

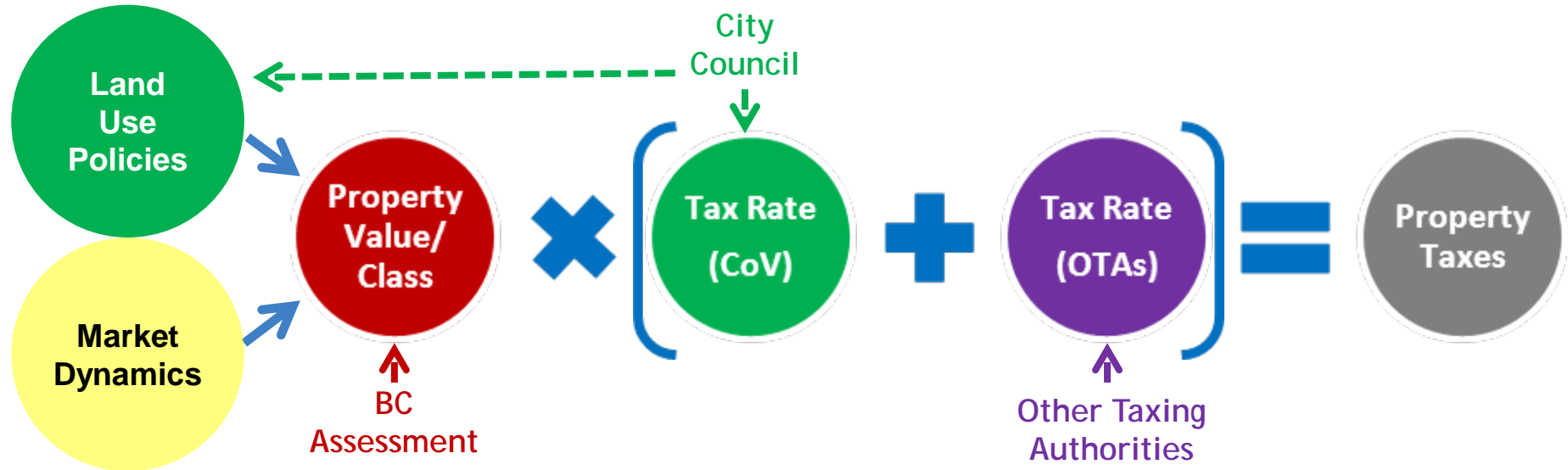
# 2019 Property Taxation: Targeted Land Assessment Averaging

Regular Council - March 12, 2019



- 
- **Property Assessment & Taxation Framework**
  - Assessment Changes & Taxation Impact
  - Targeted Land Assessment Averaging
  - Provincial Tax Relief Programs
  - Recommendations
  - Development Potential & Impact on Independent Small Businesses
  - Update on Business Tax Share & Tax Rate Ratio, and Provincial Assessment Reform Work

# Property Assessment & Taxation Framework



## BC Assessment determines:

- property value based on highest & best use & market activities
- property class based on actual use

## City Council determines:

- land use policies (zoning, density, etc.)
- total tax levy to be collected
- residential/business tax share
- tax rate for each property class
- use of land assessment averaging

City tax rates are determined by...

- How much property tax is required to support the budget

**Total Tax Levy = Operating Budget – Non-tax Revenues**

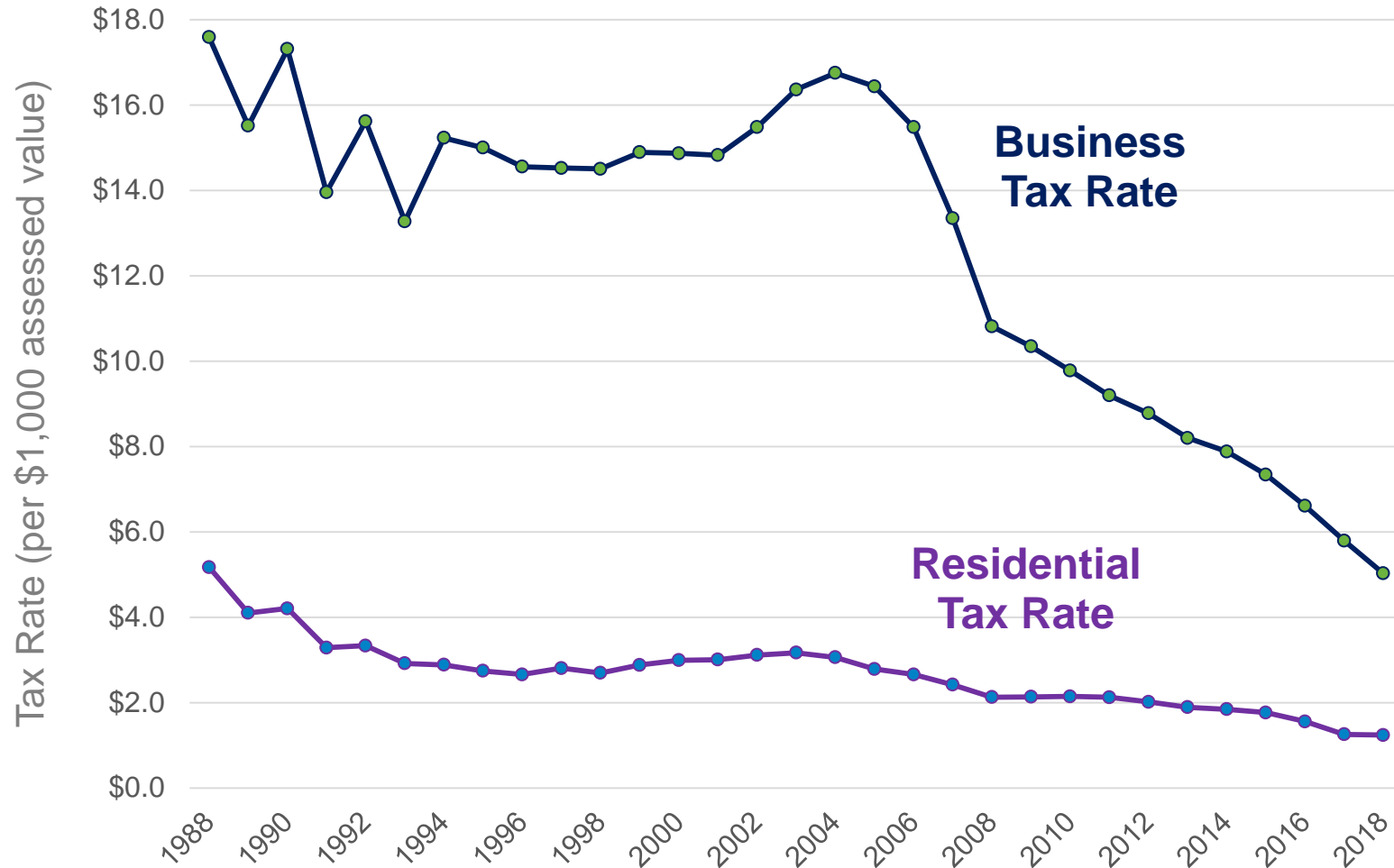
- How tax levy is shared across property classes

**2018: Residential 55% / Non-residential 45%**

- How tax levy is shared within a property class

**Property Tax Rate = Tax Levy ÷ Taxable Assessment Base**

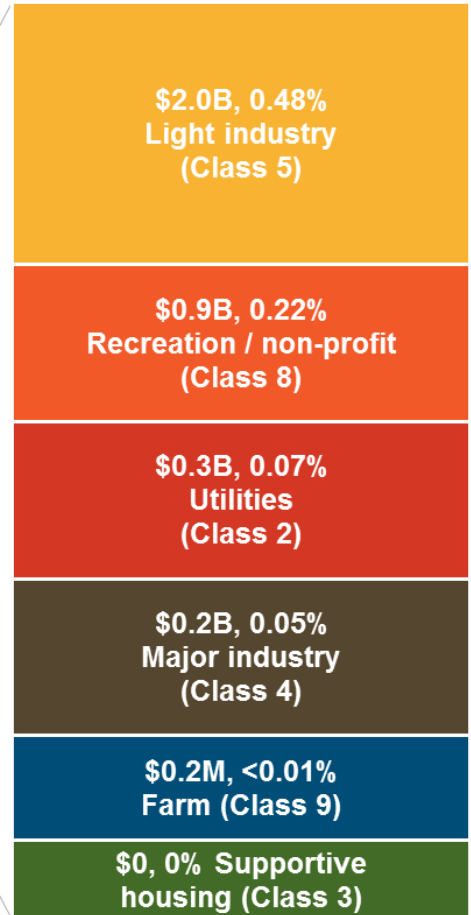
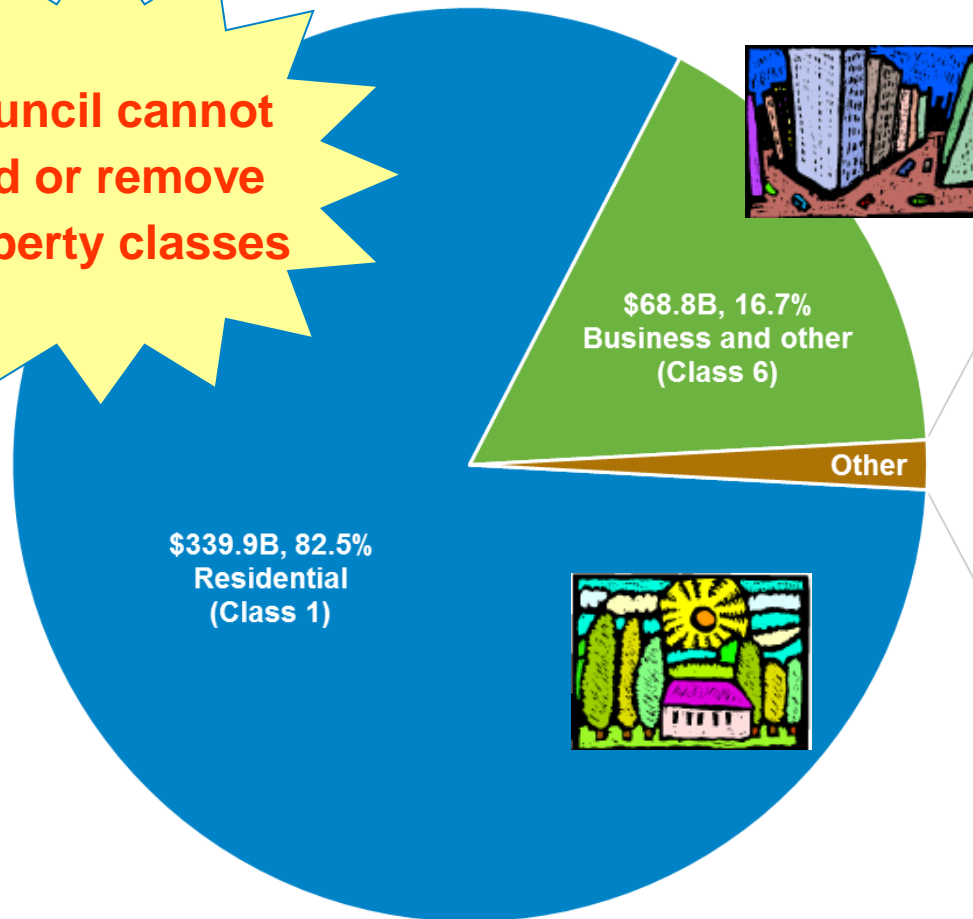
# Revenue Neutrality



**City does NOT get more taxes as property value increases.  
Tax rates are adjusted to collect levy set by Council.**

# Property Classification

**Council cannot add or remove property classes**

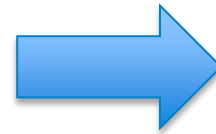


**Council can only set one tax rate for each property class**

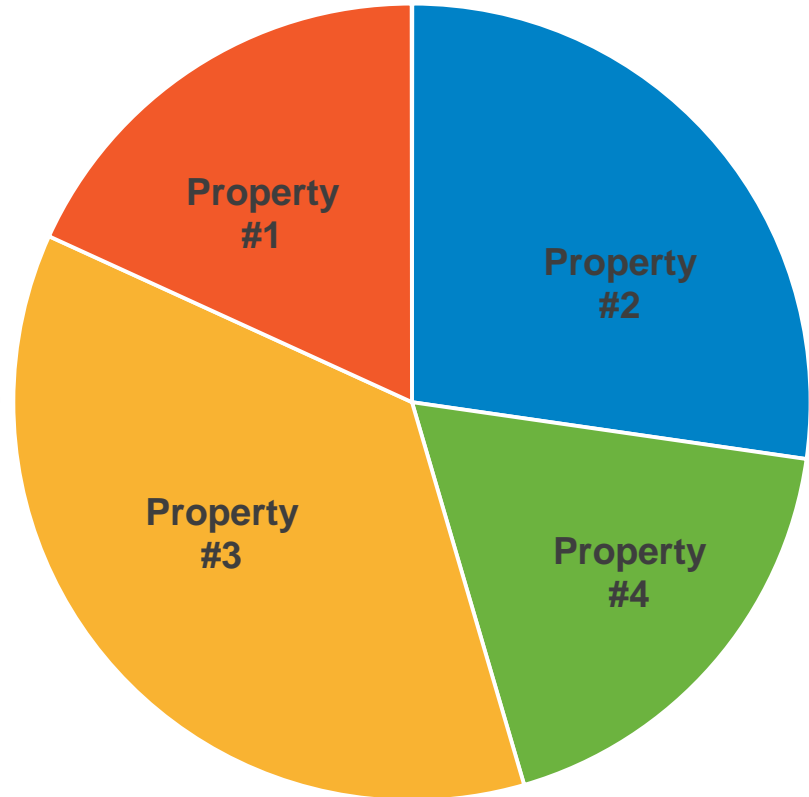
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# Assessment Changes & Taxation Impact

Year 1



Year 2



**City allocates taxes among properties based on assessed values**

- below avg increase in property value for 1 & 4 → lower tax
- above avg increase in property value for 2 & 3 → higher tax

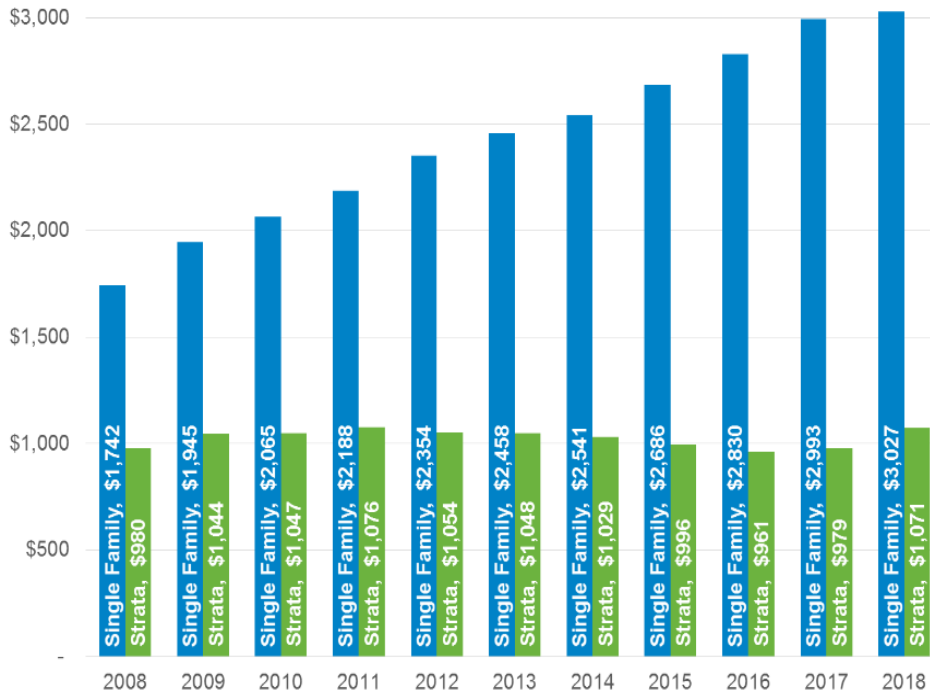


# Assessment Changes & Taxation Impact

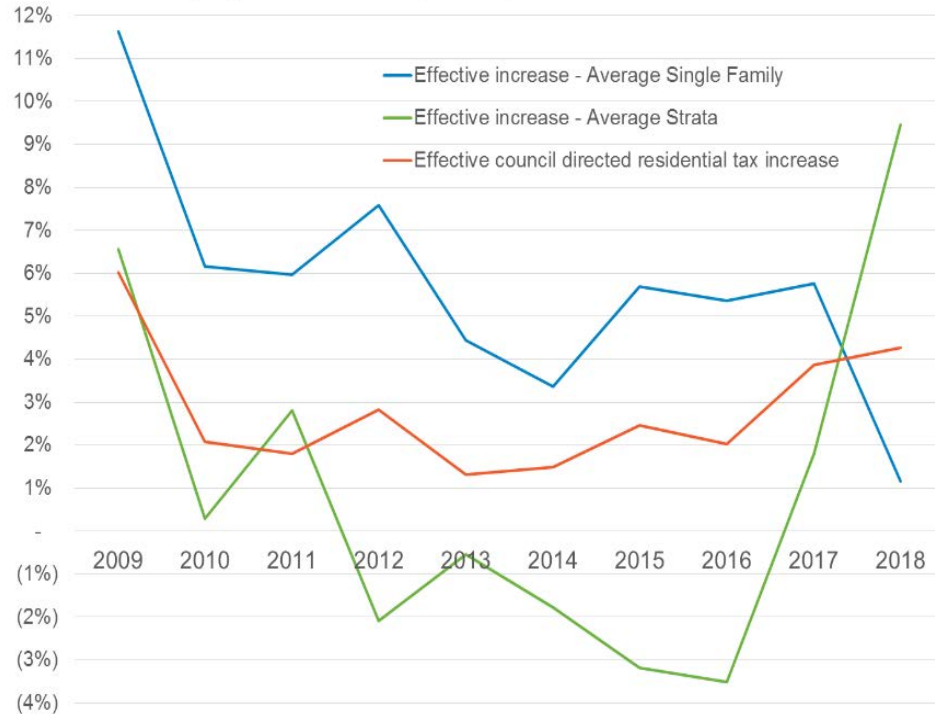
## Residential



Average City Property Tax Single-Family vs. Strata

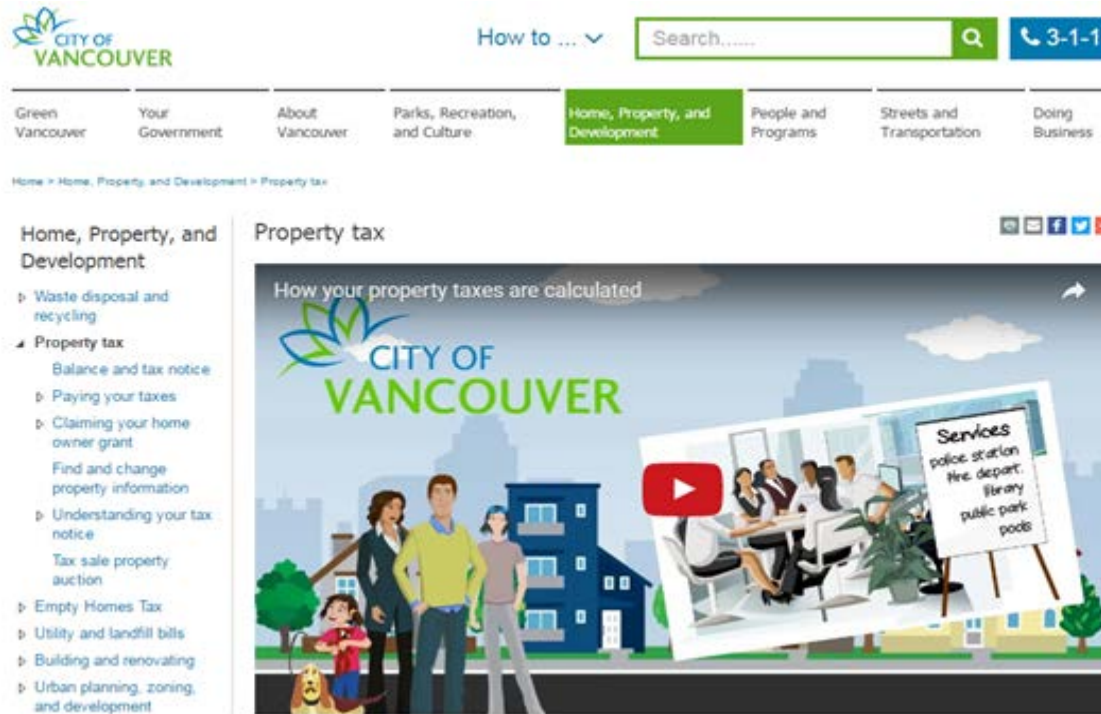


City Property Tax Increase Single Family vs. Strata vs Overall Residential



Single family homes have had higher tax increases than strata until recent years

A video at [vancouver.ca/property-tax](http://vancouver.ca/property-tax) illustrates the relationship between assessment changes and property taxes



Q4 2018 - BCA notified property owners with significant assessment increases (>25% higher than class average increase for residential, ≥15% higher than class average increase for all others)

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# Property Tax Relief Programs



Residential	Non-residential
-------------	-----------------

## Provincial Programs

- |   |     |
|---|-----|
| 1. Assessment Act s19(8)<br>(long-term owner/occupier adjustment) | N/A |
| 2. Home Owner Grant   | N/A |
| 3. Property Tax Deferment   | N/A |

## City of Vancouver Program

Targeted Land Assessment Averaging for “hot” properties  
(transitioning from 3-yr to 5-yr in 2019)

**Targeted averaging provides short-term, multi-year relief to residents and businesses to mitigate significant tax increases**

# What is a “Hot” Property?

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Property Tax Policy Review Commission's definition (2014)

*A property that experiences an unanticipated, year-over-year increase in total net assessed value, before land averaging is applied, which exceeds the average assessment increase for the same property class >10%*

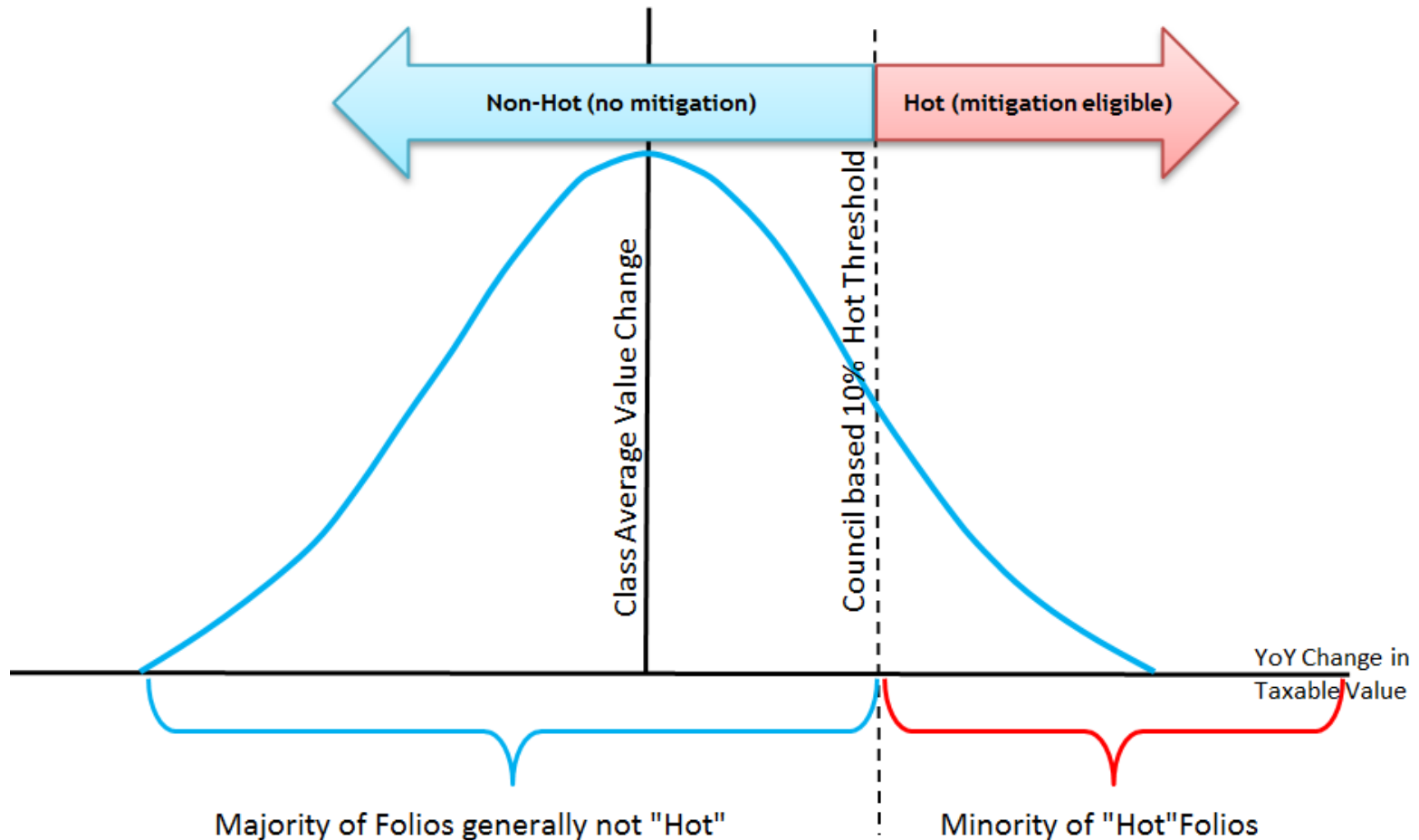
# Why Properties become “Hot”?

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- supply and demand
- market speculation
- major infrastructure investment (e.g. rapid transit)
- City-led neighborhood planning effort which define new highest & best uses for existing properties

# City Tax Relief Program

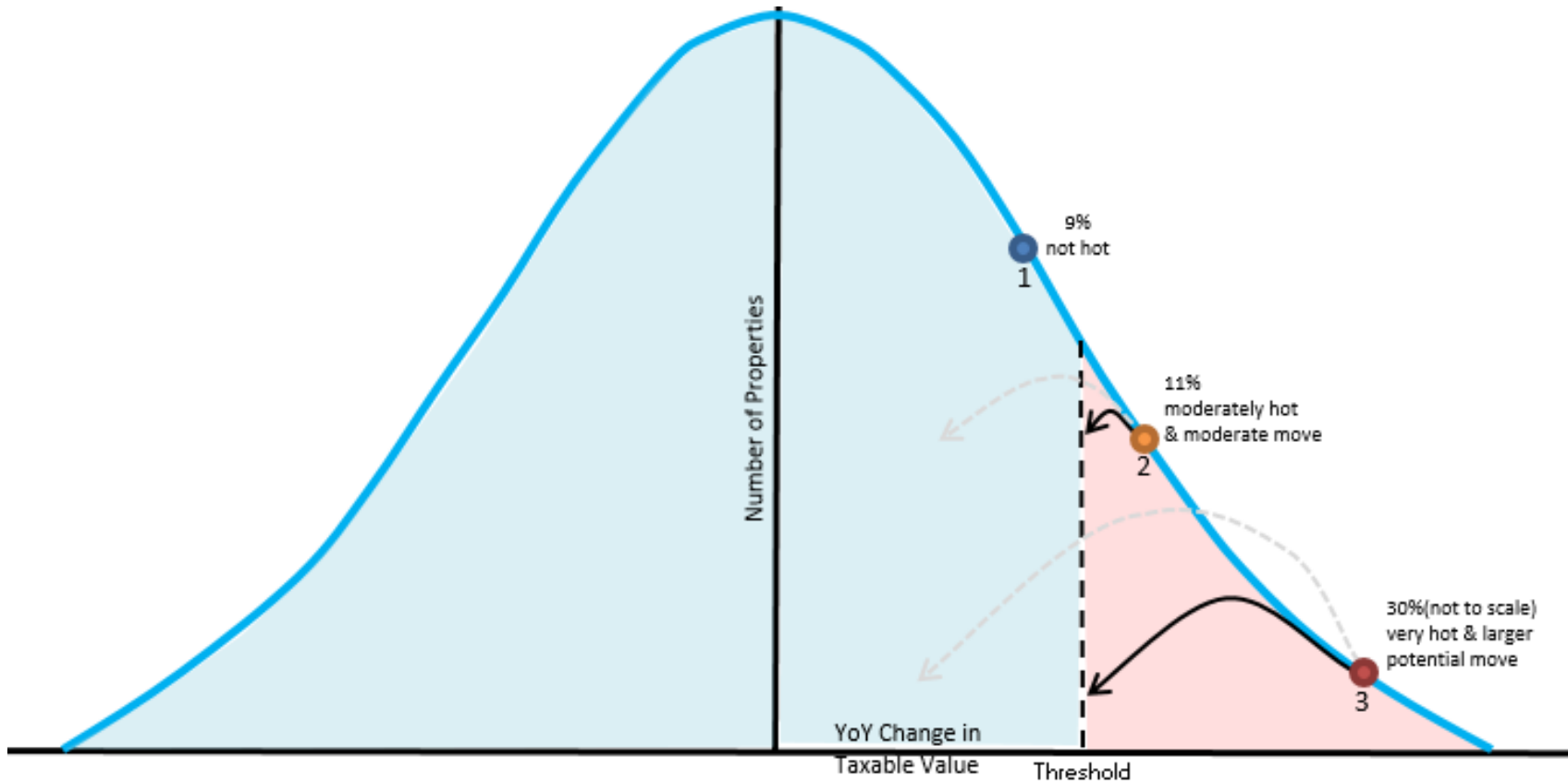
## Targeted Land Assessment Averaging



Targeted, tailored & time-limited tax relief

# City Tax Relief Program

## Targeted Land Assessment Averaging



Only “hot” properties above the threshold are eligible for averaging. Averaging lowers taxable value up to, but not below, the threshold.

*(Note: The Province confirmed in Feb 2019 that the City has the authority to limit the impact of averaging up to the threshold. 2019 is the 1st year to effect this limit.)*



# City Tax Relief Program

## Targeted Land Assessment Averaging



### Market Value Approach

### 5-yr Averaging Approach

2019 Land Value

Average of 2015-19 Land Value

+ 2019 Improvement Value

+ 2019 Improvement Value

= 2019 Taxable Value<sub>Market</sub>

= 2019 Taxable Value<sub>Average</sub>

x 2019 Tax Rate<sub>Market</sub>

x 2019 Tax Rate<sub>Average</sub>

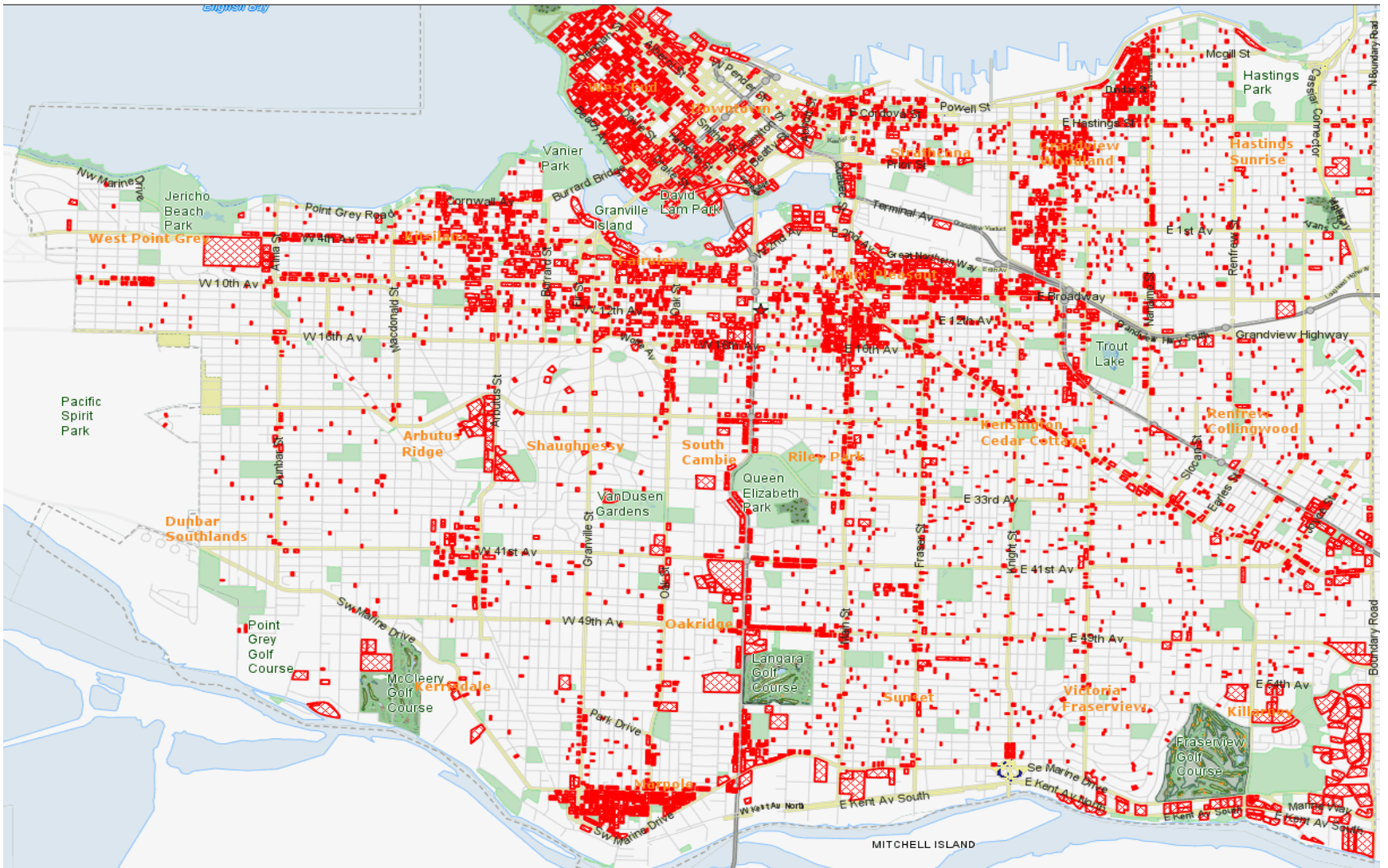
= 2019 City Tax Levy

= 2019 City Tax Levy

For eligible "hot" properties,  
taxable value<sub>average</sub> will not fall below the threshold value

# Where are the “Hot” Residential Properties?

2019: ~42,200 (21%) [2018: ~39,700 (21%)]

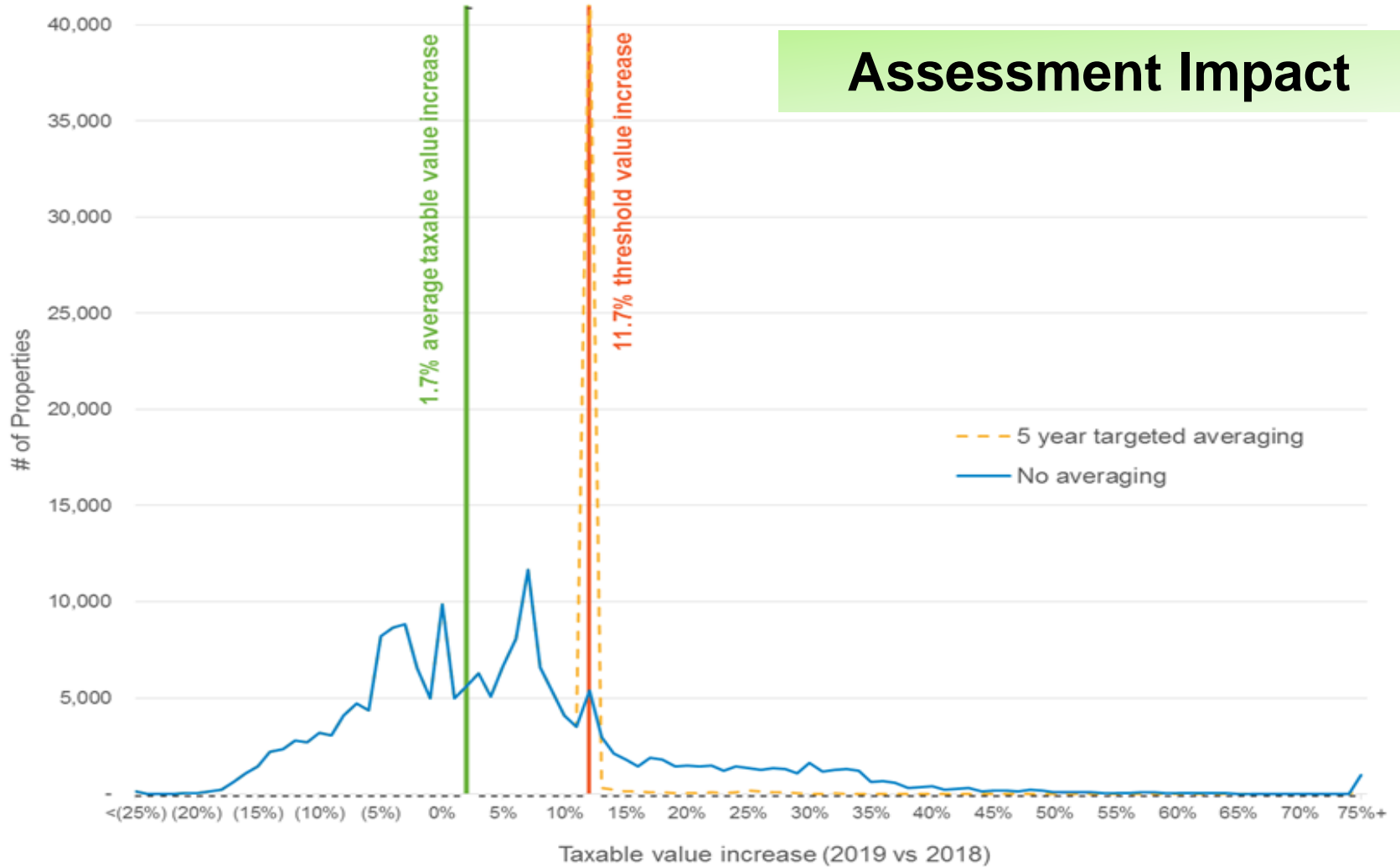


# Targeted Averaging – Residential

Threshold: Value Increase >11.7% [2018: 20.2%]



## Assessment Impact

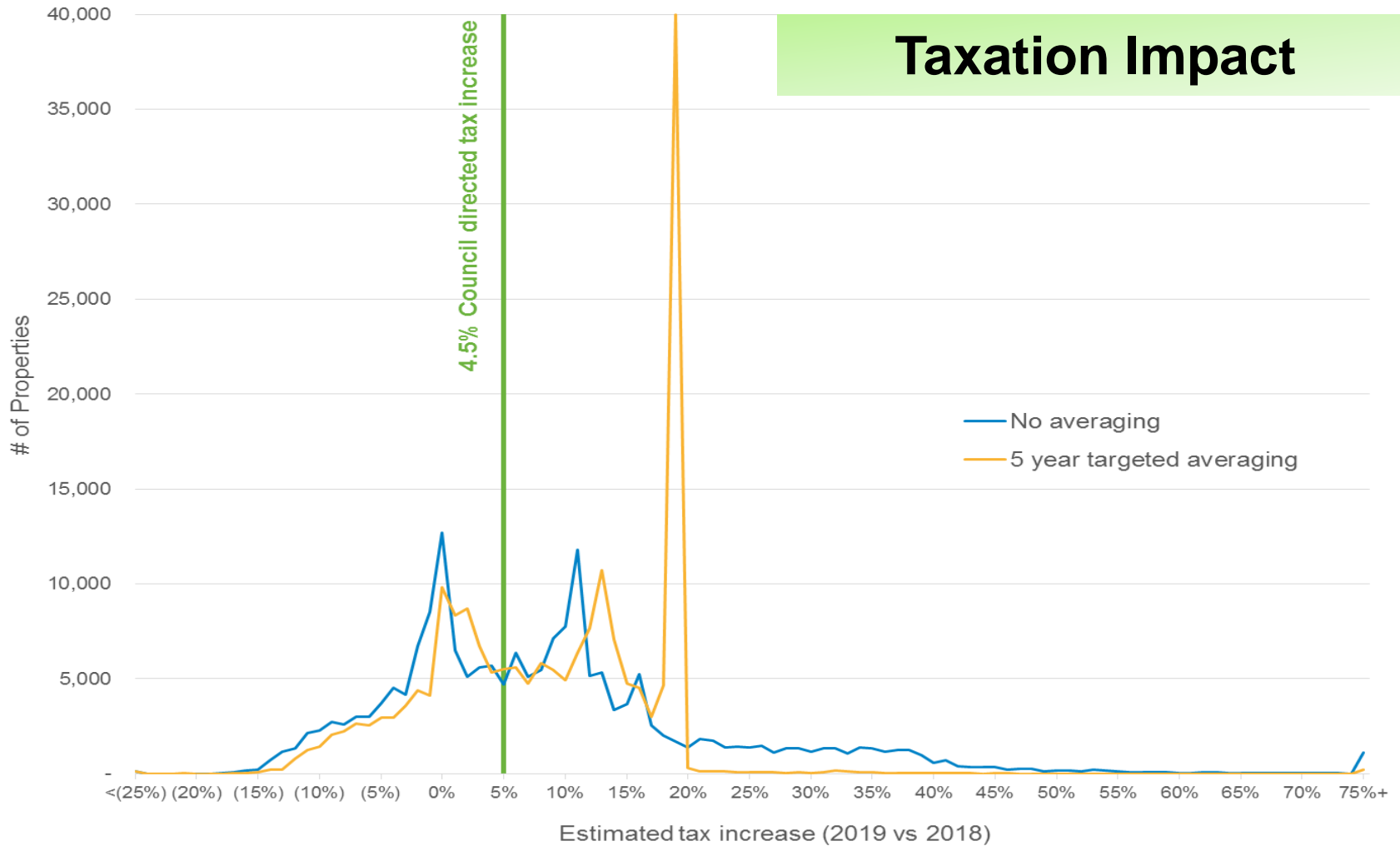


# Targeted Averaging – Residential

Threshold: Value Increase >11.7% [2018: 20.2%]



## Taxation Impact



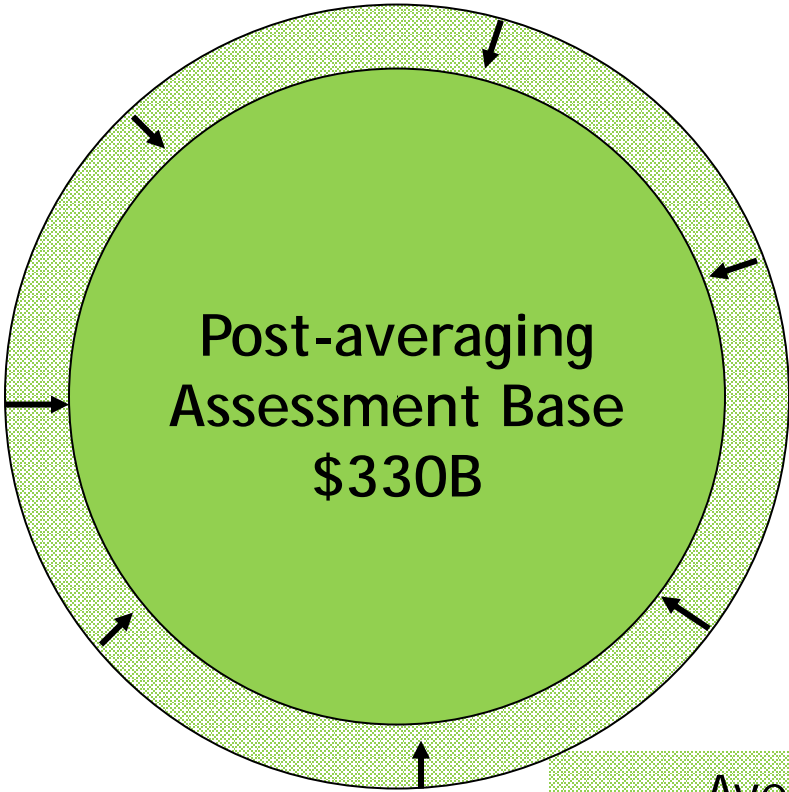
# Averaging – Impact on Residential Tax Rate



**Pre-averaging  
Assessment Base  
\$337B**

Tax levy required	\$ 434M
<u>Assessment base</u>	<u>\$ 337B</u>
Tax rate	\$1.287

# Averaging – Impact on Residential Tax Rate



Tax levy required	\$434M	\$434M	
<u>Assessment base</u>	<u>\$337B</u>	<u>\$330B</u>	↓
Tax rate	\$1.287	\$1.315	↑

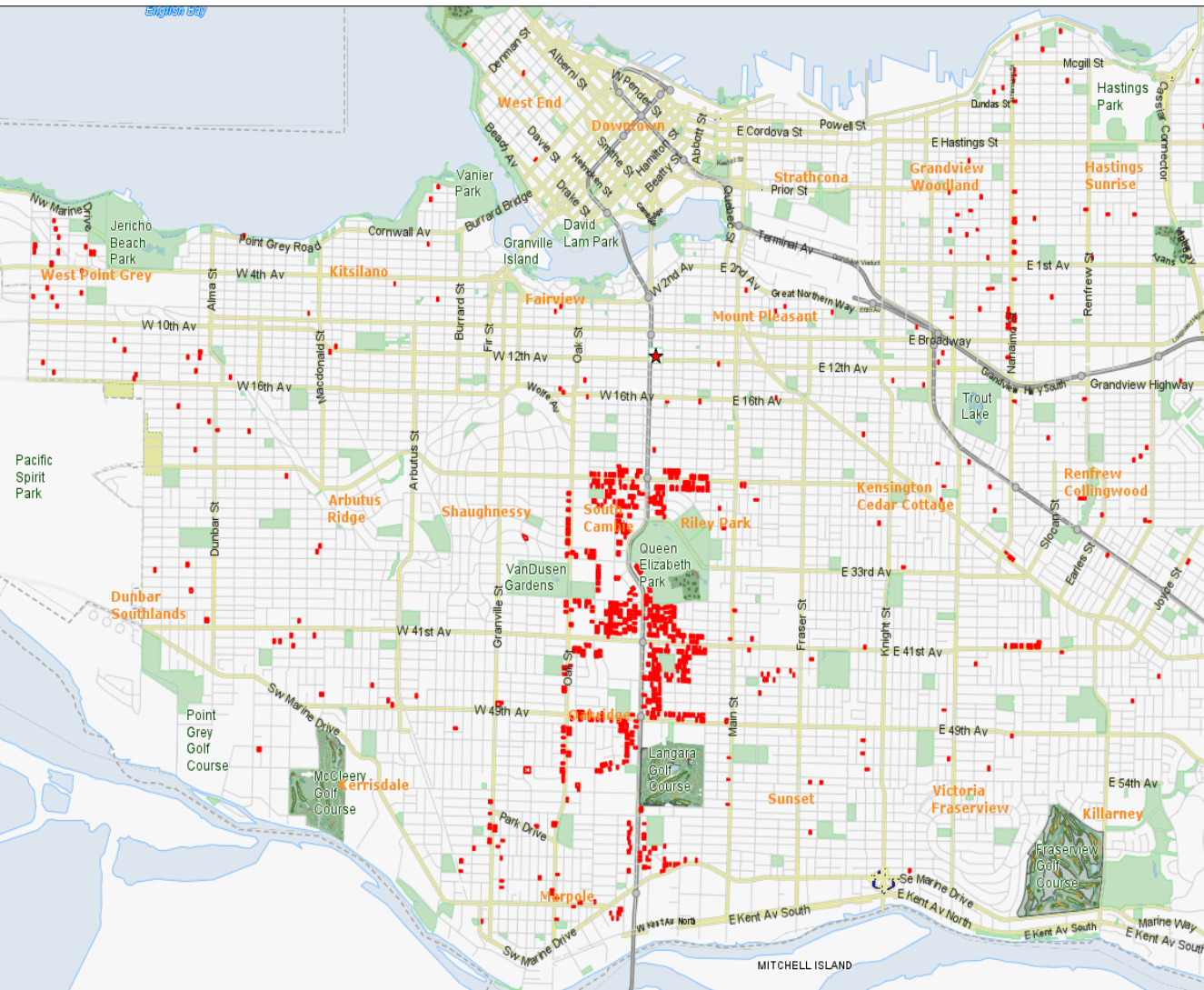
Averaging reduces assessment base

Higher tax rate to achieve “revenue neutrality”

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# Provincial Tax Relief Programs

## Residential – Assessment Act s19(8)



### Intent:

Protect long-term home owners whose assessed values would rise due to zoning changes

### How:

Land is assessed based on current zoning, not anticipated redevelopment potential

### Eligibility:

Owner/occupier @ principal residence  $\geq 10$  yrs

### # of Properties:

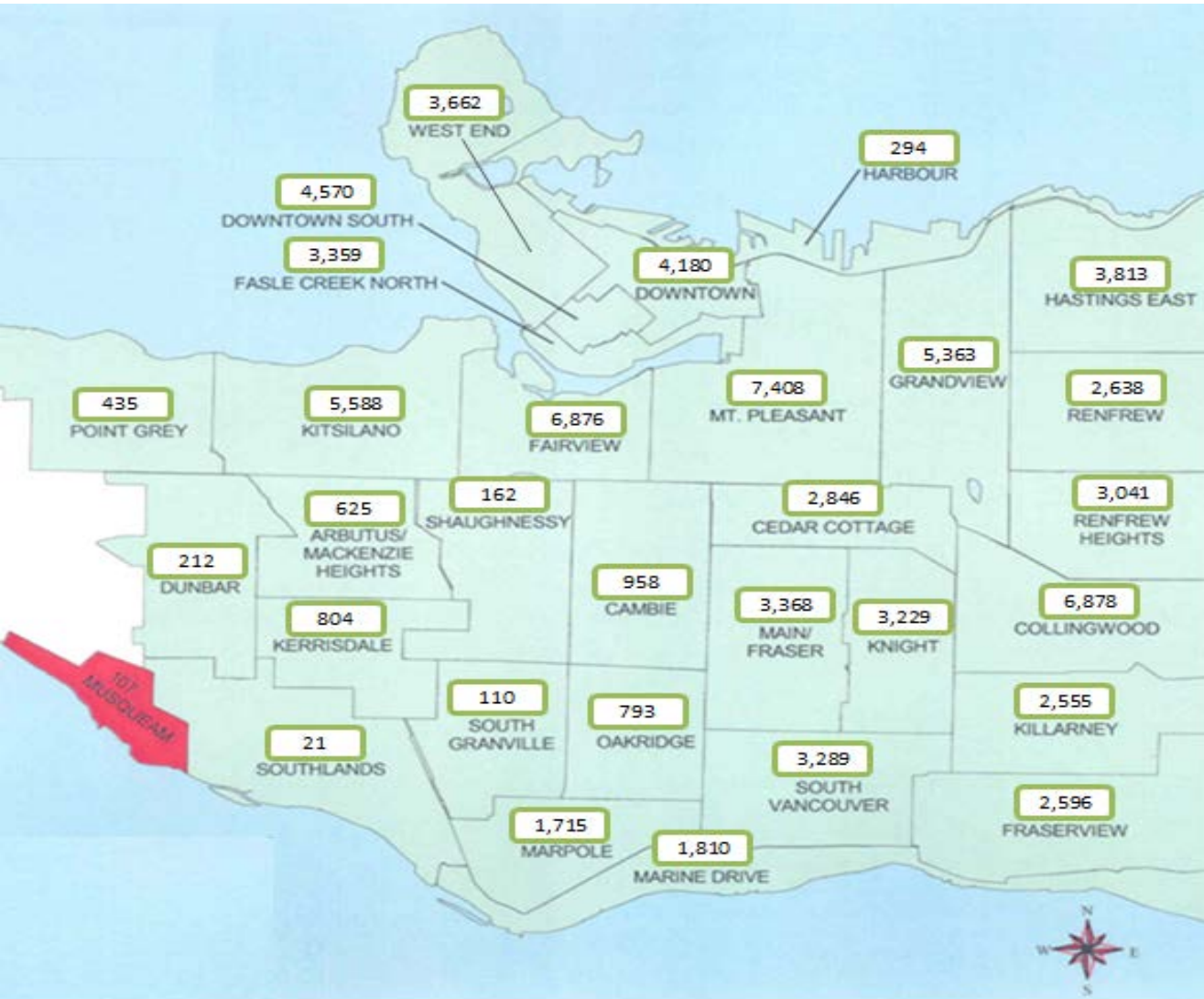
2019: 1,021

2018: 846



# Provincial Tax Relief Programs

## Residential – Home Owner Grant



### Intent:

Provincial grant to offset taxes to protect lower value homes & seniors

### How:

Up to \$570 grant for lower value homes; additional \$275 grant to seniors

### Eligibility:

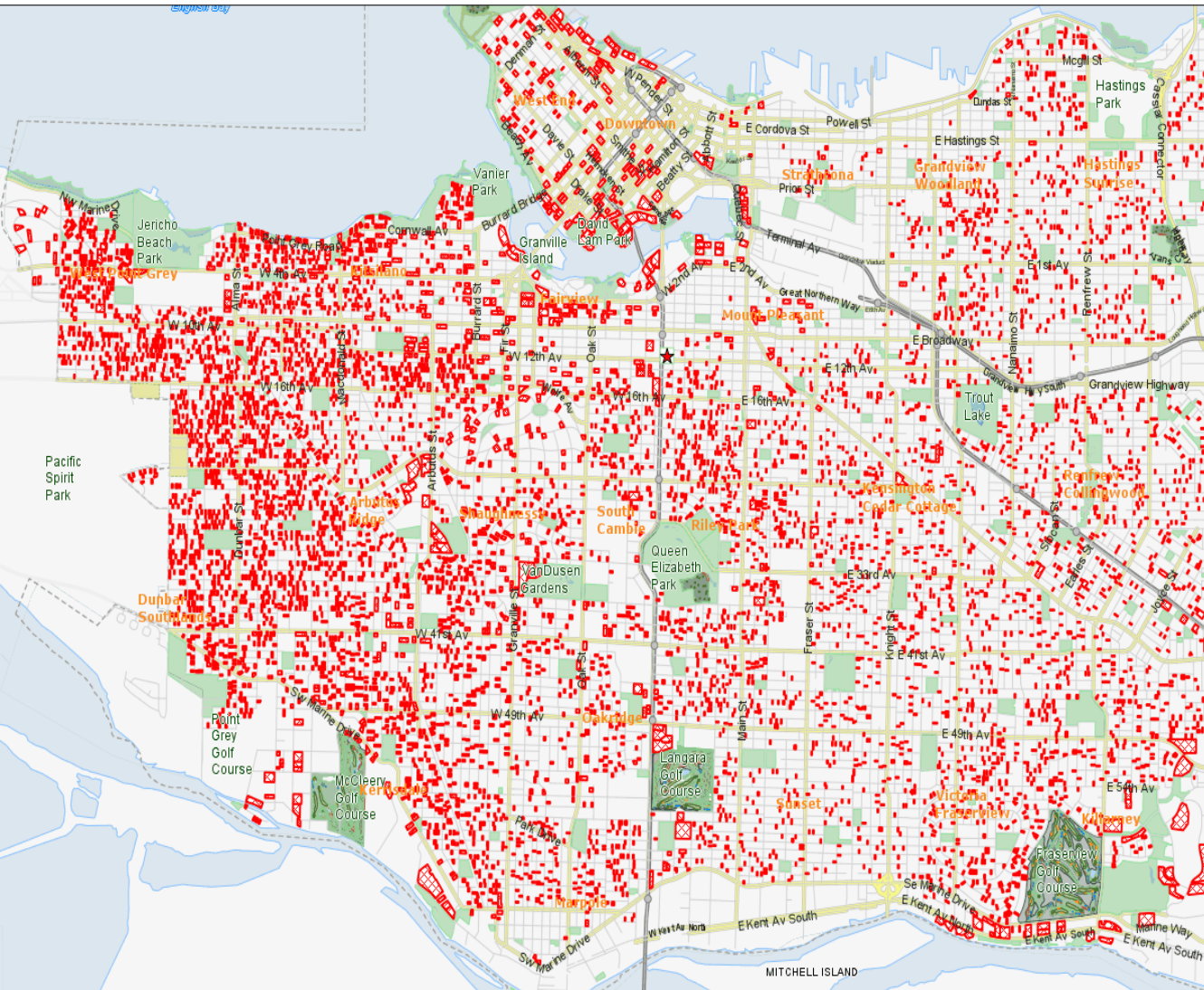
Owner/occupier @ principal residence valued up to \$1.65M (reduced to zero @ \$1.764M)

### # of Claims:

2019: applications in progress  
2018: 83,200

# Provincial Tax Relief Programs

## Residential – Property Tax Deferment



### Intent:

Tax deferral for seniors & families with children; taxes & low rate interest paid upon sale of property

### How:

Charge against the property on equity released resulting from sale

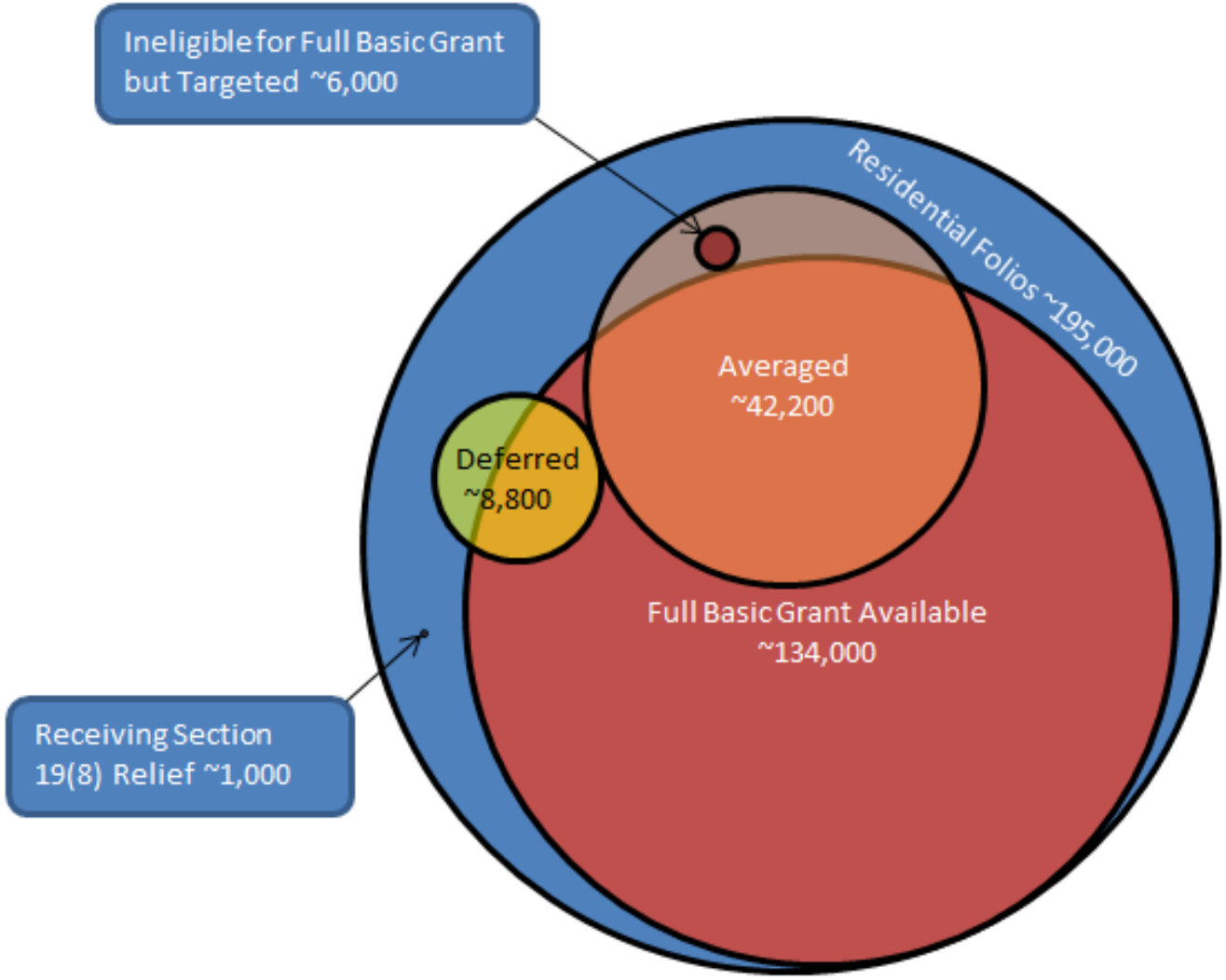
### Eligibility:

- Owner/occupier
- $\geq 55$  yrs old, or
- with children  $\leq 18$  yrs old

### # of Properties:

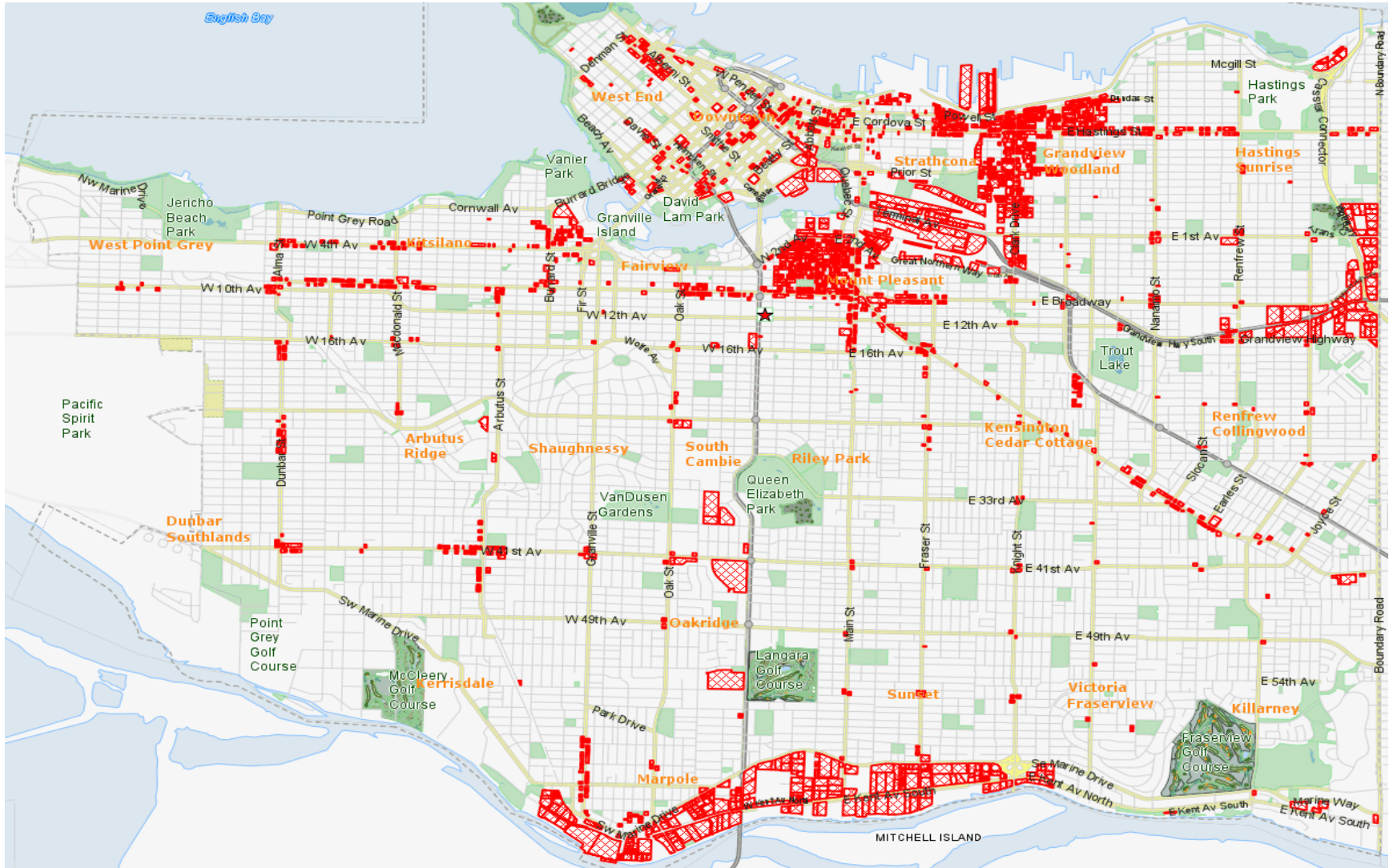
2019: applications in progress  
2018: 8,750

# How Provincial & City Programs Work Together



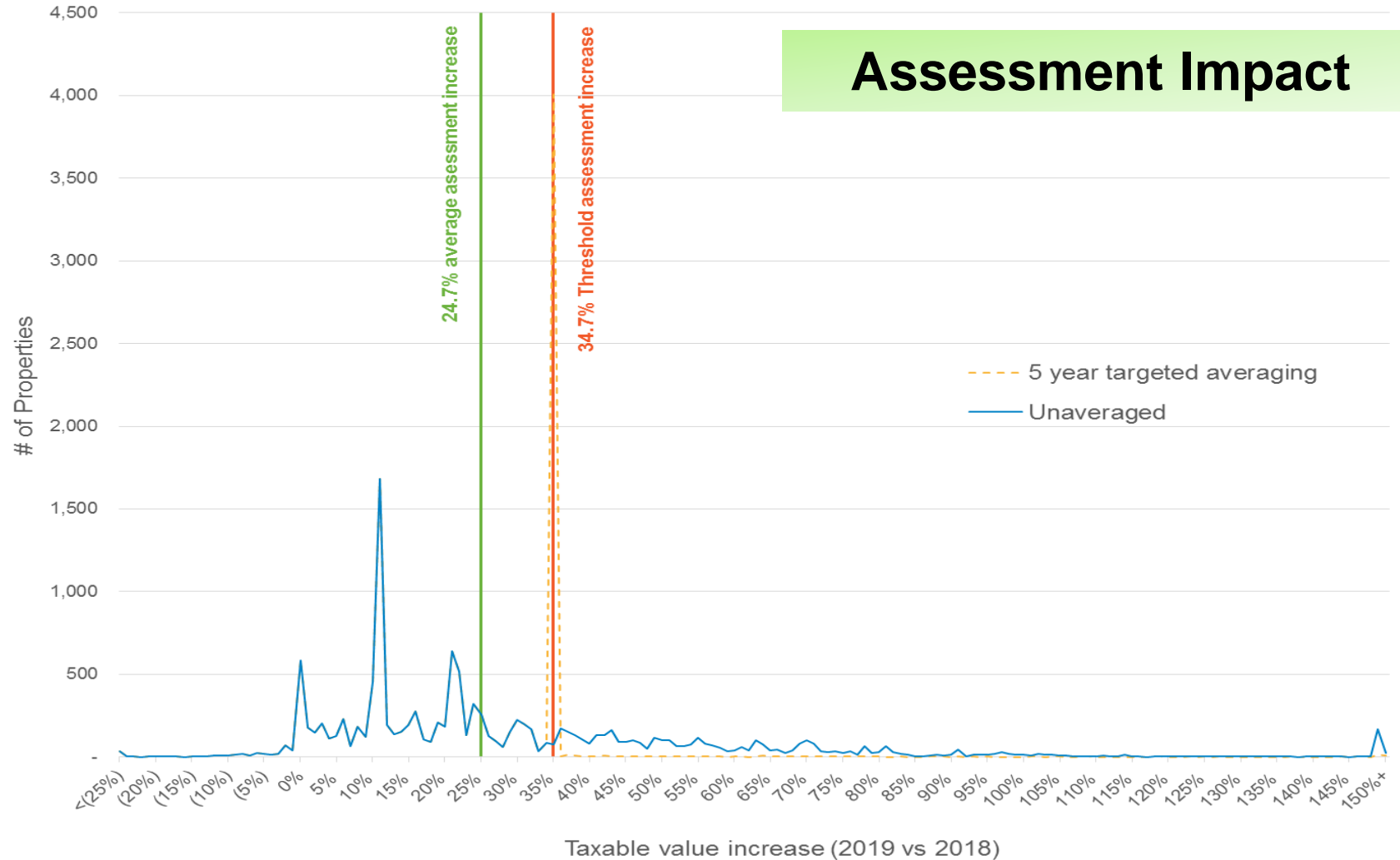
# Where are the “Hot” Commercial Properties?

2019: ~4,200 (28%) [2018: ~4,400 (30%)]



# Targeted Averaging – Light Industrial/Business

Threshold: Value Increase >34.7% [2018: 36.3%]

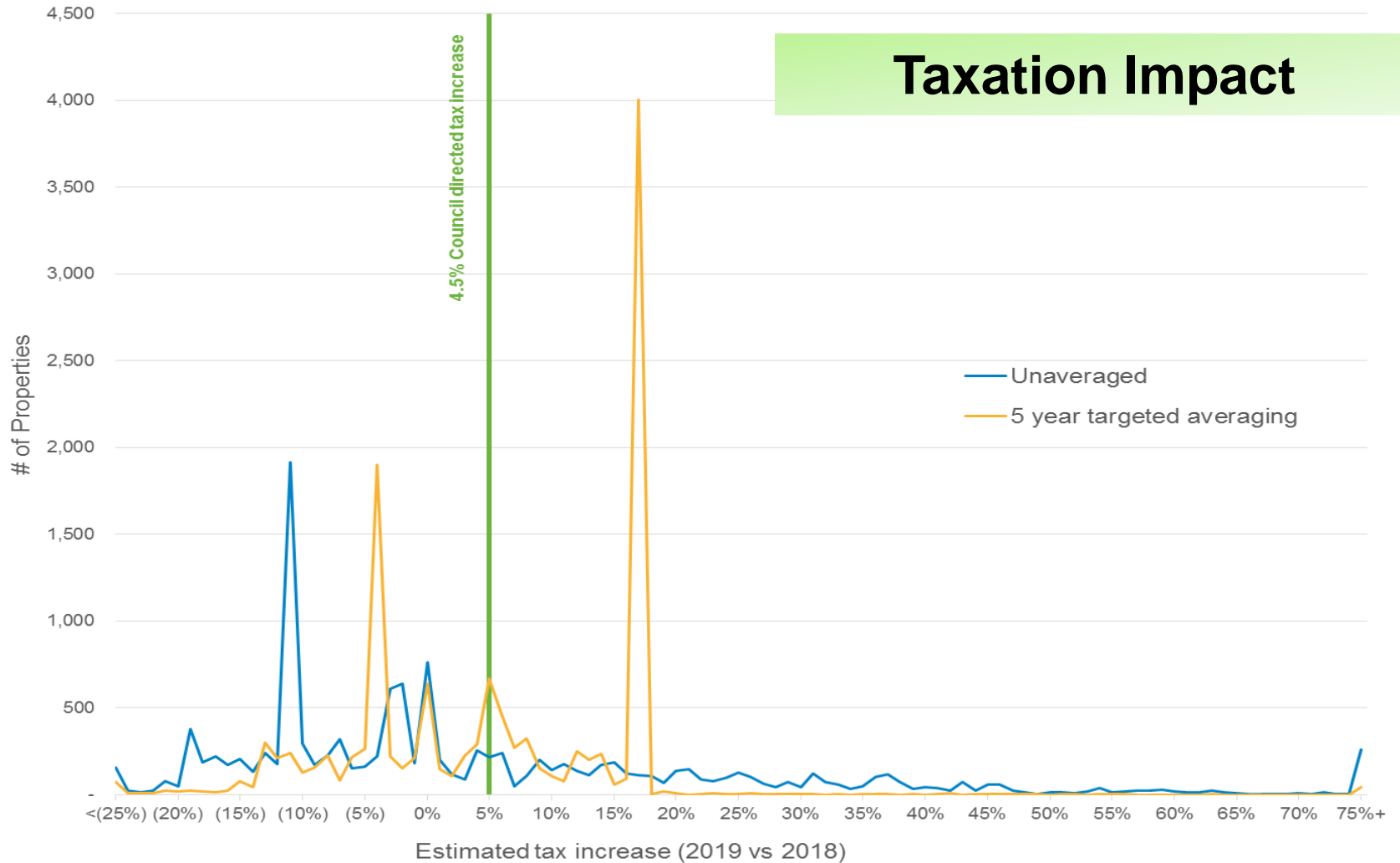


# Targeted Averaging – Light Industrial/Business

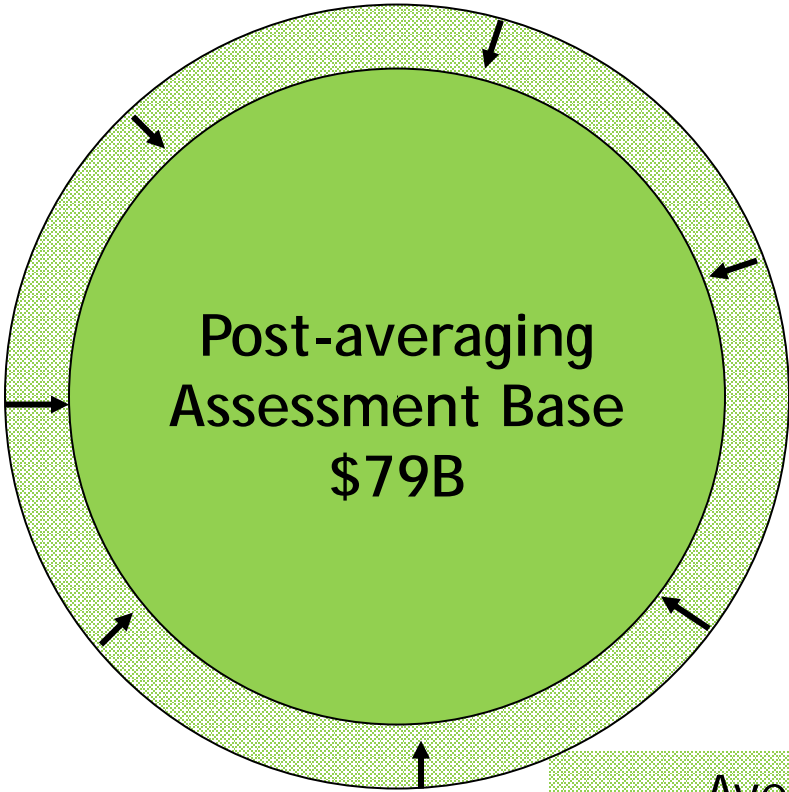
Threshold: Value Increase >34.7% [2018: 36.3%]



## Taxation Impact



# Averaging – Impact on Commercial Tax Rate



Tax levy required	\$344M	\$344M	
<u>Assessment base</u>	<u>\$ 85B</u>	<u>\$ 79B</u>	↓
Tax rate	\$ 4.04	\$ 4.35	↑

Averaging reduces assessment base

Higher tax rate to achieve “revenue neutrality”

# Recommendations

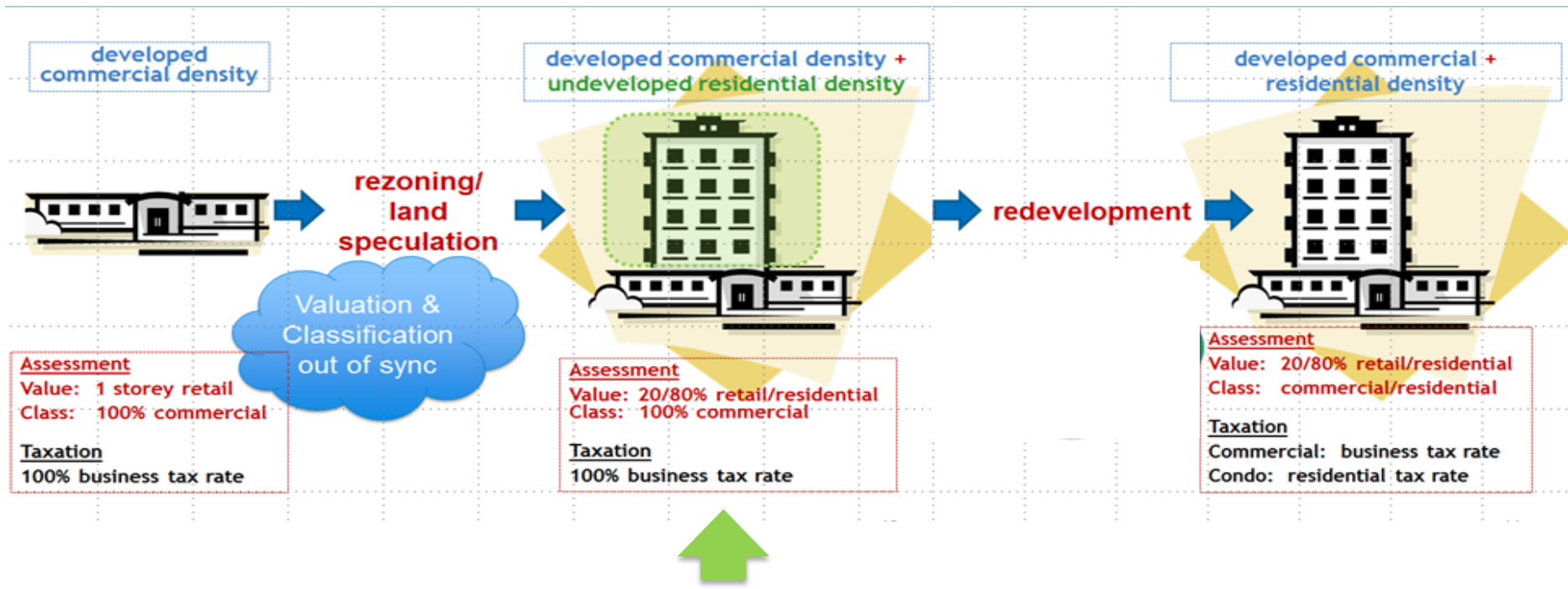
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- Apply targeted 5-yr averaging for residential, light industrial & business properties
- Set threshold at property class average change + 10%
- Limit averaging up to, but not below, the threshold
- Do not exclude properties impacted by Director of Planning initiated amendments to Zoning & Development By-law or ODP for consideration under targeted averaging



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# Development Potential Drives Up Property Values *BC Assessment*



**Appeals underway in zones with specificity. Successful appeals see development potential moved from Business to Residential (lower tax).**

# Assessment Increases Impact Owners & Tenants Differently...



## Landlords Transfer Tax Burden to Tenants

More certainty for...  
Landlords  
Tenants

### Rent includes...

### Add'l charges...

#### Gross Lease

Base rent, taxes, insurance, maintenance, utilities, janitorial

#### Modified Gross Lease

Base rent, taxes, insurance, maintenance

Utilities, janitorial

#### “N” Lease

Base rent, insurance, maintenance

Tax, utilities, janitorial

#### “NN” Lease

Base rent, maintenance

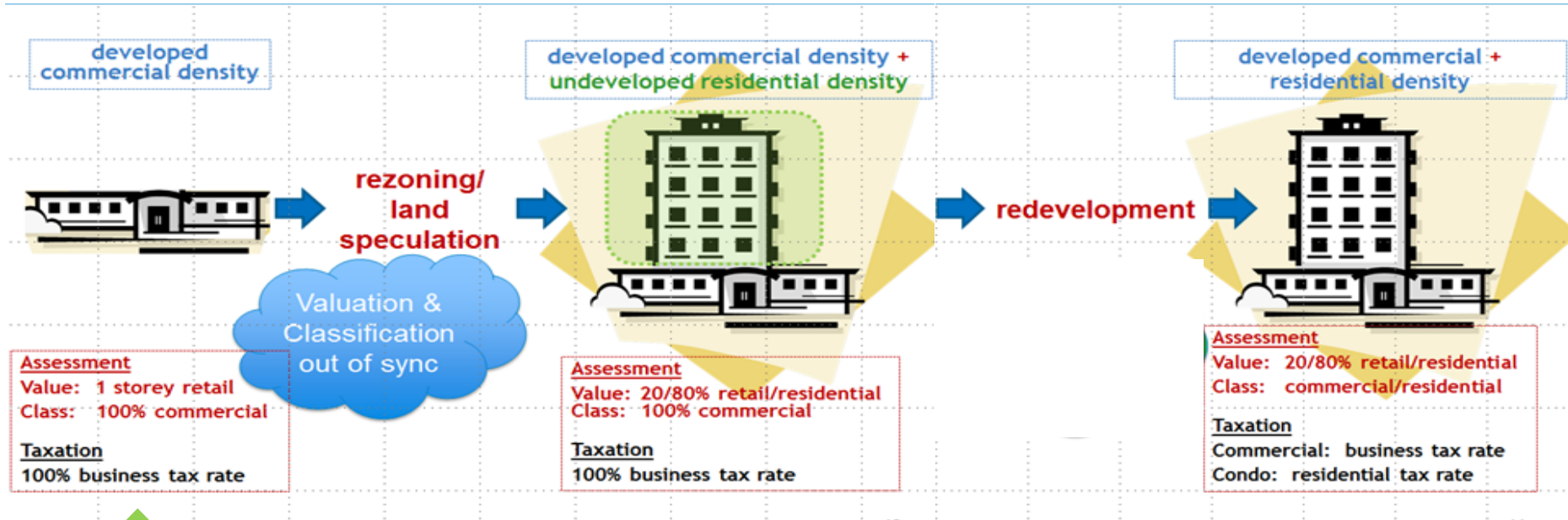
Tax, insurance, utilities, janitorial

#### “NNN” Lease

Base rent

Tax, insurance, maintenance, utilities, janitorial

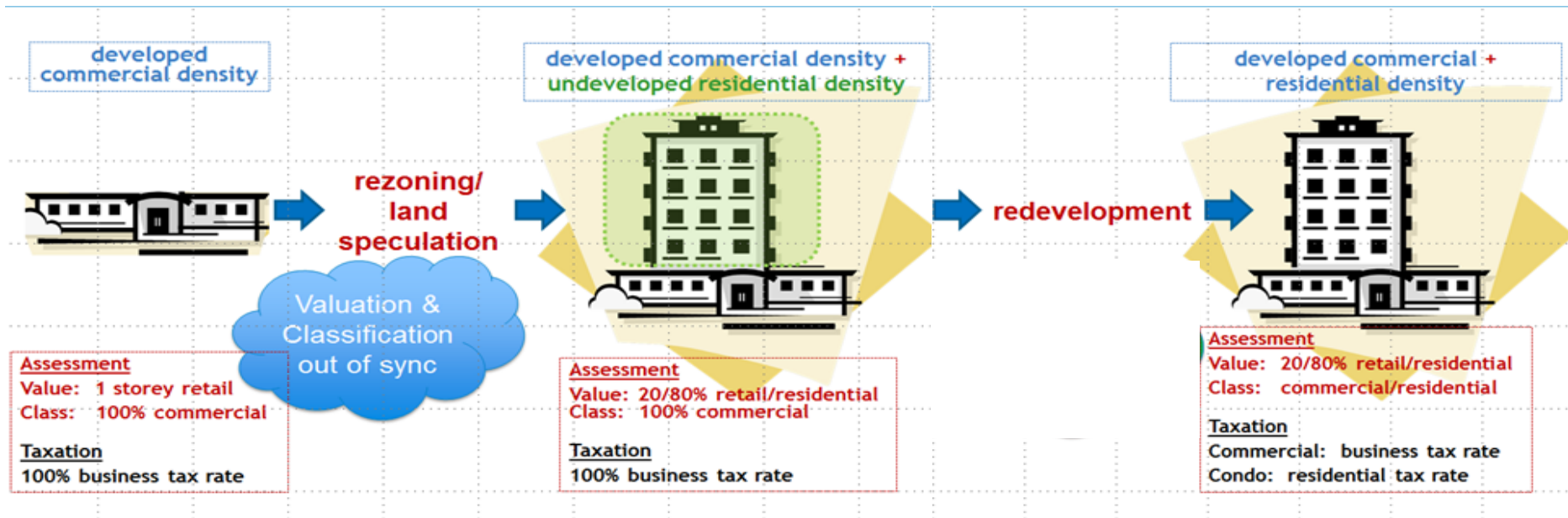
# Landlords Transfer Tax Burden to Tenants



Tenants enter into leases before land value escalation, cannot reasonably anticipate, nor afford to pay, higher taxes resulting from undeveloped density during lease term.

- Fixed-term leases offer certainty on rent but not property taxes, especially when spike in taxes arise from actual/perceived development potential that occurs during the lease term.
- While property owners benefit from rising property values upon redevelopment or sale, small business tenants shoulder the entire tax burden pertaining to the rented space & development potential.
- Typical commercial leases do not convey development rights to tenants, and tenants do NOT benefit from rising property values upon redevelopment or sale.

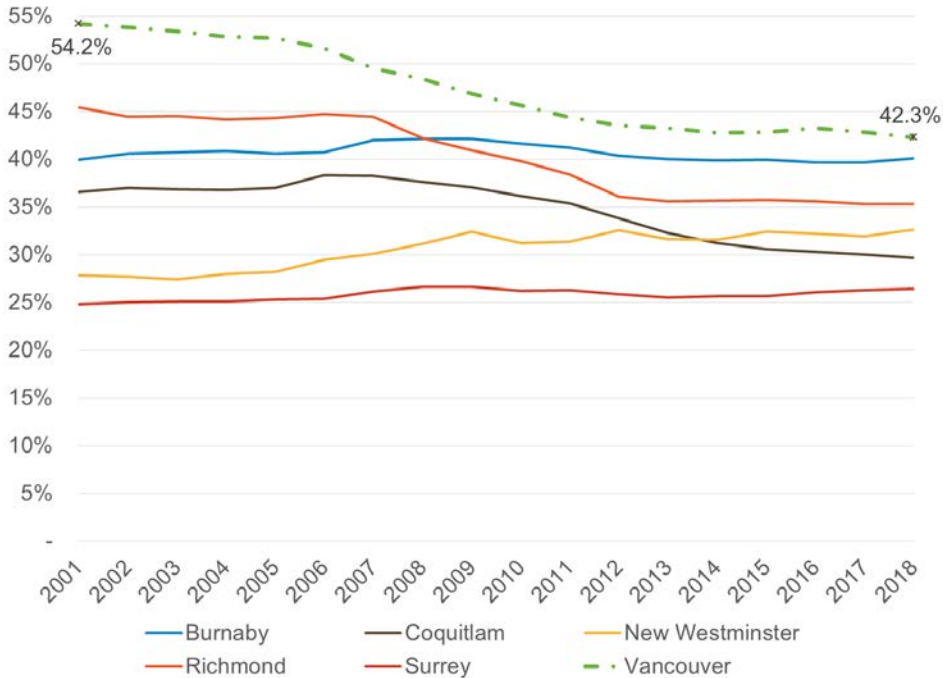
# Challenges Faced by Owners/Operators



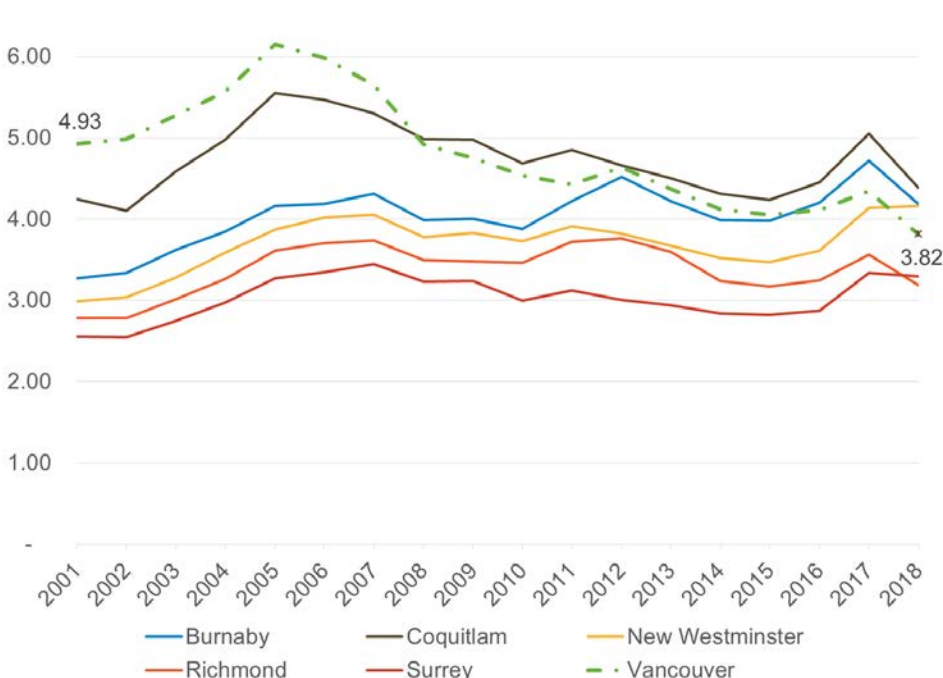
**Owner/operators may not be able to pay higher taxes resulting from undeveloped potential, but could realize capital gain upon sale/redevelopment eventually.**

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## Declining Business Tax Share



## Declining Business Tax Rate Ratio



**2019 preliminary Metrics:**  
**Business Tax Share: 42.3% → 41.9%**  
**Business Tax Rate Ratio: 3.82 → 3.14 (before averaging)**



- Escalating property values are **a regional issue**, not just in Vancouver
- An **inter-governmental workgroup** commenced in Q4 2018 to review policy options
  - Province: Ministry of Municipal Affairs & Housing and Ministry of Finance
  - BC Assessment
  - Metro Vancouver (RAAC & RFAC): Vancouver, Burnaby, Coquitlam, North Vancouver, Richmond, Surrey and West Vancouver
- Primary focus is to **address assessment & classification of development potential**

**Policy options must be *targeted & time-limited***

# Preliminary Policy Options Submitted to the Province for Consideration to Address Development Potential

developed commercial density + undeveloped residential density

Assessment  
Value: 20% retail 80% residential  
Class: 100% business

Taxation  
100% business



developed commercial density + undeveloped residential density

Assessment  
Value: 20% retail 80% residential  
Class: 20% business 80% residential

Taxation  
20% business 80% residential

## Clarify & simplify criteria in the Assessment Act for **Split Assessment**

developed commercial density + undeveloped residential density

**Landlords** pay taxes on undeveloped density

**Tenants** pay taxes on rented space

### Split Tax Bill

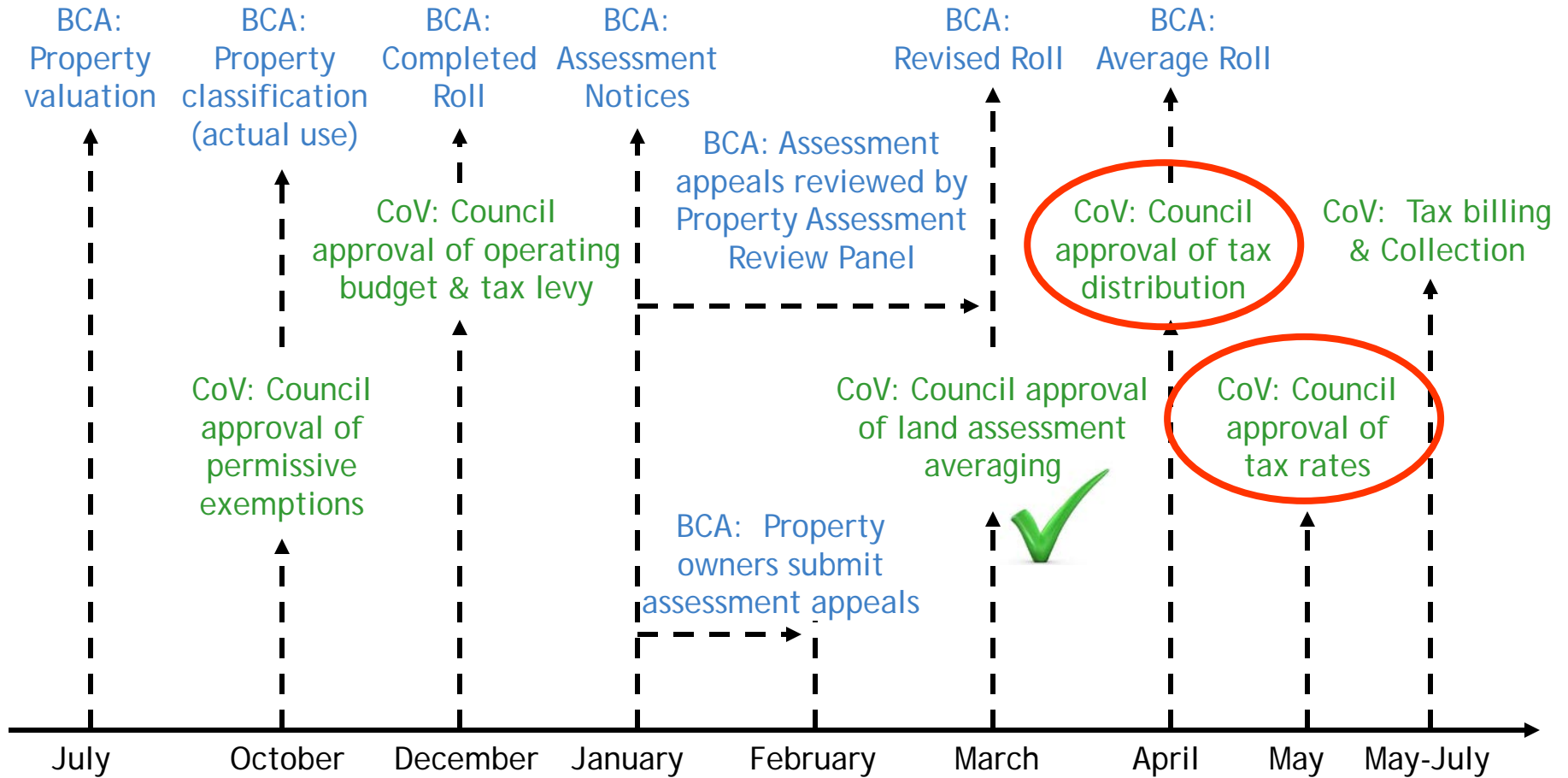
developed commercial density + undeveloped residential density

**Owner/operators** defer taxes on undeveloped density until sale/redevelopment

**Owner/operators** pay taxes on actual use

### Tax Deferral

# Next Steps: Property Taxation Cycle



# Questions?

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