

Strengthening Vancouver's Property Tax Framework

PRESENTATION TO THE VANCOUVER PROPERTY TAX POLICY REVIEW COMMISSION

SEPTEMBER 26, 2013

PREPARED BY BEN BRUNNEN, ON BEHALF OF THE VANCOUVER FAIR TAX COALITION

Presentation Overview

1. Principles
2. Metrics
3. Vancouver Context
4. Recommendations

Principles

Table 1: Tax Principles Summary

Benefit equity	The tax burden is distributed in relation to benefits received (e.g. user pay) – both within and across classes of property
Horizontal equity	Tax payers in similar positions (and/or with similar types of properties) should be treated equally (e.g. same rates applied to all properties in the residential/ non-residential class)
Vertical equity	Tax according to ability to pay (e.g. charge more taxes to those who can afford it)
Tax incidence	<p>The extent to which businesses and residents absorb taxes depends on the elasticity of demand and supply.</p> <ul style="list-style-type: none"> Residential taxes tend to be borne by residential property owners and tenants (localized benefits, immobile property). Non-residential taxes may be absorbed by the business operator or property owner, depending on the commercial real estate market, and depending on the nature of the industry, may be passed onto consumers through higher prices, or absorbed by the business. For businesses in competitiveness industries that need to be close to clients, such as retail, the only response is to sell more units or reduce costs.
Efficiency/ neutrality	Minimize economic distortions and economic disincentives. Benefits-based marginal cost pricing is efficient.
Simplicity of admin	Taxes are easy and cost-effective to calculate and understand. Not too complex to collect.
Accountability	Public revenue and expenditure decisions are accountable and responsive to taxpayer demand, through direct (voting) and/or indirect (stakeholder engagement) mechanisms
Stability and predictability	Stable and predictable taxes are important for ratepayers in planning their finances, and for municipalities in planning their revenues and budgets
Economic considerations	The monitoring of economic trends and indicators in the municipality and comparable jurisdictions is key in understanding tax incidence, ability to pay and economic competitiveness.

Principles

Recommendation: Where possible, a focus on benefits equity and marginal cost pricing will best serve both residents and businesses, as municipal services will not be over supplied, and economic distortions will be minimized.

Metrics

Table 2: Tax Metrics Summary

Tax rates and ratios	Tax rates measure taxes paid as a percent of the assessment base for each class. Rate ratios measure relative tax rates - usually comparing non-residential to residential rates. Difficult to set as a target due over-reliance on changes in assessed values, as well as volatility in the metric.
Tax share by class of property	Proportion of total property taxes paid by class of property. Useful when also comparing assessment share by class of property.
Levy assessment quotient ratio	Measures tax share divided by assessment share for each class. Useful benchmark over time and relative to other municipalities. Subject to potential volatilities in the assessment base
Tax share to assessment share gap	Measures the gap between tax and assessment share by class. Good measure of tax proportion relative to assessment proportion – particularly over time and across municipalities. Compliments the tax share by class approach
Taxes per unit of assessed value and operating costs	Useful measure of incidence and competitiveness. However, is onerous to collect and limited in application across non-residential sector.
Non-residential taxes per capita	Provides of sense of the tax burden on each person. Complimentary to assessment based metrics, and helpful comparator for municipalities with relatively high assessed residential values.
Taxes /assessment per business	Provides a sense of taxes by number/ value of businesses in the municipality. Helps control for limitations of assessment base metrics. Similar in concept to taxes per capita
Consumption payment ratios	Measure of the amount of municipal goods and services consumed by each class. Captures benefit equity, but is complex and case specific.
Economic considerations	Consideration of internal and economic factors in setting tax policy (e.g. local economic base, competitor tax rates, broader economic context). Useful for understanding incidence and broader economic competitiveness and context.

Metrics

Recommendation: Set a target for the share of the property tax burden collected from each class, informed by distributional tax impacts from a benefits perspective, and fluctuations in the assessment base, including:

- Consideration for accountability and amount of benefits received;
- An understanding of the make-up of the local economy to get a sense of the incidence of the non-residential tax burden;
- Changes in the dynamics of the tax share, assessment classes, and economy over time;
- A comparison of tax and assessment metrics and policies in comparable jurisdictions;
- An understanding and continued monitoring of the internal and external economic climate, with adjustments made to accommodate shifts in economic activity linked to municipal tax policies.

Vancouver Context: Metrics

Table 3: Vancouver Metrics

	Commercial Tax Rate Ratio	Residential Assessment Share	Commercial Assessment Share	Residential Tax Share	Commercial Tax Share	Residential Tax Share to Assessment Share Ratio (LAQ)	Commercial Tax Share to Assessment Share Ratio (LAQ)	Residential Tax Share to Assessment Share Gap	Commercial Tax Share to Assessment Share Gap	Total Taxes Per Capita	Residential Taxes Per Capita	Commercial Taxes Per Capita
2007	5.51	83.8%	15.6%	47.9%	49.2%	0.57	3.15	-35.8%	33.6%	978	469	481
2008	5.08	82.6%	16.8%	47.8%	49.2%	0.58	2.94	-34.8%	32.5%	986	471	485
2009	4.84	82.9%	16.4%	49.5%	47.3%	0.60	2.89	-33.4%	31.0%	925	458	438
2010	4.55	82.9%	16.4%	51.0%	45.8%	0.62	2.80	-31.9%	29.4%	902	460	413
2011	4.32	83.4%	15.9%	53.1%	43.9%	0.64	2.75	-30.2%	27.9%	954	507	418
2012	4.35	84.4%	14.9%	54.9%	42.1%	0.65	2.83	-29.5%	27.2%	1,006	553	424

Vancouver Context: Regional Metrics

Table 4: 2007 Commercial Tax and Assessment Metric Rankings within the GVRD

	Commercial Tax Rate Ratio	Residential Assessment Share	Commercial Assessment Share	Commercial Tax Share	Commercial Tax Share to Assessment Share Ratio (LAQ)	Commercial Tax Share to Assessment Share Gap	Commercial Taxes Per Capita	Average Ranking of Municipality
Burnaby	3	8	3	3	5	4	3	4.3
Coquitlam	2	2	8	6	1	2	6	3.2
Delta	8	7	6	9	9	9	8	8.3
Langley City	10	10	1	4	10	8	5	7.8
Langley District	9	4	7	8	7	7	9	7.3
New Westminister	4	3	9	7	3	6	7	5.0
North Vancouver	5	6	4	5	6	5	4	5.2
Richmond	6	9	2	2	8	3	2	5.0
Surrey	7	1	10	10	4	10	10	7.0
Vancouver	1	5	5	1	2	1	1	1.8

Vancouver Context: Regional Metrics

Table 5: 2012 Commercial Tax and Assessment Metric Rankings within the GVRD

	Commercial Tax Rate Ratio	Residential Assessment Share	Commercial Assessment Share	Commercial Tax Share	Commercial Tax Share to Assessment Share Ratio (LAQ)	Commercial Tax Share to Assessment Share Gap	Commercial Taxes Per Capita	Average Ranking of Municipality
Burnaby	2	7	3	2	4	2	2	3.2
Coquitlam	1	1	10	6	1	3	6	3.0
Delta	7	9	8	10	9	10	8	8.8
Langley City	10	10	1	3	10	7	4	7.3
Langley District	9	6	7	8	8	9	9	8.2
New Westminister	5	3	6	7	3	6	7	5.2
North Vancouver	4	5	2	4	5	4	3	4.2
Richmond	6	8	5	5	6	5	5	5.8
Surrey	8	2	9	9	7	8	10	7.3
Vancouver	3	4	4	1	2	1	1	2.0

Vancouver Context: Assessment

Table 6: Change in Assessment Class Shares in GVRD Municipalities from 2007-2012

	Percentage Point Change in Commercial Assessment Share	Percent Change in Commercial Assessment Share	Percentage Point Change in Residential Assessment Share	Percent Change in Residential Assessment Share	Percentage Point Change in Other Assessment Share
Burnaby	-1.3	-7.6%	0.8	1.0%	0.5
Coquitlam	-0.8	-6.7%	0.3	0.4%	0.4
Delta	-2.1	-16.5%	-0.8	-1.0%	3.0
Langley City	0.2	1.0%	-1.0	-1.4%	0.8
Langley District	-0.6	-4.9%	-1.6	-1.9%	2.2
New Westminster	1.2	10.9%	-0.5	-0.5%	-0.7
North Vancouver	-0.8	-4.7%	1.0	1.3%	-0.3
Richmond	-4.1	-22.1%	2.9	3.6%	1.3
Surrey	1.2	11.9%	-1.8	-2.1%	0.7
Vancouver	-0.7	-4.4%	0.7	0.8%	0
Average	-0.8	-4.3%	0.0	0.0%	0.8

Vancouver Context: Business Licenses

Table 7: Vancouver Licenced Business Metrics, 2007-2012

	Total Licensed Businesses	Businesses Per Capita	Non-Residential Taxes per Business	Businesses Per # of Class 6 Properties	Businesses per \$Millions of Non-Residential Assessment
2007	47,534	0.081	\$6,251	3.57	2.17
2008	48,762	0.083	\$6,204	3.65	1.78
2009	49,496	0.080	\$5,805	3.62	1.82
2010	50,757	0.081	\$5,471	3.66	1.83
2011	51,461	0.080	\$5,582	3.71	1.69
2012	51,891	0.080	\$5,688	3.74	1.58

Vancouver Context: Business Licenses

Table 11: Decrease in Vancouver Business Licenses by Category

	2007	2008	2009	2010	2011	2012	Difference	Per cent change
Retail Dealers	3,681	3,669	3,574	3,611	3,516	3,311	-370	-10.1%
Wholesale Dealers	1,205	1,133	1,150	1,136	1,111	1,060	-145	-12.0%
Retail Food Dealers	1,172	1,147	1,121	1,118	1,107	1,098	-74	-6.3%
Manufacturers	549	531	516	510	495	482	-67	-12.2%
Auto Repairs, Paint and Body Shops	421	415	411	405	389	371	-50	-11.9%
Dry Cleaner	110	105	94	90	92	80	-30	-27.3%
Auto Dealer	121	127	121	132	124	106	-15	-12.4%
Gasoline Station	95	89	83	85	84	84	-11	-11.6%
Hotel	125	121	120	120	117	115	-10	-8.0%

Vancouver Context: Business Licenses

Table 12: Increase in Vancouver Business Licenses by Category

	2007	2008	2009	2010	2011	2012	Difference	Per cent change
Contractor (general, electrical, plumbing, gas, special trades)	4,684	5,136	5,330	5,670	6,014	6,267	1,583	33.8%
Health (health services, beauty, massage, fitness centres, physical therapy, therapeutic services)	3,008	3,267	3,449	3,544	3,676	3,817	809	26.9%
Office	7,713	7,902	7,886	8,063	8,217	8,481	768	10.0%
Restaurant and Limited Service Food Establishments	3000	3063	3113	3221	3240	3280	280	9.3%
Computer Services	585	653	696	743	773	819	234	40.0%
Production Companies and studios	282	300	349	370	391	406	124	44.0%
Security Services and Alarm	230	253	270	281	290	326	96	41.7%
Entertainment Services	160	171	165	185	201	219	59	36.9%
Real Estate Dealers	278	283	282	290	309	314	36	12.9%

Vancouver Context: Summary

Despite favourable movement in the commercial tax burden share:

- Vancouver has the highest commercial tax share and commercial taxes per capita in the GVRD, and its tax to assessment metrics are also among the most inequitable in the region.
- Since 2007 its average commercial assessment share has decreased relative to its residential assessment share, as well as in comparison to other municipalities in the region. Vancouver's residential assessment share is at one of its highest points since 1984.
- The number of businesses in cost-sensitive, competitive industries, particularly retail, has declined, as well as businesses in land-price sensitive sectors such as manufacturing and wholesale trade. Similarly, business growth in desired sectors such as office and restaurants has not kept pace with population growth.

Vancouver Context: Conclusion

Current dynamics in Vancouver, both relative to the region and within the city itself, suggest that the rate of residential subsidization is too high. While it is difficult to identify the exact balance, a good initial approach would be to target a commercial tax share more in line with the average for comparable municipalities within the region – informed by per capita and per assessment base metrics.

Municipalities within the GVRD that most closely compare to Vancouver in terms of assessment base and geography include: Burnaby, Richmond, North Vancouver City and New Westminister.

Recommendations: Tax Share Options

Table 13: Tax Metrics of Vancouver and Comparable Municipalities in the GVRD - 2012

	Commercial Tax Rate Ratio	Commercial Assessment Share	Commercial Tax Share	Commercial Tax Share to Assessment Share Ratio (LAQ)	Commercial Tax Share to Assessment Share Gap	Commercial Taxes Per Capita
Burnaby	4.52	15.3%	40.4%	2.65	25.1	\$362.3
New Westminster	3.82	12.1%	32.5%	2.69	20.4	\$279.1
North Vancouver	3.84	15.5%	38.2%	2.47	22.7	\$349.2
Richmond	3.77	14.6%	36.0%	2.46	21.4	\$306.8
Vancouver	4.35	14.9%	42.1%	2.83	27.2	\$424.1
Average (excluding Vancouver)	3.99	14.4%	36.8%	2.57	22.4	\$324.3
Vancouver Net Difference From Average	0.36	0.5%	5.4%	0.26	4.8	\$99.7

Recommendations: Tax Share Target Options

Table 14: Proposed Vancouver Commercial Tax Adjustments by Indicator, based on Average of Comparable Municipalities

	Potential Target	Proposed Vancouver Commercial Taxes based on target	Difference from 2012 Commercial taxes (\$276,080,588)	% Change	Proposed New Commercial Tax Share
Commercial Tax Rate Ratio	3.99	\$222,520,954	\$53,559,634	24.1%	34.0%
Commercial Tax Share	36.8%	\$241,016,829	\$35,063,759	14.5%	36.8%
Commercial Tax Share to Assessment Share Ratio (LAQ)	2.57	\$241,016,829	\$35,063,759	14.5%	36.8%
Commercial Tax Share to Assessment Share Gap	22.4	\$244,473,708	\$31,606,880	12.9%	37.3%
Commercial Taxes Per Capita	\$324.30	\$211,157,501	\$64,923,087	30.7%	32.2%
Recommended Target: Tax Share, LAQ, and Gap 3 Indicator Average		\$242,169,122	\$33,911,466	14.0%	37.0%

Recommendations

- 1. It is recommended that** the City of Vancouver adopt a commercial tax share policy target based on the average of three indicators (i.e. commercial tax share, levy assessment quotient, tax to assessment share gap) of comparable municipalities within the region (i.e. Burnaby, New Westminster, North Vancouver, and Richmond). This would result in a commercial tax share target of 37 per cent (down from 42 per cent), and a net transfer of \$34 million (a 14 per cent decrease) from the commercial base to the residential base.
- 2. It is recommended that** the City of Vancouver transition this shift at a comparable rate as the 2007 - 2012 tax share shift recommended by the Commission, which would result in a transfer of approximately 5.67 million per year for 6-7 years.
- 3. It is recommended that** the City of Vancouver monitor key economic indicators on an ongoing basis to ensure tax policy is aligned and responsive to changes in the municipal and regional economy. Select indicators include: tax and assessment policy metrics, changes in assessment shares, business license activity by type of business, construction and commercial rental and vacancy rates.

Recommendations

4. To help facilitate accountability and ongoing monitoring economic and commercial assessment conditions in the municipality, **it is recommended that** the city strike a standing property tax task force, involving experts, municipal councilors/ administrators and members of the business community to review key tax and economic indicators annually to ensure they align with changing economic dynamics, and adjust tax targets accordingly.
5. To help facilitate the transition and engage citizens in determining the amount and type of services provided and by whom, **it is recommended that** the city undertake a core service review that investigates the level and type of infrastructure and services provided, by whom and how it can be best priced. This will assist the city and the community in prioritizing and rationalizing the role of the municipality, balanced against the preferences of the electorate and sustainable financial constraints.

Discussion

BRUNNEN POLICY, ECONOMIC AND ADVOCACY CONSULTING