

A PROPERTY TAX BOMB IS TICKING

The director of the Building Owners and Managers Association warns that the unfair tax burden on small business owners is a ticking time bomb for all Vancouver taxpayers.

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Calls for tax reform are rife these days. Lower the income tax rate, slash the GST and don't forget about the provincial sales tax. There's one other reform to add to your list - property tax. And I suggest you put it at the very top of the list and red circle it.

Let me explain. Thanks to artificially low residential property taxes, Vancouver small business owners who own or rent commercial property now pay the highest level of property tax ever. This gross inequality is creating a virtual ticking tax bomb, not just for business, for all Vancouver taxpayers.

A recent study commissioned by the Building Owners and Managers Association (BOMA) finds that Vancouver homeowners enjoy the highest property values and the lowest mill rate in the entire Lower Mainland. This comes at the expense of small business owners who own or rent commercial space. They happen to pay the second highest mill rate out of 17 local jurisdictions.

In our study, we focused on a Vancouver Sun special report on property tax (June 24, 1999) that broke down the tax burden on homeowners in different municipalities for an "average" house in each area. In the level of tax paid, Vancouver ranked 11th in a list of 17 jurisdictions. However, further analysis shows that Vancouver residential taxpayers pay the least amount of tax in the Lower Mainland, based on a house with the same market value in each municipality.

The BOMA study reveals other disturbing inequalities between residential and commercial tax rates. For example, while residential homeowners have realized almost a 100 per cent appreciation on their assets, their property taxes have gone up by only 25 per cent or so. The situation is markedly different for commercial business owners. This group saw only a 56 per cent gain on their assets and yet got stuck with a 33 per cent tax increase. And to add insult to injury, the homeowners pay no tax on their capital gains, but business owners do. (Please see chart.)

	Average Residential Assessment	Average Residential Tax Bill	Average Commercial Assessment	Average Commercial Tax Bill
1990	204,299	\$860.10	752,673	\$13,032.53
1998	400,804	\$1,080.96	1,194,593	\$17,329.86
Growth	96.2%	25.67%	55.7%	32.97%

One of the most glaring findings in the BOMA report was that since 1984, while the residential property tax base grew by nearly 20 per cent, its contribution to the total tax bill increased by just 5 percent. Meanwhile, the size of the business and commercial property tax base declined by 35 per cent, but its share of the total tax bill actually increased. (Please see chart.)

	Residential Share of Total Assessment (Tax Base)	Residential Share of Total Tax Bill	Commercial Share of Total Assessment (Tax Base)	Commercial Share of Total Tax Bill
1984	66.9%	39.7%	30.3%	54.7%
1998	79.6%	41.8%	19.5%	54.0%
Growth 84' – 98'	+ 18.9%	+ 5.2%	(35.6)%	+ 1.2%

Herein lies the ticking tax bomb. The City of Vancouver has deliberately loaded the tax burden onto the business community and has given residential taxpayers an artificially easy ride for the last 16 years. In most other municipalities, business pays two to three times the residential level of tax for identical assessed values. In Vancouver it is a whopping five times. And growing. As industrial land turns into condominiums, the shrinking business base will have to shoulder even more of the tax burden.

The unfair 5:1 ratio of business to residential taxes is underscored by a recent KPMG Peat Marwick study commissioned by the City of Vancouver to identify the extent that each tax class consumed city services. It revealed that business taxpayers covered 60 per cent of the city's total tax bill, but only consumed 29 per cent of the city services.

So why should you - as a taxpayer -- be concerned? Well, if you both live and work in Vancouver take note. The majority of tax paid on commercial properties comes out of the pockets of small business. It is small business that is most susceptible to this increasing cost of doing business. If you think they can afford to pay more tax, think again. The majority of new business - 80 per cent -- fails in the first five years and entrepreneurs rank taxes as the number one impediment to business success.

For business owners, the cost of doing business including property tax will play an increasingly important role in deciding where to locate. If the City of Vancouver politicians persist in giving its residential taxpayers an artificial tax holiday at the expense of its commercial taxpayers, it will succeed in driving business from Vancouver to more affordable alternatives, such as Burnaby - or other municipalities -where business taxes are lower. You may be soon saying goodbye to your favourite restaurant, hairdresser, dentist, or bakery.

Is the City of Vancouver doing an adequate job in addressing one of the few economic variables that it can control? The short answer is no and, unfortunately, during an election year we're not holding our breath in anticipation of change. Business owners have already received a clear indication of the City's disregard. Earlier this year, Council ignored the recommendation of its own advisory panel on property taxes (half of the members represent non-business constituencies) for a modest reduction of the business share by 1%.

What's the solution? The Building Owners and Managers Association, together with other business groups, urge the City of Vancouver to move to redress the property tax imbalance in a gradual and moderate fashion. Small annual decreases of the business share of the tax will go a long way to balance the current inequity without causing hardship for the residential taxpayer.

If our politicians continue to pluck the golden goose, eventually the golden goose will relocate. If that happens, the property tax bomb will explode. Homeowners will suddenly face significant increases in their own residential property taxes and so be forced to pick up the tax burden shouldered by business for so long.