66
Light Industry (class 5)	11	2	13	12	1	14
Business/other (class 6)	370	138	508	483	229	712
Other (classes 7 & 8)	6	2	8	1	0	1
Total property taxes	991	414	1,404	963	471	1,434
Payments in Lieu of Taxes (PILs)	12	---	12	20	---	20
Total Property Tax and PILs	1,003	414	1,417	983	471	1,454

Source of Property Taxes & PILs	Victoria			Kamloops		
	Municipal	Education	Municipal & Education	Municipal	Education	Municipal & Education
	$	$	$	$	$	$
Residential (class 1)	575	283	858	539	272	811
Utilities (class 2)	8	17	25	27	26	53
Major Industry (class 4)	1	0	1	75	4	79
Light Industry (class 5)	6	2	8	13	2	15
Business/other (class 6)	605	313	919	259	117	376
Other (classes 7 & 8)	2	1	3	3	1	4
Total property taxes	1,197	617	1,813	916	422	1,338
Payments in Lieu of Taxes (PILs)	66	---	66	26	---	26
Total Property Tax and PILs	1,263	617	1,879	942	422	1,364

n.a. not available.
Source: Compiled from information provincial by the Ministry of Community, Sport and Cultural Development.

A review of property taxes by source in BC indicates that the residential (Class 1) and business class (Class 6) were by far the most important revenue generators in each of the cities. The other categories were important at the margin, but only in Prince George did the industrial property tax exceed $100 per capita.

Inter-provincial comparisons of municipal property taxes must be treated with caution because property taxes may fund different services in different provinces. One would thus expect property taxes per capita to be higher in provinces where municipalities are responsible for funding a wider range of local services, for example. In spite of this cautionary note, there is merit in noting differences in the level of property taxes and the role that these may have on competitiveness. Table 16 shows property taxes and PILs for municipal and education purposes[10] in eight Canadian cities outside BC – Toronto, Ottawa, Calgary, Edmonton, Montreal, Quebec City, Halifax, and Winnipeg (data are not available for property taxes for education).

With respect to **municipal property taxes per capita**, Vancouver's per capita tax at $953 is lower than seven of the other Canadian cities and only above that in Winnipeg. In particular, Vancouver's municipal property tax per capita is:

- below Toronto's comparable tax by about $390 per capita;
- below Ottawa and Calgary's comparable tax by more than $500 per capita;
- below Edmonton comparable tax by almost $570 per capita;
- below Montreal's comparable tax by more than $825 per capita;
- below Quebec City's comparable tax by about $515 per capita;
- below Halifax's comparable tax by almost $260 per capita; and
- above Winnipeg's comparable tax by $100 per capita

Property taxes in nine other BC municipalities can also be compared to the selected cities across Canada by comparing the information in Table 15 with the information in Table 16. Victoria, which has the highest per capita municipal tax ($1,263) in BC, for example, is just above Halifax ($1,210) and well below the other six cities (they range from $1,342 to $1,784). Surrey, on the

[10] Property taxes in Quebec fund very small proportions of elementary and secondary schooling costs.

other hand has the lowest per capita municipal tax in BC at $483. This amount is considerably lower than all other cities in this comparison.

A breakdown of the municipal taxes into residential and business taxes[11] suggests that the average per capita property tax on the non-residential sector in Vancouver is lower than four cities but higher than Winnipeg. The non-residential property tax per capita in Vancouver is:

- below Toronto's by about $100 per capita;
- below Ottawa's by about $25 per capita;
- below Calgary's by about $190 per capita; and
- below Edmonton's by about $200 per capita; and
- considerably higher than Winnipeg's comparable tax.

With respect to **education property taxes** in some of the cities[12] in this study, Table 16 shows that the average per capita tax in Vancouver ($639) for funding education is:

- below Toronto's by about $80 per capita;
- above Ottawa's by about $35 per capita;
- above Calgary's by about $75 per capita;
- above Edmonton's by about $210 per capita; and
- above Halifax's by about $335 per capita.

Of this total, the contribution from the business class in Vancouver was about $290 per capita. This was below the contribution from similar properties in Toronto (about $450) and Ottawa (about $465), but higher than Calgary (about $180) and Edmonton (about $130).[13]

Combining property taxes for both **municipal and education** purposes suggests that the per capita average property tax for Vancouver is considerably lower than similar taxes for Toronto, Ottawa, Calgary, Edmonton, Montreal, and slightly above Quebec City and Halifax.[14] Finally,

[11] Data availability did not permit a comparable comparison for Halifax, Quebec City, and Montreal.
[12] Data availability did not permit a comparable comparison for Winnipeg and property taxes for education are very low in Quebec.
[13] Comparable data were not available for Halifax and Winnipeg.
[14] Comparable data were not available for Winnipeg.

Table 16: Property Taxes plus Payments In Lieu of Taxes Per Capita in Other Representative Canadian Cities[1]

Panel A: Ontario

Source of Property Taxes & PILs[2]	Toronto			Ottawa		
	Municipal	Education	Municipal & Education	Municipal	Education	Municipal & Education
	$	$	$	$	$	$
Residential & Farm	771	256	1,027	936	217	1,153
Commercial	478	408	886	423	334	757
Industrial	48	41	90	35	27	61
Pipelines	1	2	3	3	4	7
Other	43	12	55	69	22	90
TOTAL	1,342	719	2,061	1,465	604	2,069

Panel B: Alberta

Source of Property Taxes & PILs[2]	Calgary			Edmonton		
	Municipal	Education	Municipal & Education	Municipal	Education	Municipal & Education
	$	$	$	$	$	$
Residential & Farm Properties	830	384	1,214	855	298	1,154
Non-residential Properties	620	178	798	634	131	765
Linear Property	14	0	14	30	0	30
Railway	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total	1,465	562	2,027	1,520	429	1,948

Panel C: Quebec						
	Montreal			Quebec City		
Source of Property Taxes & PILs	Municipal	Education	Municipal & Education	Municipal	Education	Municipal & Education
	$	$	$	$	$	$
General Property Taxes	n.a	---	n.a	n.a	---	n.a
Business Taxes	n.a	---	n.a	n.a	---	n.a
Total Property Taxes	1,616	---	1,616	1,281	---	1,281
Payments in Lieu (PILS)	168	---	168	187	---	187
Property Taxes plus PILs	1,784	---	1,784	1,468	---	1,468

Panel C: Nova Scotia			
	Halifax		
Source of Property Taxes & PILs	Municipal	Education	Municipal & Education
	$	$	$
Assessable Properties	n.a	n.a	1,247
Special Assessments	n.a	n.a	10
Business Property	n.a	n.a	84
Other Property Related Taxes	n.a	n.a	95
Total Property Taxes	1,134	302	1,436
Payments in Lieu (PILS)	76	n.a.	76
Property Taxes plus PILs	1,210	302	1,512

Panel D: Manitoba				
Source of Property Taxes & PILs	Winnipeg			
	Municipal	Education	Municipal & Education	
	$	$	$	
General Municipal Property Taxes	629	n.a	n.a	
Business Taxes	89	n.a	n.a	
Other Property Tax Levies	106	n.a	n.a	
Total Property Taxes	824	n.a	n.a	
Payments in Lieu (PILS)	29	n.a	n.a	
Property Taxes plus PILs	853	n.a	n.a	

[1] Sources of property taxes and PILs reflect the way in which the data are presented for each province.
[2] Payments in lieu are included in the property tax categories.
n.a. – breakdown was not available.
Source: Compiled from provincial summaries of municipal statistics in each province.

the average per capita municipal and education property tax on the business class in Vancouver is lower than in Toronto, Ottawa, Calgary and Edmonton.[15]

Table 17 shows the ratio of education property taxes to municipal property taxes on commercial and industrial properties for the ten cities in BC and four other Canadian cities (those for which data were available). This ratio is lower for BC cities than Ontario cities but much higher than in Alberta cities suggesting that the non-residential sector in BC pays proportionately more in education property taxes compared to Alberta cities but less than Ontario cities.

Table 17: Ratio of Education Property Tax to Municipal Property Tax on Commercial and Industrial Properties

BC and 10 Cities	Ratio	Other Provinces & Cities	Ratio
British Columbia Average	0.57	Ontario Average	0.86
Surrey	0.86	Toronto	0.85
Kelowna	0.79	Ottawa	0.79
Vancouver	0.68		
Abbotsford	0.51	Alberta Average	0.31
Victoria	0.51	Calgary	0.29
Nanaimo	0.44	Edmonton	0.21
Fort St. John	0.43		
Cranbrook	0.37	Nova Scotia Average	n.a.
Kamloops	0.35	Halifax	n.a.
Prince George	0.29		
		Manitoba	n.a.
Ten City Average	0.49	Winnipeg	n.a.

n.a. not available in this format.
Source: BC ratios calculated from data in Tables 6 and 7. Ratios for other provinces calculated from data in Tables 6 and 8.

To compare business property taxes across cities in Canada, it would be useful to have information on the property tax on comparable properties in each city. These data are very difficult to obtain, however. Nevertheless, Tables 18, 19, and 20 provide information on business property taxes for various Canadian cities from different sources. Table 18 looks at property tax rates for commercial properties, Table 19 focuses on property taxes per square foot for

[15] Comparable data were not available for Halifax, Winnipeg, Montreal, and Quebec City..

manufacturing, and Table 20 focuses on property taxes per square foot for high-quality downtown office buildings.

Table 18 sets out the property tax rates for commercial and residential properties for selected Canadian cities for 2011. It also shows the ratio of commercial to residential tax rates for 2011 and for 2009 and 2010. The average property tax per $1,000 of commercial assessment for the eight cities was $27.56. The range was from $15.61 in Calgary to $37.87 in Halifax. Vancouver was below the average at $18.11 and much lower than all of the cities except Calgary and Edmonton. For residential property taxes, Vancouver has the lowest rate of all eight cities. In terms of the ratio of commercial to residential tax rates, Vancouver at 4.69 is the highest followed by Toronto at 4.50. Although these two cities have the highest ratios, it is interesting to note that these ratios have fallen in both cities over the last three years. Winnipeg has had the lowest tax ratio in each of the three years.

Table 18: Property Tax Rates in Selected Canadian Cities, 2011

	Estimated Property Taxes per $1,000 of Commercial Assessment	Estimated Property Taxes per $1,000 of Residential Assessment	Ratio of Commercial to Residential Tax Rates		
	2011	2011	2011	2010	2009
Vancouver	18.11	4.18	4.333	4.428	4.690
Calgary	15.61	5.67	2.737	2.339	2.290
Edmonton	17.34	7.10	2.451	2.137	2.120
Winnipeg	28.14	13.96	1.396	1.416	1.320
Toronto	33.66	7.93	4.266	4.337	4.500
Ottawa	33.48	12.38	2.702	2.800	2.920
Montreal	36.27	8.71	4.167	4.111	3.710
Halifax	37.87	12.69	2.984	2.966	2.900
Average	27.56	9.08	n.a.	n.a.	n.a.

Source: Altus Group Limited. 2011. "2011 Property Tax Rate Analysis." A Report prepared for Real Property Association of Canada.

Table 19 compares property-based taxes in dollars per square foot of building space for manufacturing in nine Canadian cities. Halifax has the highest property-based taxes followed by

Montreal, Prince George, and Toronto. In this table, Vancouver is in the middle of the group; Prince George is at the high end.

Table 19: Total Property-Based Taxes, Manufacturing Operations, Selected Canadian Cities

	$US per square foot of building space
Vancouver	$2.51*
Prince George	4.20*
Calgary	3.29
Edmonton	1.61
Saskatoon	2.34
Winnipeg	3.85
Toronto	3.95
Montreal	4.70
Halifax	4.81

Notes: Property taxes include all property-based taxes, including the property-based component of multi-base local business taxes. Property tax rates relate to the suburban or urban areas identified in the real estate research for this study as offering sites suitable for the types of operation being examined.
*This study incorporates the impact of a partial property tax exemption for manufacturing business.
Source: KPMG. 2010. Competitive Alternatives. KPMG's Guide to International Business Location Costs, Volume II Report - 2012 Edition.

Table 20 shows property taxes per square foot in Vancouver, Toronto, Calgary, and Winnipeg. This information, from the Vancouver Property Tax Policy Review Commission, looked at three or four high-quality downtown office buildings in each city. For each building, information was obtained on typical rent rates, typical operating costs, and levels of municipal property taxation. In Calgary and Winnipeg, the municipal business tax, which is levied in addition to the property tax, was also included. For Vancouver, the figures include regional and transit taxes to ensure a closer comparison to the services provided by other cities. The main findings from Table 21 are that total municipal property taxes per square foot of occupied office space were lower in Vancouver than in Calgary or Toronto but higher than in Winnipeg. Total occupancy costs, measured as rent plus all operating costs including all property taxation, are higher in Calgary and Toronto than in Vancouver. The difference in total occupancy cost, presented here as gross rent per square foot, is greater than the difference in tax. Of the cities analyzed, only Winnipeg offered a lower total occupancy cost and a lower property tax cost compared with downtown office costs in Vancouver.

Table 20: Property Taxes per Square Foot for High-Quality Downtown Office Buildings

	Vancouver	Toronto	Calgary	Winnipeg
Local Gov't Property Tax per sq.ft.	\$3.54 to \$4.90	\$7.04 to \$7.19	\$3.52 to \$4.70	\$1.40 to \$2.03
Business Tax per sq.ft.	n/a	n/a	\$2.34	\$0.78 to \$1.40
Total Local Levy per sq.ft.	\$3.54 to \$4.90	\$7.04 to \$7.19	\$5.86 to \$7.05	\$1.70 to \$3.42
Estimated Current Market Gross Rental Rate per sq.ft.	\$46 to \$55	\$54 to \$55	\$60.00	\$21 to \$32
Tax as a Percentage of Rental Rate	8%	13%	11%	10%

Source: Vancouver Property Tax Policy Review Commission (2007)

In summary, Vancouver has a high ratio of commercial to residential tax rates compared to many Canadian cities but a number of cities have higher property taxes per square foot on their manufacturing operations than Vancouver. For high-quality downtown office buildings, Vancouver property taxes are low compared to Toronto and Calgary but high relative to Winnipeg. Within BC, as noted earlier in earlier tables in this report, Vancouver has relatively high business tax rates and taxes per capita compared to other cities in the province.

8. Impact of Property Taxation on Business Properties

The strongest economic and fiscal arguments for assigning a tax to local governments come from the literature on fiscal federalism where there is widespread agreement on general principles that should be followed. In short, this theory prescribes a limited tax base for local governments (McClure, 2001). The best local taxes are those that have the following characteristics (Bird and Slack, 2004; Bird, 2001; and Bird and Bahl, 2008, Inman, 2005): they are based on an immobile tax base and therefore, borne primarily by local residents (not exported). They do not create problems with harmonization or harmful competition between local governments or local governments and other orders of government. They generate sufficient, stable and predictable revenues. They are visible to ensure accountability and transparency. They are perceived to be fair and they are easy to administer at the local level.

The tax on residential property meets the criteria for a solid municipal tax better than any other tax. Its base is largely immobile. Revenue is generally predictable and stable in that it does not vary with the cyclical swings in economic activity as much as personal income and consumption-based taxes. The part of the tax that is on residential property is unlikely to be exported. It is highly visible and fair as long it covers the cost of providing those services that provide collective benefits to the local community. If the property tax is a local tax only (the federal and provincial governments do not levy the tax), harmonization problems and wasteful tax competition should not be a problem. A potential downside of a local property tax is that it may be more expensive to administer than other local taxes (income, sales, fuel, for example) that could be piggybacked onto existing federal or provincial taxes. This cost may be a small price to pay, however, if local governments are to have autonomy and flexibility in setting tax policy - important ingredients of responsible, efficient, and accountable local governments (Bird, 2001, at 3).

Although the residential property tax is considered to be a good tax for local government, the same cannot be said for the non-residential property tax. The literature on property taxation of business properties (commercial and industrial) concentrates on a few issues that are of particular concern and importance to this sector (Kitchen and Tassonyi, 2012). These issues are reviewed briefly in this section.

Are non-residential properties overtaxed relative to benefits received?

The taxation of business properties (commercial and industrial) at higher tax rates than residential properties is a common practice across Canada, as it is in other countries (Bird and Slack, 2004). Higher property taxation of commercial and industrial properties is generally done in one of two ways; either through assessing business properties at higher values than residential properties with the same tax rate applied to both property types; or through the simple application of higher tax rates on business properties. Higher taxation of business properties creates a number of efficiency and equity concerns. Efficiency in municipal service levels will not be achieved if revenues collected from property taxes on business properties are used to subsidize services consumed by the residential sector. Since service levels in any municipality are driven primarily by the demands of the residential sector (they vote),[16] their subsidization means that the residential tax rate will be less than it would be in the absence of the subsidy and an oversupply of municipal services could follow. Equity is not achieved either if those benefiting from the services are not paying full costs.[17]

This heavy taxation of the non-residential sector has been addressed in a few Canadian studies. All of these estimated the benefits that the non-residential sector gets from the consumption of local public services and compared this value to the property tax paid by the non-residential sector. All studies found that the residential sector receives proportionately more benefits from local government services than the non-residential sector. For example, the non-residential sector relies less heavily on social services, social housing elementary and secondary education, libraries, recreational facilities, and it is often responsible for providing its own garbage collection, security, and fire protection. The following summarizes the Canadian studies that examined the over-taxation of businesses based on benefits received from local services:

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[16] The point that businesses do not vote is also made by CFIB (2011a) and Bish (2004). CFIB uses this point to call for a cap on business property taxes in BC at a 2:1 ratio.

[17] A recent court challenge of tax rates in the District of North Cowichan by Catalyst Paper, a major pulp and paper mill in BC, on the grounds that they were not consistent with the cost of services provided, was decided in favour of the municipality.

- A review of property taxes and municipal expenditures in eight municipalities in Ontario in 1990 concluded that non-residential property taxes ranged from 28 to 51 percent of total local property taxes but accounted for only 31 to 40 percent of municipal expenditures (Kitchen & Slack, 1993).
- A fairly recent study in the City of Vancouver (MMK Consulting, 2007) compared the consumption of services to taxes paid by the different property classes and concluded that the non-residential sector paid $2.42 in taxes for each $1 of benefit received, while the residential sector paid $0.56 for each $1 of benefit.[18] The study also concluded that the non-residential share of services consumed was 24 percent of the total; the residential share was 76 percent.
- In a *Commentary* by the C.D. Howe Institute (Mintz and Roberts, 2006), the authors concluded that the non-residential sector is over taxed relative to the residential sector when compared with the benefits that each of these sectors receives.

The over-taxation of the non-residential sector has generated some policy initiatives. Beginning in 1995, for example, Vancouver city council moved to correct this discrepancy. Over the ensuing five years, it shifted some of its tax burden from the commercial and industrial sector onto the residential sector. In response to the recommendations of the Vancouver Property Tax Policy Review Commission in 2007, the city continued to shift some of the burden of the business class onto the residential class.

Beginning in 1998 in Ontario, as part of the property tax reforms, the provincial government introduced policies to reduce the over-taxation of non-residential property. Transitional tax ratios were regulated by the Province as upper limits on the municipal ability to shift more of the relative tax burden onto non-residential property. The transitional tax ratios reflected the relative tax burden by comparing the notional effective tax rate (taxes as a percent of assessed value) of a particular property class (e.g. commercial property) to the effective tax rate of the residential

[18] As noted in the Report of the Vancouver Property Tax Policy Review Commission (2007), the MMK study only looks at the direct benefit from services. It does not consider the quality of life in a city, the perceived level of safety, the availability of a high quality park and recreation system, and the provision and maintenance of high quality infrastructure all of which are important factors in attracting skilled labour to a community (Vancouver Property Tax Policy Review Commission, 2007). Another key consideration not included in the MMK Report is that property tax is a deductible expense, for income tax purposes, for taxable businesses. This shift would suggest that in 2006 the business share of services would rise to about 32 percent.

property class. Subsequently, the relative burden of taxation has been measured by “tax ratios” for each class of property. The ratio is calculated by dividing the tax rate for each class by the tax rate for the residential property class. At the same time, ‘ranges of fairness’ were established to block any increase in the relative tax burdens of the non-residential property classes. In 2001, the provincial government in Ontario announced that tax increases in municipalities where the ratios were beyond the provincially established average ratios - must be imposed on the residential sector and not on the commercial/industrial sector. In 2003, greater flexibility was provided to allow an increase in the tax rate on these classes of property of up to 50 percent of the increase in the residential rate. (Bird, Slack, and Tassonyi, 2012).

Once the path was set by provincial policy, the City of Toronto began reducing the ratio between the tax rates on non-residential and residential properties. The target was to reduce the ratio from 4:1 in 2004 to 2.5:1 by 2013 for small businesses and by 2017 for all non-residential properties.

Should taxes on non-residential properties be used to fund education?

Most provinces in Canada levy a provincial property tax mostly to fund elementary and secondary public schools. Newfoundland is an exception in that there are no provincial property taxes. New Brunswick sets provincial tax rates but the funds go into general revenues and are not specifically directed to education. Manitoba is the only remaining province where school boards set their own property tax rate for funding a portion of local education costs. Elsewhere, the province sets the property tax rate for funding public schools.

Using property taxes to fund public education raisers two issues: first, is there a role for local funding of schools and should this funding come from property taxes on both residential and non-residential properties? Second, is there a role for provincial property tax funding of schools?

The public education system in Canada provides direct benefits to its students along with indirect or collective benefits for residents of that community. If one adheres to the benefits model of financing public services, there may be merit in a finance system that assigns some direct responsibility for funding to local residents. Accountability and economic or allocative efficiency may be advanced because of the more direct link between the level of government raising the revenue and the level of government making the expenditure. The flexibility and autonomy of local school boards, districts, or divisions, may also be enhanced through access to locally generated revenues from the residential sector, allowing them to accommodate more easily the desires of the local community.

Given the arguments in support of local funding and, therefore, property taxation since it is the only tax available at this level, there is a further issue of whether non-residential (commercial and industrial) and residential properties should both contribute. Making a case for local funding from the commercial and industrial sector is far more difficult than for the residential sector. Although commercial and industrial property owners benefit from a well-educated and highly skilled labour force, this benefit tends to be linked to the education system across the province, if not the country, and not directly to the expenditures made in a particular school jurisdiction (Bartik, 1985). As long as the local education system provides no collective or direct benefits to local non-residential property owners, the imposition of non-residential property taxes to fund a portion of local education costs is both inefficient and unaccountable. It is inefficient because the commercial/industrial sector pays taxes for services that primarily benefit the residential sector. This type of cross subsidization has the potential for leading to an oversupply of services for the residential sector. Further, it lacks accountability since those who pay are not the recipients of the service for which they have paid.

While there is a solid argument against funding schools from a local property tax on non-residential property, such cannot be claimed for a local tax on residential property. Moreover, the arguments against the taxation of commercial and industrial properties for funding local schools should not be confused with the arguments in support of province-wide property taxation of non-residential properties for school purposes. They are quite different as is noted below.

As long non-residential property taxes are used to finance education, there may be good reasons to pool non-residential assessment and assign the tax revenues to the Province (British Columbia, 1988). For example, it is unlikely that the local commercial/industrial sector directly benefits from the local education system although it is almost certain to benefit from a province-wide system (Bartik, 1985). Furthermore, if the local tax is exported or partially exported, much of the burden is likely to be borne by residents of other taxing jurisdictions and the initial intent, which was to tax the local non-residential sector, will not be achieved.[19] Furthermore, a uniform province-wide tax on business may be desirable on allocative efficiency grounds so that industrial or commercial location is based on economic considerations and not the tax (Kitchen and Auld, 2006).

Province-wide pooling of non-residential assessment would also have the advantage of injecting more `wealth neutrality' into the funding system in those provinces that currently do not have it. British Columbia (British Columbia, 1988), for example, has a scheme of this type whereby the situation where a school board located in an industrially or commercially rich area can raise more tax revenue without raising the tax on residential property when compared with an area where the commercial/industrial mix is relatively low is prevented.

Do non-residential property taxes impact economic activity and competitiveness?

The concern with the over-taxation of the commercial/industrial sector arises because this tax represents a fixed charge that must be paid. The tax is fixed in the sense that it is unrelated to the value of municipal services used or profits earned. As long as the tax rate is greater than the marginal cost of municipal services consumed or if there are no economic rents for it to capture, resources will be allocated inefficiently. This over-taxation of the non-residential sector can lead to less economic activity, lower output, fewer jobs and a less competitive business environment (Ottawa, 1998, chapter 2). Because property taxes on business properties increase the marginal effective tax rate on capital, they discourage investment on structures and reduce the competitiveness of the business sector (Dahlby, 2012).

A very important issue is whether the higher taxes on business properties plays a role in location decisions. Firms and businesses generally locate where they can maximize profits, so property taxes can influence a firm's location decision in the same way as any other cost of production. The impact on location decisions of property tax differentials depends on a number of factors

[19] Tax exporting is discussed further below.

including the size of the differential between competing municipalities and whether this differential is sufficient to offset differentials in other costs or market factors.

There is no general agreement about the importance of property taxes in location decisions. The available evidence, most of which is drawn from the United States, suggests that property tax differentials are relatively unimportant in inter-municipal or inter-regional location decisions but do play a role in intra-municipal or intra-regional location decisions (Kitchen and Slack, 1993). In other words, differences in property taxes are unlikely to play a significant role in a firm's decision whether to locate in the metropolitan areas of Vancouver, Calgary, Montreal, Halifax or Toronto. They are likely to play a role, however, once a firm or business decides to locate in a certain region such as the Greater Toronto Area, Metro Vancouver or the Region around Montreal. Indeed, one might expect property tax differentials to produce a heavy concentration of all firms and businesses in the jurisdictions with the lowest effective tax rates. In other words, intra-municipal tax competition may be destructive if it leads to a race to have the lowest tax rates.

One study of 147 municipalities in British Columbia in 1987 and 1991 found some evidence that municipalities reacted to increases in their neighbours' taxes but no evidence of widespread destructive competition for capital (Brett and Pinske, 2000). A second Canadian study using data for 100 municipal governments in New Brunswick from 1983 to 2003 found that neighboring jurisdictions show more similarity in their tax policies than non-neighboring jurisdictions, but it found no evidence of tax competition (Brett & Tardif, 2005). Similar studies in the U.S., however, have concluded that property tax competition among neighbouring municipalities is much more prevalent and widespread (Brueckner and Saavedra, 2001). A recent study of Massachusetts suggested that municipalities choose to classify properties so they can vary taxes based on employment and income effects (Lee and Wheaton, 2010). A major reason for these different findings in Canada and the US likely arises because Canadian municipalities are relatively new to property tax incentives.[20]

[20] Property tax incentives in Canadian jurisdictions were described in section 5 above.

In practice, of course, the extent to which firms and businesses respond to differences in property taxes depends on many factors, including the importance of being in the region's or the city's core; the extent of opportunities to shift the difference in taxes on to consumers (of the final service or product), employees or owners; and the enhanced amenities that may be offered by a 'downtown location.'

A study of office buildings in downtown Chicago found that 45 percent of the amount by which the property tax in one building exceeded the tax in another was shifted forward onto tenants as higher gross rents per square foot and 55 percent was borne by the owner (McDonald, 1993). The fact that some firms, such as large financial institutions, are willing to pay a premium for a location in the downtown core suggests that these firms/businesses benefit from "economic rents" created by that location. Taxing these rents is economically efficient, since it will not affect the location decision. It is difficult, however, to know the extent of the economic rent; that is, it is difficult to know at what level of rent (or property tax) a firm will choose to move out of the downtown location.

There are other more positive effects that could arise from shifting the relative tax burden away from the business sector (Damus et. al., 1987; and Devarajan et. al, 1980). First, a reduction in the relative property tax burden on this sector reduces the potential for exporting the property tax to non-residents (see discussion below). Second, since there is some evidence suggesting that capital invested in real property is, on average, taxed at higher rates than capital invested in other factors of production at least in Canada, the variation in capital tax rates is reduced if this burden is altered. On balance, the reduction in tax exporting and the decrease in the variance in tax rates could result in an improved allocation of resources for the Canadian economy as a whole and overall efficiency gains (Economic Council of Canada, 1987, at 103 and 106).

One argument for higher property taxes on businesses is that they can deduct all expenses incurred in earning income (including property taxes) and owner-occupiers of residential dwellings are not allowed similar deductions, The extra tax on business is justified on the grounds that it evens out the disparities in taxes that would otherwise exist. While it is true that owner-occupiers are not able to deduct property taxes, it is also the case that owner-occupiers are not required to include in taxable income either imputed income from their owner-occupied dwellings or capital gains earned on the disposal of their principal residences (Boadway and Kitchen, 1999, chapter 3). Such exclusion is similar to a deduction from income for tax purposes (as in the case of the tax on businesses) in that both reduce the taxable economic income of the taxpaying unit.

Are property taxes on commercial and industrial properties exported?

The opportunity for the commercial/industrial sector to export its property tax burden onto residents of other municipalities has the potential for misallocating resources and lowering municipal accountability. Of course, the ability of a firm to export will depend on the elasticity of demand (the extent to which a change in quantity demanded is sensitive to a price change) for the exported product.

Tax exporting refers to situations in which some portion of the local tax burden is borne by people who live elsewhere either through a change in relative commodity prices or a change in the net return to non-locally owned factors of production (inputs in the production process). For example, if higher effective tax rates on commercial and industrial properties lead to relatively higher prices charged on the sale of that community's exports to other communities, the taxing jurisdiction will have effectively shifted part of its tax burden onto residents of other communities. If the commercial/ industrial property tax in every jurisdiction is exported to some extent, those jurisdictions exporting relatively more of the tax will be better off than those jurisdictions exporting relatively less. In particular, if the burden of this tax is shifted from residents of high income jurisdictions to those of low income jurisdictions, the distribution of income among jurisdictions is worsened.

There is almost no evidence on tax exporting in Canada. One study on a sample of large municipalities in Ontario concluded that the degree of exporting ranged from a low of 16 percent of the commercial/industrial tax burden to a high of 106 percent (Thirsk, 1982). More than this, relatively rich municipalities (in terms of per family income) had relatively high exporting rates whereas relatively poor municipalities had relatively low tax exporting rates. Tax exporting thus resulted in an implicit transfer from relatively low income municipalities to relatively high income municipalities.

Finally, when the commercial/industrial sector exports its tax burden, municipal government accountability is weakened because the direct link between the municipal government responsible for local services and the ultimate person paying the tax is absent.

Should property taxes be used to stimulate economic development?

Although there is some consensus in the academic literature that property taxes have a small but significant influence on business location within metropolitan areas (but not between metropolitan areas), there is no consensus that property tax incentives are an effective strategy to achieve economic growth.

Those who favour property tax incentives argue that the firms that receive them provide benefits to the community that exceed the costs to the municipality for business services and environmental degradation caused by the businesses (Glaeser, 2002). Moreover, new investment can bring in other benefits to a municipality in addition to increasing production, wages, and property tax revenues. Specifically, there will be benefits from agglomeration economies (Garcia-Mila & Mc Guire, 2002): firms benefit from locating near each other. Finally, tax incentives are an indication that the municipality is pro-business (Brunori, 2007).

Opposition to tax incentives focus on the zero-sum game aspects of tax competition: development at one location will be at the expense of development at another location (Kitchen, 1985). Tax incentives are often wasted on firms that would have located there anyway. Moreover, tax incentives can lead to unfair competition among businesses and can lead to a situation where no major investments occur without them. Tax cuts need to be financed in some way and, if they are financed by cutting public services that businesses want, the net effect on economic development could be negative.

The literature against property tax incentives argues that the provision of services that, at the same time, provides direct benefits to existing residents and firms is preferable to tax incentives (Bartik, 1991), (Fisher, 1997). In particular, the provision of infrastructure would not only influence firms to locate in the municipality but it would also provide a tangible resource to the community. Moreover, these studies argue that lowering non-residential property taxes for all businesses in the municipality is preferable to tax concessions to any specific business. In other words, policy-makers should concentrate more on the issues of general tax policy for all firms (such as equity and efficiency) than on tax incentives for specific firms (Wasylenko, 1997).

What is the impact of property taxes on competitiveness in BC?

The objective of the BC Jobs Plan is to create long-term jobs and investment in the province. The Plan identifies eight sectors where the province is believed to have a competitive advantage and is critical for BC’s growth: forestry, mining, natural gas, agrifoods, technology/clean technology/ green energy, tourism, transportation/ports/marine/aerospace, and international education. Assessment and tax data do not permit the identification of each of these sectors but a few recent studies in BC have analyzed the impact of property taxes on the competitiveness of some of these sectors. The findings of these studies are summarized below.

In general, the studies suggest that the impact of property taxes on business competitiveness depends on a number of factors – the nature of the business decision (investment in new facilities, ongoing operations, etc.), the business in question (pulp and paper, shipbuilding, mining, etc.), plus some other factors.

The Report of the City of Vancouver Property Tax Policy Commission (2007) examined the property tax burden on businesses in Vancouver. The evidence for Vancouver showed that, although the tax ratio on Class 6 properties had increased from 2.6 in 1984 to 6.15 in 2007, the tax share for non-residential properties had fallen from 90.2 percent to 52.8 percent. A comparison of property taxes per square foot of occupied office space in selected Canadian cities suggested that municipal property taxes for quality office buildings are lower in Vancouver than

Toronto or Calgary but higher than in Winnipeg.[21] Within Metro Vancouver, the findings show that businesses of all types (office, industrial, retail) in Vancouver do pay more taxes per square foot than in Burnaby and Richmond. For many jurisdictions, however, the tax differential was less than the rent differential. Although the over-taxation of business properties relative to the benefits received from city services was recognized, the report found little evidence to suggest that property taxes have had a negative impact on business investment (measured by value of building permits and new construction, for example) or the demand for commercial space.

The Report of the Municipal Port Property Taxation Fairness Commission (2010) indicated that some individual port property taxpayers in certain port municipalities experienced problems in 2003 prior to the capping of port property taxes. Nevertheless, the Commission did not believe that the problem with port property taxes in 2003 was widespread. Evidence provided by the Commission showed that municipal property tax rates and tax ratios increased on major industrial properties since 1985, but suggested that increasing property tax rates and tax ratios by themselves were not evidence of an increasing property tax burden. The analysis suggested that, in most municipalities in most time periods, property tax rate and ratio increases were consistent with the municipal policy of keeping the property tax share constant for Class 4 properties.

The limited data available to the Commission suggested that property taxes represent a small portion of the total costs faced by port operators and thus it could not reach a firm conclusion on the significance of property taxes to the operations of the port operators. Nevertheless, the Commission agreed with the argument that ever-increasing property tax rates would add to the cost of new investment and could therefore discourage investment. Indeed, the potential impact on investment was probably the strongest argument for the introduction of the tax cap.

The Commission noted that property tax rates on ports are higher in BC than they are for their US counterparts but it also recognized that other differences in the assessment and taxation of ports in the US compared with Canada make the comparison of the property tax burden difficult to determine. Notwithstanding higher property tax rates in Metro Vancouver, the number of

[21] This information was summarized in Table 20 above.

containers handled has increased faster in Port Metro Vancouver than other western ports in North America, but some sectors (for example, break bulk) experienced difficulties. In the end, the Commission was uncertain about the true impact of property taxes on the competitiveness of ports in Metro Vancouver.

A recent study undertaken by Davies Transportation Consulting Inc. et al. (2011) for the Union of British Columbia Municipalities (UBCM) and the BC Ministry of Community, Sport and Cultural Development analyzed the impact of property taxes on the most important business decisions of major industrial facilities (Class 4 properties). Their case studies included: pulp and paper, sawmills, mining, aluminum and smelting, shipbuilding and repair, and marine terminals and grain elevators. The study analyzed the impact on four decisions: investment in new facilities, ongoing operations and temporary closures, re-investment in existing plants, and economic obsolescence and plant closure.

Their review of Statistics Canada data showed that, for Canada, the share of total indirect taxes (including municipal property taxes) averaged .54 percent of total industry operating costs from 2005 to 2009. The range was from .17 percent for the petroleum and coal sector to 1.19 percent for marine terminals. In their analysis of a sample of individual companies in BC, with the exception of marine terminals, property taxes did not account for “a dramatically disproportionate share of costs relative to national averages.”

In terms of the impact of property taxes on competitiveness, their findings from interviews with several major companies were similar for each of the sectors that they interviewed. The findings suggest the following:

- Property taxes are not a major competitive issue under typical operating conditions. As noted above, property taxes represent a relatively small portion of overall costs and, as long as industries are operating profitably, have little impact on business operating decisions.

- Property taxes are not a significant factor in investment in major capital projects because the anticipated costs are small relative to total costs and potential revenue from the new investment. These investments tend to be undertaken when commodity prices are high and investors see a potential for extraordinary profits.
- Property taxes do have an impact on decision around re-investment in existing facilities, however. These investments tend to be undertaken when commodity prices are low in order to maintain production capacity or reduce operating costs.
- Property taxes also have a larger impact on firms with many different locations. These firms will optimize the allocation of capital to those projects which have the highest return. Other things being equal, firms will thus have an incentive to favour investments in jurisdictions with lower major industrial tax rates.
- Finally, property taxes become a major factor for firms in financial distress because these taxes may contribute a large portion of the firm's fixed costs.

9. Final Observations

As was noted in the introduction to this Report, there is no single index or measure that unequivocally determines whether the property tax on the business sector affects competitiveness. The answer depends on a variety of factors including the location of the business, the timing of the business cycle, and the type of business that is taxed, for example. In trying to gain insights into whether the business tax in British Columbia plays a role in competitiveness, this report has done a number of things. It used a variety of comparative statistical measures on property tax levels and trends in British Columbia, completed a number of inter-provincial and inter-city comparisons of both the institutional framework for property taxation and tax levels, drew from previous studies on this topic, and reviewed the literature on property taxation and its impact on competitive decisions making.

Based on this research, the following observations can be made:

- Municipal spending responsibilities and reliance on municipal revenues in British Columbia are lower than in other large provinces in Canada (Alberta, Ontario, and Quebec).
- Total property taxes per capita for municipal purposes are lower in BC than they are in Alberta, Ontario, Quebec, and Nova Scotia.
- Municipal property taxes per capita on business are low in BC when compared with the other large Canadian provinces and cities.
- Education property taxes per capita on business properties in BC are generally higher than in Alberta but lower than in Ontario. This may be partially attributed to provincial decisions in each of these provinces in recent years to lower the property tax for education on business properties.
- Although tax rates on business properties have been rising in British Columbia, tax shares for most business property classes have been falling. Property taxes per capita have increased more rapidly on residential properties than for business properties, with the exception of Class 5 properties.
- On average across British Columbia, tax rates are higher for all business property classes than they were 25 years ago but they have begun to decline in recent years. Tax shares for most business properties (with the exception of Class 5) have fallen and property taxes per capita have increased more for residential properties than business properties.
- Most important, however, is that the trends in the previous two bullets do not apply to all municipalities. There is a great deal of diversity in the tax treatment of business properties among BC cities. It is difficult, therefore, to offer general conclusions about the property tax on businesses for the province as a whole. It appears that some municipalities have reduced the tax burden on business properties while others have increased it. There is no single story to describe the tax treatment of the business sector.
- On the basis of benefits received, the empirical evidence in Canada, limited as it may be, suggests that the non-residential sector is over taxed relative to the residential sector. This over-taxation is potentially harmful if it reduces the level of economic activity.
- The literature, almost all of it based on U.S. studies, suggests that property tax differentials are relatively unimportant in inter-municipal or inter-regional location decisions but do play a role in intra-municipal or intra-regional location decisions. Two

Canadian studies on tax competition find no evidence of harmful competition for capital and that neighboring jurisdictions show more similarity in their tax policies than non-neighboring jurisdictions.

- Some provinces permit municipalities to reduce property taxes on business properties as a way of stimulating economic development. Based on the literature, there is no consensus that property tax incentives are an effective strategy to achieve economic growth.
- For competitiveness purposes, studies suggest that the impact of property taxes on business competitiveness depends on a number of factors – the nature of the business decision (investment in new facilities, on-going operations, etc.), the business in question (pulp and paper, shipbuilding, mining, etc.), plus other factors. More specifically, property taxes on business properties are not a concern unless the firm is in financial distress and the tax is a large component of its fixed cost, and when commodity prices are low and operating costs must be reduced.

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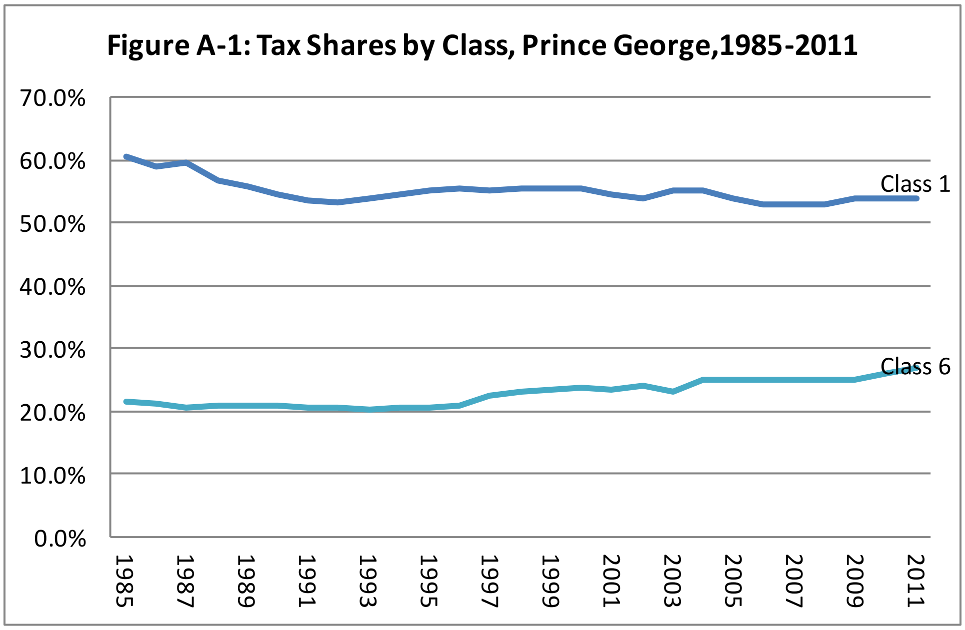
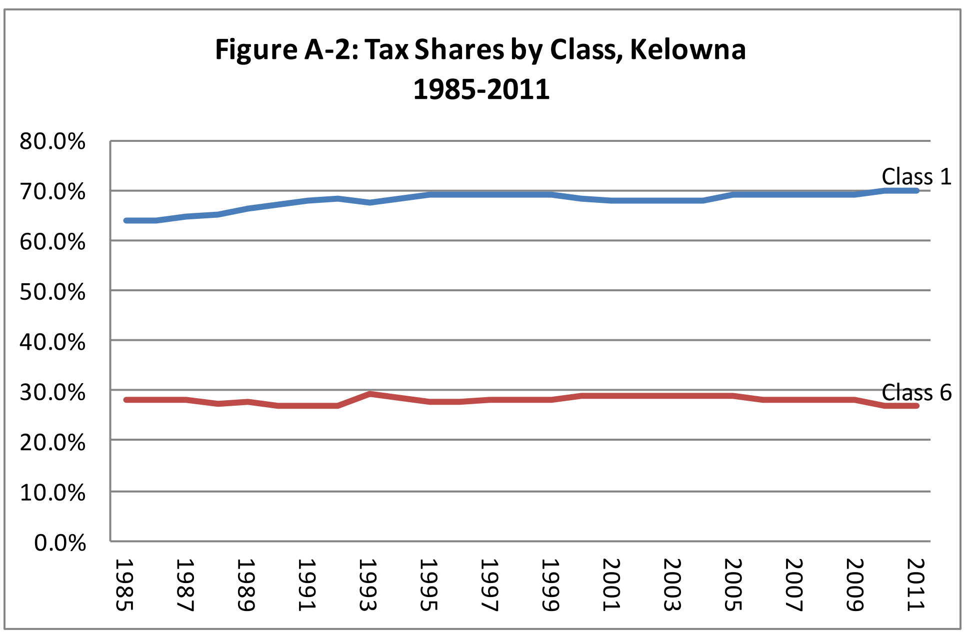
Appendix A: Municipal Tax Shares





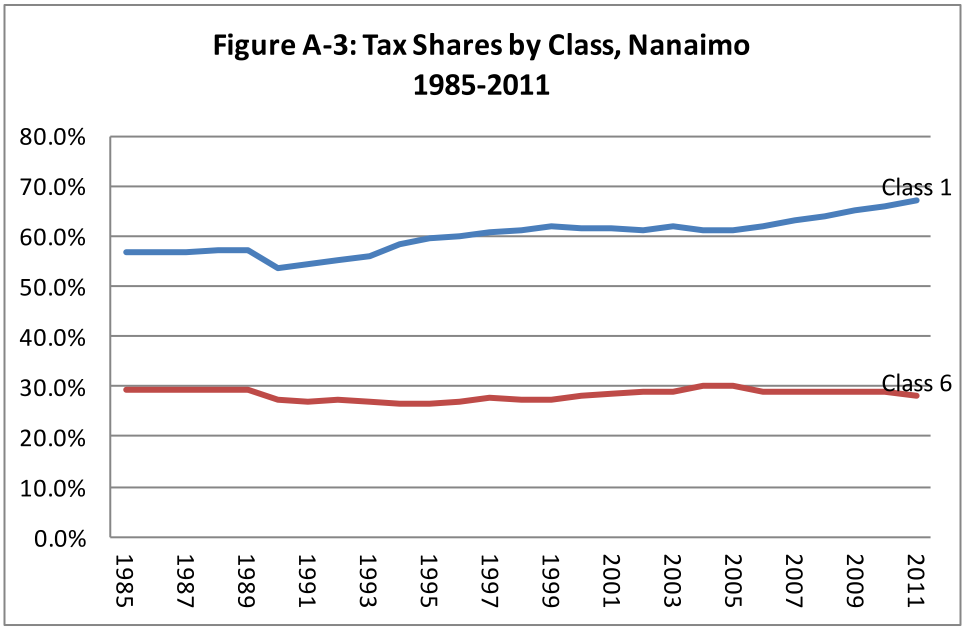


Figure A-3: Tax Shares by Class, Nanaimo
1985-2011
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
Class 1
Class 6
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011

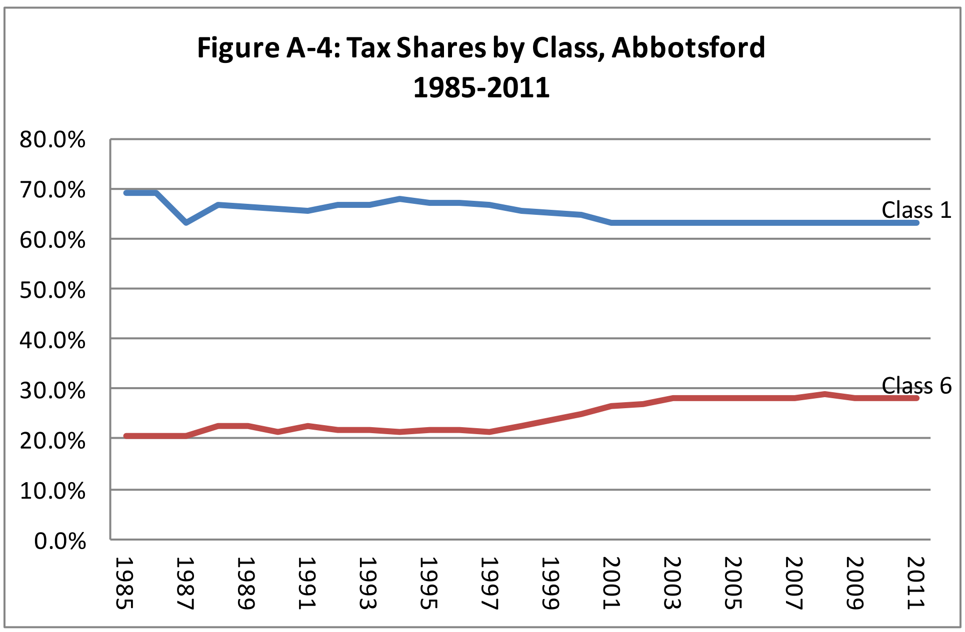


Figure A-4: Tax Shares by Class, Abbotsford
1985-2011
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
Class 1
Class 6
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011

Figure A-5: Tax Shares by Class, Cranbrook
1985-2011

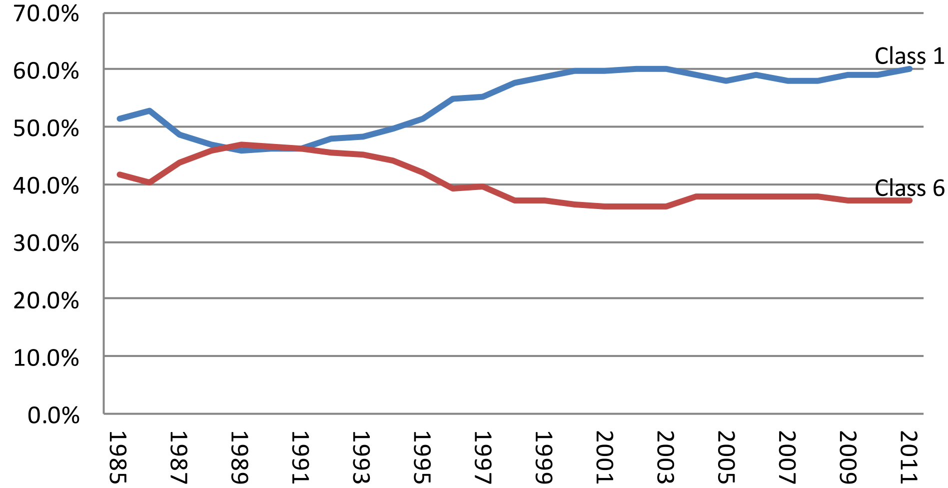
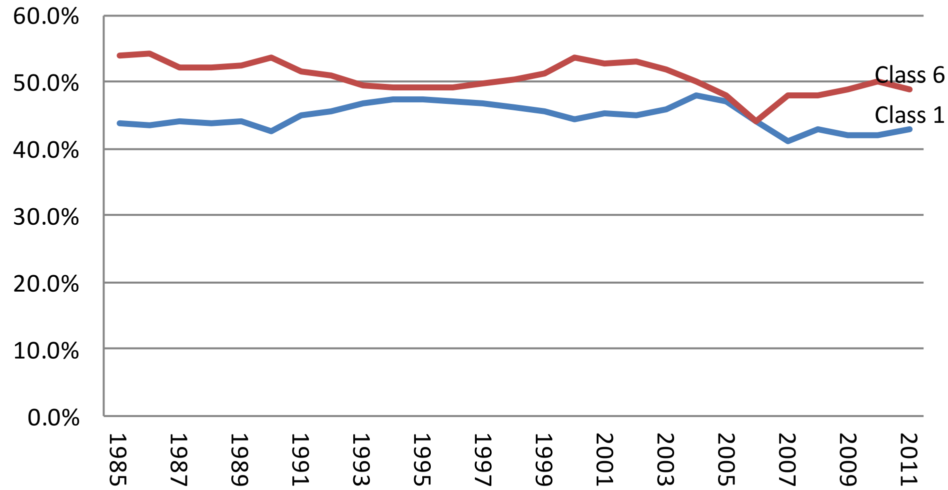


Figure A-6: Tax Shares by Class, Fort St. John
1985-2011



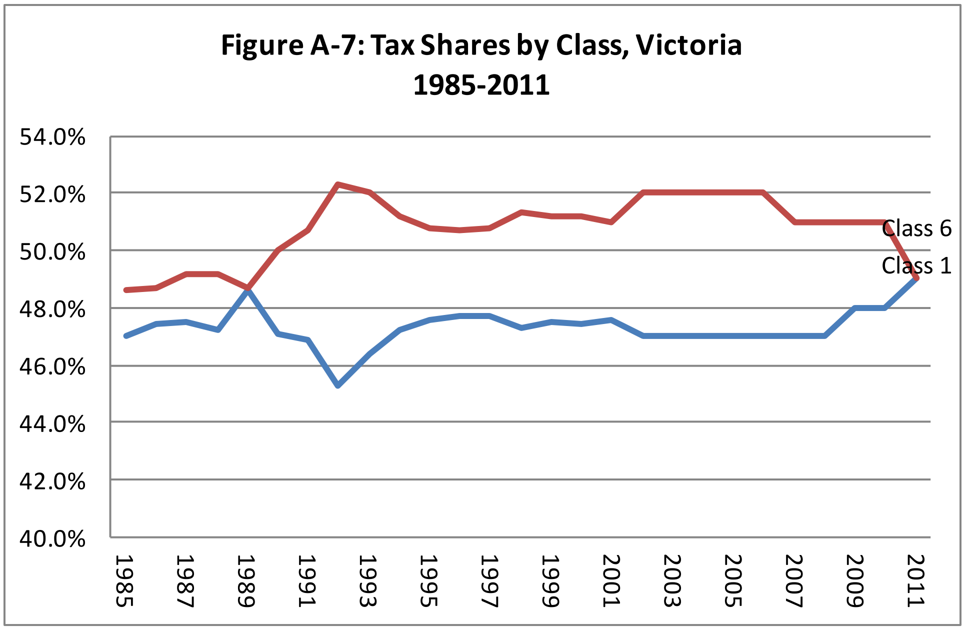


Figure A-7: Tax Shares by Class, Victoria
1985-2011
54.0%
52.0%
50.0%
48.0%
46.0%
44.0%
42.0%
40.0%
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
Class 6
Class 1

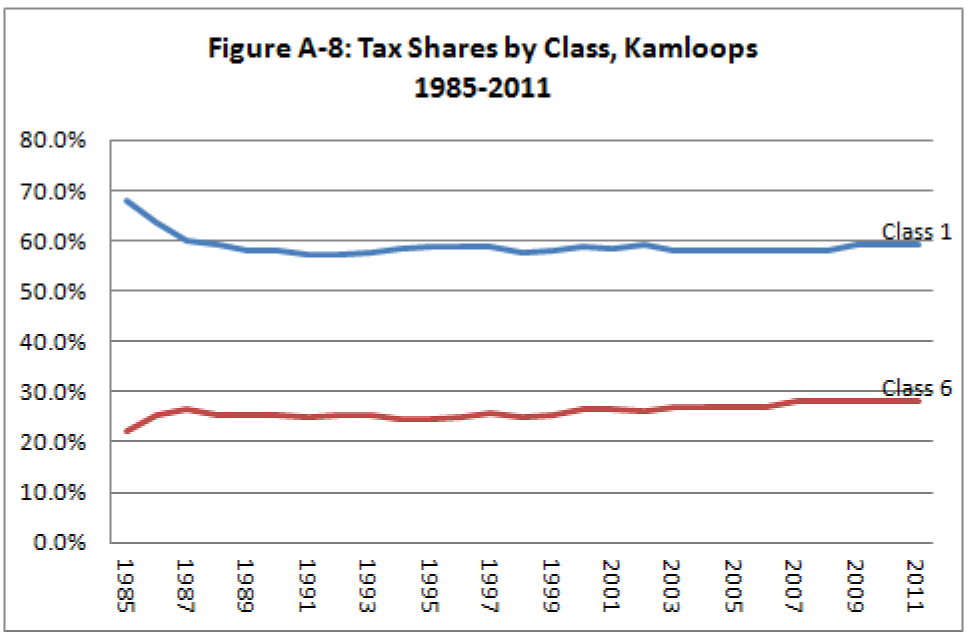
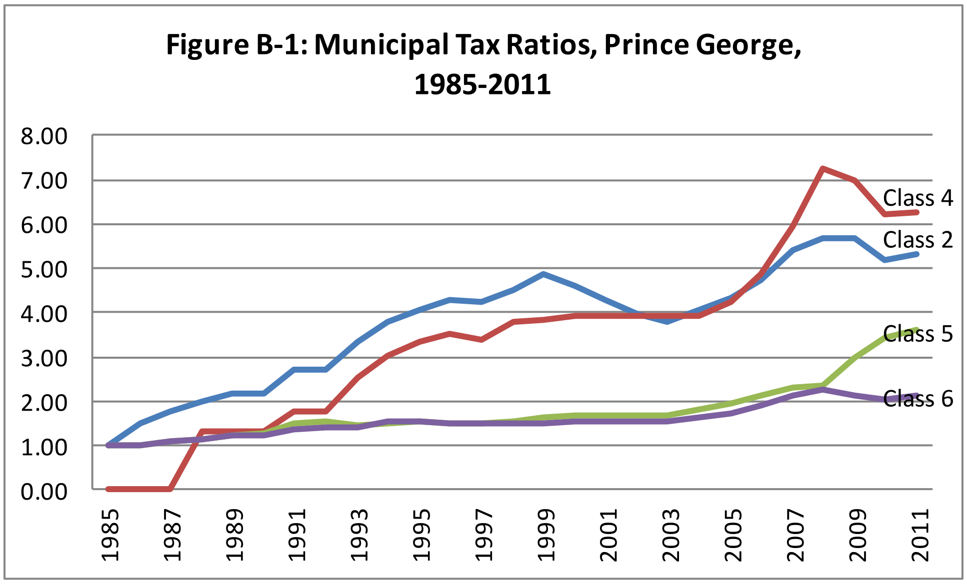
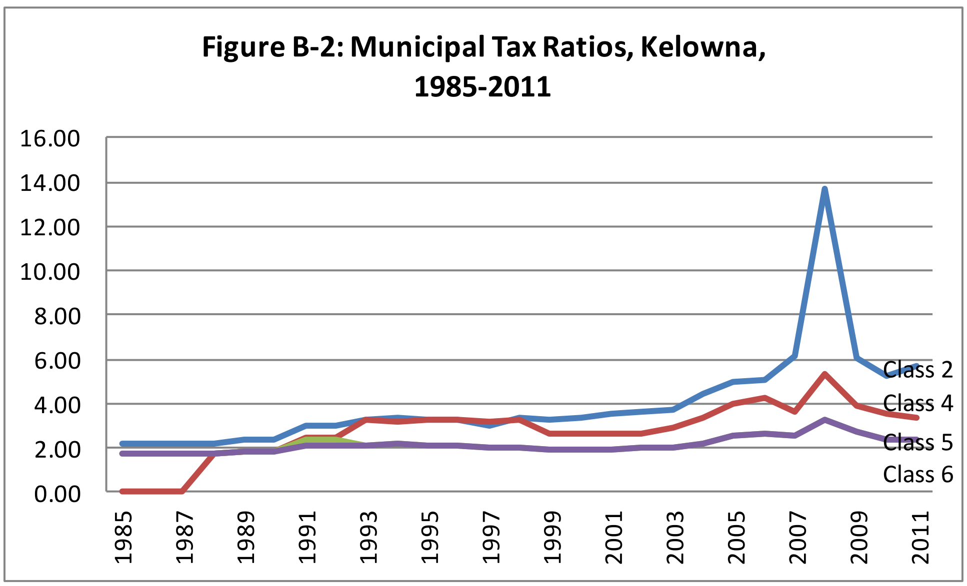


Figure A-8: Tax Shares by Class, Kamloops
1985-2011
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
Class 1
Class 6

Appendix B: Municipal Tax Ratios





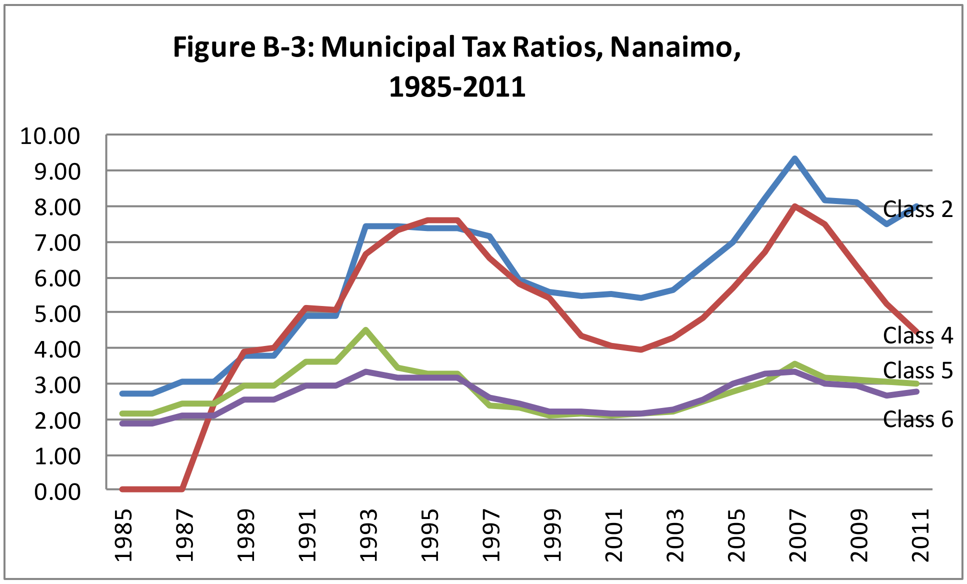


Figure B-3: Municipal Tax Ratios, Nanaimo, 1985-2011
10.00
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
Class 2
Class 4
Class 5
Class 6

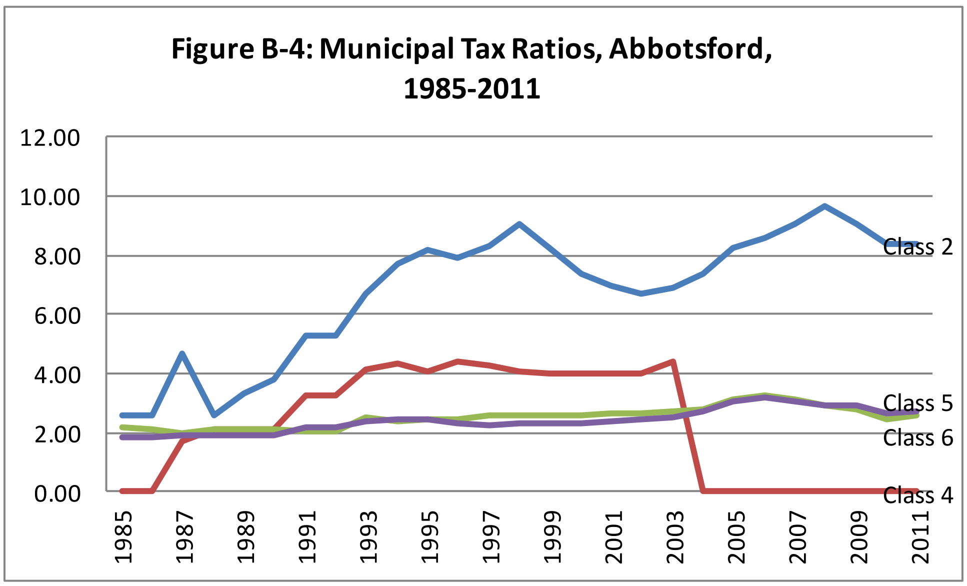


Figure B-4: Municipal Tax Ratios, Abbotsford, 1985-2011
12.00
10.00
8.00
6.00
4.00
2.00
0.00
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
Class 2
Class 5
Class 6
Class 4

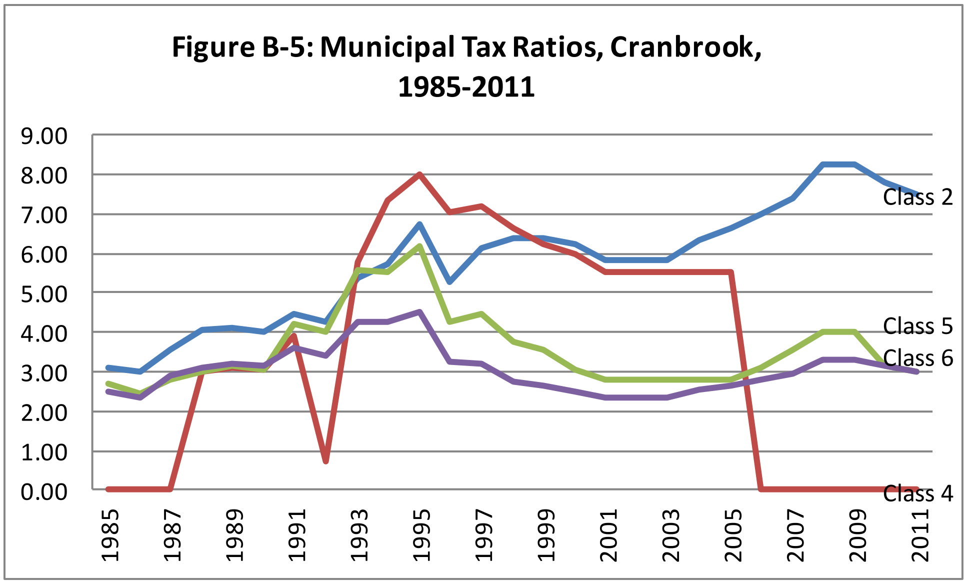


Figure B-5: Municipal Tax Ratios, Cranbrook, 1985-2011
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
Class 2
Class 5
Class 6
Class 4

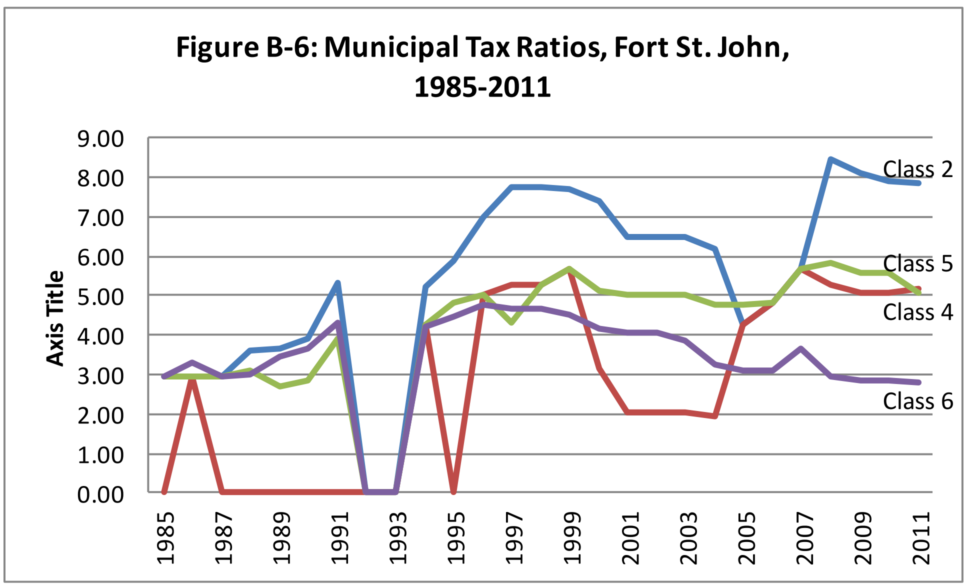


Figure B-6: Municipal Tax Ratios, Fort St. John, 1985-2011
Axis Title
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
Class 2
Class 5
Class 4
Class 6

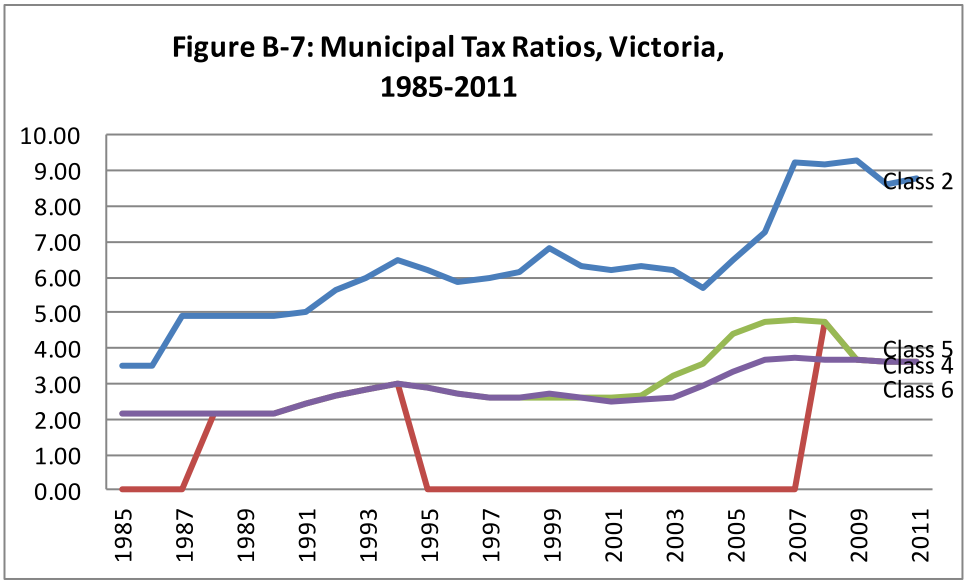


Figure B-7: Municipal Tax Ratios, Victoria, 1985-2011
10.00
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
Class 2
Class 5
Class 4
Class 6

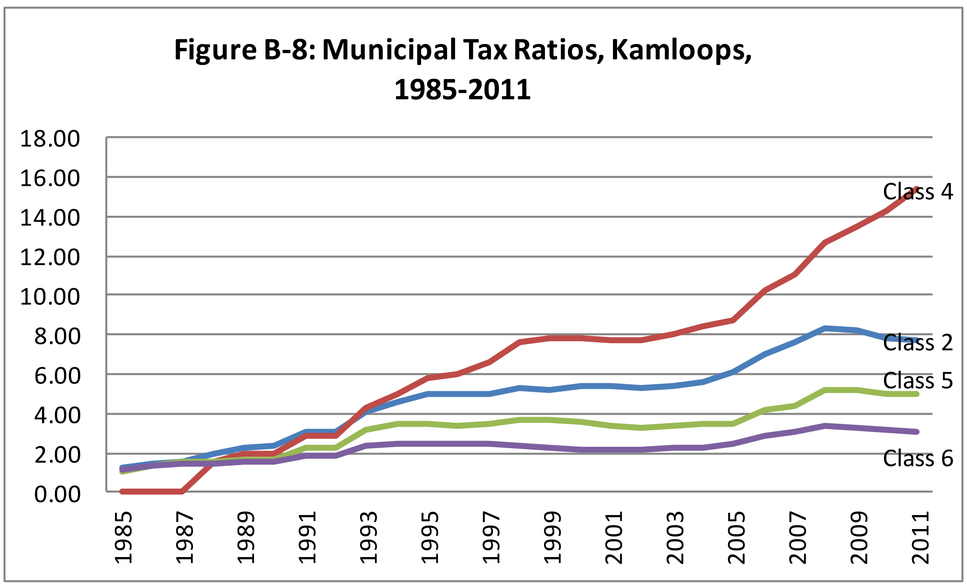


Figure B-8: Municipal Tax Ratios, Kamloops, 1985-2011
18.00
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
Class 4
Class 2
Class 5
Class 6

Appendix C: Municipal Tax Review – Terms of Reference

The purpose of this study is to provide a basis for the Expert Panel to:

- consider the impact of municipal property taxes on business on the overall competitiveness of the British Columbia tax system; and,
- evaluate options – within the panels overall terms of reference - that could address areas where the analysis suggest municipal property taxation challenges the overall competiveness of British Columbia's tax system.

In undertaking this work the contractors will:

- consult with the appropriate B.C. Government agencies (B.C. Assessment, Ministry of Finance, Ministry of Community, Cultural and Sport Development) to assemble the existing analytical work that has been done within the B.C. Govt';
- consult with any other parties that they consider have done substantial analytical work on the subject;
- determine what additional analytical work they will need to complete, and to provide the Panel with:

    1. an estimate of BC's overall property tax load on businesses compared with other provinces. This should include an overview of variations among classes of businesses (commercial, industrial, etc.) and where possible and appropriate, key economic sectors;
    2. trends in the proportion of municipal property taxes received from businesses in BC including variations among regions, economic sectors (where possible) or local governments within BC.
    3. a description of how BC's institutional framework (e.g. legislation, Community Charter requirements) for municipalities' authority to levy differential property taxes compares with other provinces.
    4. a review of approaches used in other provinces/jurisdictions to align municipal taxation policies with provincial economic development objectives.