

# Staff Report for Decision

DATE OF MEETING | MARCH 18, 2020 |

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**SUBJECT                      INTERIM BUSINESS PROPERTY TAX RELIEF PROGRAM**

## **OVERVIEW**

### **Purpose of Report**

To provide the Finance and Audit Committee with information on the recently tabled Provincial Interim Business Property Tax Relief program. |

### **Recommendation**

That the Finance and Audit Committee recommend that Council delay consideration on implementing the Interim Business Property Tax Relief program to 2021 pending further investigation.

## **BACKGROUND**

On 2020-FEB-24, the Province of BC announced that they tabled legislation for an Interim Business Property Tax Relief program. The Interim Business Property Tax Relief Program would allow municipalities to temporarily give small businesses, non-profits and arts and culture organizations relief from property taxes, while the Province continues to work with local governments and key stakeholders to develop a permanent solution. Municipalities would choose whether to use the program, as well as how many properties to exempt, and to what extent.

Under the current property assessment system, properties are valued based on highest and best use which means land with a single-storey commercial building on it may be valued as if it were being used as a multi-storey residential tower. This can result in tax spikes for many small business tenants who are often responsible for property tax under terms of their lease agreement but who do not benefit from the development potential of the properties they are leasing.

The proposed legislation would enable municipalities to exempt, by bylaw, a portion of the Class 5 (Light Industry) and/or Class 6 (Business and Other) value of certain properties from taxation if they have at least one tenant responsible for property taxes. Council would decide whether to use legislation, have latitude in selecting properties and determine how to redistribute the tax burden to other business properties not granted the exemption.

Under the proposed legislation, Council has the ability to set certain criteria thresholds properties would have to meet to be eligible for this exemption. These include:

- Base year (2015 or any year thereafter), to use as comparison to the current tax year;
- Percentage increase in assessed Class 5/6 land value over base year (e.g., the combined Class 5/6 land value for 2020 must be 50% higher than it was in 2015);

- Minimum land value percentage of total assessed value (e.g., for the current tax year, the portion of the total assessed value of the property attributable to land must be 80% ); and
- Percentage of the exemption by property, area or kind (e.g., all properties in neighbourhood X receive a 10% exemption).

The eligible properties would also be partially exempt from Provincial School Tax. However, municipalities would still be required to raise the same amount of school tax as would have been raised without the exemption and would be required to change the school tax rates to redistribute the school tax burden to other businesses. |

## **DISCUSSION**

While there are merits to the proposed interim program, implementation of this program in 2020 would be extremely challenging given the number of features of the program and the late announcement.

### **Timeline**

The timeline to implement for the 2020 property tax year is very short. Legislation was tabled February 24<sup>th</sup>, 2020 and the deadline imposed by the Province for Council to pass a bylaw exempting certain properties is April 22<sup>nd</sup>, 2020. Council would need to consider this at the April 6<sup>th</sup>, 2020 Council meeting. This would only allow 6 weeks to evaluate the program and implement the proposal, rushing or even bypassing the vetting process of the new program.

This legislation proposes transferring the tax burden of both municipal and school taxes among the remaining taxpayers. More time is needed to determine how to best implement this program.

The risk of unintended consequences for a rushed implementation is high. The implementation of the proposed legislation without sufficient public consultation and proper due diligence creates risks for Council such as potential legal challenges, errors and omissions in inclusion/exclusion of properties and undermines the impacts on tax revenues.

### **Lack of Information**

A review of individual critical leasing terms are required to implement the program fairly to those small business in need. At this time B.C. Assessment nor the City of Nanaimo has the data base of contractual agreements necessary to identify who would receive the exemption.

Staff have discussed with several municipalities throughout B.C. and many are recommending to respective Councils to not implement the program for 2020.

## **CONCLUSION**

Given the short timeline, implementing the proposed legislation does not allow for adequate public consultation or due diligence of investigating possible unintended consequences. The current version of this legislation does not provide municipalities with a framework that will fairly and/or effectively provide small business with a tax relief solution. |

## **OPTIONS**

1. That the Finance and Audit Committee recommend that Council delay consideration on implementing the Interim Business Property Tax Relief program to 2021 pending further investigation.
  - The advantages of this option:
    - Allows Staff time to fully investigate all aspects of implementing this tax relief program.
  - The disadvantages of this option:
    - Delays the assistance to tenants in commercial properties who are disproportionately affected by an increase in property taxes.
  - Financial Implications: none
2. That the Finance and Audit Committee recommend that Council implement the Interim Business Property Tax Relief program for the 2020 property tax year.
  - The advantages of this option:
    - Assists tenants in commercial properties who are disproportionately affected by an increase in property taxes.
  - The disadvantages of this option:
    - Implementation of this program would result in an increased tax burden to the non-exempt property tax classes.
    - No reduction in School Tax owing to the Province as the tax burden lies with remaining property tax classes.
    - Timeline does not permit adequate public consultation and proper implementation.
    - Exemption may not benefit the intended group if data base of lease information cannot be obtained.
  - Financial Implications: Implementing the proposed program would not result in a decrease in tax revenues if the exempt amount was redistributed to the remaining non-exempt properties. There could be significant costs associated with system modifications to support implementation, legal fees, risk management, as well significant staff time to ensure all possible recipients are considered for the exemption.

### **SUMMARY POINTS**

- This proposed legislation offloads tax burden to remaining property tax classes
- Significant costs associated with implementation, 2020 timeline extremely challenging
- Need for public consultation, possible unintended consequences due to lack of appropriate timeline for due diligence.

## **ATTACHMENTS:**

- Appendix A –Proposed legislation – Interim Business Property Tax Relief

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