

Property Taxes on Business and Industrial Property in British Columbia

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Executive Summary

Property taxes are an extremely important tax for the kind of local government structure we have in British Columbia. They finance local services by municipalities and regional districts and schools by the provincial government. Most of the services that property taxes finance are for the area where the taxes are raised. In other words, property tax is a group-user charge for benefits received for relatively small geographic areas.

Most jurisdictions tax different classes of property at different rates so that a class of property can pay for the services it receives. Business classes most often pay higher rates than residential classes. In general, the closer the balance between taxes paid and benefits received for local government services, the more efficient are the decisions on taxes and services. However, there exists the opportunity for municipal councils to tax some classes of property to subsidize services to others. The greatest risk is that residents, who are voters, will elect councils that simply tax business classes of property to keep residential taxes low without really considering the full impacts of such a decision.

Business investment has become increasingly mobile and jurisdictions have been forced to pay more attention to their own taxation relative to that of adjacent municipalities, provinces, and states in order to maintain a favourable business climate. High property tax rates can be a very significant factor for businesses as they decide whether or not to remain open, or to make a new investment. For this reason, it is in interests of all municipalities and others concerned with the business climate in British Columbia to look more closely at our property tax system.

Property taxes in British Columbia

From 1984 onwards, British Columbia has allowed municipalities complete discretion in setting property taxes on different classes of property. Since then, BC's municipalities have enjoyed more property tax discretion than municipalities in any other province and nearly all US states. This flexibility gives BC municipalities the freedom to set any rates they wish on 9 different classes of property, 4 of which are business (utilities, major industry, light industry and business), with only minimal constraints on utility taxation.

A comparative analysis of the treatment of business classes of property relative to residential in British Columbia reveals that in this period, business property has been taxed at much higher rates than residential property. In 2003, the median residential rate in BC was 1.17 percent compared to 5.58 percent for utilities, 4.94 percent for major industry, 3.30 percent for light industry and 2.69 percent for business. The median ratio of

business to residential tax rates in 2003 was 4.61 for utilities, 4.01 for major industry, 2.91 for light industry and 2.28 for business.

Comparisons with other jurisdictions

Canada

While complete municipal discretion to set property taxes exists in British Columbia, most provinces put all business properties into one class and set required or maximum ratios between rates on different property classes. Exceptions to the general approach include Alberta and Ontario.

Where the provincial government sets the tax ratios between residential and business properties, the ratios are quite small. For example, in Saskatchewan it is 1.43 for commerce and industry and 1.07 for utilities, and in Manitoba it is 1.4 for business, 1.1 for pipelines and 0.56 for railroads. Winnipeg also has a business tax that raises nearly half as much revenue as its business property taxes, resulting in a ratio of approximately 2.0. These ratios are all very low compared to those in British Columbia.

The more interesting comparisons, however, are with jurisdictions where there is more flexibility on either property tax rates or ratios. In Alberta, median and average municipal residential tax rates are a little over twice the level they are in BC. Alberta municipal non-residential rates are very close to BC's business class rates, but Alberta's non-resident rates are about 75 percent of BC's light industry, 44 percent of BC's major industry, and slightly less than 40 percent of BC's utility rates. The higher residential rates and lower business rates result in median and average ratios of less than 1.5. When one adds school taxes to the municipal taxes and compares them with total taxes levied within BC municipalities, the same patterns as for municipal taxes remains. Alberta's residential tax rates remain higher than in BC, but BC has higher tax rates and ratios on all business classes of property.

Alberta is one province where municipalities may levy a business tax in addition to business property taxes, although very few Alberta municipalities levy such a tax. Systematically adding business-tax-rate-equivalent totals to municipal rates would not change the basic Alberta/BC patterns.

Ontario has recently been through property tax changes and has emerged with more business property classes than British Columbia, but also has provincially-designated "ranges of fairness" for the mandatory classes. "These ranges ensure that taxes are not

shifted onto property classes that are already subject to unfairly high tax rates, or off property classes that are subject to unfairly low tax rates.”

By examining medians, one can note that the school plus the municipal residential rate in Ontario is 1.4 times the total residential rate in BC, and the combined commercial rate in Ontario is 1.5 times BC’s business rate. Ontario’s basic industry rate is twice BC’s light industry rate, and Ontario’s large industry rate is 1.9 times BC’s. Thus, median tax rates are higher in all classes in Ontario than British Columbia. Some higher taxes should be expected because Ontario’s municipalities fund a significant portion of the province’s social welfare programs. Where the two provinces differ is that Ontario’s municipal and total tax rates are more tightly clustered around the median and average, while BC’s are more spread out. Thus, BC has many more municipalities with higher rates than Ontario’s maximums.

US states

For each US state, the data has been separated between data for the largest city in each state, labeled “urban” and a representative small city (labeled “rural”). A comparison of median and average total residential property tax rates between US states and British Columbia reveals that they are very close, with the large city median a bit lower, and the rural median and average a bit higher than in BC.

The overall difference in the patterns is in the treatment of business properties relative to residential properties. Insofar as tax rates go, both treat residential properties similarly. However, US commercial and industrial properties are taxed at much lower rates than residential properties, and in small towns industrial properties are usually taxed at lower rates than residences. In BC, commercial properties are taxed at about 2.3 times the residential rate, light industry at about 3 times the residential rate, and major industry about 4 times as much as the residential rate. The net result is that most US states provide a much more business-friendly property tax climate and expect their residents to pay a greater share of property taxes to support local governments than is the case in Canada.

Conclusion

High property tax rates can be a very significant factor for businesses as they decide whether or not to remain in business, or to make new investments. British Columbia appears to have a serious business climate problem in its treatment of major industry, and to a lesser extent, utilities. Alberta and Ontario do not have similar problems with

very high tax rates in some municipalities, although those provinces still give their municipalities considerable discretion over local rate setting.

Two approaches worthy of consideration offer potential solutions. The first approach is to combine all 4 business classes into a single class, as is done in most other provinces. What limited evidence exists in Canada indicates that with such a broad classification system business tax ratios remain reasonable. A second approach is to look more closely at the applicability of Ontario's reforms. These reforms involve determining ranges of fairness and thresholds based on average property tax rates in the municipalities for different major classes, and then requiring all tax rate changes to move toward the range of fairness.

It is in the interests of all municipalities and others concerned with British Columbia's business climate to more closely examine how municipalities set tax rates to see if extremely high tax rates and ratios can be avoided while still maintaining local discretion in tax rate setting. Both municipal discretion and a favourable business climate are desirable objectives, but the current arrangements have not achieved a proper balance between the two in a significant number of BC municipalities. This failure has the potential to adversely affect the business investment climate throughout the province.

Introduction

From 1984 onwards, British Columbia has allowed municipalities complete discretion in setting property taxes on different classes of property. Since then, BC's municipalities have enjoyed more property tax discretion than municipalities in any other province and nearly all US states. Casual observation indicates that municipalities have used this discretion to impose ever-higher taxes on business properties relative to residential properties. The purpose of this study is to summarize and more broadly disseminate the findings of a detailed analysis. The larger report contains five main sections: a discussion of the changing nature of the property tax over time from a general wealth tax to a geographically-based benefits received tax, a description of trends in the relationship between taxes on residences and business classes since the 1984 introduction of variable rates in British Columbia, a description of the taxation of business properties in the rest of Canada and the US, an analysis of similarities and differences in different systems, and finally, concluding observations on the taxation of residential and business properties in BC (Bish, 2003). For the purpose of this analysis, business properties include utilities, major industry, light industry, and business. Appendix A describes the BC property tax classes.

Property taxes

Property taxes are an extremely important tax for the kind of local government structure that exists in North America. Local government systems on this continent consist of a multiplicity of local government units with different boundaries, some of which overlap. In British Columbia this includes municipalities, regional districts with their municipal and electoral areas, hospital districts, school districts, and improvement districts. Also, many municipalities and electoral areas have within them special taxing areas for financing specific services that are provided only in that area. Most of the services that property taxes finance are for the area where the taxes are raised, and it is this structure that permits locally elected officials to make decisions to compare the costs of taxation with the benefits of services: this is the essence of democratic decision-making. The property tax has evolved to facilitate this system where it resembles a geographically-based, group user charge for services.¹

British Columbia has one of the most developed, geographically-based, benefits-received property tax systems in North America.² Within its regional district system, which can be divided up internally with any boundaries useful for supplying a service, only the properties within those boundaries are taxed for that service. Likewise, municipalities can create special taxing areas within them to pay for special services not provided elsewhere. Similar arrangements to levy property taxes in a small area for a special service exist in most jurisdictions in North America. The use of these smaller areas for taxation to pay for benefits to those areas is an important approach to removing the

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- 1 It is extremely difficult to compare property taxes with general sales or income taxes, especially with regard to its incidence on business properties. Virtually all studies of property tax incidence are of residential property taxes only because it is impossible to make general statements about the incidence of property taxes on business. First, there is no systematic relationship between a business's "real property" and its net income, which may in fact be negative in some years. Second, a business is only a "piece of paper." Tax burdens must fall on customers through higher prices, on sellers of resources to the business, including its employees, on owners of the business (which may include mutual and pension funds), or property owners if the business leases instead of owning its real property. Both taxes and benefits from the services it finances may also be capitalized into property values and this reinforces their benefits-received nature and makes it even more difficult to compare their incidence with income and general sales taxes.
 - 2 When property taxes are used in a relatively small geographic area to finance services in that area, they take on the characteristics of a user charge for a group where direct benefits are received for the payment instead of a tax unrelated to benefits. The smaller and more homogeneous the group of properties upon which a tax is levied to provide a specific service, the closer the tax approximates an individual user charge. Cost-based user charges have the advantage of promoting efficient resource use, and appropriate cost-of-service-based property taxes have fewer distorting effects on decisions than result from other taxes. In addition, when the benefits of services exceed the cost of taxes, the property values in the benefitting area are enhanced instead of depressed by the tax-spending process; this is most likely to result when relatively small groups make the tax-spending decisions.

distorting effects of taxation that is unrelated to benefits to an efficiency-enhancing benefits-received group user charge.

In recent times, some jurisdictions have begun to apply the benefits-received approach systematically to different classes of property, with the different property tax rates on different classes of property based on the costs of providing services to different classes. For example, if businesses attract a lot of customers and employees from outside the local government's jurisdiction, the costs of providing services to those customers and employees while they are in the jurisdiction should be paid by the businesses that attract them, and their property taxes should cover those costs. This approach could lead to either higher or lower property tax rates on different classes of property relative to residential rates. A second approach, as property taxes have increased, is for a jurisdiction to pay more attention to its taxation rates relative to those of its neighbours in order to maintain a favourable business climate. A jurisdiction's neighbours may be adjacent municipalities for most business taxation, but can also be adjacent provinces, states, or even countries for the location of industry.

Some combination of the cost of providing services to different classes of property and the goal of achieving economic competitiveness appears to underlie Ontario's designation of a band of "fair" property tax rates for different classes of property. Political pressure and the cost of services approach underlie the City of Vancouver's attempt to rebalance residential and business property taxes following the KPMG study.³ Allocating costs among property classes is a natural evolution of the transition of the property tax to a benefits-received tax in relation to different classes of property as well as to geographically-defined groups.⁴ British Columbia's variable tax rate system allows such a trend.

Property taxes in British Columbia

British Columbia has one of the most highly evolved systems of local government with property taxes used as geographically-based, group user charges (for a discussion on the use of property taxes in BC, see Bish and Clemens, 1999). The provincial government has also removed the responsibility of funding services devoted primarily to income

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- 3 KPMG, 1995. This study concluded that business property taxes were used to subsidize residential services such that residents only paid \$.50 of each \$1.00 their services cost to produce with the other \$.50 paid by excess taxes on business.
 - 4 The closer the match between the costs of providing services and taxes paid (through user charges where feasible, or for relatively small, geographically-defined groups), the more likely location and investment decisions will be efficient and contribute to increasing productivity in the economy.

redistribution from local governments and funds them with general income and sales taxes. Property tax assessments are exceptionally uniform at market value and the tax is well administered. Homeowner grants and deferment programs reduce the burden on occupants of lower-valued dwellings, the elderly, and the disabled. The proportion of school financing from property taxes has been reduced and school resources are equalized province-wide. Also, with regional districts and provisions for local area tax financing within municipalities, there are opportunities for local people and their officials to relate local taxes to local benefits. British Columbia's municipalities also have more discretion to set different property tax rates on different classes of property than any other jurisdiction in Canada.⁵ Other provincial governments either set the ratios among property classes, combine all business and industrial properties into fewer (usually one) classes, or constrain ratio and rate setting.

The BC government designated the ratios between tax classes which virtually all municipalities used when setting their tax rates until 1983.⁶ Beginning in 1984, municipalities began to set their own rates and ratios on 9 different classes of property, four of which were business properties: utilities, machinery, industry, and business. In 1988, the machinery class was abolished and industry split between light and major. The provincial government, however, continued to set ratios among property classes for use by regional and hospital districts, and also set its own rural property tax rates for areas outside of municipalities.

During the initial years under variable rates, most municipalities continued to use ratios identical to or virtually identical to those the provincial government designated for use by regional districts under *Local Government Act* regulations. However, over time municipalities have increased the ratios of tax rates on business, industry, and utilities relative to residential tax rates, with some ratios and rates becoming not only high, but indeed the highest in North America.

British Columbia's rates and ratios prior to and since the introduction of municipally-determined variables in 1983 are presented in table 1.⁷ *Local Government Act* (LGA)

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- 5 Newfoundland municipalities, however, have similar discretion over business occupancy taxes.
 - 6 Ratios are comparisons of a class tax rate relative to the residential rate. For example, if the business tax rate is 3.0 percent and the residential rate is 1.0 percent, the ratio is 3 (3:1). Ratios were set by applying a single rate to different percentages of assessed value. There was some discretion to vary those percentages, but very few municipalities took advantage of that discretion. Note that tax rates in this analysis are presented as a percentage of assessed value as is done in most of Canada. In BC, tax rates are reported in dollars per \$1,000 of assessed value, thus a rate of \$20/\$1,000 is the same as 2 percent.
 - 7 The data are provided for minimums, medians, averages, and maximums. For comparison, median rates and ratios are generally used as averages may be skewed by very high rates and ratios.

ratios are shown beginning in 1988 because that is when the tax on machinery was abolished and the industry class split between light and major. Also shown are the ratios relative to residential tax rates for business classes in 2003. These include the ratios for the provincial rural property tax where revenues go to the general fund and support, but are not directly related to, the financing of rural roads and rural policing, the LGA ratios used by regional districts, and an estimate of ratios for provincial school taxes. School tax rates are uniform across the province for all non-residential properties and the provincial government sets different residential rates in smaller areas to provide for residential school tax equalization. Because there are so many school tax areas, the ratios are based on a sample of 52 different school taxing areas. Finally, summary statistics on municipal property taxes and total property taxes in municipalities are shown. For each tax and ratio, where relevant, the lowest, median (one half tax at a higher rate; one half at a lower rate), average, and high, rates and ratios are shown.

It is important to note that tax rates are shown four ways in Canada: dollars per thousand of assessed value, mills (which is the same as dollars per thousand without the “\$” sign), dollars per hundred of assessed value, and percent (which is the same as dollars per hundred with a “%” instead of a “\$”). While BC uses dollars per thousand, all rates shown in this analysis are presented in percentages, as is the custom in most Canadian jurisdictions. Thus a rate of 1.03 percent is the same as \$10.30/\$1,000. Actual tax rates are also often expressed to 5 decimal places. For comparative purposes, amounts in this report are limited to fewer decimal places as it makes the tables easier to read without sacrificing the degree of accuracy needed for the comparisons.

While one could report data for intermediate years, they simply reflect trends between 1983 and 2003. To summarize these trends:

- the LGA Act ratios applicable to regional and hospital districts have remained unchanged;
- provincial government ratios for the rural area tax have all increased, with business increasing the most from 2.45 to 3.59;
- school tax ratios are different as they are of no concern in tax rate setting. The province sets the same tax rates on all non-residential classes province-wide, but residential rates are set to equalize school tax burdens on residents in different school tax areas. Their median ratios are lower than all other tax ratios including 1983, pre-variable, tax-rate-setting ratios. These lower ratios on school tax rates are the major reason tax ratios on total property taxes within municipalities are lower than the tax ratios set by municipalities on municipal property taxes.

Table 1: BC Property Tax Rates and Ratios									
Tax Rates (%)						Tax Ratios			
Tax Type	Res.	Utilities	Machin- ery	Industry	Bus.	Utilities Ratio	Machin- ery Ratio	Industry Ratio	Bus Ratio
1983				3.50	2.80	3.50	3.40		
Tax Type	Res.	Utilities	Major Industry	Light Industry	Bus.	Utilities Ratio	Major Industry Ratio	Light Industry Ratio	Bus Ratio
LGA 1988-2003						3.50	3.40	3.40	2.45
2003									
Provincial/ Rural	1.03	4.20	4.50	3.70	3.70	4.08	4.37	3.59	3.59
School									
Min.	2.36					1.98	1.65	1.30	1.30
Median	5.02	15.00	12.50	9.90	9.90	2.99	2.49	1.97	1.97
Average	4.77					3.37	2.81	2.23	2.23
Max.	7.59					6.36	5.30	4.20	4.20
Mun. 2003 Tax Rates %						Tax Ratios			
Tax Type	Res.	Utilities	Major Industry	Light Industry	Bus.	Utilities Ratio	Major Industry Ratio	Light Industry Ratio	Bus Ratio
Minimum	0.17	0.17	0.17	0.17	0.17	1.00	0.42	0.80	0.82
Median	0.52	3.48	3.04	1.81	1.28	6.12	4.86	3.40	2.45
Average	0.57	3.29	3.31	2.14	1.39	6.12	6.02	3.85	2.53
Maximum	2.89	9.70	12.59	9.38	6.61	16.30	19.55	13.63	7.38
Total 2003 Tax Rates (%)						Tax Ratios			
Tax Type	Res.	Utilities	Major Industry	Light Industry	Bus.	Utilities Ratio	Major Industry Ratio	Light Industry Ratio	Bus. Ratio
Minimum	0.47	2.05	1.48	1.19	1.02	1.79	1.33	1.67	0.97
Median	1.17	5.58	4.94	3.30	2.69	4.61	4.01	2.91	2.28
Average	1.22	5.42	5.13	3.67	2.78	4.70	4.41	3.10	3.39
Maximum	3.73	11.90	14.56	11.02	8.08	8.47	11.22	7.30	4.82

The table does not permit determination of changes in tax rates over time, only ratios, and the greatest changes are in the range of municipal tax ratios, both in medians for utilities and major industry, and with some very high ratios in all business classes. Municipalities with minimum ratios are taxing utilities at the same rate as residential property. Some municipalities are taxing the other three business classes at less than residential rates, and over half of all municipalities have not increased ratios on business or light industry compared to LGA ratios. However, most have increased the ratios on major industry and utilities, and some ratios have become very high even though between 1988 and 2003 there were constraints placed on municipal taxation of utilities and the way railroads were assessed and taxed.

The greatest insight from these ratios comes from the comparative analysis of the treatment of business classes of property relative to residential in other provinces and states. One should note, however, that property tax rates on business properties in many municipalities, especially utilities and major industry, can become high enough to influence the location and investment decisions of businesses.⁸ For example, utilities and major industry show median total tax rates of 5.58 percent and 4.94 percent, and highs of 11.9 percent and 14.56 percent respectively. A 5 percent annual property tax bill is about the same total cost as the capital cost of an investment amortized over 20 years, and thus the investor is paying double for the investment. Another way to think of tax rates at the 5 percent level is that the monthly property tax bill would be almost same size as the mortgage payment. Seventeen municipalities have municipal tax rates on major industry that exceed 5 percent and in 48, or nearly one-third of all BC municipalities ($\frac{48}{153}$), the total property tax rate on major industry exceeds this amount. This is a tax rate that will preclude many investments. These potential effects are best examined in the context of comparing property tax treatment of business in BC with other provinces. In addition, some comparisons with US states will also be provided because many business decisions are North America-wide, not just Canadian.

8 Large sample size studies in the US show tax differences are most important within a metropolitan area and not between metropolitan areas. This is because most businesses need to be somewhere within a metropolitan area to serve that area. Major industry, in contrast, may need to locate near raw materials or at some point between raw materials and markets. Thus, different kinds of business and industry will have different sensitivity to property tax rates in investment and location decisions. Note that comparisons will show that US property tax rates are generally much lower than Canadian rates, and especially rates in British Columbia. Thus, one would expect more sensitivity by business to property tax rates in Canada and British Columbia than is identified in US studies.

Comparisons with other jurisdictions

Canada

Canadian provinces have reasonably similar structures of local government, with the exception of significant municipal social welfare responsibility in Ontario, which results in Ontario municipalities having the highest per-capita expenditures and revenue needs. In all provinces the major revenue source for non-school local governments is the property tax. The major differences among provinces are that municipalities in some provinces rely relatively less on user charges (Quebec, Newfoundland, Nova Scotia), and in Newfoundland the provincial government provides larger provincial transfers, which reduces the need of its municipalities for own-source revenue. Thus, in comparisons of tax rates, one must be cognizant that Ontario municipalities must raise more own-source revenue, and Newfoundland municipalities much less, due to provincial policies. Furthermore, different municipalities put different emphasis on user charges relative to the property tax. BC, along with Alberta, Saskatchewan, Manitoba, and PEI, rely most heavily on user charges as a percentage of their own-source revenue. However, comparisons in this analysis focus not simply on tax rates, but on how business and industrial properties are taxed relative to residential properties in British Columbia relative to other jurisdictions.

Property tax systems across jurisdictions can be compared in several ways. One way is to ignore all aspects of assessments and rates, and simply survey individuals to find out their income, house value, and amount of property tax paid, as is done in Statistics Canada and Royal LePage surveys. This works for residential rates. With this approach, BC residents have lower property tax rates in relation to assessed value (less than 1%) than any other province except Newfoundland. However, in relation to family income, taxes in BC are about the Canadian average. This appears to be the result of higher than average home values in BC (where so much of the population is concentrated in the high housing-price areas of the Lower Mainland and southern Vancouver Island) and, as will be seen, the relatively high taxation of business.

Similar cross-Canada studies do not exist for industrial properties nor for entire provinces for other classes of property. For these, one must get into specific case studies, as is done across the United States, or examine assessment classifications, practices, and tax rates. For example, an identical tax rate has a different result in a province in which tax assessments are updated annually to market value compared to one which has a three-, six-, ten-year, or even a random assessment cycle. In addition, in four provinces municipalities may still maintain a business occupancy tax in addition to the property tax. They are noted and included as a property tax in the discussion of individual provinces where

relevant. Newfoundland, however, also has a local business gross income tax on some kinds of business that is described but not included as a property tax. Provincial governments follow different policies for municipal taxation of residential and business properties. First, they have different classification systems. Most simply have residential, non-residential (which includes BC's four business classes) and farm, but others, like BC and Ontario, have more classes. With regard to ratios of rates between classes of property, most provincial governments set fixed ratios, either by setting the percentage of the assessment that is to be taxed for each class with each class taxed at the same rate, or by designating ratios directly. Others set fixed ratios for the real property tax, but allow municipalities to set their own rates on the business occupancy tax. Ontario allows municipal rate setting but designates "fair ranges" and limits. BC and Alberta, however, allow municipalities nearly full discretion within provincially-determined classes. In addition, provinces have different policies on residential exemptions, such as British Columbia's homeowner grants, and some allow tax credits for municipal property taxes against provincial property taxes, or against provincial income taxes. In addition, some provinces have different policies for their largest city compared to smaller municipalities. And if all of the above were not enough, some provinces are in the middle of reforming assessment practices or reorganizing their local governments.

To make comparisons taking every difference into account in detail would require a research effort far larger than this one, and one that has never, to the author's knowledge, been done in Canada. There is sufficient information, however, to make some basic comparisons of the treatment of residential versus business properties in different provinces to place the policies of British Columbia's municipalities in the Canadian context. This study gives no attention to the treatment of farms or forests. That would require still another major research effort.

Where the provincial government sets the tax ratios between residential and business properties, the ratios are quite small. For example, in Saskatchewan, the ratio is 1.43 for commerce and industry, and 1.07 for utilities. In Manitoba, it is 1.4 for business, 1.1 for pipelines, and 0.56 for railroads. Winnipeg also has a business tax that raises nearly half as much revenue as its business property taxes, resulting in a ratio of approximately 2.0. These ratios are all very low compared to British Columbia. This analysis places greater emphasis on the provinces where there are higher ratios or more flexibility on either property tax rates or business occupancy taxes. In some provinces where municipalities set their own rates and ratios there is sufficient information to get a good picture of their policies. These provinces include Alberta, Ontario and Nova Scotia. Basic information on property tax rates and ratios for Alberta and Nova Scotia are presented below in Table 2. Alberta and Nova Scotia have had excellent market value assessments for some time and Ontario has recently updated to market value so assessment bases are similar. The infor-

Table 2: Interprovincial Property Tax Comparison for 2003

Alberta Municipal	Residential Tax Rate (%)	Non-Residential Tax Rate (%)	Ratio Non-Residential / Residential
Minimum	0.09	0.14	0.13
Median	1.08	1.33	1.14
Average	1.18	1.42	1.32
Maximum	3.14	3.76	7.50

Alberta Total	Total Residential Tax Rate (%)	Total Non-Residential Tax Rate (%)	Ratio Total Non-Residential /Res.
Minimum	0.58	0.94	0.58
Median	1.57	2.12	1.28
Average	1.68	2.18	1.35
Maximum	3.75	4.54	3.38

Nova Scotia	Tax Rates (%)					Tax Ratio			
	Res.	Com- mercial	Com. + 0.25	Com.+ 0.50	Com. + 0.75	Com.	Com. + 25%	Com. + 50%	Com. + 75%
Minimum	0.60	1.27		0.85	1.10	1.35	1.19	2.07	1.48
Median	1.58	3.20		3.45	3.70	3.95	1.98	3.47	2.48
Average	1.48	2.93		3.18	3.43	3.68	2.00	3.50	2.50
Maximum	2.19	5.50		5.30	5.55	5.80	2.78	3.47	4.17

mation has been made as similar as that compiled for British Columbia as is possible. Data on Ontario follows in tables 3 and 4.

Alberta

The Alberta data includes cities, municipal districts, specialized municipalities, towns, and villages, but does not include summer villages or improvement districts. Alberta places all business properties into a single class, non-residential, with an additional machinery and equipment class. For those municipalities that do impose the machinery and equipment tax, they tend to use the same rate as for non-residential taxes and the rate for school taxes on machinery is 0. An examination of a sample of Alberta municipalities indicated that the majority either had no assessed value or used a 0 rate for the tax (including Calgary), and in those that did tax, the machinery and equipment tax was

from less than 1 percent to as high as 8 percent of the non-residential assessment. Because there is no summary data on use of machinery and equipment taxation, data on it is not included in the table. Adding it systematically would have very little effect on the minimum, median, or average non-resident tax rates, although it could raise the “high” shown in the table if that municipality imposed it. Median and average municipal residential tax rates in Alberta are a little over twice BC’s level. Alberta’s municipal non-residential rates are very close to BC’s business class rates, but Alberta’s non-resident rates are about 75 percent of BC’s light industry, 44 percent of BC’s major industry and slightly less than 40 percent of BC’s utility rates. The higher residential rates and lower business rates result in median and average ratios of less than 1.5, and would not go above that if machinery and equipment were added. When one looks at specific municipalities they do cluster around the mean and median with only 4 of 295 municipalities having ratios above 3; those include Calgary, Banff, and Jasper.

Alberta is one of the provinces where municipalities may levy a business tax in addition to business property taxes. A recent study of business taxes by the city of Calgary observed that very few Alberta municipalities levied such a tax, and for most, revenues were very low. Calgary, however, had the highest taxes reported and the study noted that the city’s business tax was equivalent to 27 percent of its non-residential property tax collections. I estimate that including this tax (for which no centralized data source is available) could increase the average municipal tax rate by perhaps 5 percent, but for Calgary itself the rate would need to increase about 30 percent, which would still make its business rate 1.7 percent and raise its ratio to 3.8. This would result in slightly higher business rates than the median BC business tax rate of 1.28 percent and about the same as Vancouver’s 1.64 percent, but Calgary’s rates remain lower than the BC medians for utilities, major industry, and light industry. Calgary ratios are all lower than BC medians or Vancouver’s ratios. Edmonton also has a business tax but its overall ratio is lower than Calgary’s. Systematically adding business-tax-rate-equivalent totals to municipal rates would not change the basic Alberta-BC patterns.

When one adds school taxes to the municipal taxes and compares them with total taxes levied within BC municipalities, the same patterns as for municipal taxes remain. Alberta residential tax rates remain higher than in BC, but BC has higher tax rates and ratios on all business classes of property.

Nova Scotia

Nova Scotia’s municipalities may set different property tax rates on residential and commercial property and add a business tax based on proportions of assessed value to commercial properties. For the business tax, the provincial government sets maximum

assessment ratios for three classes of business. Businesses such as service stations, restaurants, and automobile dealers may be taxed on up to 25 percent of the assessed commercial value of the space they use. Financial institutions may be taxed on up to 75 percent of their building's value and other businesses may be taxed on up to 50 percent of the assessed value of their building. The average taxable business tax assessment base is 35.6 percent for all municipalities. For comparative purposes, the Nova Scotia table shows the residential and commercial property tax rates and ratios, and then provides what the maximum commercial rates and ratios could be for the three business tax classes.

Median residential rates in Nova Scotia are a little more than three times BC's municipal rates. Median commercial property tax rates are 2.5 times BC's municipal business rates; nearly 1.8 times BC's light industry rates; .92 of BC's major industry rates; and .91 of BC's utility rates. If municipalities add the maximum permitted business tax, which many do not, the maximum potential rates and ratio are also shown in the table. This would leave residential rates unchanged but increase taxes on businesses and raise ratios relative to residential taxes. This, in turn, would bring median commercial property tax rates above all BC business classes, but the maximums and ratios are all much lower, with no tax rates above 5.8 percent and no ratios above 4.86.

Nova Scotia has no additional property taxes for schools, as do BC and Alberta. If one compares total property tax rates and not just municipal tax rates, Nova Scotia's residential rates remain slightly higher than BC's, BC's business rates are similar depending on the level of the business tax levied in Nova Scotia, and BC's utility and major industry rates are higher. All of BC's ratios remain higher.

Ontario

Ontario has recently been through major assessment practice changes and rate transitions to implement those changes. It has emerged with more business property classes than British Columbia, but it also has provincially designated "Ranges of Fairness" for the mandatory classes. These ranges ensure that taxes are not shifted onto property classes that are already subject to unfairly high tax rates, or off property classes that are subject to unfairly low tax rates. There are also regulations for setting transition ratios and caps on taxes due to reassessments. Fifty-four Ontario municipalities representing 71 percent of the population participate in a detailed study of municipal revenue issues each year and the observations here are taken from this study (BMA Management Consulting, *Municipal Study—2002*). Reliance on this study for municipalities avoids trying to sort out all of the legislative and regulatory changes that have happened since reas-

assessment as well as the differences among the two-tier and single levels of local government across the province.

Ontario has three mandatory classes for business property: commercial, industrial, and pipelines. Optional classes, which come under the same constraints as the mandatory classes, include office buildings, shopping centres, parking lots, and large industrial. Not all municipalities use the optional classes. The designated range of fairness ratios for the commercial and industrial classes are 0.60 to 1.10; for pipelines it is 0.60-0.70. The provincial government does not mandate these ranges, but municipalities can only change tax rates in ways that move ratios toward the range of fairness, not away. Municipalities must treat these ranges as objectives and move toward them in their rate setting. In addition to requiring a move toward range of fairness ratios, in 2000, the province also established “Threshold Ratios” which preclude any increase in actual tax rates on any classes where the threshold ratio is exceeded. The threshold ratio for commercial is 1.98 and for industrial, 2.63. Currently, not all Ontario municipalities achieve these ratios, but they are constraining regulations that municipalities are moving toward to create a more friendly business climate in the province.

Actual tax ratios for 2002 as well as threshold and range of fairness ratios are shown for Ontario in table 3.

For commercial, 4 municipalities exceeded the threshold, but only one was within the range of fairness. For industrial, half the sample was above the provincial threshold but only Toronto, with a ratio of 5.3, exceeded a ratio of 3.7. For large industrial, over half again exceeded the threshold with Toronto again at 5.3, Owen Sound at 4.4, and Hamilton at 4.17. No others were above 3.7.

The provincial government determines the school property tax rates for all classes. For 2002, the school rate for single family residential was 0.373 percent. Commercial and industrial rates varied by city and region, with the average around 3 percent. Thus, Ontario has left cities with a very low residential school tax rate but constrained their ability to shift municipal residential taxes to business classes. The provincial government, however, sets higher school property tax rates on the business classes with an

Table 3. Ontario Municipal Tax Ratios

	Commercial	Industry	Large Industry
Average	1.83	2.63	2.84
Median	1.89	2.63	2.67
Threshold	1.98	2.63	2.63
Range of Fairness	0.6-1.1	0.6-1.1	0.6-1.1

Table 4. Ontario Municipal and School Tax Rates and Ratios

Tax Type	Tax Rates (%)				Tax Ratios		
	Res.	Com.	Industry	Large Industry	Com.	Industry	Large Industry
Minimum	1.10	2.95	3.62	3.62			
Average	1.58	4.15	6.15	6.50	2.63	3.89	4.11
Median	1.64	4.09	6.40	6.56	2.49	3.89	3.99
Maximum	2.19	5.97	9.53	10.25			

effective ratio of about 8. The relatively low ratio constraints set for municipalities forces their voters to carefully consider expenditures because they cannot simply raise taxes on non-residential properties as can be done in provinces with unconstrained variable rates. At the same time, the very low residential school tax rate helps keep total residential property tax rates on residences down, even with the lower municipal ratios.

Table 4 presents the combined municipal and school property tax rates and ratios. The ratios are calculated from the summary rate statistics instead of from the entire columns of individually calculated ratios as was done for BC, Alberta, and Nova Scotia. Thus, only the medians and averages are meaningful because the different low and high rates for each class are from different municipalities.

An examination of the medians reveals that the school plus municipal residential rate in Ontario is 1.4 times the total residential rate in BC and the combined commercial rate is 1.5 times BC's business rate. Ontario's basic industry rate is twice BC's light industry rate and Ontario's large industry rate is 1.9 times BC's. Thus, median tax rates are higher in all classes in Ontario compared to British Columbia. Some form of higher taxes should be expected because Ontario municipalities fund a significant part of the province's social welfare programs. What is different between the two provinces is that Ontario municipal and total tax rates are more tightly clustered around the median and average, while BC's rates are spread out, especially in higher directions. Thus, even though BC's median and average rates are lower than in Ontario municipalities, BC has many municipalities with higher rates than Ontario's highest rates.

The description of property taxes in Alberta and Nova Scotia reveal patterns that are consistent with other provinces, including those where the provincial governments sets the ratios of residential relative to business property tax rates. This pattern is one where residential tax rates are higher than in BC and the ratios and rates for non-residential (all business and industry) are similar to BC rates on its business class, but lower than the

rates on BC's utilities, light industry, and major industry classes. The rates set by the municipalities are also much more clustered around the averages and medians, where in BC, rates on utilities, light industry, and especially major industry are spread out with some very high rates in some municipalities.

Ontario demonstrates a pattern more like BC where the many classes of property led to very high rates and ratios on industry and some businesses classes, which are now being constrained by Ontario provincial legislation with its defined "Ranges of Fairness" and "Threshold Rates."

Newfoundland is the only province beside BC that continues to have a multiplicity of property classifications and unconstrained rate setting, although it is through a business tax add-on and not through the property tax itself. As it provides municipal discretion similar to BC it is useful to examine the resulting rates and ratios in one municipality (there is no consolidated data available as is available for BC municipalities).

Newfoundland and Labrador have had long assessment cycles but St. John's has a nearly up-to-date roll. Municipalities may set separate tax rates for residential and non-residen-

Table 5: St. John Property and Business Tax Rates and Ratios

	Rate	Maximum Business Occupancy	Maximum Total Rate	Ratio
Residential	1.27			
Business Realty	1.87			1.47
General		1.93	3.80	2.99
Banks		7.49	9.36	7.37
Loan Companies ³⁵	7.22	5.69		
Oil Terminals		1.21	3.08	2.43
Tank Farms		3.85	5.72	4.51
Breweries		2.68	4.55	3.58
Commercial Schools		2.68	4.55	3.58
Hotels		2.14	4.01	3.16
B&Bs		1.28	3.15	2.48
Communications		3.85	5.72	4.51
Minimum		1.21	3.08	2.43
Median		2.68	4.55	3.58
Average		3.25	5.12	4.03
Maximum		7.49	9.36	7.37

tial property. The residential rate reported for St John's is 1.27 percent with a non-residential rate of 1.87 percent for a ratio of 1.47. In addition there are 10 categories of business tax, with the highest on banks, as in Nova Scotia. While the basic property tax rate differences between residential and business realty are relatively small, business occupancy tax rates can be quite high and thus make a significant change in the ratios. These rates and revised ratios are indicated in table 5 below. Newfoundland has no school property taxes.

The basic residential tax rate in St. John's is higher than BC's median municipal residential rate and about the same as the BC total tax rate within a municipality. The overall ratio between residential and business property tax rates of 1.47 is lower than the median in BC and similar to many jurisdictions across Canada. What stands out, however, is the variety and rates of the business occupation tax. The median and average rates of property taxes plus business occupation taxes at 3.6 and 4 percent are higher than the general business and similar to the light industry classes in BC, but several other classes, especially banks and loan companies, are taxed at quite high rates and thus have high ratios as well.

US States

Municipalities within the 50 US states and District of Columbia have a similar history to municipalities within Canadian provinces in their use of property taxes. Both began with the property tax as a wealth tax and have been narrowing it to a tax based on land and buildings. During the past few decades, however, municipalities in more states have been permitted to expand their revenue sources to include retail sales and income taxes so that their reliance on property taxation as their only significant tax has declined. While additional taxes may appear desirable to municipal officials, these other revenue sources, especially the income tax, have introduced considerable instability into municipal revenues and caused serious financial problems during the last economic downturn. The debate as to whether Canadian municipalities should be allowed to use these additional taxes continues.

Within the context of additional tax sources, the property tax still remains the single most important revenue source for most local governments in the US. While the diversity of property tax systems is as great as in Canada, the Minnesota Center for Public Finance Research undertakes far more complete comparisons of property taxation among the 51 states than is available in Canada.⁹ The information presented here is

9 Data on US states is from the Minnesota Center for Public Finance Research, "50-State Property Tax Comparison Study."

largely from that source. Descriptions will be limited to rates and ratios in relation to business properties as was the description of provincial systems.

The Minnesota Center's studies are extremely detailed. Because of widely diverse assessment practices their methodology is different from that used in the inter-provincial comparisons. Their approach is to select representative residences, three different-sized commercial establishments, and three different-sized industrial properties and calculate the actual taxes that would be paid by those properties in the largest city and a representative small city within each state. This approach does not provide for the diversity that may occur within a state. On the other hand, that diversity is much less likely than in Canadian provinces because of either constitutional or legislative provisions which either require uniform rates on all classes of property or set the ratios that must be used. This methodology also produces the effective rate for total property taxes, not just the municipal rate. The methodology also takes into account exemptions (like the BC homeowners grants) where they exist. By being able to take residential exemptions into account, the effective rate is lower than the Canadian published rates, especially for low-valued properties. This lower effective rate on residential properties also creates an upward bias in ratio calculations because the residential properties are the ones that receive the exemptions.

Table 6 shows calculations similar to those shown for provinces except the observations are for two municipalities within each state instead of municipalities within a province. With each state the data has been separated between data for the largest city in each state, labeled "urban" and a representative small city (labeled "rural"). Remember that except for a few large cities, state constitutions or state legislatures set the ratios. Note also that the ratios are calculated only for the median and averages as was done for Ontario.

A comparison of US median and average total residential property tax rates with BC reveals that they are very close, with the US large city median a bit lower and the US rural

Table 6: US Property Tax Rates and Ratios

Tax Type	Tax Rates (%)						Tax Ratios			
	Residential		Commercial		Industry		Commercial		Industry	
	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>
Minimum	0.17	0.18	0.72	0.50	0.47	0.30				
Median	1.02	1.39	1.99	1.59	1.62	1.21	1.95	1.14	1.59	0.87
Average	1.18	1.52	2.13	1.68	1.68	1.30	1.81	1.11	1.42	0.86
Maximum	2.79	2.31	5.60	4.52	3.34	4.87				

median and average a bit higher than in BC. Median BC business rates are a bit higher than US commercial rates, although BC maximums are triple the US maximum.

The greatest differences between the US and BC is in major industrial rates. Here methodological differences are much less important and the US median and average rates of close to 1.6 percent are less than one-third of the BC total median and average rates of 4.94 and 5.13 percent. An even more extreme difference, however, is revealed in the maximum rates where the maximum US rate was 3.34 percent in large cities and 4.87 percent in a small town, rates less than the BC median and about one-third of the BC maximum of 14.5 percent. The differences are only a little less extreme for light industry. The commercial class has less difference than light industry but tax rates are still significantly higher in BC, with the US median and average being close to 1.6 percent compared to BC's median and average of 2.69 percent and 2.78 percent. Again BC's maximums are much higher than in the US, with a high rate of 8.08 percent in BC compared to 4.87 percent in the US. One must be careful when comparing maximum rates as the methodology used for the US study may have missed exceptionally high rates in some municipality in one of the very few states that allow greater municipal discretion in setting their ratios among classes.

The overall differences in the patterns are in the treatment of business properties relative to residential properties. Insofar as tax rates go, both treat residential properties similarly. However, in the US, commercial and industrial properties are taxed at much lower rates than residential properties and in small towns industrial properties are usually taxed at lower rates than residences. In BC, commercial properties are taxed at about 2.3 times the residential rate, light industry at about 3 times the residential rate, and major industry about 4 times as much as residential. The net result, insofar as property taxation is concerned, is that most US states provide a much more business friendly property tax climate and expect their residents to pay a greater share of property taxes to support local governments than is the case in Canada.

Observations

Rates and Ratios

In Canada, BC has the lowest median municipal and total rates on residential properties with total rates at around 1.2 percent. Total residential rates in Nova Scotia and Ontario are 1.5 to 1.6 percent and a little over 2 percent in Alberta. US median residential rates tend to be slightly lower than in BC.

Non-residential property taxes are more complicated because different provinces have different classification systems. For BC's business class (which excludes utilities, light and major industry), Alberta's median is on average the lowest of the provinces for which comprehensive data is available. Alberta's median is 2.1 percent compared to BC's 2.7 percent. Nova Scotia is higher at (3.45 to 3.95 percent) and Ontario is still higher at about 4 percent. In St. John's, Newfoundland, the multiplicity of business plus property taxes ranges from comparable to Nova Scotia to higher than Ontario. Other provinces have their non-residential tax ratios constrained by their provincial governments at ratios of 1.5 to 2.5. This will generally put their business taxes into the 3 to 4 percent range, similar to Nova Scotia and Ontario, and slightly higher than in BC.

For other kinds of business (utilities, light industry and major industry), Alberta's rates and ratios are, on average, lower. It has only one class for all business properties and separate business occupancy taxes are not widely imposed. Nova Scotia, through its business taxes, and Ontario, through more classifications, can treat different businesses differently. For median and average rates, BC's rates on light industry and major industry move up to be about the same as Nova Scotia's, in the 3+ percent range. BC's utility tax rates move up to 5.5 percent. Ontario, however, taxes industry and large industry in the 6.1 to 6.5 percent range. The overall profile for median and average municipal and total property tax rates in BC should not be a problem for business competitiveness with the rest of Canada, although compared to Alberta, BC has a pattern of lower residential rates and higher rates on businesses, especially in the major industry and utilities classes. The pattern across Canada appears to be one where businesses are taxed more highly than residences relative to what can be justified by the limited amount of evidence that exists on the costs of providing municipal services to different classes of property.

Virtually all Canadian provinces levy higher property taxes on business than is common in US states. This difference results from US municipalities having more alternative revenue sources and constraints on taxing non-residential compared to residential properties. In most US states, property taxes are also generally lower instead of higher on industrial property compared to commercial property. In comparison with US state

medians, BC's median business class rate is 2.7 percent compared to 2.0 percent, and on industry 3.1 to 3.4 percent compared to the US 1.6 percent. In comparison with its closest US neighbour, Washington State, BC's median rates are relatively high, with Washington State residential and commercial property taxes running about 1 percent and their industrial property taxes running at 0.8 percent. These rates are fairly uniform. This is quite a difference from those BC municipalities that levy industrial property taxes at rates up to 14.5 percent.

An examination of median tax rates and ratios provides some insight into how systems compare. However, in an examination of the maximum rates and ratios, British Columbia stands out in its municipal and total rates and municipal ratios; it has the highest maximum rates and ratios in Canada for utilities, light industry, and major industry. It is useful to examine what has happened in those municipalities whose major industry property tax rates are in the top 25 percent of BC municipalities that contain such industry.

Table 7 breaks down total property tax rates and ratios for municipalities ranking in the fourth quartile on major industry tax rates.

The median and average residential tax rates in these municipalities is very close to the all-municipality medians and averages at 1.31 and 1.29 percent for the top quartile set compared to 1.17 and 1.22 percent. Rates are also not much higher in the business class. However, utilities are higher than the all-municipal median averages, but not as high as major industry—which was the selection criteria for the set. Within the major industry top-quartile set there is a reasonably tight clustering in the first three quartiles between 6.52 and 8.33 percent, with only 5 municipalities in the set having higher rates.

Table 7: Tax Rates and Ratios for Major Industry Top Quartile Municipalities

Total Property Taxes	Residential	Utilities	Major Industry	Light Industry	Business	Utilities Ratio	Major Industry Ratio	Light Industry Ratio	Business Ratio
Minimum	0.71	3.49	6.04	2.79	2.02	1.79	3.92	1.67	0.97
Median	1.31	6.30	7.02	4.26	2.91	5.25	5.90	3.17	2.43
Average	1.29	6.28	7.80	4.46	3.03	5.15	6.37	3.59	2.47
Maximum	2.39	9.34	14.56	10.30	4.31	8.25	11.22	7.30	4.04
1st Q	1.03	5.78	6.58	3.30	2.60	4.54	5.10	2.59	2.11
2nd Q	1.32	6.35	7.02	4.25	2.91	5.16	5.90	3.17	2.43
3rd Q	1.48	6.77	8.33	4.84	3.33	5.62	7.62	4.01	2.72
4th Q	2.39	9.34	14.56	10.30	4.31	8.25	11.22	7.30	4.04

All business class ratios are higher at all ranges of the set. An examination of the ratios used by these municipalities for municipal tax rates reveals that the minimum is 5.54, the median 10.52, the average 10.14, and the maximum is 19.55. This means that the municipalities with the highest major industry rates and accompanying higher rates in other business classes also keep their residential rates similar to other municipalities in BC. The result is that they have higher ratios on business class properties than anywhere else that has been examined in Canada. Appendix B provides a list of the top major industry quartile by total tax rates, along with their municipal major industry ratios. What is noticeable from the list is that virtually none of the municipalities are in the Lower Mainland or southern Vancouver Island where even low residential tax rates would lead to high tax bills because of high assessed values; they are primarily municipalities where residential values are much lower.

The ratios used by municipalities for municipal taxes are higher than ratios for total taxes because of the BC government's uniform school tax rates, but the resulting total rates and ratios are still highest in Canada and insofar as US summary data goes, the lowest BC rate in the fourth quartile set is higher than in any US state and 3 to 5 times higher than US state median rates.

Within these municipalities, residential tax rates have been kept at provincial averages. These are not Lower Mainland municipalities with high residential property values, so their actual tax payments are below the provincial average. In these municipalities, business and light industry rates are higher than the BC averages, utilities are about average (they are high across BC), but major industry rates are extremely high—ranging from 6.4 to 14.6 percent. In all of these classes some municipalities appear to have the highest property tax rates in all of North America. In relation to the United States, the lowest BC major industry rate in the fourth quartile is also higher than in any US state and 3 to 5 times higher than state median rates. The ratios of the major industry relative to residential rates are also the highest in North America, with ratios in the top quartile ranging from 5.55 to 19.55. These are extreme and demonstrate very strong evidence that major industry is being forced to pay taxes far in excess of any servicing costs to subsidize the residents in those municipalities. Given these extremely high rates and ratios of taxation of major industry, it is useful to examine some of the factors involved.

Classification systems

Different provinces have different classification systems for setting tax rates. It appears that when property tax classifications place all business properties in the same class, as does Alberta, all businesses are taxed with reasonable ratios compared to residential. It is only when municipalities have discretion over a larger number of classes such as BC's 4 classes of business properties, or St. John's 10 categories of business occupancy taxes,

that we see exceptionally high rates and ratios on some classes. Perhaps the lack of a local business community to represent major industry and utilities in BC municipalities and the immobility of these properties accounts for their high rates.

Comparing kinds of taxes

Property tax rates sound low, especially compared to income tax rates. The difference is that the property is taxed over and over again, where a sale or income is only taxed once. To put property tax rates in context, at the lowest fourth quartile, major industry pays a total property tax rate of 6.375 percent. This is equivalent to a 50 percent excise tax rate on the new facility. Or, if the facility returns the expected profit, the property tax is equivalent to a 50 percent income tax. And of course if the facility does not return the expected profit, the property tax must be paid anyway, which can result in property tax rates being equivalent to higher than 100 percent income tax rates. In addition, the fact that high property taxes must be paid even if a company is making a loss can lead to bankruptcies and company closures where income taxes are only paid when a company has profits and can afford them. BC's high property taxes on major industry exacerbate this problem. Thus, what at first glance looks like a low tax rate is in fact equivalent to very high rates of other taxes and is also much more destabilizing than those high rates for other taxes would be.¹⁰

Efficient council decisions on services

The most important decision process for a municipality is preparation of its annual budget. During the process the council must balance the costs of services against their benefits. Where all classes of taxpayers are affected by decisions, the council has an incentive to be efficient in its decisions. This is one reason why Ontario has constrained the ability of municipalities to shift taxes away from residences to non-residential properties with municipal property tax ratio limits. In BC, in contrast, municipal councils can provide more services for their residents than their residents would be willing to pay for because the council can shift the tax burden to other classes of property. It is nice for residential taxpayers to reside in such a system, at least in the short run. It is not so desirable if the resulting high taxes on those activities cause investing and adding to the tax base in the municipality to be discontinued. The mismatch between taxpayers and benefits has been addressed for geographic areas in the form of special taxing areas and the regional district system. While the provincial allowance for levying different property tax rates on

10 A Corporate Capital Tax has similar problems where its profit-insensitive nature causes more problems than just its rate.

nine different classes of property provides the opportunity to further refine the use of the property tax as a group user charge, in about one-fourth of BC's municipalities it appears that municipal councils use excessive rates on utilities, light industry and major industry to subsidize their residential voters instead.

One should not be surprised that municipal councils seek to satisfy their voters, who are largely residential, by keeping their property taxes low at the expense of non-residential properties. This is most likely why the great majority of provincial and state governments in North America set the ratios between residential and non-residential property tax rates for their municipalities and do not permit the high ratios that have emerged in Ontario (and are being pulled back by the provincial government), Newfoundland, and BC to emerge in the first place.

The business climate

High rates of property taxation have different consequences for different kinds of businesses. Where the land is a large proportion of the assessed value, the developer can offer a lower price for the land to offset part of the expected property tax burden and for businesses that rent or lease, property taxes can be taken into account in setting rental prices. However, specifically for major industry, land is usually a very small proportion of their assessed value and the company generally owns the property. Thus, the company has to treat property taxes as a cost of doing business in making investment decisions. High property taxes in some municipalities will obviously discourage business investment in those municipalities unless those taxes are offset by municipally-provided service benefits. In some high-tax rate municipalities, it is likely that no company will invest or reinvest in that municipality; when its plant is obsolete, it will simply close up and leave. While obtaining high revenues from an industry to keep residential property taxes low may appear to be a desirable policy, if those high taxes discourage new investment, the high rates may contribute to a potential disaster for the community.

While it is obvious that high property tax rates may influence business investment decisions in the high-rate municipalities, what may not be recognized is that the use of high tax rates by a significant number of municipalities may also affect business decisions to invest in other BC municipalities. This is because after an investment is made, the municipal council can proceed to raise property tax rates on the investment as high as it wants. An investor can feel fairly safe if the investment is in the business class, where there is likely to be a local business community that influences council, but investors in major industry or utilities would not feel the same safety because once the investment is in place, they are vulnerable. Their vulnerability is demonstrated by the fact that a significant number of BC municipalities already have what appear to be the highest tax rates and ratios on major industry and utilities in Canada—and probably in North America.

This should be of concern to all municipalities in the province and to the provincial government. For a major industry to make the required large investments in plant and equipment requires confidence that taxes will be fair, comparable to other jurisdictions, and predictable. These conditions are a necessary characteristic of a favourable business climate and, with regard to the taxation of major industry and, to a slightly lesser extent, utilities, are missing at this time in British Columbia.

Since variable rates were introduced in 1984, BC's provincial government has had to intervene twice to reduce municipal property taxation of business. First, the provincial government changed the way railways were assessed and imposed caps on tax rates or ratios for utilities. Second, the provincial government constrained the taxation of light and major industry within port areas. In port areas, property tax rates had become very high compared to the property taxes imposed on port facilities on the US West Coast, especially in Washington State. Interestingly, in the exchange of arguments over the rate capping, not one municipality produced a report indicating that it was receiving less revenue from its port area than it was costing to provide it with municipal services.¹¹ Given their tax rates in the context of other research it is very likely that the port area industrial properties were providing a surplus, which the municipalities used to keep the residential tax rates of their voters down. The data in this report indicate that high tax rates on major industry and utilities (and even light industry rates are very high compared to Washington State) extend far beyond port areas. Other areas of BC's economy may also be uncompetitive due to high property tax rates in some municipalities; these high rates can have a negative influence on investments throughout the province. For example, over the next decade, hundreds of millions (if not billions) of dollars in energy facilities need to be constructed between the natural gas fields of Northern BC, Alberta, Alaska, the Beaufort Sea, and electricity users in Arizona and California. Whether or not a jurisdiction can secure those investments to convert energy from pipe to wire will be influenced by property tax rates, and right now, BC is not a competitive location for those investments, nor is it competitive for any other major industry investment that does not depend specifically on a local natural resource.

11 The major study of port competitiveness is Perrin, Thorau & Associates, 2001. The City of Vancouver and other municipalities have placed their arguments on their respective municipal web sites.

Conclusions

While additional research may be helpful, it is very unlikely to change the major conclusions of this report: the very high property tax rates and ratios imposed on major industry, and to a slightly lesser extent utilities, in a significant minority of BC's municipalities have caused the province to have a serious business climate problem. There are two approaches to consider, both of which offer potential solutions. Neither approach would prevent municipalities from setting tax rates to cover their costs of services in a flexible manner, but both would affect their discretion to levy very high tax rates on narrow classes of property.

The first approach is to combine all 4 business classes into a single class, as is done in other provinces except Ontario. The same effect can be achieved by tying major industry and utility¹² tax rates and ratios directly to the business or light industry classes. What limited evidence exists in Canada indicates that with such a broad classification system, business tax ratios remain reasonable. It is unlikely that local business class property owners would find such an approach attractive, but in the long run if major industry chooses not to reinvest or locate in high-tax municipalities, their own businesses will suffer. In some municipalities such a move would also likely generate tax increases for residents. The statistics are available to analyze short-run consequences. The difficulty is in predicting any increase in investment that might occur in light of lower tax revenues that would result from lower taxes on major industry or utility properties in the long run.

A second approach would be for BC to look more closely at the applicability of the Ontario reforms. They involve determining ranges of fairness and thresholds based on average property tax rates in the municipalities for different major classes, and then requiring all tax rate changes to move toward the range of fairness. The Ontario provincial government also imposes a very low rate for residential school taxes that has freed up municipalities to raise their own residential tax rates, which in turn reduces the ratio between residential taxes and business classes. This reform has the advantage of creating a fairer and more competitive property tax system. It has the added benefit of improving the efficiency of council decisions by forcing councils to consider any expenditure increases compared to tax increases on residents instead of passing them on to non-voters in business classes.¹³

12 While utility tax rates are limited to 4 percent or a 2.5 ratio relative to business class tax rates, utility tax rates are still very high. Given research on the costs of providing services elsewhere, there is no service cost justification for these rates.

13 Issues of the Ontario reform are described in Slack, 2000. This paper also contains many references to reports leading up to the reforms.

It is important to note that neither of these recommendations would prevent the property tax from continuing as a geographically-based user charge, with its flexibility to adjust rates up or down, and with its potential for different rates in different small areas. It is also very unlikely that these reforms would prevent the property tax from being related to the costs of servicing business relative to residential properties. What they would do is prevent specific classes of property from being targeted for taxation disproportionate to the costs of providing services to them in order to subsidize the costs of services for residential taxpayers.

BC's introduction of complete municipal tax discretion in 1984 with 4 different business class taxes offered municipalities the opportunity to relate property taxes to the costs of serving different classes of property. However, in at least one-quarter of municipalities, it has led to serious business climate problems for major industry and utilities. These problems must be resolved if BC is going to attract the scale of investment it needs to replace aging plant and equipment. If these problems aren't resolved, facilities will close, and the resulting higher taxes will be imposed on whoever is left.¹⁴ Reforming any tax system is extremely difficult. Officials dedicated to the long-run health of the province's economic climate must politically drive reforms. Perhaps other provincial and state governments are correct in not permitting the total variable tax rate discretion that BC has allowed for its municipalities, not because a majority of municipalities have not acted responsibly, but because a minority may create an unfavourable business climate that harms everyone.

14 The highest residential, utility, light industry, and business tax rates in British Columbia are found in a municipality that used to have major industry that closed. It no longer has to be concerned with its tax rate on major industry.

Appendix A: BC Property Classifications

- Class 01: Residential—includes single family, multi-family, summer homes and vacant land not zoned or used for other purposes.
- Class 02: Utilities—includes railways, pipelines, telephone lines, cable TV and electrical systems.
- Class 03: Unmanaged Forest Land—includes forest land which is not managed in accordance with an approved Forest Management Plan.
- Class 04: Major Industry—includes land and buildings of major industrial properties such as lumber or pulp mills, mining operations and others.
- Class 05: Light Industry—includes properties used for extracting, manufacturing, or transporting products. Scrap metal yards, wineries, and boat-building yards fall within this category.
- Class 06: Business/Other—includes properties that do not fall into the other categories such as hotels, offices, warehouses, and others.
- Class 07: Managed Forest Land—privately-owned land designated as Forest Land Reserve and for which BC Assessment has approved a Forest Management Plan.
- Class 08: Recreational Property/Non-profit Organization—includes land used solely as an outdoor recreational facility such as golf courses, waterslides, marinas, and others.
- Class 09: Farm Land—farm land must produce primary agricultural products for sale such as a crop or livestock.

Appendix B: Total Tax Rates and Municipal Ratios for the Top Quartile of Major Industry Rates

Municipality	Total Major Industry Rate (percent)	Municipal Major Industry Ratio
Lake Cowichan	14.559	18.94
Ladysmith	11.137	14.92
Tahsis	10.892	6.57
Port Alberni	9.434	7.18
Williams Lake	9.163	8.73
Kamloops	8.629	8.04
Terrace	8.575	8.10
Houston	8.082	8.14
Smithers	7.969	9.46
Cranbrook	7.572	5.54
Campbell River	7.500	9.30
Quesnel	7.169	9.69
Kitimat	7.017	*
Taylor	7.015	10.52
Squamish	6.968	9.78
Maple Ridge	6.808	10.82
Coquitlam	6.787	12.50
Kimberly	6.752	12.28
Fort St. James	6.651	8.53
Powell River	6.593	11.55
Revelstoke	6.569	6.79
Merritt	6.480	7.71
Pt. Moody	6.473	10.72
Grand Forks	6.445	9.96
Burns Lake	6.426	6.19
North Cowichan	6.395	19.55
100 Mile House	6.375	7.85

*Kitimat uses a split tax system with a flat parcel tax on residences so there is no simple tax ratio calculation, only a range that would require much more detailed analysis to determine.

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Robert L. Bish earned his Ph.D. in Economics from Indiana University in 1968 and served in departments or schools of economics, public affairs, public administration, and urban studies at the universities of Washington, Southern California, and Maryland before joining the School of Public Administration at the University of Victoria in 1981. Dr. Bish co-founded the Local Government Institute at the university and has continued to work and publish with the Institute since his retirement in 1998. Dr. Bish has researched, consulted, and published on local government in both the US and Canada. His major works include *The Public Economy of Metropolitan Areas* (1971); *Understanding Urban Government: Metropolitan Reform Reconsidered* (1973) with Vincent Ostrom; *Financing Government* (1973) with Harold Groves; *Urban Economics and Policy Analysis* (1975) with Hugh O. Nourse; *Local Government in the United States* (1988) with Vincent and Elinor Ostrom; *Indian Government: Its Meaning in Practice* (1989) with Frank Cassidy; and *Local Government in British Columbia* (1987, 1990, 1999). The CD Howe Institute recently published his review of evidence on amalgamations in North America in *Local Government Amalgamations: Discredited Nineteenth-Century Ideals Alive in the Twenty-First*. Dr. Bish is included in *Who's Who in Economics*, where selection for inclusion is based on the number of times an economist's work is cited by other scholars in academic work.

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