IPTI Xtracts
Property Tax and Assessment News from Around the World

CANADA – September 2020

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ALBERTA

Modernization of municipal taxation will help Alberta prosper

There was a time when Alberta's economy was hot. It was fuelled by an active and growing energy industry. The result: jobs were plentiful, businesses throughout the province grew, government revenue achieved record levels and we became the place to live and work in Canada.

Then slowly, everything changed. The price for natural gas began to fall in 2008 and then oil prices plummeted in 2016. Cash flows have dropped, share prices have plunged and access to capital has evaporated. Energy companies have been forced to cut spending and sadly thousands of Albertans have lost jobs. Industry has responded to find new, better and cleaner ways of doing things, with technology paving the way.

During these transitional times, municipal property tax revenues grew from $3.8 billion in 2008 to $7.4 billion in 2018, resulting in crippling property taxes that are paralyzing the industry.

The root cause of the problem is that assessments for oil and gas properties no longer reflect the true underlying value of the property. The Alberta government has recognized this and is now reviewing options to modernize the municipal property tax assessment system to realign assessments with the real value of the property. Companies have gone bankrupt with property taxes being an underpinning cause. Other companies simply cannot afford to pay the tax burden anymore, resulting in more than $170 million in outstanding property tax bills.

Annual property taxes are intended to be a small percentage of the assessed value of physical assets. For a homeowner, our property tax is calculated based on the current market value of our house. If this assessed value is overstated, homeowners can challenge this to get it right.

This opportunity is not afforded to oil and gas companies. Assessments are regulated and formulaic and target to estimate a replacement value for the property. In contrast to the market value of a home, oil and gas properties inherently become less valuable over time. Production declines; equipment, like a car, gets older and depreciates in value; and as oil and gas property gets close to its end of life there are abandonment and reclamation obligations that need to be addressed. The current assessment process does not adequately reflect these facts.

When the property tax take is too high, projects are less profitable and investment goes elsewhere. But when industry can count on predictable and fair municipal taxes, we are left with our talent and natural resource to dictate our competitiveness and that is where Alberta can continue to be a winner.

Companies expect to and will pay fair taxes. The proposed changes to municipal property tax calculations do not exempt energy companies from paying this levy. It simply resets the assessment of property values to be responsive to today's operations and inevitable changes over time and will more closely reflect the real value of property, the cornerstone of our property tax system.

With an updated assessment regime, municipalities will still administer their tax roll to match their needs. Well managed mill rates will protect existing jobs, create new jobs and balance the burden on industry and residents. It will help make Alberta's resource development competitive and avoid situations like we have now where similar gas wells in our province are taxed at over 20 times than those in B.C.

The Rural Municipalities of Alberta has suggested that the four scenarios under review by the government will see a loss between $109 million and $291 million in 2021. The options will see some municipalities, particularly with primarily mature assets, experience a lower tax collection from industry but for others it could mean an increase to revenues.

In the short term, municipalities, just like every other Alberta business, will need to take a close look at revenue sources and expenses. As counties figure out the best way forward, it may be necessary to pull down from accumulated surpluses. The good news is most municipalities have an accumulated surplus that can sustain current spending levels for multiple years.

Correcting the municipal property tax assessment system now is a must — for everyone's benefit. This change presents an opportunity for municipalities to connect with residents and engage everyone to help find the best solutions for our communities. Albertans will find creative and smart solutions. We always do.

MANITOBA

Winnipeg council votes unanimously to delay property, business **tax payments**

With deadlines looming, Winnipeg city councillors were back at city hall on Monday for an emergency meeting to discuss the extension of COVID-19 relief for businesses and homeowners.

In April, The City of Winnipeg agreed to allow homeowners and businesses to defer property and businesses taxes to help those who couldn't afford to keep up as the pandemic battered the economy.

"Many Winnipeggers have had their household incomes or business incomes impacted," said Coun. Scott Gillingham.

With many people and businesses still reeling financially from COVID-19, council voted unanimously to extend the deferrals.

Property taxes will now be deferred for two months, from September 30 to November 30.

Business taxes will be deferred for three months, from August 31 to November 30.

"This is a relatively low cost and relatively modest way in which we can provide assistance for Winnipeg businesses across all sectors," said Winnipeg Mayor Brian Bowman.

One sector which is hurting is the hotel industry, with many hoteliers pay both property and business taxes.

The Manitoba Hotel Association (MHA) said the extension is a relief as its members pay property taxes based on revenue from two years ago.

"We're not performing as we were two years ago and that's the tax bill that is in front of us," said Scott Jocelyn, the president and CEO of the MHA.

While the temporary measure is welcomed, the industry worries about the economy into the winter and next year if provincial and federal travel restrictions have to stay in place.

"When are people going to be comfortable jumping on a plan and flying here, or going to an event when we can have events," Jocelyn said. "So you know, to think that we're going to be in a good spot by the end of the year, I'd love to be optimistic on that, but I think the reality is it's going to be longer than that."

For those who don't need the tax extension, the city said it could use the tax revenue.

"Property tax owners, business tax owners who have not paid their taxes to this point, but who are in a position today to pay their taxes to please do so," said Gillingham.

The motion to council estimates the extension will cost the city $1.75 million, and is needed due to the economic impacts of COVID-19.

This would be the city's second time delaying these deadlines. Earlier in the year, it extended the business tax payment deadline to Sept. 1, and the property tax payment deadline to Oct. 1.