IPTI Xtracts

Property Tax and Assessment News from Around the World

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ALBERTA

Drawing from municipal reserves won't solve taxation conflict

Like all of Alberta, municipalities are in a difficult situation due to the struggling economy and worldwide pandemic. The government of Alberta is considering changes for how oil and gas properties, including wells and pipelines, are assessed for property tax purposes. These potential changes could reduce tax revenues for rural municipalities, leading to lower municipal service levels and higher taxes for rural residents and non-oil and gas businesses. Fortunately, the province is consulting municipal and industry stakeholders to ensure any changes minimize these impacts.

As the oil and gas industry is facing significant struggles, some industry representatives have recently advocated for changes to the municipal property assessment and tax system to reduce taxes paid by industry. They have argued that municipalities can simply use financial reserves as a substitute for property taxes, which is misleading.

Unlike other levels of government, municipalities are legally prohibited from creating a deficit budget, and municipalities practice sound financial planning as a result. Even in a year in which they invest in a major capital project like a water line or recreation centre, municipalities cannot plan to spend more than they take in. This leaves two options to fund capital projects: take on debt or save over multiple years through reserves.

As debt results in interest costs, most rural municipalities prefer to save money in advance. Building reserves is a fiscally responsible move, and municipalities should be applauded for this financial foresight, rather than called on to "pull down from accumulated surpluses" to finance operations. Over 90 per cent of the reserves held by rural municipalities in 2018 were "restricted," meaning they were earmarked for a specific capital project, most of which are funded through a competitive bid process that reflects true construction costs, including inflation. Pulling from restricted reserves to fund operations means that these capital projects go uncompleted and all industries and residents lose access to these investments. As rural municipalities manage over 70 per cent of Alberta's roads and 60 per cent of Alberta's bridges, these capital projects are often focused on core infrastructure used by oil and gas, forestry, agriculture and other industries.

It has been argued that oil and gas properties in Alberta are taxed at a much higher rate than in other provinces. This assumption ignores the second half of the equation: Alberta's rural municipalities provide more services to larger areas than their peers in other provinces. In fact, Alberta is the only province where municipalities cover the entire landmass, from north to south, east to west. Unlike in British Columbia, for example, where sparsely populated areas with high levels of industrial activity are managed by the province, Alberta's municipalities are responsible for providing roads, bridges, water, wastewater, snow removal and other services to the entire province, even in areas with no residential tax base. To put this into perspective, in 2018 Alberta's rural municipalities spent just under 50 per cent of their total expenses on transportation, while municipalities in Ontario and British Columbia spent around 10 per cent.

Rural municipalities typically collaborate with the oil and gas industry and hope to continue to do so. However, simplistic assumptions that rural municipalities can meet capital and operational responsibilities without property tax revenues is not only unfair, it demonstrates a misunderstanding of how municipalities operate. Rather than attacking municipalities for their attempts to be proactive in planning and fiscal management, the oil and gas industry should seek to work with municipalities on solutions that address the challenges both groups are facing.

RMA is continuing to pursue solutions and aims to work with the oil and gas industry and the government of Alberta to find a solution that meets the viability needs of all affected parties.

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.

BRITISH COLUMBIA

More than speculation tax needed to address housing affordability, says expert

Growing number of people in B.C. can't participate in the market housing at all, says SFU's Andy Yan

The leaders of B.C.'s two largest political parties shared duelling visions for tax policy designed to increase housing affordability in the province on Friday, but an expert in city planning says both plans can work — and they aren't mutually exclusive.

NDP Leader John Horgan touted the speculation and vacancy tax his party introduced in 2018, claiming the policy has already filled 11,000 vacant condos in the province.

"Because of the speculation and vacancy tax, we've received $115 million in new revenue — not from British Columbians, but from people who live somewhere else who look to Vancouver as a place to invest, not as a place to put down roots," said Horgan at a campaign stop in Coquitlam.

Meanwhile in Vancouver's Yaletown neighbourhood, B.C. Liberal Leader Andrew Wilkinson told reporters he would eliminate the speculation and vacancy tax.

"We're going to be talking about a complete overhaul of property taxation," said Wilkinson, calling Horgan's tax a "phoney speculation tax that doesn't actually address speculation at all."

He said his party would introduce a tax on condos that are resold before they're built — something known as "paper flipping."

For Andy Yan, director of the city program at Simon Fraser University, there's an appeal to Wilkinson's plan — but he says Horgan's tax has also worked well so far, and need not be scrapped.

"It's an action that I think was needed years ago," he said of the speculation and vacancy tax. "It hasn't lowered prices per se, but it's certainly stabilized them."

Yan said housing starts have continued to increase since the tax was introduced, but he says more time is still needed to ultimately assess how effective the policy has been.

With regards to Wilkinson's proposed paper-flipping tax, he said it's "a pretty interesting idea," that could cool the pricing frenzy paper-flipping can create.

Yan said Wilkinson's plan for a tax policy review is needed, but he commended the work the NDP has done with its policy which has restarted the conversation around real estate as housing rather than a commodity.

But Yan said both parties need to present platforms that address the supply and demand sides of the housing equation.

He said across the province, 32 per cent of households rent — a figure that increases to a majority of households in Vancouver and Victoria — and the parties need to focus on them as well.

Yan said issues like mortgage affordability land in the realm of the federal government, but the province can do a lot to help renters with affordable housing supply.

Finally, Yan said the leaders will have to remember the significant group of British Columbians who struggle to access housing at market rates — be it as renters or owners.

"Each party, I think, is going to have to issue a platform that deals with the role of non-market housing in this discussion, because there's a growing population here in British Columbia that can't participate in market housing," he said.

Vancouver property taxes are highest in Canada, report says

Vancouver property taxes are due Wednesday, and now a new group is calling for city council to re-evaluate their priorities, and focus on core city services.

Vancouver has the highest absolute value in the country for property taxes, a new report says, as the deadline to pay them looms.

The report, prepared by Andrey Pavlov, a finance professor at Simon Fraser University's Beedie School of Business, said single-family homeowners paid an average of just over $6,200 in property taxes this past year.

That's $1,000 more than homeowners in Toronto, and more than double what is paid in places like Quebec City, Regina, and Saskatoon.

Homeowners and business owners also have to deal with a seven-per-cent annual property tax increase, the report added — the second-highest such increase in Canada.

StepUP, the B.C. non-profit organization that released the report, wants to know where the money is being spent. The group claimed on Tuesday that only about 10 per cent of city expenditures go toward what it would consider to be core services.

"Unfortunately, we're taking on too many agendas that are outside of core services," Paul Sullivan of StepUP said.

"The property tax budget was designed to facilitate engineering, fire, police, sidewalks, streets, potholes. It can't service the social agenda that many politicians have brought to the table."

Alex Hemingway of the Canadian Centre for Policy Alternatives called the report "misleading," noting that single-family homes account for just 15 per cent of all Vancouver residences.

He said Vancouver's property tax rate — the amount of tax paid in relation to a property's assessed value — has gone down as real estate values have skyrocketed over the years.

He said the city should take a different approach to property taxes.

"What would improve things, in my view, is to move towards a system of progressive brackets in our property tax system in the same way we have in our income tax system," Hemingway said.

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.

ONTARIO

City of Toronto may soon adopt a vacant home tax and it's what residents want

Toronto's housing market has not only failed to slow despite the global pandemic, but has seen sales and prices skyrocket in recent weeks, reinforcing our reputation as an overvalued city that certainly favours sellers.

There are a lot of factors that lead our market to be the most expensive in the country, and some of them make sense: property taxes, low lending rates, high immigration rates.

But then there are those that are a little enraging, like wealthy investors who drive up property values by purchasing homes not to live in, but simply to sit on for capital gains.

Foreign investors still own somewhere around $38 billion of the city's housing supply despite the fact that we have a non-resident speculation tax of 15 per cent.

Ghost hotels have historically also been an issue, with sought-after units across the city snapped up by those with enough funds to use them simply as an investment property to rent out short-term to travelers through sites like Airbnb.

Though the health crisis pushed an influx of former Airbnbs into the actual rental market and Toronto implemented new, stricter regulations for short-term rentals, illegal listings are still rampant, and experts say they seriously impact affordability and availability of housing.

There is also a phenomenon of livable properties sitting uninhabited for years after owners claim they are renovating or selling the building to developers, or while they wait for someone to pay a high enough price.

These are all things that some think could be assuaged by a vacant home tax, which would help increase supply and deter people from buying properties to flip, using them simply as investments without offering them up to renters, or from letting them fall into unused disarray amid an ongoing housing crisis.

The tax is something that has been on the table for Toronto before, and has been vocally supported by city councillors like Brad Bradford — who has also suggested the same thing for empty commercial storefronts — and Ana Bailao.

Though the city has deferred previous action in order to study whether or not such a move would actually produce enough tangible benefit to residents, a vacant home tax is mentioned as part of its HousingTO Plan for tackling homelessness and other issues in Toronto.

According to the plan, a final report on the feasibility of the tax is due to face committee and council by this December, with potential implementation of the motion soon after, pending council approval.

The money garnered from the new tax would further support other Toronto housing initiatives.

"Other future policy and financial tools that will be necessary to ramp up the supply of affordable rental housing across the city includes a vacant homes tax," the HousingTO 2020-2030 Implementation Plan reads.

The timeline for the item says that it will be ready to be "designed, implemented and administered" pending that council approval in December.

In cities such as Vancouver, the tax equates to about 1.25 per cent of the value of a home if it is not the owner's principle residence or is deemed to be unrented for six months of the year or more.

That city cites "returning empty or under-utilized properties to use as long-term rental homes for people who live and work in Vancouver" and "helping relieve pressure on Vancouver's rental housing market, as our city has one of the lowest rental vacancy rates and the highest rental costs in Canada" as grounds for the tax.

One could very fairly argue that Toronto shares these same reasons, and it seems that online, there is great support for the idea — though many believe it should be higher than 1.25 per cent.

"Please god they need to do this. The number of properties bought by developers, and then left to sit while they get around to maybe demolishing them is astonishing," one Toronto Reddit user stated in a thread on the topic.

"This is great, f*** Airbnb. Having homeless in parks and empty condos and apartments is a disgrace," another added.

And still another: "It's only 1% in Vancouver, which is not nearly enough when the place goes up by 10% a year. The vacancy tax needs to wipe out almost all gains. Realistically the tax needs to be at least 5%/year if the property is vacant for more than a few months. And this should go for ANY property in the city."

Many also point out that the tax would obviously not only provide great benefit and relief to Torontonians, but also to the city itself, which is struggling right now amid a massive COVID-19 deficit.

We'll have to wait until the end of this year to see if it's something that finally gets put into motion.